

# Pecyn Dogfen Gyhoeddus



Swyddog Cyswllt:  
Maureen Potter 01352 702322  
maureen.potter@flintshire.gov.uk

At: Cllr Dave Hughes (Chairman)

Cynghorwyr: Haydn Bateman, Billy Mullin and Ralph Small

## **Aelodau Cyfetholedig**

Steve Hibbert, Cllr. Andrew Rutherford, Nigel Williams and Cllr. Huw Llewelyn Jones

Dydd Iau, 14 Medi 2017

Annwyl Gynghorydd

Fe'ch gwahoddir i fynychu cyfarfod Pwyllgor Cronfa Bensiwn Clwyd a gynhelir am 2.00 pm Dydd Mercher, 20fed Medi, 2017 yn Ystafell Bwyllgor Delyn, Neuadd y Sir, Yr Wyddgrug CH7 6NA i ystyried yr eitemau canlynol

## **R H A G L E N**

### **1 YMDDIHEURIADAU**

I derbyn unrhyw ymddiheuriadau

### **2 DATGAN CYSYLLTIAD (GAN GYNNWYS GWRTHDARO O RAN CYSYLLTIAD)**

I dderbyn unrhyw Datganiadau a chynghori'r Aelodau yn unol a hynny

### **3 COFNODION (Tudalennau 5 - 10)**

**Pwrpas:** I gadarnhau, fel cofnod cywir gofnodion y cyfarfod ar 23 Mehefin 2017

**DEDDF LLYWODRAETH LEOL (MYNEDIAD I WYBODAETH) 1985 - YSTYRIED GWAHARDD Y WASG A'R CYHOEDD**

Mae'r eitem a ganlyn yn cael ei hystyried yn eitem eithriedig yn rhinwedd Paragraff(au) 14 Rhan 4 Atodiad 12A o Ddeddf Llywodraeth Leol 1972 (fel y cafodd ei diwygio)

Bydd y cyfarfod yn trafod manylion contract arfaethedig. Er y bydd y wybodaeth am y contract yn cael ei chyhoeddi maes o law, mae lles y cyhoedd mewn cynnal yr eithriad yn bwysicach na lles y cyhoedd wrth ddatgelu'r wybodaeth hyd nes bydd y contract wedi'i roi.

**4 BUDDSODDI YNG NGHYMRU**

Rhoi diweddariad i Aelodau'r Pwyllgor am gymeradwyo caffael Gweithredwr i Fuddsoddi yng Nghymru

**Bydd gweddill yr eitemau mewn sesiwn agored:**

**5 COD YMARFER RHEOLEIDDWYR PENSIWN (Tudalennau 11 - 42)**

Rhoi gwiriad cydymffurfio blynyddol Cod Ymarfer Rheoleiddwyr Pensiwn i Aelodau'r Pwyllgor i'w drafod.

**6 ADRODDIAD BLYNYDDOL, CYFRIFON AC ARCHWILIAD CRONFA BENSIWN CLWYD 2016/17. (Tudalennau 43 - 146)**

Rhoi Adroddiad Blynyddol a Chyfrifon Cronfa Bensiwn Clwyd i Aelodau'r Pwyllgor i'w trafod

**7 DIWEDDARIAD LLYWODRAETHU (Tudalennau 147 - 178)**

Rhoi diweddariad i Aelodau'r Pwyllgor ar faterion perthnasol i lywodraethu

**8 Y DIWEDDARAF AM GYNLLUN PENSIWN LLYWODRAETH LEOL (CPLLL) (Tudalennau 179 - 198)**

Rhoi gwybodaeth i Aelodau'r Pwyllgor ynghylch y materion sy'n effeithio ar reolaeth y CPLIL ar hyn o bryd.

**9 DIWEDDARIAD AM WEINYDDU/RHOI GWYBODAETH AM BENSIYNAU (Tudalennau 199 - 214)**

Rhoi diweddariad i Aelodau'r Pwyllgor ynghylch yr Adran Gweinyddu Pensiynau.

10 **DIWEDDARIAD AM FUDDSODDI AC ARIANNU** (Tudalennau 215 - 236)

Rhoi diweddariad i Aelodau'r Pwyllgor ar faterion buddsoddi ac ariannu Cronfa Bensiwn Clwyd

11 **DIWEDDARIAD AM ARIANNU A'R STRATEGAETH BERTHNASOL**  
(Tudalennau 237 - 254)

Rhoi diweddariad i Aelodau'r Pwyllgor ynghylch y sefyllfa ariannu a gwarchod rhag atebolrwydd fel rhan o'r strategaeth llwybr cyrraedd targed ar gyfer rheoli risgiau atebolrwydd.

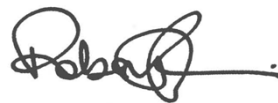
12 **DIWEDDARIAD MATERION ECONOMAIDD A'R FARCHNAD** (Tudalennau 255 - 272)

Rhoi diweddariad i Aelodau'r Pwyllgor ar yr economi a'r farchnad.

13 **STRATEGAETH FUDDSODDI A CHRYNODEB RHEOLWYR** (Tudalennau 273 - 290)

Rhoi diweddariad i Aelodau'r Pwyllgor ynghylch perfformiad strategaeth fuddsoddi'r Gronfa a Rheolwyr y Gronfa

Yn gywir



Robert Robins  
Rheolwr Gwasanaethau Democrataidd

Mae'r dudalen hon yn wag yn bwrpasol

# Eitem ar gyfer y Rhaglen 3

## PWYLLGOR CRONFA BENSIWN CLWYD

23 Mehefin 2017

Cofnodion cyfarfod Pwyllgor Cronfa Bensiwn Clwyd Cyngor Sir y Fflint, a gynhaliwyd yn Neuadd y Sir, yr Wyddgrug, ddydd Gwener 23 Mehefin 2017.

### **YN BRESENNOL: Y Cynghorydd Dave Hughes (Cadeirydd)**

Cynghorwyr: Billy Mullin, Ralph Small, Haydn Bateman

**AELODAU CYFETHOLEDIG:** Y Cynghorydd Huw Llewelyn Jones (Cyngor Sir Ddinbych) a'r Cynghorydd Trevor Bates (yn sefyll i mewn ar ran Nigel Williams)

**YMDDIHEURIADAU:** Steve Hibbert (Cynrychiolydd Aelodau'r Cynllun), Cynghorydd Andrew Rutherford (Cynrychiolydd Cynllun Arall y Cyflogwr), Cynghorydd Ron Hampson, Cynghorydd Nigel Williams (Cyngor Bwrdeistref Sirol Wrecsam), Debbie Fielder (Rheolwr Cyllid Pensiynau), Alwyn Hughes (Rheolwr Cyllid Pensiynau), Colin Everett (Prif Weithredwr), Paul Middleman (Actiwari'r Cynllun – Mercer).

**HEFYD YN BRESENNOL (FEL ARSYLWYR):** Gaynor Brooks (Cynrychiolydd Aelodau Bwrdd Cyllid Pensiynau Clwyd)

### **HEFYD YN BRESENNOL:**

Panel Cynghori yn cynnwys: Gary Ferguson (Rheolwr Cyllid Corfforaethol), Philip Latham (Rheolwr Cronfa Bensiwn Clwyd), Karen McWilliam (Ymgynghorydd Annibynnol - Aon Hewitt), Kieran Harkin (Ymgynghorydd Buddsoddi'r Gronfa - Grŵp JLT)

Swyddogion/Ymgynghorwyr yn cynnwys: Helen Burnham (Rheolwr Gweinyddu Pensiynau), Nick Buckland (Ymgynghorydd Buddsoddi'r Gronfa – Grŵp JLT), Nikki Gemmell (Actiwari Cynorthwyol – Mercer) a Sarah Spall (Cynorthwydd Ymgynghorol – Mercer) a oedd yn cymryd y cofnodion.

Cyn dechrau'r cyfarfod, gofynnodd y Cadeirydd newydd i bawb gyflwyno eu hunain oherwydd bod aelodau newydd wedi ymuno â Phwyllgor y Gronfa Bensiwn. Soniodd Haydn Bateman bod y Cynghorydd Ron Hampson yn wael iawn a gofynnodd a fyddai'n bosibl anfon cerdyn gwellhad buan ato ar ran Pwyllgor Cronfa Bensiwn Clwyd.

## **70. DATGANIADAU O FUDDIANT (gan gynnwys gwrthdaro buddiannau)**

Rhoddodd Mrs McWilliam (Ymgynghorydd Annibynnol – Aon Hewitt) gyflwyniad ar Bolisi Gwrthdaro Buddiannau a chofrestr datganiadau o fuddiant y Gronfa Bensiwn. (Dosbarthwyd copi o'r cyflwyniad i'r aelodau). Fe esboniodd bod yn rhaid i holl Aelodau a swyddogion y Pwyllgor gwblhau ffurflenni datganiadau o fuddiant. Esboniodd bod angen i Gynghorwyr wneud hyn yn ogystal â'r gofynion datganiadau o fuddiant sydd wedi'u cynnwys yng Nghod Ymddygiad y Cyngor.

Dywedodd Mrs McWilliam bod angen i aelodau'r Pwyllgor Cronfa Bensiwn fod yn ystyriol o wrthdaro buddiannau posibl wrth wneud penderfyniadau sy'n gysylltiedig â Chronfa Bensiwn Clwyd, gan gynnwys:

- Bob tair blynedd cynhelir prisiad actiwaraidd o'r Gronfa Bensiwn ac os nad oes digon o arian yn y Gronfa, yna gallai fod angen i gyfraniadau'r cyflogwr gynyddu. Mae'n rhaid i gyflogwyr ystyried fforddiadwyedd a beth fydd yr effaith ar eu cyllidebau. Yn benodol, mae'n rhaid i gynghorwyr wisgo dwy het; eu rôl ar y Pwyllgor yw diogelu'r Gronfa Bensiwn yn hytrach nac ystyried yr effaith ar eu cyllidebau unigol yn y Cyngor.
- Mae'n rhaid iddynt weithredu er budd gorau'r aelodau e.e. os oes cyfle i fuddsoddi mewn adeilad newydd yn y Cyngor yna mae'n rhaid iddynt wneud yn siŵr bod hyn yn briodol i'r Gronfa Bensiwn yn hytrach na'r Cyngor.

Mae'r gofynion polisi hefyd yn berthnasol i'r swyddogion a'r ymgynghorwyr (e.e. dylai ymgynghorwyr buddsoddi fod yn agored a thryloyw wrth ddarparu cyngor a allai arwain at fwy o fusnes i'w cwmni).

Dosbarthodd Mr Latham (Rheolwr Cronfa Bensiwn Clwyd) y ffurflenni datganiadau o fuddiant.

Holodd y Cynghorydd Small ynglŷn ag aelodau teulu sy'n gweithio i Gyngor Sir y Fflint ac a oedd angen eu datgan. Dywedodd Mrs McWilliam bod angen eu datgan oherwydd gallent fod yn aelodau o'r Cynllun Pensiwn Llywodraeth Leol (neu gallent fod yn gymwys yn y dyfodol).

Gwnaeth y Cynghorydd Llewelyn Jones ddatganiad o fuddiant personol fel aelod o Gronfa Bensiwn Clwyd ar gyfer pob eitem.

## **71. COFNODION**

Cyflwynwyd cofnodion cyfarfod y Pwyllgor a gynhaliwyd ar 21 Mawrth 2017.

### **PENDERFYNIAD:**

Cytunwyd y gallai'r Cadeirydd dderbyn, cymeradwyo a llofnodi'r cofnodion fel cofnod cywir.

## **72. Penodi Dirprwy Gadeirydd**

Cyflwynwyd y Cynghorydd Bateman gan y Cynghorydd Mullin i fod yn Ddirprwy Gadeirydd Pwyllgor y Gronfa Bensiwn. Cafodd hyn ei eilio gan y Cynghorydd Small a chymeradwywyd hyn gan y Pwyllgor cyfan.

### **73. Diweddariad ar Gronfa Bensiwn Clwyd**

Rhoddodd Mr Latham ddiweddariad ar y Gronfa Bensiwn. Dywedodd ei fod wedi lleihau'r nifer o adroddiadau o dan yr eitem hon ar yr agenda o ystyried yr aelodau newydd i Bwyllgor y Gronfa Bensiwn ond dywedodd y byddai'r rhain yn cael eu cynnwys fel rhan o hyfforddiant y Pwyllgor.

Gofynnodd Mr Latham a oedd pawb ar gael ar 19 Gorffennaf ar gyfer diwrnod cyntaf yr hyfforddiant ar Lywodraethu; cadarnhaodd yr holl aelodau eu bod ar gael. Cynhelir yr ail ddiwrnod hyfforddi yn yr wythnos yn dechrau 24 Gorffennaf, a bydd Actiwari'r Gronfa yn cynnal yr hyfforddiant hwn.

Dywedodd Mr Latham wrth y Pwyllgor bod 86% o'r Gronfa Bensiwn wedi'i hariannu ar 31 Mawrth 2017, o ganlyniad i elw cadarnhaol ar fuddsoddiadau. Dywedodd Nikki Gemmell (Actiwari Cynorthwyol – Mercer) bod y sefyllfa ariannu wedi gwella ymhellach o'r sefyllfa a nodwyd yn y papurau – roedd y sefyllfa ariannu yn 89% ar ddiwedd Mai ac roedd wedi'i ariannu tua 90% yn y dyddiau diwethaf. Dywedodd Kieran Harkin (Ymgynghorydd Buddsoddi'r Gronfa – Grŵp JLT) mai gwerth asedau'r Gronfa oedd £1.746 miliwn ar ddiwedd Mai. Dywedodd Mr Latham bod y sefyllfa ariannu bresennol ar ei lefel uchaf erioed.

Tynnodd Mr Latham sylw'r Pwyllgor at y mater ar dudalennau 32/33 y papurau am eu bod yr un fath; nododd bod tudalen 32 yn anghywir. Dywedodd bod hyn yn ymwneud â'r gwaith parhaus o fonitro Rheolwyr y Gronfa ac nad oedd unrhyw beth arwyddocaol i'w ddatgan yn y cyfarfod.

Dosbarthodd Mr Latham ddogfen gan LAPF Investments ynglŷn â chyfuno a allai fod yn ddefnyddiol i'r aelodau. Bydd Mr Latham a'r Cadeirydd yn teithio i Gaerdydd ddydd lau i fynychu cyfarfod cyntaf y Cydbwyllgor Llywodraethu. Gelwir Cronfa Cymru yn Bartneriaeth Pensiwn Cymru.

Dywedodd Mr Latham bod gwaith i'w wneud o hyd ar gyfer cynllunio Gweithlu'r Adran Weinyddol ac mae ad-drefnu adnoddau gyda chynlluniau olyniaeth a pharhad busnes yn faterion i'w trafod. Tynnodd sylw'r Pwyllgor at Atodiad 4 sy'n dangos y strwythur presennol a'r strwythur arfaethedig ar gyfer yr adran Dechnegol. Ychydig iawn o gostau ychwanegol fydd yn cael eu creu yn dilyn yr ailstrwythuro.

Gofynnodd y Cynghorydd Bateman pwy oedd y Swyddog Datblygu Technegol Arweiniol. Cadarnhaodd Mrs Burnham mai swydd newydd oedd hon yn y Tîm Technegol ac y bydd yn cael ei chynnwys yn y tîm presennol. Dywedodd Mrs Burnham bod angen ailstrwythuro hyn cyn gynted â phosibl oherwydd bod rhywun yn ymddeol. Dim ond y Tîm Technegol sy'n cael ei ystyried yn awr ond byddant yn edrych ar y tîm ehangach yn y dyfodol.

Dyweddodd Ms Brooks, pe byddai'n fuddiol i aelodau newydd y Pwyllgor, roedd Bwrdd Cronfa Bensiwn Clwyd wedi edrych ar y prosesau cynllunio'r gweithlu o fewn trefniadau staffio'r Gronfa a'u bod yn cefnogi unrhyw newidiadau a fyddai'n helpu'r tîm i gyflawni gofynion y cynllun busnes.

#### **PENDERFYNIAD:**

- (a) Y byddai'r Pwyllgor yn ystyried y diweddariad ac yn darparu unrhyw sylwadau
- (b) Bod y Pwyllgor yn cymeradwyo'r strwythur sefydliadol diwygiedig ar gyfer y Tîm Technegol a bod penodiad y Swyddog Technegol Arweiniol yn cael ei glustnodi.

#### **74. Cyfarwyddeb marchnadoedd mewn offerynnau ariannol II (MIFID II)**

Rhoddodd Mr Harkin ddiweddariad byr ar MIFID II ac yna trosglwyddodd yr awenau i Mr Buckland i drafod y cyflwyniad fel hyfforddiant i'r aelodau newydd, ac i'w esbonio i'r aelodau presennol. Yna trafododd fanylion y sleidiau.

Amlygodd Mr Buckland y prif bwyntiau allweddol, gan gynnwys eu hysbysu bod cyflwyniad cyfarwyddeb MIFID II wedi'i symud yn ôl i Ionawr 2018 ac y bydd, ar bapur, yn darparu mwy o ddiogelwch i awdurdodau lleol oherwydd y byddant yn cael eu hystyried yn "Gleientiaid Manwerthu" yn hytrach na "Chleientiaid Proffesiynol". Fodd bynnag, bydd y "dosbarthiad Manwerthu" yn golygu na fydd awdurdodau lleol yn gallu cael mynediad at gynnyrch buddsoddi cymhleth yn awr. Bydd proses i "camu i fyny" i "statws Proffesiynol", er nad yw manylion y broses wedi'u cadarnhau eto. Codwyd pryderon ynglŷn â sut y gallai Cronfa Clwyd brofi eu bod yn cyflawni'r meini prawf i camu i fyny i fod yn gleient proffesiynol, ac effaith bosibl hynny.

Dyweddodd Mr Buckland bod MIFID II hefyd yn creu goblygiadau i gyfuno oherwydd gallai rhai awdurdodau lleol yn yr un gronfa gael eu hystyried yn gleientiaid proffesiynol ac eraill yn gleientiaid manwerthu. Nodwyd bod Jeff Houston, o'r Gymdeithas Llywodraeth Leol, wedi codi'r mater na allai Llywodraeth Leol a Gwasanaethau Cyhoeddus fuddsoddi mewn seilwaith fel cleientiaid manwerthu, sef un o nodau cyfuno.

Dyweddodd Mr Harkin y bydd hyfforddiant mwy manwl ar fuddsoddi yn cael ei drefnu ar fuddsoddiadau ond pe byddai MIFID II yn cael ei weithredu yn unol â'i ddiben gwreiddiol, gallai hyn gael effeithiau difrifol ar gronfeydd a allai achosi i asedau gael eu gwerthu e.e. ni allai cleientiaid manwerthu fuddsoddi yn rhai o'r asedau eraill (sydd wedi'u rhestru fel asedau gwirioneddol a marchnadoedd preifat ar dudalen 15 y sleidiau).

Gofynnodd y Cynghorydd Bateman a fyddai Brexit yn cael effaith ar MIFID II. Dywedodd Mr Harkin y gallai hyn greu goblygiadau yn y dyfodol ond tra bydd y DU yn parhau i fod yn yr Undeb Ewropeaidd, bydd MIFID II ar waith. Gofynnodd y Cynghorydd Bateman a oedd hyn wedi'i ymgorffori yng nghyfreithiau'r DU;



dywedodd Mr Harkin, oherwydd y byddai MIFID II yn weithredol ym mis Ionawr 2018, byddai'r DU yn parhau i fod yn yr Undeb Ewropeaidd ac y byddai hyn yn effeithio arno beth bynnag.

Disgwylir i'r Awdurdod Ymddygiad Ariannol (FCA) gyflwyno eu hymateb i'r ymgynghoriad erbyn diwedd Mehefin a'r gobaith yw y bydd y weithdrefn camu i fyny yn cael ei symleiddio ac y bydd Cronfa Clwyd mewn sefyllfa dda i wneud hyn.

Dywedodd Mr Latham bod y Gymdeithas Llywodraeth Leol wedi gweithio gyda rheolwyr y gronfa er mwyn galluogi'r awdurdodau lleol i gael cyfres safonol o ddogfennau, ac er y bydd angen i bob Llywodraeth Leol a Gwasanaeth Cyhoeddus eu cwblhau, byddant yn ddogfennau cyson. Yr argymhelliad yw y bydd Cyngor Sir y Fflint, yn ei rôl fel awdurdod gweinyddol Cronfa Bensiwn Clwyd yn camu i fyny i statws proffesiynol ac y bydd awdurdod yn cael ei ddirprwyo i'r Prif Weithredwr i ddatblygu'r broses o wneud cais gyda rheolwyr ac ymgynghorwyr y gronfa i "camu i fyny" o ran y Gronfa Bensiwn.

Gofynnodd y Cynghorydd Bateman a fyddai MIFID II yn digwydd yn bendant. Dywedodd Mr Buckland nad oedd wedi clywed unrhyw beth a oedd yn gwneud iddo gredu fel arall. Dywedodd Mr Latham bod hyn wedi cael ei symud yn ôl droeon ond mae Mr Buckland yn credu bod hyn yn digwydd er mwyn sicrhau bod popeth yn cael ei wneud yn gywir.

Gofynnodd Mrs McWilliam y cwestiwn, er y gallai Cronfeydd benderfynu i camu i fyny, a oedd risg o hyd y byddai rheolwyr buddsoddi yn parhau i ystyried y Cronfeydd fel risg iddynt hwy a pharhau i drin Cronfeydd fel cleientiaid manwerthu e.e. cerdded i ffwrdd am nad yw'n werth y baich cydymffurfio uwch. Cytunodd Mr Buckland, y gallai rhai rheolwyr buddsoddi bwtic gymryd y farn hon.

### **PENDERFYNIAD:**

- (a) Bod y Pwyllgor yn nodi'r effaith bosibl ar y strategaeth fuddsoddi o ddod yn gleient manwerthu a hynny o'r 3ydd Ionawr 2018.
- (b) Bod y Pwyllgor yn cytuno i ddechrau'r ceisiadau ar gyfer statws cleientiaid proffesiynol etholedig gyda phob sefydliad perthnasol, cyn gynted ag y bydd llawlyfr yr FCA yn cael ei gymeradwyo, er mwyn sicrhau y gall barhau i weithredu strategaeth fuddsoddi effeithiol.
- (c) Drwy ddewis statws cleientiaid proffesiynol, mae'r pwyllgor yn cydnabod ac yn cytuno i hepgor y trefniadau diogelwch sydd ar gael i gleientiaid manwerthu.
- (d) Bod y Pwyllgor yn cytuno i gymeradwyo cyfrifoldeb dirprwyedig i'r Prif Weithredwr at ddibenion cwblhau'r ceisiadau a phenderfynu ar sail y cais naill ai fel gwasanaeth llawn neu sengl.

Dechreuodd y cyfarfod am 10:00 a daeth i ben am 11:40. Nododd y Cadeirydd ei bod yn bwysig cwblhau'r holl hyfforddiant angenrheidiol am fod hyn wedi bod yn gromlin ddysgu serth.

.....  
**Cadeirydd**

# Eitem ar gyfer y Rhaglen 5



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 September 2017
<b>Report Subject</b>	Compliance with the Pension Regulator's Code of Practice
<b>Report Author</b>	Pension Fund Manager

### EXECUTIVE SUMMARY

The Pensions Regulator's (TPR) Code of Practice (COP) number 14, for the governance and administration of public service pension schemes, came into force in April 2015.

The COP is split into 10 key areas, and overall there is around 90 key requirements or recommended best practice, which can be directly tested and evidence of compliance provided. Following an initial assessment against the requirements by Karen McWilliam, the Fund's Independent Adviser, with her colleagues from Aon Hewitt in the winter of 2015/16, the management of Clwyd Pension Fund now carry out ongoing assessment against these requirements. The results of latest review carried out over the summer of 2017 are summarised within this report and the attachment.

The Fund is largely compliant with the COP, and has identified a number of areas where actions can be taken to result in greater compliance. These areas will be collated into a separate action plan for ongoing development.

### RECOMMENDATIONS

1	That the Committee consider the findings of the review and provide any comments.
2	That the Committee note officers will collate a separate action plan for areas of ongoing development.
3	That the Committee note the officers will carry out further self-assessment during 2018 against this compliance checklist which will be reported back to the Committee and Pension Board.

## REPORT DETAILS

1.00	EXPLAINING THE RESULTS OF THE TPR COMPLIANCE REVIEW
1.01	<p>The Public Service Pensions Act 2013 includes powers for TPR in areas such as :</p> <ul style="list-style-type: none"><li>• Pension Board knowledge and skills and</li><li>• Internal controls.</li></ul> <p>It also required TPR to issue a Code of Practice relating to the governance and administration of public service pension schemes. This Code of Practice (COP) number 14 came into force in April 2015. TPR has carried out, and intends to carry out further surveys of public service pension schemes to ensure that they are reviewing their management against the COP requirements.</p>
1.02	<p>The COP is split into 10 key areas, and overall there are around 90 requirements or areas of recommended best practice, which can be directly tested and evidence of compliance provided. Karen McWilliam, the Fund's independent adviser and her colleagues from Aon Hewitt visited the offices of Flintshire County Council in November 2015 in order to gather evidence and assess compliance against each of those requirements as well as some additional elements of good practice recommended by the national Scheme Advisory Board. The findings collated by Aon Hewitt were reported to the Pension Fund Committee and Pension Board in March 2016.</p>
1.03	<p>At that meeting it was agreed that the officers of the Fund should carry out ongoing checks against the COP and Scheme Advisory Board guidance, reporting back to the Committee and Board at least once a year. The results of the latest review are attached as Appendix 1 to this report. The third page of the Appendix includes a summary dashboard for fast identification of the areas which are not fully compliant. The results are explained further in the following paragraphs and any numbers shown in brackets relate to the results of the review presented to the Committee and Board in March 2016.</p>
1.04	<p>This review illustrates that the Fund is fully compliant in 71 (65) out of the 99 areas tested. Of the remaining 29 (34) areas:</p> <ul style="list-style-type: none"><li>• 1 (3) is not relevant to the Fund,</li><li>• 3 (9) are cases where the full evidence is not readily available and there is ongoing work investigating that area to determine whether the Fund is compliant or not.</li><li>• Excluding the above, 4 (7) areas are considered to be non-compliant with the requirements or best practice.</li><li>• The remaining 20 (15) are partially compliant, with 2 of these being employer responsibilities, rather than Fund responsibilities.</li></ul>
1.05	<p>The results clearly show an improvement in some areas since the last review, albeit it is important to recognise that some measures may be more significant than others, for example, some may be required by law whereas others are best practice, or some may have a greater level of risk with not being compliant than some of the other checks.</p>

1.06	The results illustrate that the management of Conflicts of Interest in the Fund is a particularly strong area with all measures in that area being fully compliant.
1.07	<p>The key areas for development included actions in the final column of the tables in the Appendix. These include the following areas, and those marked with an * are already included within the existing business plan::</p> <ul style="list-style-type: none"> <li>• Knowledge and Skills B10 – carrying out a form of self-assessment or training needs analysis to consider whether training has been effective so that the Committee and Board have the key skills and knowledge expected for their roles</li> <li>• Knowledge and Skills B12 – completing the TPR training modules as part of future Committee meetings</li> <li>• Publishing Information D2 and D4 – including further information on the Pension Board on the Fund's new website which will be launched in the autumn of 2017*</li> <li>• Managing Risk and Internal Controls E7 – ongoing documenting of internal procedures*</li> <li>• Maintaining Accurate Member Data F1 and F9 – ongoing work to clear existing backlogs (and implementing i-Connect) will improve data accuracy, and existing data improvement plans are being refined.</li> <li>• Maintaining Contributions G (various) – documenting procedures for collecting contributions, checking receipt and escalating payment failures, and ensuring the ongoing effectiveness of the procedure.</li> <li>• Providing Information to Members H (various) – ongoing work to clear existing backlogs will assist in meeting legal timescales. There are some standard scheme communications that require small changes to meet legal requirements.</li> <li>• Internal Dispute Resolution I (various) – small tweak to be made to leaflet explaining resolution process and some standard letters need updated to ensure they mention the process. A process also needs to be put in place to ensure legal timescales are met.</li> <li>• Breaches J3 – ongoing work to tighten up the identification of breaches of the law.</li> </ul> <p>These areas and the other areas of improvements identified will be collated into a separate action plan for ongoing development.</p>
1.08	<p>It is important that the Fund continues to assess itself against the TPR COP as TPR is taking a much greater interest on the administration and management of public service pension schemes. TPR is currently particularly focussing on the following parts of its COP:</p> <ul style="list-style-type: none"> <li>• internal controls,</li> <li>• record-keeping and</li> <li>• the provision of accurate and high quality communications to members.</li> </ul> <p>A particular area of responsibility for the Pension Board, as detailed in the Public Service Pensions Act, is "to assist in ensuring compliance with TPR requirements". The results of this review are on the agenda for the next Pension Board and we expect this will be a regular agenda item at future meetings, as well as coming back to the Committee at least annually for consideration.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	These results were tabled at the last Clwyd Pension Fund Pension Board and are on the next meeting's agenda for more detailed consideration.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>Key risks to the Fund include:</p> <ul style="list-style-type: none"> <li>• Legal requirements and/or guidance are not complied with</li> <li>• Day to day responsibilities and services are not delivered</li> <li>• The fund's objectives are not met or are compromised (e.g. administration strategy).</li> </ul> <p>Carrying out this review now and on an annual basis is a useful means to mitigate against these risks.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - Report on the Fund's compliance against each of the requirements in the COP.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>TPR Code of Practice and other resources - <a href="http://www.thepensionsregulator.gov.uk/public-service-schemes/further-resources.aspx">http://www.thepensionsregulator.gov.uk/public-service-schemes/further-resources.aspx</a></p> <p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>CPF – Clwyd Pension Fund</b> – 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</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the</p>

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) **SIP – Statement of Investment Principles** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund
- (g) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (h) **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.
- (i) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG.
- (j) **DCLG – Department of Communities and Local Government** – the government department responsible for the LGPS legislation.

Mae'r dudalen hon yn wag yn bwrpasol



# The Pension Regulator's and Scheme Advisory Board Compliance Checklist

Date of Completion: 13/09/2017

## Contents

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- K - Scheme Advisory Board - Guidance on the creation and operation of Local Pension Boards in England and Wales

## Introduction

This document outlines how Flintshire County Council complies with the Pensions Regulator's (TPR) Code of Practice No 14 Governance and administration of public service pension schemes ('the TPR Code') in relation to the management of the Clwyd Pension Fund which is part of the Local Government Pension Scheme (LGPS). It will be updated regularly by officers of the Fund and reported annually to the Pension Fund Committee and Pension Board (generally in June/July each year).

This document highlights all the key elements of the TPR Code and then evidences whether the management of the Clwyd Pension Fund meets these areas of best practice. As part of this evidence it shows when the element was last checked and whether, at that point, it was considered fully, partially or not compliant. Where they are partially or not compliant, it also highlights whether Flintshire County Council, as administering authority to the Clwyd Pension Fund, has identified actions to be carried out to improve their current practices. Where an element is not yet active, the commentary will generally still highlight where advanced progress is being made.

Those reading this document should be mindful that the TPR Code applies equally to all public service pension schemes and therefore it is generic in nature. There may be a number of elements that are more specifically stipulated within LGPS legislation and it is not the purpose of this compliance checklist to consider that level of detail.

Further, key elements of national guidance from the LGPS Scheme Advisory Board may also be incorporated into this compliance checklist. This version contains the checklists included as part of the Shadow Scheme Advisory Boards "Guidance on the creation and operation of Local Pension Boards in England and Wales".

## Key

**Frequency of review and last review date:** Where a process, policy or practice is officially reviewed at a set interval, the actual interval will be shown as well as the last interval date. However, in many circumstances processes and procedures are ongoing and part of the day – to – day operation of the Fund. In these circumstances, an annual check will be carried out to ensure that the ongoing process meets the TPR Code expectations and therefore the date shown will be the date that annual check was carried out and the frequency will be shown as "ongoing (annual check)".

	Completed:	Compliant:	Where responsibility relates to employers:
Tudalen 18	Fully completed	Fully compliant	Employers - Fully compliant
	In progress	Partially compliant	Employers - Partially compliant
	Not started	Non-compliant	Employers - Non-compliant
	Not yet relevant	Not yet relevant	Not yet relevant

### Definitions:

<i>PSPA13</i>	Public Service Pensions Act 2013
<i>LGPS</i>	Local Government Pension Scheme
<i>TPR</i>	The Pensions Regulator
<i>TPR Code</i>	The Pensions Regulator's Code of Practice No 14 Governance and administration of public service pension schemes
<i>Scheme Manager / CPF</i>	For the Clwyd Pension Fund, this is Flintshire County Council.
<i>Administering Authority</i>	The LGPS specific term for Scheme Manager. For the Clwyd Pension Fund, this is Flintshire County Council.
<i>IDRP</i>	Internal Dispute Resolution Procedure
<i>SAB</i>	The national LGPS Scheme Advisory Board
<i>PFC</i>	Pension Fund Committee
<i>PB</i>	Pension Board

## Summary Dashboard

A dashboard showing the summary of the results of the latest compliance checklist is shown below:

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No.	Completed	Compliant
<b>Reporting Duties</b>		
A1	Fully completed	Fully compliant
A2	Fully completed	Fully compliant
A3	Fully completed	Fully compliant
A4	Fully completed	Fully compliant
<b>Knowledge and Understanding</b>		
B1	Fully completed	Fully compliant
B2	Fully completed	Fully compliant
B3	Fully completed	Fully compliant
B4	Fully completed	Fully compliant
B5	Fully completed	Fully compliant
B6	Fully completed	Fully compliant
B7	Fully completed	Fully compliant
B8	Fully completed	Fully compliant
B9	Fully completed	Partially compliant
B10	In progress	Partially compliant
B11	Fully completed	Fully compliant
B12	Fully completed	Partially compliant
<b>Conflicts of Interest</b>		
C1	Fully completed	Fully compliant
C2	Fully completed	Fully compliant
C3	Fully completed	Fully compliant
C4	Fully completed	Fully compliant
C5	Fully completed	Fully compliant
C6	Fully completed	Fully compliant
C7	Fully completed	Fully compliant
C8	Fully completed	Fully compliant
C9	Fully completed	Fully compliant
C10	Fully completed	Fully compliant
C11	Fully completed	Fully compliant
<b>Publishing Information</b>		
D1	Fully completed	Fully compliant
D2	Fully completed	Partially compliant
D3	Fully completed	Fully compliant
D4	Fully completed	Partially compliant

No.	Completed	Compliant
<b>Risk and Internal Controls</b>		
E1	Fully completed	Fully compliant
E2	Fully completed	Fully compliant
E3	Fully completed	Fully compliant
E4	Fully completed	Fully compliant
E5	Fully completed	Fully compliant
E6	Fully completed	Fully compliant
E7	Fully completed	Partially compliant
E8	Fully completed	Fully compliant
<b>Maintaining Accurate Member Data</b>		
F1	Fully completed	Partially compliant
F2	Fully completed	Fully compliant
F3	Fully completed	Fully compliant
F4	Fully completed	Fully compliant
F5	Fully completed	Fully compliant
F6	Fully completed	Fully compliant
F7	Fully completed	Fully compliant
F8	Fully completed	Fully compliant
F9	Fully completed	Partially compliant
F10	Fully completed	Fully compliant
F11	Fully completed	Fully compliant
<b>Maintaining Contributions</b>		
G1	Fully completed	Partially compliant
G2	Fully completed	Partially compliant
G3	Fully completed	Partially compliant
G4	Fully completed	Non-compliant
G5	Fully completed	Partially compliant
G6	Fully completed	Fully compliant
G7	Fully completed	Employers - Partially compliant
G8	Fully completed	Partially compliant
G9	Not yet relevant	Not yet relevant
<b>Providing Information to Members and Others</b>		
H1	Fully completed	Employers - Fully compliant
H2	Fully completed	Fully compliant
H3	Fully completed	Fully compliant
H4	In progress	Partially compliant
H5	Fully completed	Fully compliant
H6	Fully completed	Fully compliant

No.	Completed	Compliant
<b>Internal Dispute Resolution</b>		
H7	Fully completed	Employers - Partially compliant
H8	Fully completed	Partially compliant
H9	Fully completed	Partially compliant
H10	In progress	Partially compliant
H11	Fully completed	Fully compliant
H12	Fully completed	Fully compliant
H13	Fully completed	Partially compliant
<b>Internal Dispute Resolution</b>		
I1	Fully completed	Fully compliant
I2	Fully completed	Non-compliant
I3	Fully completed	Fully compliant
I4	Fully completed	Fully compliant
I5	Fully completed	Partially compliant
I6	Fully completed	Partially compliant
I7	Fully completed	Fully compliant
I8	Fully completed	Fully compliant
I9	Fully completed	Fully compliant
<b>Reporting Breaches</b>		
J1	Fully completed	Fully compliant
J2	Fully completed	Fully compliant
J3	Fully completed	Partially compliant
<b>Scheme Advisory Board Requirements</b>		
K1	Fully completed	Fully compliant
K2	Fully completed	Fully compliant
K3	Fully completed	Fully compliant
K4	Fully completed	Fully compliant
K5	Fully completed	Fully compliant
K6	Fully completed	Fully compliant
K7	Fully completed	Non-compliant
K8	Fully completed	Fully compliant
K9	Fully completed	Fully compliant
K10	Fully completed	Fully compliant
K11	Fully completed	Fully compliant
K12	Fully completed	Non-compliant
K13	Fully completed	Fully compliant
K14	Fully completed	Fully compliant
K15	Fully completed	Fully compliant

## A - Reporting Duties

Note the requirements in this section are not included in the TPR Code but they are a fundamental to the relationship with TPR.

### Legal Requirements

All public service pension schemes have to be registered with TPR. In addition, all schemes must provide a regular scheme return to TPR, containing prescribed information. A return is required when the scheme receives a scheme return notice from the regulator. The scheme manager must also keep the regulator informed of any changes to registrable scheme details.

Note the requirements in this section are not included in the TPR Code but are a requirement for all schemes.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
A1	Is your scheme registered with the Pension Regulator?	Will be reassessed annually to ensure new registration is not required	Annual	01/06/2017	Fully completed	Fully compliant	New registration will only be required if a new LGPS is created that is deemed to be a separate scheme	
A2	Is the information held on the Pensions Regulator's website about the scheme up-to-date?	Update 1/6/17 - The website is checked regularly to ensure the Fund information is up to date.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
A3	Have you completed this latest Scheme Return in the required timescale?	Unclear whether this has been completed.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		Updated 12/09/17 - Discussed with PAM. TPR website updated as and when for new employers etc and is routine. Returns completed as necessary.
A4	Have you responded to the latest TPR public service pension scheme survey/questionnaire?	Update 1/6/17 - Intention is to respond to any such survey that is received, including on a voluntary basis. Latest survey (late 2016) completed by CPFM.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		

## B - Knowledge and Understanding

### Legal Requirements

A member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
B1	Are there policies and arrangements in place to support pension board members in acquiring and retaining knowledge and understanding?	Pension Fund Training Policy with appropriate objectives and measurements in place. It is agreed by Pension Fund Committee and was adopted by the Pension Board at its first meeting (July 2015). Updated 1/6/17 - It has since been updated to incorporate CIPFA LPB guidance (March 2016) and further adopted by PFC and PB.	Annual	01/06/2017	Fully completed	Fully compliant		
B2	Has a person been designated to take responsibility for ensuring the framework is developed and implemented?	Updated 1/6/17 - Responsibility delegated to the ChiefExecutive	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
B3	Is the Fund providing assistance to pension board members to determine the degree of knowledge and understanding required?	Dedicated induction training has been provided based on CIPFA requirements.  Further trainings sessions being provided, jointly run for PFC and PB members.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
B4	Are the roles and responsibilities of pension boards and members of pension board clearly set out in scheme documentation?		Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
B5	Are pension board members aware of their legal responsibility in terms of Knowledge and Understanding?	Articulated in Training Policy and part of Induction Training, also set out in PB protocol. All members are provided with copy of Training Policy as part of induction pack and reminded of Policy on an annual basis. PB is asked to adopt the Training Policy. Updated 1/6/17 - 2017 reminder will be part of the induction training in July 2017.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		Update 1/6/17 - Ensure Training Policy is circulated with training notes at July 2017 induction training. (PFM) Update 12/9/17 - Training Policy included in training pack given to all Cttee & Board members
B6	Have all pension board members got access to copies of the scheme rules and relevant Fund documentation?	This information is provided (or links provided) as part of application process, induction training and first meeting.  Further there is a list of key documents to be provided within the Training Policy. Most of these have now been shared with the PB.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		Update 1/6/17 - Provide a link to the scheme regulations and copy of the actuarial valuation report, and specific training on these points (PFM)
B7	Is there an up-to-date list of the Fund specific documents with which pension board members need to be conversant in?	This is included as the induction list in Training Policy	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
B8	Are all pension board members investing sufficient time in their learning and development?	Training plans are agreed each March as part of the Pension Fund business plan. Monitoring of attendance at training is undertaken in accordance with Training Policy and recorded in annual report and accounts as well as being a regular part of PFC business. Catch up sessions are organised for those unable to attend. It is considered that all PB members are spending sufficient time attending training events (subject to results of Training Needs Analysis).	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
B9	Does the Fund offer pre-appointment training for new pension board members or mentoring by existing members?	Induction process in Training Policy including providing all with copies of key documents.  Pre appointment training/mentoring is not currently offered. Training is provided on appointment and ongoing basis instead.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		No further action planned.
B10	Is there a process in place for regularly assessing the pension board members' level of knowledge and understanding is sufficient for their role, responsibilities and duties?	There is a Training Plan (annual) which is focussed at whole PFC/PB level but agreed at PFC, where members of PFC and PB can input to the draft.  The Independent Adviser's annual governance assessment considers, at a high level, the effectiveness of training.  Update 1/6/17 - A training needs analysis exercise was planned to be carried out but has been deferred due to other priorities.	Ongoing (annual check)	01/06/2017	In progress	Partially compliant		Update 1/6/17 - Training Needs Analysis to be completed at some point (PFM) Update 12-09-17 - Agreed that this to be undertaken by the Chair using a questionnaire
B11	Are records of learning activities being maintained?	Full records are maintained at a personal level and reported to PFC as well as being included in the annual report and accounts.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
B12	Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?	It is the intention that all PB and PC members will carry this out. However, focus has been on completing other induction training. Some PB/PC members have already completed some modules. Update 1/6/17 - Further modules will be built into 2017/18 training plan.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Update 1/6/17 - Incorporate these modules into PFC and other meetings (PFM)

## C - Conflicts of interest

### Legal Requirements

The Public Service Pensions Act 2013 sets out the legal requirements for scheme managers and pension boards for conflicts of interest.

In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied:

- that a person to be appointed as a member of the pension board does not have a conflict of interest and
- from time to time, that none of the members of the pension board has a conflict of interest.

Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above.

Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
C1	Does the Fund have a conflict of interest policy and procedure, which include identifying, monitoring and managing potential conflicts of interest?	Policy in place and approved by PFC and adopted by PB, and includes key required items.	Annual	01/06/2017	Fully completed	Fully compliant		
C2	Do pension board members have a clear understanding of their role, the circumstances in which they may have a conflict of interest and how to manage potential conflicts?	Included as a key part of first PB meeting (July 2015) and induction training. Policy will be shared further as part of annual process to refresh declarations (due June/July each year). Updated 1/6/17 - Policy circulated and training covered at June 2017 PFC and declarations completed by PFC members present.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		Updated 1/6/17 - Ensure Conflicts Policy is circulated with training notes at induction training in July 2017 and new declarations are all received, to cover those not at June 2017 PFC. (PFM) Updated 12/9/17 - Included in training pack shared with all Cttee and Board members.
C3	Have all Pension Board members provided appropriate information for the Administering Authority to determine whether a conflict exists (on appointment and from time to time)?	All completed declaration of potential conflicts at first PB meeting (July 2015). This equally applies to PFC members and senior staff. Declarations are required to be refreshed annually. Updated 1/6/17 - refresh of declarations underway June/July 2017.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		Updated 1/6/17 - Ensure final declarations received (PFM). Updated 12/9/17 - Only 1 remains o/s (SJ)
C4	Does the appointment process for pension board members require disclosure of interests and responsibilities which could become conflicts of interest?	Potential conflicts were asked to be disclosed on application forms.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
C5	Is the conflicts policy regularly reviewed?	It is reviewed at least every three years (so due March 2018).	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
C6	Does the Fund have a conflicts register and it is circulated for ongoing review and published?	A register is created based on individual declarations and any further declarations (e.g. at the commencement of meetings) and all are asked to refresh/check their entries at least every 12 months (usually around June/July).  It is available to be shared with the PFC Chairman at the beginning of each PFC.  Update 1/6/17 - It is also published as part of the annual report and accounts for 2016/17.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
C7	Is appropriate information included in the register?	All areas expected by The Pensions Regulator are included in the register and/or declarations of interest.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
C8	Is there a standing item on the agenda for declaring conflicts of interest?	Part of standard PFC and PB meeting agenda	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
C9	Do those involved know how to report a conflict of interest?	Members trained on appointment and provided with copy of Conflicts Policy annually (as part of refreshing declarations - due June/July each year). Also Conflicts/Policy referred to at start of each meeting	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
C10	Is the number of employer and member representatives on the board in line with legal requirements?	Yes - there are two scheme member representatives and two employer representatives. All posts are currently filled.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
C11	Is the board made up of the appropriate mix of representatives in order to minimise potential conflicts?	Positions include retired and active scheme members, as well as employer representatives. It is considered that those taking up those appointments have a good mix of backgrounds and skills, supplemented by ongoing training.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		



## D - Publishing information about schemes

### Legal Requirements

The scheme manager for a public service scheme must publish information about the pension board for the scheme(s) and keep that information up-to-date.

The information must include:

- who the members of the pension board are
- representation on the board of members of the scheme(s), and
- the matters falling within the pension board's responsibility

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
D1	Does the Administering Authority publish information about the pension board?	Name of all members, whether they are a scheme or employer rep, voting rights, and responsibilities detailed on website and in the annual report and accounts. <a href="http://www.clwydpensionfund.org.uk/en/Governance-and-Investments/Local-Pension-Board.aspx">http://www.clwydpensionfund.org.uk/en/Governance-and-Investments/Local-Pension-Board.aspx</a>	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
D2	Does the Administering Authority publish other useful related information about the pension board?	Full protocol on website details how members are appointed i.e. election and selection criteria. This protocol covers/includes the typical items in a terms of reference.  The PB members' employment information is not currently included.  No specific roles and responsibilities for PB members - joint responsibility for all PB matters.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Consider including current employment etc. as part of website review - happening summer 2017 (PAM)
D3	Is all the information about the Pension Board kept up-to-date?	Information regularly checked. Pension Fund Manager and Communications Officer will update website when new members appointed.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
D4	Does the Administering Authority public information about pension board business?	PB are not public meetings so details are currently not published, though Flintshire may publish information relating to the PB from time to time. PB meeting minutes become part of PFC meetings and are therefore public.  An annual report by the Chair of the PB is prepared and published as part of the annual report and accounts	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		

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## E - Managing risk and internal controls

### Legal Requirements

The scheme manager must establish and operate internal controls which adequately ensure the scheme is administered and managed in accordance with the scheme rules and the requirements of the law.

Internal controls are defined in the legislation as:

- arrangements and procedures to be followed in the administration and management of the scheme
- systems and arrangements for monitoring that administration and management
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme

The legal requirements apply equally where a scheme outsources services connected with the running of the scheme.

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No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
E1	Is there an agreed process for identifying and recording scheme risks?	A risk management policy is in place that outlines the procedure for identifying, managing and recording risk. It covers all the key areas identified by the TPR Code. It was approved by the PFC in March 2015.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
E2	Does the Fund have an adequate process to evaluate risks and establish internal controls?	The risk management policy includes how risks are to be evaluated and internal controls established. It makes use of risk register with a RAG status based on impact and likelihood and the associated control is then shown as part of the risk register.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
E3	Does the Administering Authority have a risk register to record all risks identified and action taken?	Risk register is in place which includes internal controls in relation to identified risks and further identified actions. New, high, big changing and removed risks are reported quarterly to the PFC.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
E4	Does the Administering Authority review the effectiveness of the risk management and internal control systems of the Fund?	Our risk management and internal controls are continually reviewed for effectiveness as part of a number of processes including: - A regular agenda item on Advisory Panel meetings considering the risk register or new areas of concern - The ongoing (at least at quarterly PFC meetings) updating of the risk register which includes the control of those risks - Issues identified through regular monitoring reports such as KPI performance monitoring for PC, IDRPs updates and breaches reporting is soon to be in place. - The triennial (at least) review of the risk management policy - Regular internal and external audit reports. - Annual internal control reports custodian and fund managers. - Annual update of TPR Code compliance checklist. - Periodic ad-hoc reviews (e.g. process review)  Register and policy for risk management is completely reviewed annually as part of business planning.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
E5	Does the Administering Authority regularly review the risk register?	Register entries are reviewed at each PFC meeting (quarterly) and at most Advisory Panels (quarterly). The information provided to PFC is also provided to PB members.  Risk management is ongoing and therefore the register can be updated as a result of risk identification through a number of means including: - ongoing review at the above named meetings - performance measurement against agreed objectives and KPIs - monitoring against the Fund's business plan - findings of internal and external audit and other adviser reports (e.g. resulting from the triennial valuation) - feedback from the local Pension Board, employers and other stakeholders - informal meetings of senior officers or other staff involved in the management of the Fund - liaison with other organisations, regional and national associations, professional groups, etc.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
E6	Is there a standing item on the Pension Board agenda to review scheme risks?	It is a standing item on the PFC each quarter and, as a matter of course, is then shared with the Pension Board. It has also been added as a further item for more detailed consideration for the PB during 2016	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
E7	Does the Administering Authority have adequate systems, arrangements and procedures (internal controls) in place for the administration and management of the Fund and are they documented ?	<p>Based on a high level discussion, it is considered that there is a good awareness of appropriate internal controls and these appear to be in place, albeit some controls are not currently fully documented.</p> <p>For example, in relation to administration, different roles have different access and ability to carry out certain functions on the systems. There are, for example, limitations on who can check and get access to certain things (do, check , review process) and system won't allow anything to be done by a person without correct authority. Doing and checking can be done by the same person if at the right level but if this were the case a report on this goes to the Pension Administration Manager and investigated. A list of users and levels s available on altair. Also staff cannot access their own pension records.</p> <p>The Fund has put into place reporting on performance against the identified KPIs, and there are SLAs with the Employers to attempt to ensure timely and accurate data and contributions. The administration policy is being revised and reissued to include greater focus on systems (e.g. I-connect) to reduce the need for manual input by employers or admin staff.</p> <p>The finance team make good use of spreadsheets to carry out control checks in relation to movement of monies and bank reconciliation. Further information is included in point F3. They are in the process of documenting their existing procedures for contribution and employer information checking.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Ongoing work continues to ensure all internal controls are appropriately documented (PAM & PFM) - 22/5/17
E8	Do these procedures apply equally to outsourced services, are internal controls reflected in contracts with third party providers and is there adequate reporting in relation to those controls?	<p>The key outsourced services for this purpose are BNYM (custodian) and Fund managers. These providers are required to provide annual internal control reports.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		

## F - Maintaining accurate member data

### Legal Requirements

Scheme managers must keep records of information relating to:

- member information
- transactions, and
- pension board meetings and decisions.

The legal requirements are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 ('the Record Keeping Regulations').

The Data Protection Act 1998 and the data protection principles set out additional requirements for using, holding and handling personal information. Other requirements are set out in the:

- Pensions Act 1995 and 2004
- Pensions Act 2008 and the Employers' Duties (Registration and Compliance) Regulations 2010
- Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715)
- Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 (SR 1997 No 94)
- Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567)

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
F1	Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?	<p>Checks were carried out in relation to each of the requirements in the Record Keeping Regulations and are, in the main, compliant with the following points of note:</p> <p>'- for in relation to clause 4(3), which relates to information for members who pay AVCs, The AVC information is held and maintained by Prudential/Equitable Life with an annual update provided to CPF. Prudential only provide a list each year of which members statements have been sent to, but statements are sent straight from Prudential to member so data not held on CPF member records or paper files, and member choices re investments and Retirement date are not included on the list of information from Prudential which are two key elements. Equitable life AVCs are not held for active records, just deferred members - for these, annual statements go to CPF for scanning, these are held linked to each members' electronic record, and posted to members (and the investment option i.e. with profits is shown on the statement). All of that being said, it is expected the information maintained on CPF's behalf by these providers will meet with the Record Keeping provisions but confirmation will need to be obtained from the providers. In addition CPF staff don't use/have access to Prudential records via the Prudential on-line facility - this should be obtained as soon as possible.</p> <p>'- The pension team is currently processing the outstanding leavers. This may mean some records are not currently fully compliant with the record keeping provisions.</p> <p>Points of explanation regarding how some information is held (but which are still compliant):</p> <p>'- Annual pension increases are done in a bulk exercise - the increase for each year for each member is then stored via the scanned member letters each year held against each members' record. Similarly calculation of members benefits and any checks/amendments are scanned and saved on each member record.</p> <p>'- Postal addresses not held for those pensioners who are gone away who DWP can not trace - each time a "gone away" notification received a DWP trace is done. This may only occur once a year as pensioners are only written to on an annual basis.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant	Updated 1/6/17 - Clearing backlog will help move to full compliance.	Access been provided to some staff and rolling out to others (PAM) 1/6/17

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No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
F2	Does the Fund have the appropriate processes in place so employers can provide timely and accurate information?	<p>SLA with instructions is in place with standard forms to complete attached to the SLA. This will be backed up by the Administration Strategy (being implemented Spring 2016). However some employers are still providing information in a different format than requested. Standard forms need to be updated to include requirement to provide the correct pay and the employer contributions split by member. the consequences for the employer include the possibility of being fined but this has not been implemented by CPF.</p> <p>I connect, which has been implemented for one large employer, will have online information which sends errors back to employer and an error report to AA, and only once resolved this information will be automatically loaded onto altair and the record is therefore released to CPF only once errors cleared. This will further enhanced processes for data to be submitted. Otherwise, data can be provided in spreadsheet format (rather than single forms) if easier for employers. Data cleansing being undertaken for other employers. New employers will be automatically using iConnect.</p> <p>Training needs for employers identified based on issues arising, or when requested, or large scale changes occur, including training provided to key employer contact when a new employer joins.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
F3	Does the Fund keep records of and reconcile transactions as required by the Record Keeping Regulations?	<p>All info on scheme records and also on the cashflow systems feeds into annual report and accounts. This includes all write offs (see below). Bulk transfers are such that an automatically created auto view on altair loads the transfer to each member record. Budget monitoring also is an extra check on reasonableness of amounts vs expected. All this information is stored indefinitely in the CPF finance team drive and so is fully backed up - payments go back to at least 1999/2000 on spreadsheet shown. There is reconciliation between actual and expected costs, with a quarterly update against budget in PC papers.</p> <p>Employer contributions paid in relation to each active member are not currently stored on CPF systems, but are being received and stored separately (updated 1/6/17 - previous not received).</p> <p>All transactions go through custodian: on a monthly basis records are downloaded from the custodian system and checked on monthly sheets - includes all purchases, sales, currency adjustments etc.- these are coded by specific individual codes for each type of transaction into the ledger, and into the check sheet which has a tab for each fund manager. Then another sheet brings it all together on "book" spreadsheet and this is compared to the ledger. This is used by the auditor for annual report checking.</p> <p>Write offs - pink slips are kept in a paper file which record the amount of the overpayment, the approach to recover, and is checked before entered onto a spreadsheet for monitoring. If over 100 pound, an invoice is sent to executor or spouse etc., and those under 100 will be automatically written off, then all are reconciled In ledger under a specific code. If invoiced but not paid eventually also written off (i.e. at end of year). The Flintshire debtor system will chase invoices once raised.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
F4	Are records kept of pension board meetings as required by the Record Keeping Regulations?	<p>Minutes and meeting papers are maintained by the Pension Team Finance Managers including a record of all decisions made, highlighting all actions. Minutes are sent to PFC as part of their papers for each meeting and are therefore uploaded to the Council's website as part of the PFC reports.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
F5	Are records kept of decisions made by the pension board, outside of meetings as required by the Record Keeping Regulations?	We do expect minimal situations where there would be decisions outside of the PB meetings. Where there has been this is fully recorded and retained (for example, as part of an e-mail record).	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
F6	Are records retained for as long as they are needed?	CPF consider it necessary to retain records for long as is possible due to the number of enquiries from employees relating to periods many decades ago. Accordingly personal records are maintained in addition to other data such as contribution lists, spreadsheets of old cases and pensions increases reports.  There are no more individual paper files, all member records are scanned on to altair system and kept indefinitely.  Contribution returns are held on paper files and scanned and kept indefinitely.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
F7	Does the Administering Authority have policies and processes to monitor data on an ongoing basis?	There are a number of separate processes in place to monitor data on an ongoing basis including: - Some comparison of admin records compared to FCC payroll information each month to flag differences (e.g. changes in pay rates over certain levels) - Standard internal process for year-end annual returns highlighting any data discrepancies (e.g. manual checks of contributions v pay) - Altair year end upload process includes warnings/errors - Majority of data entry is checked for input accuracy - Various tolerance checks such as changes in pay - Comparison of payroll v admin system monthly - Processes if pensioner payslips (which are issued if pension changes by £5 or more a month) or pension increase letter are returned - follow guidance (DWP tracing), also using only BACs payments for pensioners and life certificate exercises on a regular basis (3-5 years) and national fraud initiative also every 2 years. - Triennial valuation highlights data issues. - Administration Strategy introduced a formal escalation process with employers if incomplete monthly data is provided or if provided late, - Checks carried out on 'common' data as part of annual exercise. - Gone away deferred records kept as gone away as can't do DWP trace before SPA. - Pension payroll procedures documented on paper file and on system. Movements are recorded, pensions over £1,200 a month are checked, movements are checked on a monthly basis. Heywood guidance on how to check pension increases is used - spot checks are carried out and kept for audit purposes and calculations also done manually as extra check.	Some monthly, some annual	01/06/2017	Fully completed	Fully compliant		
F8	Does the Administering Authority carry out a data review at least annually?	Yes, key part is the year end process. More details in F7.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
F9	Is a data improvement plan in place which is being monitored with a defined end date?	The current backlog has a plan in place for clearing it with some specific goals. However, more work to identify problems with employers and ensure an improvement plan is in place to ensure ongoing problems are minimised.  Updated 1/6/17 - Employer Liaison Team and I-connect both being rolled out to assist with data challenges and will be key in ensuring historical data problems are also resolved.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		1/6/17 - Ongoing work to clarify timescales for rectifying data issues with employers (PAM)

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No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
F10	Are processes and policies in place to reconcile scheme data with employer data?	See F7 for main detail. Further, in terms of addresses, team collect returned (gone away) ABS and pen pals and deferred statements, sent to employers to ask for address info - often employer has same info as the fund for employees so they then need to get new address from members - the records are then updated as new information comes back. The amount of discrepancies are quite significant so employer could make improvements in timeliness of providing information so that admin records are up to date. Updated 1/6/17 - Employer Liaison Team and I-connect both being rolled out to assist with ongoing employer data reconciliation.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant	Although compliant, employer data continues to be an issue as highlighted in F9. I-connect and improvement plans should assist.	
F11	Do the Administering Authority's member data processes meet the requirements of the Data Protection Act 1998 and the data protection principles?	All those involved with data understand the DPA: - Refresher training provided to all staff Q4 2015 and remainder likely in early 2016 - at least triennially - DPA officer at Flintshire carries out training - Council data protection statement of policy and practice in place and guidance on intranet  Evidence of processes includes: - Data from/to employers now either through .gov.uk or through egress (smaller employers) - employers have to sign up to egress, information from employers sending information in through secure pensions inbox - OneStore used for data transfer with actuary - Actuary – use egress secure email to send data. And secure email account - use Mercers secure site for sharing data. - Egress is used when sending individual data to members.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		*

## G - Maintaining contributions

### Legal requirements

Contributions must be paid as detailed below, and where not done, they should be reported to TPR in circumstances where the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to TPR in the exercise of any of its functions. Reporting must be carried out as detailed below.

Contribution Type	Contributions must be paid	When a failure should be reported
Employer	On or before the due date as defined by the scheme regulations	To The Regulator: As soon as reasonably practicable
Employee	Paid within the prescribed period (19 <sup>th</sup> day of the month, or 22 <sup>nd</sup> day if paid electronically) or earlier date if required by the scheme regulations	Regulator: Within a reasonable period – 10 working days

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
G1	Does the Fund have procedures and processes in place to identify payment failures?	<p>Team have a spreadsheet which identifies how much is expected and compares with how much paid for each employer. Pay is stored on there as well. If late, the expected amount (and contribution once paid) is highlighted red. Employer SLA is 19th of the following month for both employee and employer conts. SLA says the Fund may charge interest on late payments but to date this has not been implemented.</p> <p>The sheet is monitored daily, and a key check carried out on the 19th to identify late payments. However there is currently no procedure documented for this and is down to an individual on the team being available to do this. Few employers have payment timing issues, so there is no formal procedure to follow when failures happen. In practice, failures are raised with the Finance Manager and the team will chase the employer via phone or email first.</p> <p>The remittance form does not include Assumed Pensionable Pay (APP) and split of 50:50 scheme.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Document procedures for dealing with late and incorrect payments. (PFM - DF) Update remittance advice.
G2	Do those processes and procedures include a contributions monitoring record to determine whether contributions are paid on time and in full?	<p>The spreadsheet highlights where a payment is not received by the 19th of each month. It also highlights if contributions could be incorrect by comparing salary vs contribution rate to give employee and employer rates so there appears to be robust checks in place. If rates paid by employer and employees do not look consistent this will be raised. There is no formal documented procedure (albeit the spreadsheet does store all the historical information too).</p> <p>Currently there are 3 employers not providing full information as required and one employer shuts in summer for one month so payment is always late in this month - but early during the remainder of the year so no action has been taken.</p> <p>A number of issues occurred during 2016/17 with late payments being a consequence of issues around new entrants to the Fund. These have now been rectified and procedures tightened.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		<ul style="list-style-type: none"> <li>- Formalise procedures for dealing with late payments (as above).</li> <li>- Ensure employers not complying with format of data/timing of payments and incorrect payments continue to be resolved and escalated in accordance with the agreed procedure.</li> </ul> <p>Update 12/9/17 - spreadsheet used to track all payments including date payment received. Late payments initially chased by email then referred to PFM(DAF)</p>

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No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
G3	Do those processes and procedures include monitoring payments against the contributions monitoring record on an ongoing basis?	The process includes reconciliation with the payment received and shown in the financial system.  No process is currently in place in relation to reconciling AVC payments with contributions record as these are paid directly to Prudential.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Ensure a process is put in place to identify where AVCs are paid late to Prudential and obtain assurances from Prudential that they have appropriate processes in place.
G4	Are these procedures regularly reviewed to ensure they are effective?	Payments are on the whole, usually on time but no formal review of the process/procedure is undertaken. This will be incorporated as a part of formalising the procedure.	Ongoing (annual check)	01/06/2017	Fully completed	Non-compliant		Ensure documented process includes a regular review of effectiveness of process.
G5	Do the Administering Authority's processes include managing overdue contributions in line with TPR's suggested approach?	In practice the TPR's suggested approach is followed although this is not formally documented. However, the CPF Breaches Procedure will assist in formalising this too.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Formalise procedures for dealing with late and incorrect payments.
G6	Does the Fund maintain a record of any investigations and communications with employers?	A summary of late payments is included in annual report and accounts (although employers are not specifically named). Information is also available on the historic monitoring spreadsheets. Emails with employers are currently available in a central mailbox and generally copied into each admitted body sub-folder but this process could be more refined.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		Documented procedure should clarify where all records are maintained, including of phone conversations.
G7	Do employers provide sufficient information to monitor contributions and is this in accordance with the LGPS regulations?	Not all employers provide the full information (e.g. some miss pensionable pay) or follow the correct format.	Ongoing (annual check)	01/06/2017	Fully completed	Employers - Partially compliant		-Set out 2014 regulation requirements for employers and update SLA to aid understanding. -Follow up with employers who continue to not meet requirements.
G8	Is there a satisfactory process in place to assess the materiality of any payment failures and ensure that those which are material are reported to the Regulator within a reasonable period?	The CPF Breaches Procedure was agreed by PFC in November 2015. An internal process is in place to capture, record and consider breaches monthly, albeit it is still being bedded in. All failures are already recorded in annual report and accounts.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Updated 1/6/17 - Ensure monthly updates to breaches log and share log for consideration (PFM - AH)
G9	If the administration of contributions outsourced to a service provider, is there a process in place to obtain regular information on the payment of contributions to the scheme?	N/A - not outsourced.	Ongoing (annual check)	01/06/2017	Not yet relevant	Not yet relevant		

## H - Providing information to members and others

### Legal requirements

The law requires schemes to disclose information about benefits and scheme administration to scheme members and others. This includes requirements relating to benefit statements and certain other information which must be provided under the requirements of the 2013 Act, HM Treasury directions and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ('the Disclosure Regulations 2013'). In addition to these duties, there are other legal requirements relating to the provision of information to members and others under other legislation.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
H1	Has an annual benefit statement been provided to all active members within the required timescales?	Sent annually. Statements as at 31st March 2016 all issued by 25th August 2016. Some data issues with employers means may not be as accurate as wished, but this is a common issue with LGPS Funds and appropriate disclaimers put on statements. Employer Liaison Team set up to try and address this more.	Annual	01/06/2017	Fully completed	Employers - Fully compliant	Blank version on website for members to view so know what to expect.	
H2	Do these meet the legal requirements in relation to format?	Treasury Direction was issued in March 2014 and effective from 1 April 2015 (so applies to 2015/16 onwards statements and not 2014/15). Even though, disclosure regs and HMT directions are complied with for active members.	Annual	01/06/2017	Fully completed	Fully compliant		
H3	Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales?	Benefit statements are issued automatically to deferred members annually (27/5/15 for 2014/15), which is more proactive than this provision (which just relates to issuing them on request). Deferred statements only not sent if "gone away" from current address held. In relation to backlog members turning to DB status, they receive a DB statement as soon as their record is updated. Pension credits members also get annual statements (i.e. beyond legal requirements) - issued end September 2015 for 2014/15.	Annual	01/06/2017	Fully completed	Fully compliant		
H4	Does this meet the legal requirements in relation to format?	The information in the standard deferred statements does not fully comply with the disclosure requirements where the pensionable remuneration on the date of leaving is not included. Not seen evidence for pension credit statements. However, it is possible information provided on individual requests includes this element, this needs to be further investigated.	Ongoing (annual check)	01/06/2017	In progress	Partially compliant		Check format of statements for credit members meets requirements and for those other requests. (PAM 1/6/17) Include pensionable pay in future deferred statements as standard or ensure included for individual requests. (PAM 1/6/17)
H5	Has an annual benefit statement been provided to all members with AVCs within the required timescales?	These are distributed directly to members by Prudential (an email is sent to the Fund when this is completed - was August/September 2016). No checks are currently carried out to check if all those due a statement get it and the information included is adequate. Equitable Life sent their statements in week commencing 8 May 2016 and then these are distributed by CPF to scheme members.	Annual	01/06/2017	Fully completed	Fully compliant		
H6	Do these meet the legal requirements in relation to format?	Statement provided by Prudential checked against requirements and all appropriate information is included.	Annual	01/06/2017	Fully completed	Fully compliant		See H5 above.

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No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
H7	Is basic scheme information provided to all new and prospective members within the required timescales?	Employers provide website details for information. Different one for councillors as well. When CPF notified, they send a starter pack with forms to complete, brief guide to scheme. This two stage process should provide assurance that disclosure requirements are met but not currently monitored.  This is measured against the 2 month legal timescale.  Year end error reports are carried out - these check reference no against the admin system then queries sent to employers - this is for the discrepancies in starters and leavers etc. and so it highlights that some new starters have not been notified to CPF. However, given the employer provides access to information, the disclosure requirement is met. Fund is implementing I-connect which will highlight new members on a more regular basis than end of year and so help solve them throughout the year.  Statistics are now available through KPI monitoring.	Ongoing (annual check)	01/06/2017	Fully completed	Employers - Partially compliant		Supply wording for contract letters (PAM) 1/6/17
H8	Does this meet the legal requirements in relation to format?	Most of the key information is included in the short guide. Missing information is: - the period required for notice to opt out of the scheme - how the scheme defines pensionable earnings It is also noted that the guide refers to the Superannuation Act 1972 which should therefore be updated to include the Public Service Pensions Act 2013.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Wording supplied as H7 to include missing information. Short Scheme guide to be reviewed (PAM 1/6/17)
H9	Is all other information provided in accordance with the legal timescales?	KPI's now implemented and monitored as per the legal requirements as set out in the Administration Strategy. - In relation to advising changes to the scheme, CPF follows LGA recommendations which are expected to highlight the need for communications and when. - In relation to pension payment changes, a payslip is only sent to pensioners if there is a change of £5 or more per month otherwise no payslip (i.e. tax code change) but letters are issued for other changes including pension increase letters before the effective date of the increase. All information issued is generally then uploaded to the CPF website.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		KPIs monitoring will assist with determining compliance. (PAM 1/6/17)

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
H10	Is all other information provided in the format and methods required by law?	<p>It has not been possible to check that every requirement is fully met, in particular in relation to the settlement of AVC benefits. However based on the sample communications provided:</p> <ul style="list-style-type: none"> <li>- When a member has a transfer credit a TV in statutory notice is sent to them, all the required information is provided and they are also provided information on request.</li> <li>- All communications have the pension team contact details on to ask questions or for further information.</li> <li>- Death benefit notifications could be more explicit about how increases to widows / dependant's pensions will be applied.</li> </ul> <p>More information to demonstrate good practice/compliance:  '- the technical team send information about any scheme changes via the membership "pen pal" newsletter and bulletin when changes occur - to all active home addresses. Pensioner newsletter provides PI details, other newsletters are sent ad- hoc. LGA bulletins go to employers for them to pass information on to employees. "Pensions extra" is sent to certain membership groups e.g. to explain changes to tax limits.</p> <p>It is not clear what information is provided to members on joining from Prudential regarding lifestyling (if lifestyling is offered), and the statement about the AVC values being dependent on contributions, investment returns and annuity values, so that is being investigated.</p>	Ongoing (annual check)	01/06/2017	In progress	Partially compliant		Obtain information as to what Prudential provide to all members and are they legally compliant (PAM 1/6/17)
H11	Where any information is only provided electronically (i.e. instead of any hard copy) does it comply with the legal requirements?	No communications are electronic only. Everything is hard copy - including the basic scheme information which must be provided for new starters. However, further information is available on the website including anything sent to members being uploaded. Further, for new joiners, a hard copy statutory notice is provided directing them to the information on the website.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant	Technical (including comms) officers are aware of legal requirements if use website or electronic communications only in future	
H12	Does the Administering Authority aim to design and deliver communications in a way that ensures scheme members are able to engage with their pension provision?	Communications Strategy implemented April 2016, Member and Employer satisfaction survey issued March 2017. MSS to be implemented shortly	Ongoing (annual check)	01/03/2017	Fully completed	Fully compliant		
H13	Does the Administering Authority use a tracing service?	<p>Pensioners – if a pensioner becomes "gone away", CPF use the DWP tracing service.</p> <p>Also life certs review (last 18/11/14) including overseas pensioners is carried out every 3 -5 years. NFI mortality screening is every 2 years. Atmos also do mortality screening on monthly basis against postal records.</p> <p>Deferred and frozen refunds – no tracing service currently used. Exercise to find frozen refunds was carried out in 2013 and DWP trace to pick up outstanding ones - still some outstanding so carry this out again at some point and on ongoing regular basis.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Carry out further tracing service checks on deferred/frozen refund members in the future (perhaps every 3 to 5 years). (PAM 1/6/17)

## I - Internal Dispute Resolution

### Legal requirements

The Pensions Act 1995 requires scheme managers to set up and implement an Internal Dispute Resolution Procedure (IDRP) to help resolve disputes between the scheme manager and people with an interest in the scheme.

The act states that a person has an interest in the scheme if they:

- are a member or beneficiary
- are a prospective member
- have ceased to be a member, beneficiary or prospective member
- claim to be any of the above and the dispute relates to this claim.

The Act also states that the procedure must include:

- how an application is to be made
- what must be included in an application
- how decisions are to be reached and notified
- a specified period (which is reasonable) within which applications must be made.

The procedure may require people with an interest in the scheme to first refer matters in dispute to a 'specified person' in order for that person to consider and give their decision on those matters. This decision may then be confirmed or replaced by the decision taken by the scheme manager after reconsideration of the matters. However, legislation provides flexibility for scheme managers to decide the details of these.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
I1	Has the Administering Authority put in place an internal dispute resolution procedure?	Yes – leaflet outlining procedure is available on website and in paper/leaflet form, in English and Welsh. <a href="http://www.clwydpensionfund.org.uk/en/PDF-Files/FINAL-ENGLISH-VERSION-Appeals.pdf">http://www.clwydpensionfund.org.uk/en/PDF-Files/FINAL-ENGLISH-VERSION-Appeals.pdf</a>	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
I2	Does the Administering Authority's process highlight or consider whether a dispute is exempt?	Not currently - consider updating next time (does state who it applies to).	Ongoing (annual check)	01/06/2017	Fully completed	Non-compliant		Consider updating for the exempt example wording.
I3	Does the information made available to applicants about the procedure clearly state the procedure and process to apply for a dispute to be resolved including: - who it applies to - who the specified person (stage 1) is - the timescales for making applications - who to contact with a dispute - the information that an applicant must include - the process by which decisions are reached?	Leaflet outlining IDR procedure includes this information. Stage 1 person not named in the leaflet but that they are appointed by CPF and the member is informed of the specified person at that point. Requirement for 6 months after the written notification disagreed with or the act or omission that is the cause of the disagreement, but it mentions that specified person has discretion to allow more time. IDR leaflet sets out who to send forms to for stage 1, then the process is explained i.e. timescales stage 2 and TPAS/Ombudsman	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
I4	Has the Administering Authority ensured that employers who make first stage decisions also have IDR in place?	CPF carries out this process for the employer and they write to employer to say that person is appointed and do they want to proceed. They also notify a scheme member of this person is when an appeal is received.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		- Consider including within the SLA to ensure this is highlighted to employers. - Consider updating brief guide to scheme to make this clearer.
I5	Are the timescales in the procedure adhered to including sending an acknowledgment on receipt of an application?	Acknowledgements are issued within 5 days and responses are supposed to be sent within the 2 month deadline. The timescales are not currently monitored as CPF don't always hear about them in time. Spreadsheet set up for those known and to monitor.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
16	Does the Administering Authority notify and advertise the procedure appropriately?	<p>Leaflet included on the website (which is where joining information also is). New joiner booklets include details of IDRPs, TPAS and the Ombudsman - note this is not currently in the Councillors booklet.</p> <p>Not all notification of benefit letters currently includes this. Statutory notice letters refer members to the booklet which includes the information. It is mentioned in retirement letters and notification of death benefits letters (evidenced), does not appear to be included in CETV payment notice letter or interfund adjustment confirmation letter (or estimate of CETV - though this does refer members to the website/booklet related to a different point).</p> <p>Not considered particularly appropriate to include in administration or communications strategy.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Generic leaflet to be set up for all BCE categories
17	Are the notification requirements in relation to TPAS and the Pensions Ombudsman being adhered to?	<p>This information is in the IDRPs guide which the member receives after they notify a dispute.</p> <p>Furthermore, notifications always include information about TPAS/PO in the decision letter.</p>	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
18	Does the Administering Authority regularly assess the effectiveness of its arrangements?	the number of cases and type are recorded at quarterly PFC Meetings which would assist in highlighting issues with effectiveness of the procedure. Outcomes for CPF related disputes are discussed at team leader meetings so improvements to processes made. Suggestions made to employers if outcome is that procedures on their side are flawed.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
19	Does the Administering Authority regularly assess the effectiveness where employers carry out a stage one process?	As the employers stage 1 person is as per CPF, the evidence to 18 equally applies	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		

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## J - Reporting breaches of the law

### Legal Requirements

Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

People who are subject to the reporting requirement ('reporters') for public service pension schemes are:

- scheme managers
- members of pension boards
- any person who is otherwise involved in the administration of a public service pension scheme
- employers: in the case of a multi-employer scheme, any participating employer who becomes aware of a breach should consider their statutory duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers
- professional advisers including auditors, actuaries, legal advisers and fund managers: not all public service pension schemes are subject to the same legal requirements to appoint professional advisers, but nonetheless the regulator expects that all schemes will have professional advisers, either resulting from other legal requirements or simply as a matter of practice
- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme.

The report must be made in writing as soon as reasonably practicable.

No.	TPR Requirement	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
J1	Is the Administering Authority satisfied that those responsible for reporting breaches under the legal requirements and TPR guidance understand the requirements?	Reporting Breaches procedure put in place and approved at PFC in November 2015. This was shared with PB as part of the papers and also with officers and employers since then. It was part of a training session with PFC, PB and officers in December 2015. It still has to be circulated to advisers, but they would be expected to be aware of these requirements anyway.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
J2	Does the Administering Authority have appropriate procedures in place to meet their legal obligations for identifying and assessing breaches?	See J1.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
J3	Are breaches being recorded in accordance with the agreed procedures?	Updated 1/6/17 - A process for capturing and recording breaches has been developed. They are reported to each PFC.	Ongoing (annual check)	01/06/2017	Fully completed	Partially compliant		Updated 1/6/17 - Work being undertaken to tighten the identification of breaches and ensure more regularly considered (PFM - AH). Update 12/9/17 - Monthly request for breaches information sent to PPOs. Register updated as requested. PFM (DAF) to be added to the monthly emails re Finance Team.

## K - Scheme Advisory Board - Guidance on the creation and operation of Local Pension Boards in England and Wales

### Legal Requirements

Clause 7 of the Public Service Pensions Act provides that the national Scheme Advisory Board (SAB) may provide advice to scheme managers or pension boards in relation to the effective and efficient administration and management of the scheme.

It also provides that a person to whom advice is given by virtue of subsection (1) or (2) must have regard to the advice.

The Scheme Advisory Board has published guidance on the creation and operation of Local Pension Boards in England and Wales which incorporates a number of action point check lists at the end of some of the sections. The following are the items in those checklists.

No.	SAB Requirement	SAB Section	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
K1	Administering Authority to have approved the establishment (including Terms of Reference) of the Local Pension Board by 1 April 2015.	5	Completed - approved by PC on 3rd March 2015 and adopted by PB on first meeting July 2015	One off - no further review necessary.	01/06/2017	Fully completed	Fully compliant		
K2	The Local Pension Board must be operational (i.e. had its first meeting no later than 4 months after the 1 April 2015).	5	First meeting 27 July 2015	One off - no further review necessary.	01/06/2017	Fully completed	Fully compliant		
K3	Once established a Local Pension Board should adopt a knowledge and understanding policy and framework (possibly in conjunction with the Pensions Committee if appropriate).	6	Training Policy approved by PFC in March 2015. Was part of agenda of first meeting on 27/7/15 and it is then reviewed annually. Updated version approved at PFC November 2015 and being adopted at PB in March 2016.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
K4	A Local Pension Board should designate a person to take responsibility for ensuring that the knowledge and understanding policy and framework is developed and implemented.	6	Designated as Chief Officer, People and Resources within Training Policy	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
K5	The Administering Authority should offer access to high quality induction training and provide relevant ongoing training to the appointed members of the Local Pension Board.	6	Training plan in place including induction training for all board members.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
K6	A Local Pension Board should prepare (and keep updated) a list of the core documents recording policy about the administration of the Fund and make the list and documents (as well as the rules of the LGPS) accessible to its members.	6	Part of Training Policy. Documents part of induction pack and most are available via the Fund website.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
K7	Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.	6	Training Needs Analysis has been deferred due to other priorities.	Ongoing (annual check)	01/06/2017	Fully completed	Non-compliant		Training Needs Analysis outstanding (CPFM) Update 12/9/17 - To be undertaken by PB Chair



No.	SAB Requirement	SAB Section	Clwyd Pension Fund Approach / Evidence	Frequency of Review	Last Review Date	Check Completed	Compliant	Notes	Action
K8	An Administering Authority should prepare a code of conduct and a conflicts policy for its Local Pension Board for approval in accordance with the Administering Authority's constitution and at the first meeting of the Local Pension Board. The Local Pension Board should keep these under regular review.	7	Code of conduct is part of PB Terms of Reference (Protocol). Conflicts of Interest Policy approved by PC in March 2015 and adopted at first PB meeting in July 2015.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
K9	Training should be arranged for officers and members of a Local Pension Board on conduct and conflicts.	7	Included in first PB meeting and part of induction training.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
K10	A Local Pension Board should establish and maintain a register of interests for its members.	7	Declarations completed by all members at first meeting (July 2015) and now part of ongoing register of interests which is refreshed annually.	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
K11	An Administering Authority should agree the ongoing reporting arrangements between the Local Pension Board and the Administering Authority.	8	Outlined in PB Terms of Reference (Protocol)	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
K12	A Local Pension Board should understand the Administering Authority's requirements, controls and policies for FOIA compliance so that the Local Pension Board is aware of them and can comply with them.	8	The PB Terms of Reference (Protocol) require compliance with the Council's policy but this has not yet been shared with PB members.	Ongoing (annual check)	01/06/2017	Fully completed	Non-compliant		Share FOI information with PB members and include session as part of training (due July 2017). CPFM 1/6/17
K13	A Local Pension Board should put in place arrangements to meet the duty of its members to report breaches of law.	8	Breaches procedure in place (approved at PFC November 2015). PC and PB and officer training on Code of Practice including breaches in October 2015	Ongoing (annual check)	01/06/2017	Fully completed	Fully compliant		
K14	A Local Pension Board should consider (with its Administering Authority) the need to publish an annual report of its activities.	8	A requirement to publish an annual report is included in PB Terms of Reference (Protocol). The first report was in relation to 2015/16 and included in annual report and accounts for that year	Annual	01/06/2017	Fully completed	Fully compliant		
K15	An Administering Authority should consult on, revise and publish its governance compliance statement to include details of the terms, structure and operational procedures relating to its Local Pension Board.	8	Updated and approved by PFC in May 2015 and included in 2015 annual report and accounts.	Annual	01/06/2017	Fully completed	Fully compliant		

Mae'r dudalen hon yn wag yn bwrpasol

# Eitem ar gyfer y Rhaglen 6



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 September 2017
<b>Report Subject</b>	Pension Fund Annual Report, Accounts and External Audit 2016/17
<b>Report Author</b>	Pension Finance Manager

### EXECUTIVE SUMMARY

LGPS Regulations require the Fund to publish an Annual Report before 1<sup>st</sup> December 2017. The regulations and CIPFA best practice guidelines advise on the content.

A draft unaudited Annual Report is attached as appendix 1. (This excludes the statutory statements which have already been agreed at previous Committees and the Best Practice documents).

The Fund accounts are attached as appendix 2 and have been audited by Wales Audit Office. Their report is attached as appendix 3 and will be presented to Committee by the external auditors.

The Fund accounts will be submitted along with the Council accounts to Audit Committee and Council on 27<sup>th</sup> September 2017.

### RECOMMENDATIONS

1	That Members note and comment on the draft unaudited Annual Report and delegate finalisation to officers.
2	That Members note the management response to the external audit report.

### REPORT DETAILS

<b>1.00</b>	<b>Annual Report, Accounts and External Audit</b>
	<b>Annual Report</b>
1.01	Appendix 1 provides the draft Annual Report for 2016/17 and includes: <ul style="list-style-type: none"><li>• Introduction from the Chair and Chief Executive</li><li>• Details of the Fund's Governance Arrangements</li><li>• Reports from the Fund's Actuary, Consultant, Independent Advisor and Pensions Administration Manager.</li><li>• Cash Flow and Budget details</li></ul>

	<ul style="list-style-type: none"> <li>The Fund's statutory documents which are listed in the contents page.</li> </ul> <p>The Annual Report will be reviewed by the external auditors to provide a statement for inclusion in the Report.</p> <p>The final Report will be published on the Clwyd Pension Fund web site in advance of the AJCM on 14<sup>th</sup> November 2017.</p>
1.02	<p><b>External Audit</b></p> <p>The ISA260 and letter of representation is attached as appendix 3.</p> <p>All adjustments recommended have been made and are listed in appendix 2 of the ISA260. There is one matter which has been brought to the Council's attention:</p> <ul style="list-style-type: none"> <li>Monthly reconciliations of transactions</li> </ul> <p>This matter has been addressed as explained in appendix 3 of the letter of representation within the ISA260.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>The Annual Report and external audit both review and identify whether there are any risks that are not being managed by the Fund.</p> <p>These include, strategic, operational and financial risks.</p> <p>The external audit report did not report any risks that the Fund is not already aware of and taking action to reduce.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 – Draft Annual Report</p> <p>Appendix 2 – Clwyd Pension Fund Accounts 2016/17</p> <p>Appendix 3 – External Audit ISA260 and letter of representation.</p>

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

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

Mae'r dudalen hon yn wag yn bwrpasol

# Clwyd Pension Fund

Annual Report 2016 - 17



LAPF Investments  
**2015 Awards**  
**WINNER**

Tudalen 47



LAPF Investments  
**2016 Awards**  
**FINALIST**

# **CLWYD PENSION FUND – AWARDS**

## **IPE Real Estate Awards – May 2011**

Won – Best Pension Fund in UK/Ireland (Country Awards)  
Won – Best Opportunistic Investment (Themed Awards – Europe-wide)  
Won – Best Small Real Estate Investor in Europe (Gold Awards – Europe-wide)  
  
Runner-up – Best European Real Estate Investor (Platinum Award – Europe-wide)

## **IPE Awards November 2011**

Won – Best Use of Real Estate (Themed Awards – Europe-wide)  
  
Runner-up – Best Use of Specialist investment Managers (Themed Awards – Europe-wide)  
Runner-up – Best Use of Hedge Funds (Themed Awards – Europe-wide)

## **IPE Real Estate Awards – May 2012**

Won – Best Portfolio Construction (Themed Awards – Europe-wide)  
Won – Best Medium Real Estate Investor in Europe (Gold Awards – Europe-wide)  
  
Runner-up – Best Pension Fund in UK/Ireland (Country Awards)  
Runner-up – Best Indirect Investment Strategy (Themed Award – Europe-wide)  
Runner-up – Best Opportunistic Investment (Themed Award – Europe-wide)

## **IPE Awards – November 2012**

Won – Best Public Sector Fund in Europe  
Won – Best use of Alternatives  
  
Runner-up – Best Fund in Europe  
Runner-up – Best use of Commodities  
Runner-up – Best use of Emerging Markets  
Runner-up – Best use of Hedge Funds  
Runner-up – Best use of Real Estate  
Runner-up – Best use of Specialist investment Managers

## **IPE Real Estate Awards – May 2013**

Won – Best Institutional Investor in UK/Ireland

## **LAPF Investments 2015 Awards – September 2015**

Won – Risk Management Project of the Year

## **LAPF Investments 2016 Awards – September 2016**

Finalist - Governance



# Contents

**Introduction by the Chief Executive and Chair of the Clwyd Pension Fund Committee**

**Governance Structure & Overview of the Clwyd Pension Fund**

**Independent Advisor Annual Report**

**Pension Board Annual Report**

**Cash Flow**

**Investment Policy and Performance (Including Sustainability and Voting)**

**Actuarial, Funding and Flight Path**

**Administration Update**

**Other Information**

## **Regulatory Documents**

- Clwyd Pension Fund Accounts 2016/17
- Governance Policy Statement
- Funding Strategy Statement
- Investment Strategy Statement
- Communication Strategy Statement
- Statement from Wales Audit Office

## **Best Practice Documents**

- Business Plan
- Administration Strategy
- Breaches Policy
- Risk Policy
- Conflicts of Interest Policy
- Training Policy

# Introduction

Welcome to the Clwyd Pension Fund Annual Report for 2016/17.

## 2016/17 Overview

In the Annual Report last year we outlined the on-going challenges for the Fund in 2016/17 and over the next few years.

- Completing the March 2016 actuarial valuation and reviewing our future funding and investment strategies
- Continuing the preparatory work for the introduction of asset pooling by April 2018
- Implementing new ways of working to improve our administration and communications for employers and members.

Although, the Actuarial Valuation is dated March 2016 it was during 2016/17 that we prepared and provided the data to our Fund Actuary so he could carry out the valuation. It was during 2016/17 that the employer contribution results were received from him. Overall, there was positive feedback from employers on the process during what, for some, were difficult discussions in terms of finding the balance between the affordability of contributions and the long term financial health of the Fund.

It is the return from investments that plays a vital role in controlling the costs of pensions for employers. Therefore, in conjunction with the Actuarial Valuation the recommended some minor changes. The Investment Consultant considers the level of return assumed by the Actuary in the Actuarial Valuation and seeks to find an investment strategy that will deliver those required returns over the longer term. When doing this the Investment Consultant also considers the risk of the financial markets that we invest in falling significantly in value. Although financial markets can be unpredictable the Fund spends a lot of time finding the correct risk and return balance and taking advantage of market opportunities as they arise. Although only one year, 2016/17 proved to be a kind year in terms of financial markets. The Fund's investment return was 21.5% which was well ahead of the assumptions used by in the Fund's Actuarial Valuation. The Fund's financial position is now as favourable as it has been for two decades but we are very conscious on how quickly this sentiment can change.

We have continued to work with the other seven Welsh LGPS Pension Funds to introduce "asset pooling", in order to meet new guidance from Central Government. The Council has now signed Inter-Authority Agreement to formally enter into a partnership with the other seven Funds, the name of which is the Wales Pensions Partnership. As a result of this Partnership the Clwyd Pension Fund will increasingly invest collaboratively, rather than making our own individual investment arrangements. This simply means that the Clwyd Pension Fund will continue to decide the type of asset we want to invest in, whilst a professional organisation which will be appointed by the Partnership will decide which asset manager will be used for each type of investment.

The aim of the Wales Pensions Partnership is to reduce costs, increase efficiencies and further improve governance over the Welsh LGPS Pension Funds' investments. This will be a major change in how we operate, which we should have implemented by April 2018. This change will have no impact on scheme members' pensions or other benefits, nor on the way that we pay their pensions. The Inter-Authority Agreement includes provision for an Officer Working Group and Joint Governance Committee, both on which the Fund is represented. Fund officers also represent the Wales Pension Partnership on national groups for Responsible Investment and Infrastructure.

In March 2016, we formalised and launched the Fund's Administration and Communications strategies. The performance targets in our strategies are aspirational and we acknowledged at the time it would take around two years to fully implement and this is proving to be the case. The objectives continue to be focussed on providing a high quality customer focussed service to our stakeholders, with clear concise communications using the most appropriate means of delivery. In 2016/17 progress has been made especially with the creation of an Employer Liaison Team to assist some employers in their role of providing accurate and timely member data to the Fund. We also commenced the roll out of a new system (called i-Connect) to increase efficiency in transferred data between employers and the Fund. The Fund's Business Plan included further projects for improvement. Valuable assistance was provided throughout the year by the Pension Board and progress continued to be monitored by the Pension Committee.

Overall we can look back on 2016/17 in a positive light, as we continued to meet most of the Fund's objectives within a challenging environment, and made good progress at introducing a number of improvements to benefit the Fund and its stakeholders in the future. Hopefully this annual report illustrates the progress that has been and is being made in managing the various complex risks across the Fund.

## **2017/18 and Beyond**

There were local elections in May 2017 and this resulted a change in Pension Committee membership. Of the 9 members on the Committee there are 4 new members, including a new Chair. The priority has been to train the new members to enable them to have the confidence in making decisions on the future of the Fund whilst receiving ongoing advice, and effectively challenging that advice, from both officers and advisors. The induction training is over four days covering governance, funding, investments and administration. Thereafter, training will be on-going in line with the Fund's Training Policy.

Looking to the future, we know there are still ongoing challenges for us to overcome. In addition to business as usual our business plan for the next three years has three key themes:

- Continuing with the implementation of assets pooling in Wales
- Responding to the requirements of the second Markets in Financial Instruments Directive (MIFID II) which is new for 2016/17.
- Achieving the objectives of the Fund's aspirational administration and communication strategy as explained above.

### **This annual report**

We hope you find this annual report useful. Our aim is to be as representative and transparent as practically possible. In it you will find much more detail relating to the points we have highlighted above, as well as all of our main strategy and policy statements. It also includes information on how we manage the Fund, including its governance and operational aspects. Our three key advisers also include their own reports to provide us with greater external assurance on how we are running the Fund and you will also find the annual report from the Fund's Pension Board. More information about the Fund can be found on our pension fund web-site [clwydpensionfund.org.uk](http://clwydpensionfund.org.uk). We welcome any comments or questions on the content of this report.

Our intention is to seek continuous improvement in line with the Fund's Mission Statement as shown below. On that note, we invite any stakeholder to contact us with any comments or suggestions for improvement on any aspect on the management of the Fund.

Finally, we would like to thank all those involved with the management and administration of the Fund for their continuing hard work and dedication through what has been a challenging last decade.

**Dave Hughes**  
**Chair of Pension Fund Committee**

**Colin Everett**  
**Chief Executive**

**September 2017**

### **Mission Statement**

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

# 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 new 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, [www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk).

Following County Council election in May 2017, there were four new members appointed to the Pension Fund Committee, including a new Chair. There is an outstanding appointment to be finalised for the 5<sup>th</sup> Flintshire representative. Details of the new Committee are shown below.

## Clwyd Pensions Fund Committee (Effective from May 2017)

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

## Advisory Panel

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

## Clwyd Pension Fund Local Board

Local Board Members		Voting Rights
<b>Independent Chair</b>	Karen McWilliam	X
<b>Employer Representatives</b>	Mark Owen	✓
	Steve Jackson	✓
<b>Scheme Member Representatives</b>	Gaynor Brooks	✓
	Vacant	✓

## Investment Managers

Investment Managers	Address
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
<b><u>Custodian:</u></b> Bank of New York Mellon	160 Queen Victoria Street, London
<b><u>Actuary:</u></b> Mercer Ltd	Old Hall Street, Liverpool
<b><u>Consultant:</u></b> JLT Employee Benefits	7 Charlotte Street, Manchester
<b><u>Independent Advisor:</u></b> Aon Hewitt	122 Leadenhall Street, London
<b><u>External Auditors:</u></b> Wales Audit Office	Unit 4, Evolution, Lakeside Business Village, St. David's park, Ewloe
<b><u>Bank:</u></b> National Westminster Bank plc	48 High St., Mold
<b><u>Legal Advisors:</u></b> 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
Alwyn Hughes	Pensions Finance Manager	(01352) 701811
Pensions Administration Team	pensions@flintshire.gov.uk	(01352) 702761
Pensions Finance Team	pensionsinvestments@flintshire.gov.uk	(01352) 702812

## **Committee Attendance / Training and Activity 2016/17**

As previously mentioned there was a substantive change to the membership of the Pension Committee in May 2017. Training is currently being provided to both new Members and as a refresher to existing Committee Members. Initial training days to date have 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 below identifies the attendance at Committees and specific training undertaken during 2016/17 by the Committee in place during that year.



	Chair	Vice Chair	Flintshire Member	Flintshire Member	Flintshire Member	Denbighshire Member	Wrexham Member	Other Scheme Body	Scheme Member Representative
Committees (approx 3hrs)									
Special Committee April 2016	✓	✓	✓	✓	✓	✓	✓	✓	✓
May 2016	✓	✓	✓	✓			✓	✓	✓
Special Committee July 2016	✓	✓	✓	✓	✓		✓	✓	✓
September 2016	✓	✓		✓	✓		✓	✓	✓
November 2016	✓	✓	✓	✓	✓	✓	✓	✓	✓
February 2017	✓	✓	✓		✓	✓	✓	✓	✓
Special Committee March 2017	✓	✓	✓		✓	✓	✓	✓	✓
CIPFA Framework Requirements 2014/15 – 2016/17									
Governance (1 day)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Funding & Actuarial (1 day)		✓	✓	✓	✓	✓	✓	✓	✓
Investments (1 day)		✓	✓	✓	✓	✓	✓	✓	✓
Accounting (Included with Investments)		✓	✓		✓	✓	✓		✓
Additional Training & Hot Topics									
MiFID II	✓	✓		✓	✓		✓	✓	✓
Actuarial Valuations	✓	✓				✓	✓	✓	✓

	Chair	Vice Chair	Flintshire Member	Flintshire Member	Flintshire Member	Denbighshire Member	Wrexham Member	Other Scheduled Body	Scheme Member Representative
GAD Section 13 Data	✓	✓		✓	✓		✓	✓	✓
Pooling Governance	✓	✓	✓	✓	✓	✓	✓	✓	✓
Investment Strategy Statement	✓	✓	✓	✓	✓	✓	✓	✓	✓
Annual Joint Consultative Meeting (4hrs)	✓	✓	✓		✓	✓			✓
LGC Investment Summit (1.5 days) Sept 2016	✓			✓					
LAPFF Annual Conference (1.5 days) Dec 2016									✓
TUC Pension Conference									✓
LGC Seminar (1.5 days) March 2017	✓	✓	✓	✓	✓	✓	✓		✓

### Clwyd Pension Fund Training Policy 2016/17

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 previous 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 2016/17 in relation to all Pension Committee, Local Board and senior officers (a total of 19 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 5 additional training sessions offered, the attendance was as follow:
  - 1 session 74%
  - 4 sessions 79%
- c) General Awareness – Out of the total of 19 members (Committee and Board) and officers, 16 of them completed at least one general awareness day in accordance with the policy.

## Introduction

*This is my third annual report in my role as Independent Adviser to the Clwyd Pension Fund (the Fund), focussing on the year 2016/17.*

### My role

I was appointed in early 2014 as Independent Adviser to the Fund, and the intention was that I would become a 'critical friend' to the Fund. My remit was to advise the Fund and report annually to stakeholders on whether the administering authority is managing all risks associated with governance, investments, funding, administration and communication, although it should be noted that I am not required to be, nor indeed am, an expert in all of these areas. In particular, the Fund already has an appointed actuary to advise on funding matters and an appointed investment consultant to advise on investment matters, and I therefore use my working knowledge in these areas (and close working relationship with the appointed advisers) to specifically advise on the governance of these areas rather than on these areas themselves.

This is my third annual report, and it sets out my views on the management and administration of the Fund and, in particular, how it has evolved during 2016/17 (April to March), but also touches on some developments that have taken place after March 2017. I also highlight some of the ongoing challenges Flintshire County Council will face in the future, in its role as Administering Authority to the Fund, both in the short term and in the longer term.

### Overview

Once again, 2016/17 has been another year where there have been significant challenges to the management and operations of the Fund. As before, some challenges have been driven by national changes to the LGPS (particularly around the requirement to implement asset pooling arrangements), whereas others, particularly relating to planned improvements to and evolution of the management of the Fund, have been driven by Flintshire County Council. Once again, my view is that a significant amount has been achieved in an extremely short period of time, which continues to be of great credit to all involved.

### Effective Governance

There are some key benefits from having effective governance in place, including:

Robust risk management that can assist in avoiding issues arising or at least reducing their impact

Ensuring resources and time are appropriately focussed

Timely decision making and implementation of change

A clear view of how the Fund is being operated for the Pension Fund Committee (or equivalent).

The approach I take in advising Flintshire County Council in its role as Administering Authority to the Fund is to consider its approach to governance against the Aon Hewitt governance framework. The Aon Hewitt governance framework incorporates our beliefs about what it takes to achieve good governance, and considers the following key areas:

Direction – having clear strategies and policies that also meet legislative requirements are fundamental

Delivery – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management ensure effective and efficient delivery

Decisions – having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is critical.



In relation to each of these elements, I consider the key responsibilities for the Fund, in particular:

- the overall governance (aka management and decision making) of the Fund
- having an appropriate approach to funding the liabilities
- the safeguarding and investment of assets
- the administration of the scheme members' benefits and
- communications with the Fund's stakeholders.

My thoughts on each of these areas are set out in the next section.

## Observations

*In this section I consider the progress made in the key areas of focus for the Fund as well as highlighting my thoughts for the future.*

### Governance

Key achievements:

establishing the Wales Pensions Partnership and agreeing its governance arrangements  
robust governance structure and ability to respond quickly through appropriate delegations  
excellent business planning and monitoring.

The Fund went into 2016/17 in a strong position with governance arrangements that were well established and operating well including an experienced Pension Fund Committee, a Pension Board providing invaluable assistance and a proactive Advisory Panel. Accordingly during 2016/17, Flintshire County Council governance matters were mainly focussed on responding to national changes, alongside some relatively minor areas of improvement, including:

A few areas which were planned exercises from the Fund's business plan:

The continuing work to be able to implement asset pooling from April 2018 resulted in the eight Welsh administering authorities entering into an Inter-Authority Agreement in March 2017, hence establishing the Wales Pensions Partnership. The Inter-Authority Agreement went through a number of iterations and was subject to comments from officers of the Clwyd Pension Fund, the Advisory Panel and myself. The Pension Board and Pension Fund Committee also had an opportunity to feed into it before the Pension Fund Committee recommended it for approval to Flintshire County Council. From a structural perspective, this means there is now an all Wales Joint Governance Committee and Officer Working Group who will manage the Wales Pensions Partnership and provide instructions to their Operator for running the asset pooling arrangement. The Inter-Authority Agreement also clarifies key matters such as how budgets will be set, business plans developed and who will make key decisions on the running of the asset pooling arrangement.

As a result of entering this agreement, it was necessary to update the Committee's own terms of reference to include areas such as oversight of the Partnership. The Fund's Governance Policy was also updated and is a useful overview of how the governance now operates within the Clwyd Pension Fund, as well as the relationship with the Wales Pensions Partnership.

I was generally very pleased with the final content of the Inter-Authority Agreement as it appears to lay strong and clear foundations as to how the Partnership should operate going forwards. There were a couple of elements that we would have ideally liked to also be incorporated into the agreement that were excluded but nothing of critical importance. For example, the Flintshire Pension Fund Committee would have preferred a more direct appointment of a scheme member representative on the Joint Governance Committee.

The Wales Pensions Partnership also commenced the procurement exercise to appoint an Operator who will be responsible for establishing the sub-funds within which each of the Fund's assets will be invested. Again the officers of the Clwyd Pension Fund were key contributors to the development of the Operator's requirements and other tender documentation. I am unable to comment on the content or process relating to this procurement as I was not privy to any of the information for confidentiality reasons, but I can confirm that external legal and pensions advisers were used throughout and so the officers of the Fund should have been well advised throughout the process.

The contracts for the Investment Consultant (JLT) and for myself as the Independent Adviser (Aon Hewitt) were subject to review this year. The Pension Fund Committee agreed to extend these (as permitted by their contracts) for a further term to March 2019, at which point they will be subject to procurement.

As I said last year, I continue to feel that the current governance structure is well established and is working as intended. The structure seems to work well allowing decisions to be made urgently where required, which we have seen to be the case a few times during the year. Attendance at Committee, Board and Advisory Panel meetings has been good throughout the year too.

I am also particularly pleased with the value that the Fund is seeing from the Clwyd Pension Fund Board, which I also chair. The Board have produced a separate report (which can be found in the Fund's annual report and accounts) which outlines the work of the Board, and which I believe demonstrates the excellent partnership they have with the Committee and officers of the Fund, and the benefits that they bring to the management of the Fund.

The governance has benefited from good continuity this year too, with very little change to the key decision makers, officers of the Fund and advisers.

I continue to be extremely impressed by the engagement and involvement of the Fund in the Wales Pension Partnership, and particularly the officers who have ensured that they have been on the front foot in the development of the Partnership, and also at a national level. It would be extremely risky for the Fund to take a back seat in these discussions given the impact asset pooling could have on ongoing performance. However, as I will expand on below, I continue to be concerned about the sustainability of undertaking this additional work whilst continuing to deliver day to day services.

The review of the Risk Register, and how risks are captured and monitored, was finalised early in the year. On the back of this, I feel that risk management is much more embedded in the day to day management of the Fund. I also hope that the improved risk register is easier for the Fund's stakeholders to understand.

Business planning continues to be integral to the day to day running of the Fund. The 2016/17 business plan was agreed by the Pension Fund Committee in March 2016 and was monitored throughout the year. The plan continues to be robust, with very little need to adapt it mid-year, and the officers of the Fund have done a tremendous job in delivering the projects and tasks highlighted within it.

My general opinion is that the Clwyd Fund continues to compare well to the Aon Hewitt Governance Framework. The Fund identifies and sets out good clear objectives in all areas, measures itself effectively against these objectives, and has a good attitude to Business Planning and to Risk Management. The Fund's governance structure works well, as mentioned above, and the individuals charged with managing the Clwyd Fund are well engaged, committed to their roles and well trained. The Fund's Conflicts of Interest Policy is now also well bedded in and I consider that all potential conflicts are identified at an early stage and managed appropriately. Transparency has been key to this and I commend all those involved for their openness and willingness to embrace this.

Looking to the future:

There are three matters relating to governance that I will be particularly interested in during 2017/18:

1. The knowledge of the existing Committee and Board members during 2016/17 was, in my view, excellent with training needs being focussed on specific areas of business as they arose. However, the Welsh elections in May 2017 have resulted in a significant change in the Committee members. At the time of writing, intensive induction training is being undertaken, which also acts as refresher training for existing Committee and Board members. I have been extremely impressed by the enthusiasm of the new members as they participate in this training. I will be looking for assurance that all new members have taken part in full induction training, and also expect the Fund to continue to identify subject specific training requirements on an ongoing basis over the course of the year. During the autumn of 2017 I will be carrying out a training needs assessment with all Committee and Board members. I also hope that I continue to see a high level of engagement at Pension Fund Committee meetings going forward, and I believe the new Chairman, Councillor Dave Hughes, will be integral to this, supported by the Fund's officers and advisers.
2. As mentioned above, there has been significant progress in establishing the Wales Pension Partnership for asset pooling. The Clwyd Pension Fund has a very different investment strategy to many other Funds, so they need to be assured that both the Operator and the pooling arrangements themselves can deliver to the Fund's requirements and the governance arrangements, as outlined in the Inter-Authority Agreement, are put into practice. These will be key areas that I will be focussing on during 2017/18 and 2018/19. In the longer term, the crucial measure of success will be whether or not the move to asset pooling results in savings for all funds, and this must also be kept under close consideration.
3. With so much going on, and so much uncertainty, I continue to recognise the pressures on all those involved and particularly on the officers of the Fund. The Fund has also identified the need for workforce planning given the evolving environment that they work in, and also the age profile of some of the senior members of staff. Although some of this is part of a longer-term vision, short-term priorities should be around prioritising workloads, identifying short-term resourcing solutions, and training and mentoring existing staff.

Not quite as critical, but still on my radar are:

The Fund needs to be mindful of the Pension Regulator's increased interest in the LGPS (and to some degree, the national Scheme Advisory Board's focus on governance matters) when considering their ongoing business plans. I would also expect there to be continuing focus on any areas identified as not meeting best practice as outlined by the Pension Regulator in his Code of Practice for public service pension schemes.

In the short term, there is a major project to be undertaken in agreeing Flintshire County Council's professional status with their fund managers and some professional advisers. This is a change required as a result of the Markets in Financial Instruments Directive II ("MIFID2"). Failure to achieve suitable agreements could impact the Fund's ability to continue investing with those managers or to receive advice from those advisers.



## Funding and Investments (including accounting and financial management)

Key achievements:

Successful processes to complete the 2016 actuarial valuation with improved employer engagement

Developing and agreeing the Funding Strategy and Investment Strategy Statements

Successful review of the Fund's Flightpath Risk Strategy, including implementing a number of improvements.

I work closely with both the actuary and the investment consultant to the Fund, and each will produce his own report, so this area of my report focusses on how things are done, rather than the detail of what is done. Key areas in relation to investment and funding this year have included:

A number of areas which were planned exercises from the Fund's business plan:

Undertaking the 2016 actuarial valuation of the Fund – the process seems to have gone extremely smoothly. I am aware that the officers and the Fund's Actuary (Mercers) were focussed on increased engagement with employers of the Fund at this valuation, which I understand has been received well by those employers. It goes without saying that this doesn't take away from ongoing pressures around the affordability of pension provision for most employers.

In tandem, the Fund's Investment Consultant (JLT) undertook a light touch review of the Fund's investment strategy. The Fund also agreed its new Funding Strategy Statement and also the new Investment Strategy Statement; the latter being the first in a new format in line with Government guidelines. The new Investment Strategy Statement continues to include a clear focus on Responsible Investment including how this will be measured going forward.

The Fund's Actuary also undertook a review of the Fund's Additional Voluntary Contribution ("AVC") arrangement which is with Prudential. Although an extremely small proportion of the overall LGPS pension provision, Flintshire County Council, in its role as the administering authority for the LGPS, have a responsibility to ensure the proper governance of the AVC arrangements, including value for money, efficiency and effectiveness. The Actuary identified a small number of changes or improvements that could be made which are now in progress, and I was pleased to see that the consideration of these AVC arrangements will now be carried out annually (albeit at different levels)

During the year, a fundamental review of the Fund's flightpath / derisking arrangements was carried out by the Fund Actuary, Investment Consultants and officers, and the review was then considered by the Pension Fund Committee. This resulted in a number of changes to the existing strategy that were quickly and efficiently implemented. I was reassured at the range of options considered and the debate which took place around them, and also that the ongoing reporting against the Flightpath has evolved to incorporate measures against its new objectives.

The Tactical Asset Allocation Group, PERAG (Private Equity Real Asset Group) and Funding Risk Management Group are three Groups involving Fund officers and advisers. I see evidence of the value of these Groups, providing the time for the officers and advisers to focus and implement change, ensuring risk is appropriately managed and that opportunities are quickly identified and implemented.

My general opinion is again that the Clwyd Fund compares well to the Aon Hewitt Governance Framework in this area. The Fund identifies and sets out good clear objectives, has a good attitude to Business Planning and to Risk Management. The Fund's governance structure works well, with appropriate delegations allowing the Pension Fund Committee to spend their time focusing on strategy. The Fund makes good use of consultants as appropriate, but the knowledge and understanding of individuals within the Fund continues to be excellent, allowing the Fund to benefit from the best ideas from all sources.

Looking to the future:

As mentioned previously, a significant focus next year will be on asset pooling and ensuring that the Fund's investment strategy can continue to be delivered. 2017/18 will largely be preparatory work which will need to be well planned, resourced and monitored. In 2018/19, key areas will include ensuring:

appropriate sub-funds are put in place to align with the Clwyd Pension Fund's strategy

the smooth transition of assets to those sub-funds

ongoing reporting arrangements continue to provide sufficiently specific information for the Clwyd Fund to satisfy the needs of the officers, advisers and the Committee and Board.

In due course it will also be good to see further information on how the Fund is meeting its Responsible Investment objectives.

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## Administration and Communications

Key achievements:

Establishment of the Employer Liaison Team

Initial roll out of the i-Connect data collection system for use by employers.

I am pleased to report that, during 2016/17, Flintshire County Council continued to improve the administration and communications of the Fund, working hard across a large number of different areas. They continue to work in a challenging environment, with significant workloads much of which stems back to the introduction of the CARE scheme in 2014. Progress that I have observed during the year has included:

A number of areas which were planned exercises from the Fund's business plan:

- Timely preparation and submission of the member data for the actuarial valuation, which in itself is a major exercise

- Commencing the roll out of i-Connect, which is an online administrative module that allows information to be submitted by employers more directly and efficiently into the pension administration system from their own payroll systems. This will be invaluable to the Fund and its employers going forward and will be fully rolled out over two to three years. Denbighshire County Council are now live on the system and initial feedback is that it is resulting in much more timely and accurate information, including a significant reduction in queries at year-end

- Identifying the requirements in relation to the GMP reconciliation exercise and then carrying out and appointing a provider to carry out this exercise. This is a major project where contracting out information for many thousands of scheme member records needs to be compared and then reconciled with HMRC's records

- Initial preparation for the implementation of an on-line Member Self Service facility which will be launched in the autumn of 2017

- Reviewing and updating a number of day to day processes so that document production is now more integrated and automated within the administration system, resulting in greater efficiencies and lower risk of inaccuracies in letters and communications

- Making considerable headway clearing the majority of the backlog that relates to pre 2013 cases that was outsourced to Mercer

- Good progress with the website review, with the new website due to be launched in the autumn of 2017

The introduction of an employer liaison team; this has been a significant step for the Fund and was not part of the original business plan. On the back of the new Administration Strategy (launched in 2015/16), the officers of the Fund identified challenges in meeting their objectives due to the separate challenges that employers also have in collating and transmitting information to the Fund. To assist, Flintshire County Council has established, within the Pension Fund office, the employer liaison team which will carry out employer responsibilities for them (the cost of which is then recharged back to that employer). This means the Employer Liaison Team and the Pension Fund Operations Teams can work together more efficiently to ensure the correct information is available so that scheme benefits and other processes can be completed in a more timely manner.

I cannot stress enough what an innovative and effective solution this is and I wish to congratulate the Fund officers for identifying this and putting it in place, obviously with the full support of the Committee and the Board. To the best of my knowledge, this is the first of its kind in the UK LGPS environment. However, I will highlight that this meant that the Pensions Administration Team needed to grow in order to resource the Employer Liaison team. Some staff members relocated from the Pension Fund Operations side of the Administration Team, which in turn means that there continues to be some further workload backlogs due to lower resources there. However, I am quite confident in the long term success of this initiative and the long term benefits to the management and operations of the Fund, its employers and scheme members, once the teams are fully recruited and trained.

It was particularly pleasing to see the involvement of Flintshire County Council officers at a national level, such as Helen Burnham's involvement on the working group which established and appointed providers to the national Third Party Administration framework.

My general opinion is that the Clwyd Fund compares well to the Aon Hewitt Governance Framework in this area. The Fund identifies and sets out good clear objectives, (with some of the measuring still in the process of being developed) and has a good attitude to Business Planning and to Risk Management. The knowledge and understanding of individuals within the Fund continues to be excellent, and the Pension Fund Committee's engagement on administration is also excellent (as is the Board's).

Looking to the future:

I feel optimistic about the future of the administration service, but I would caution that the improvements that are being implemented will, in my view, take another two years or so to fully bed in such that the benefits can be clearly evidenced. For example, moving employers onto i-Connect requires a major review of the quality of scheme member data. That being said, the combination of i-Connect, Member Self Service and the Employer Liaison Team will result in increased efficiencies (for both the Fund and employers), much more effective communications and much quicker turnaround times. In the meantime, I will continue to monitor the Fund's administration key performance indicators and management information to ensure progress is being made, and I will encourage the Fund's officers, Committee and Board to identify short-term solutions to assist with reducing existing workloads, and ensure they have the capacity to implement these new systems and train their expanding teams.

I also look forward to hearing ongoing updates on the progress of the GMP reconciliation exercise that has been outsourced to Equiniti.

## • Final Thoughts

I want to say a huge thank you to the Pension Fund Committee, Pension Board, officers and other stakeholders of the Fund for continuing to make me extremely welcome, and for being so open and receptive to my many suggestions, particularly during these challenging times. I remain extremely impressed and inspired by the hard work and dedication of the Fund's officers, and the commitment and engagement I see from the Pension Fund Committee and Pension Board members who dedicated many hours to Committee / Board business.

## Contact Information

### **Karen McWilliam**

Head of Public Sector Benefits Consultancy  
Aon Hewitt Retirement Practice  
+44 (0)7711 016707  
[karen.mcwilliam@aonhewitt.co.uk](mailto:karen.mcwilliam@aonhewitt.co.uk)

## About Aon

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# Clwyd Pension Fund Board

## Annual Report 2016/17

### Introduction

This is the second annual report of the Clwyd Pension Fund Board based on the financial year from 1 April 2016 to 31 March 2017.

### Role and Membership of the Clwyd Pension Fund Board

The Public Service Pensions Act (PSPA) 2013 requires each Administering Authority in the LGPS to have a local Pension Board consisting of employer and scheme member representatives. Some Pension Boards also have an Independent Chair, which is the case with the Clwyd Pension Fund Board. The Chair is a non-voting role.

Legislation states that the role of the Pension Board is to assist the Administering Authority in securing compliance with regulations and with requirements imposed by the Pensions Regulator, as well as assisting in ensuring effective and efficient governance and administration of the Scheme. This has generally been interpreted as the Pension Board having an oversight role but not a decision making role. For the Clwyd Pension Fund, we have very much embraced this role as being about partnership. We work closely with the Pension Fund Committee (the decision making committee for the Clwyd Pension Fund) and officers of the Fund in the hope that the questions we ask, and the challenge we sometimes provide, will assist in ensuring that the Fund is managed in the best interests of its scheme members and employers.

We will undertake these roles for a period of between three and five years, although we may be reappointed for future terms if we are selected again through the recruitment process.

### Meetings, training and attendance

During 2016/17 we held three Pension Board meetings (in July 2016, October 2016 and March 2017). Attendance was as follows:

		July 2016	October 2016	March 2017
Mrs Gaynor Brooks	Member Representative	✓	✓	✓
Mr Jim Duffy	Member Representative	✓	✓	
Mr Steve Jackson	Employer Representative	✓	✓	✓
Mr Mark Owen	Employer Representative	✓	✓	✓
Mrs Karen McWilliam	Independent Chair	✓	✓	✓

The meetings were also attended by Pension Fund Officers who support the Pension Board.

As members of the Pension Board, we have all committed to following the requirements of the Clwyd Pension Fund's Training Policy and attending a range of events and training in 2016/17 to complement the three days of induction training we undertook during 2015/16. In addition, we are invited to attend the Pension Fund Committee meetings and their training events.

Our full record of attendance at meetings, training and events is shown below:

Event	Mark	Steve	Gaynor	Jim
-------	------	-------	--------	-----

	Owen	Jackson	Brooks	Duffy
<b>Committees</b>				
Special Committee April 2016	✓	✓	✓	✓
May 2016	✓		✓	
Special Committee July 2016	✓	✓	✓	
September 2016	✓	✓	✓	
November 2016	✓		✓	
February 2017	✓	✓	✓	
Special Committee March 2017	✓			
<b>CIPFA Framework</b>				
Governance	✓	✓	✓	✓
Funding & Actuarial	✓	✓	✓	✓
Investments	✓	✓	✓	✓
Accounting	✓	✓	✓	
<b>Additional &amp; Hot Topics</b>				
MiFIID II	✓	✓	✓	
Actuarial Investments		✓	✓	✓
GAD Section 13 Data	✓	✓	✓	
Pooling Governance	✓		✓	
Investment Strategy Statement	✓		✓	
ESG Training				✓
<b>Conferences</b>				
CIPFA Pension Boards One year On Seminar	✓			✓
LGC Investment Seminar		✓	✓	✓

### What has the Pension Board done during 2016/17?

Our meetings include a number of standing items, such as consideration of the latest Pension Fund Committee papers and monitoring of our allocated budget. In addition to these regular items, we also focused on a number of one-off items. Key areas of discussion for us during the year included:

- We have been working closely with the Fund's pension administration team to better understand the challenges that they face, often due to the complexity of the scheme's benefit structure and the increase in their workloads in recent years. We've considered the challenges employers face in providing timely and accurate information to the administration team, and the challenges then faced by the administration team in not receiving timely and accurate data, and the impact this can have on service delivery. We have discussed potential solutions and are pleased to see significant progress by the administration team in implementing these. These included the initial roll-out of a more automated system (i-Connect) for some employers and the creation of a dedicated team to assist with carrying out employer responsibilities.
- We received a demonstration of the i-Connect system through which employers will submit information on a monthly basis. The system carries out elements of automatic validation which, together with the monthly submissions, will ensure greater efficiency for employers and the administering authority, as well as more accurate data, in a more timely manner.

We recognise the challenges in introducing this system (which is being rolled out over two to three years) but see it as a fundamental long term approach to ensure the accurate and timely administration of scheme members' benefits.

- We also received a demonstration of the new Member Self-Service facility which will allow scheme members to view their pension details on-line via a secure web log-in. This will also provide scheme members with the ability to carry out their own pension retirement projections, to update certain details and to view certain documents, such as their annual benefit statements, on-line. We were very impressed with the system and look forward to hearing further feedback as it is rolled out during 2017/18.
- The administration team also updated us on their plans for completing the Guaranteed Minimum Pension reconciliation exercise, which is a one-off project comparing contracting-out information held for Clwyd Pension Fund members with that held by HMRC. This is a significant project, which must be completed by December 2018.
- Early versions of the improved management information have been shared with the Board. These are produced by the administration team to help them in monitoring their day to day workloads. This is also helping to better identify situations where the team are struggling to meet legal timescales and we discussed the causes of those situations with the Pensions Administration Manager.
- We have taken an interest in the robustness of the administration team's disaster recovery plans, including the resolution of an issue that arose in the testing. We were pleased to see the issue being quickly resolved and we recommended further improvements which have now been implemented.
- We have asked the administration team to maintain a log of all compliments and complaints that they receive. We now see this log at all Pension Board meetings and are pleased to report that the number of complaints appears very low. We are grateful to scheme members and employers who take the time to provide feedback to the team.
- Throughout the year we received ongoing updates on the introduction of asset pooling for LGPS funds. We were able to feed in views and ask questions in the run up to the Committee and Council agreeing to enter into the Wales Asset Pooling Collaboration. Much of the focus during 2016/17 was around the development of the Inter Authority Agreement including the governance structure.
- We provided views on a fundamental review of the Fund's risk register which we believe is now more focused with descriptions of risks that are easier to understand, as well as being clearer on the possible impact of those risks and how those risks are being mitigated.
- We worked closely with officers of the Fund providing feedback on the engagement with employers as part of the 2016 actuarial valuation exercise. We were impressed by the increase in employer engagement, as well as opportunities for employers to receive more information, including sessions with the Fund actuary.
- During the year the matter of insurance for Pension Board members was also considered, as we are not covered by the Council's existing insurance. Following advice from the Secretary to the Board, suitable insurance has now been secured.



## **What will the Pension Board do in the future (in particular in 2017/18)?**

We have a number of items on our forward plan for 2017/18, although the exact agendas and timescales will necessarily remain flexible to consider any further matters that may arise. The following are already on our work plan for the forthcoming year:

- Ongoing consideration of a number of the elements above, including:
  - Feedback on further disaster recovery testing
  - Ongoing review of the Wales Pooling Collaboration's meeting papers, including considering whether the governance operates in the way expected
  - The implementation of the improved systems and processes by the administration team
- Consideration of national survey results and commentary on administration, governance and pension board matters, including the Scheme Advisory Board's survey results
- Review of the latest compliance check for the Fund against The Pensions Regulator's Code of Practice. We'll be particularly focusing on areas which are high on the Regulator's agenda this year, which include record keeping and data maintenance.
- Receiving updates on the Fund's plans to meet the General Data Protection Regulations, the increasing risks from Cybercrime and more generally considering data quality and security.
- Receiving progress reports on the changes required as a result of the Markets in Financial Instruments Directive II ("MIFID2"), where the Fund has to provide a range of information to all of its fund managers to satisfy them of the professional status of the administering authority.

We will also take the opportunity to review our own effectiveness during the autumn of 2017, now that we've been in existence for over two years.

## **Other observations and general comments**

Once again we feel that 2016/17 has been a successful year for the Board, and we are pleased with the work we have completed, covering a wide range of fund management areas. We continue to have an excellent working relationship with the Pension Fund Committee and the Fund's officers, and are grateful for the way they have all embraced our involvement. In particular, we would like to thank the Committee for welcoming us to their meetings, which helps us put the challenges and successes of the Fund much more easily into context. We look forward to continuing that relationship, and particularly working closely with the many new Pension Fund Committee members to support them as best we can.

We would also like to take this opportunity to thank our fellow board member, Jim Duffy (Member Representative), for his time and commitment as a Board member since the Board's inception. Unfortunately Jim has had to resign recently for health reasons. We wish him a speedy recovery and we look forward to working the new Board member.

Gaynor Brooks, Member Representative  
Steve Jackson, Employer Representative  
Mark Owen, Employer Representative

## **Clwyd Pension Fund Board**

## 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 21% 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 2016/17. 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.

2016/17	Estimate £000	Actual £000	Variance £000
<b>Opening In House Cash</b>		(13,640)	
<b>Payments</b>			
<b>Pensions</b>	57,300	54,684	(2,616)
<b>Lump Sums &amp; Death Grants</b>	20,000	14,857	(5,143)
<b>Transfers Out</b>	2,800	5,473	2,673
<b>Expenses (including In House)</b>	3,000	3,001	1
<b>Support Services</b>	250	300	50
<b>Total Payments</b>	83,350	78,315	(5,035)
<b>Income</b>			
<b>Employer Contributions</b>	(33,250)	(32,787)	463
<b>Employee Contributions</b>	(15,200)	(13,779)	1,421
<b>Employer Deficit Payments</b>	(28,500)	(28,474)	26
<b>Transfers In</b>	(4,000)	(2,540)	1,460
<b>Pension Strain</b>	(1,200)	(2,282)	(1,082)
<b>Income</b>	(170)	(146)	24
<b>Total Income</b>	(82,320)	(80,008)	2,312
<b>Cash Flow net of Investment Income</b>	1,030	(1,693)	(2,723)
<b>Investment Income</b>	(3,000)	(3,019)	(19)
<b>Investment Expenses</b>	1,500	2,991	1,491
<b>Total Net of In House Investments</b>	(470)	(1,721)	(1,251)
<b>In House Drawdowns</b>	40,955	45,146	4,191
<b>In House Distributions</b>	(71,043)	(56,614)	14,429
<b>Net Drawdown/Distributions</b>	(30,088)	(11,468)	18,620
<b>Net External Manager Cash</b>	30,000	13,206	(16,794)
<b>Total Net Cash Flow</b>	(558)	17	575
<b>Closing In House Cash</b>	(14,198)	(13,623)	

### 3 Year Cash Flow Forecast

The following table shows the cash flow forecasts for the next three years to March 2020. 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.

	2017/18 £000	2018/19 £000	2019/20 £000
<b>Opening Cash</b>	(13,623)	(30,053)	(20,599)
<b>Payments</b>			
<b>Pensions</b>	55,860	57,720	60,040
<b>Lump Sums &amp; Death Grants</b>	15,000	15,000	15,000
<b>Transfers Out</b>	3,200	3,200	3,200
<b>Expenses (including In House)</b>	3,400	3,400	3,400
<b>Support Services</b>	120	120	120
<b>Total Payments</b>	77,580	79,440	81,760
<b>Income</b>			
<b>Employer Contributions</b>	(34,100)	(35,200)	(36,000)
<b>Employee Contributions</b>	(14,000)	(14,000)	(14,000)
<b>Employer Deficit Payments</b>	(51,784)	(18,123)	(18,247)
<b>Transfers In</b>	(2,000)	(2,000)	(2,000)
<b>Pension Strain</b>	(1,200)	(1,200)	(1,200)
<b>Income</b>	(100)	(100)	(100)
<b>Total Income</b>	(103,184)	(70,623)	(71,547)
<b>Cash Flow net of Investment Income</b>	(25,604)	8,817	10,213
<b>Investment Income</b>	(3,000)	(3,000)	(3,000)
<b>Investment Expenses</b>	3,000	3,000	3,000
<b>Total net of In House Investments</b>	(25,604)	8,817	10,213
<b>In House Drawdowns</b>	47,008	39,607	38,100
<b>In House Distributions</b>	(77,834)	(68,970)	(59,699)
<b>Net Drawdowns/Distributions</b>	(30,826)	(29,363)	(21,599)
<b>Net External Manager Cash</b>	40,000	30,000	15,000
<b>Total Cash Flow</b>	(16,430)	9,454	3,614
<b>Closing Cash</b>	(30,053)	(20,599)	(16,985)
<b>Estimated Asset Valuations</b>	1,759,705	1,874,086	1,995,901

## Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2016/17 compared to 2015/16. Actuarial fees have increased as 2016/17 was an actuarial year and Consultancy fees increased due to additional projects connected with the Liability Driven Investment mandate.

	2016/17 £000	2015/16 £000	Net change £000
<b><u>Governance &amp; Oversight Expenses</u></b>			
Employee Costs (Direct)	236	225	11
Support & Service Costs (Internal Recharges)	17	12	5
Premises	5	8	(3)
IT (Support & Services)	4	11	(7)
Other Supplies & Services	58	52	6
Miscellaneous Income	(11)	0	(11)
Audit Fees	39	39	0
Actuarial Fees	335	224	111
Consultant Fees	703	371	332
Advisor Fees	188	225	(37)
Legal Fees	59	35	24
<b>Total Governance Expenses</b>	<b>1,633</b>	<b>1,202</b>	<b>431</b>
<b><u>Investment Management Expenses</u></b>			
Fund Manager Fees	14,386	14,971	(585)
Custody Fees	31	28	3
Performance Monitoring Fees	57	30	27
<b>Total Investment Management Fees</b>	<b>14,474</b>	<b>15,029</b>	<b>(555)</b>
<b><u>Administration Expenses</u></b>			
Employee Costs (Direct)	648	603	45
Support & Service Costs (Internal Recharges)	94	46	48
Outsourcing	260	404	(144)
Premises	6	33	(27)
IT (Support & Services)	290	243	47
Other supplies & services	70	61	9
Miscellaneous Income	0	0	0
<b>Total Administrative Expenses</b>	<b>1,368</b>	<b>1,390</b>	<b>(22)</b>
<b>Total Fees</b>	<b>17,475</b>	<b>17,621</b>	<b>(146)</b>

The following table shows actual costs for 2016/17 compared to the budgeted costs along with the budget for 2017/18. The difference in manager fees compared to budget reflects the estimated valuation rising by 7.1% compared to an actual increase of +21.5%. Consultancy fees increased due to additional work allocated to the restructuring of the LDI mandate and additional costs associated with projects connected to Pooling assets within Wales. Outsourcing costs for the GMP reconciliation or Member Self Service were not implemented during 2016/17.

	2016/17 £000 Actual	2016/17 £000 Budget	2016/17 £000 Variance	2017/18 £000 Budget
<b><u>Governance &amp; Oversight Expenses</u></b>				
Employee Costs (Direct)	236	229	7	238
Support & Service Costs (Internal Recharges)	17	19	(2)	8
Premises	5	17	(12)	7
IT (Support & Services)	4	10	(6)	9
Other Supplies & Services	58	56	2	50
Miscellaneous Income	(11)	0	(11)	
Audit Fees	39	40	(1)	40
Actuarial Fees	335	304	31	202
Consultant Fees	703	389	314	399
Advisor Fees	188	188	0	187
Legal Fees	59	30	29	40
<b>Total Governance Expenses</b>	<b>1,633</b>	<b>1,282</b>	<b>351</b>	<b>1,180</b>
<b><u>Investment Management Expenses</u></b>				
Fund Manager Fees	14,386	11,028	3,358	11,878
Custody Fees	31	34	(3)	34
Performance Monitoring Fees	57	25	32	58
<b>Total Investment Management Fees</b>	<b>14,474</b>	<b>11,087</b>	<b>3,387</b>	<b>11,970</b>
<b><u>Administration Expenses</u></b>				
Employee Costs (Direct)	648	711	(63)	762
Support & Service Costs (Internal Recharges)	94	90	4	42
Outsourcing	260	1,240	(980)	900
Premises	6	75	(69)	33
IT (Support & Services))	290	250	40	250
Other supplies & services	70	70	0	70
Member Self Service	0	107	(107)	75
Miscellaneous Income	0	0	0	0
<b>Total Administrative Expenses</b>	<b>1,368</b>	<b>2,543</b>	<b>(1,175)</b>	<b>2,132</b>
<b>Employer Liaison Team</b>				
Employee costs (Direct)		N/A		144
<b>Total Costs</b>	<b>17,475</b>	<b>14,912</b>	<b>2,563</b>	<b>15,426</b>

## **AN UPDATE FROM THE FUND'S INVESTMENT CONSULTANT**

I am delighted to provide my update from an investment perspective on the activities of the Clwyd Pension Fund (CPF) during 2016/17. 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) The Fund's ISS, which is appended, 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 15year 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.

My report demonstrates progress made towards these long term objectives during 2016/17, compliance with the ISS, the economic and market environment and changes implemented or planned during the year.

### Summary of 2016/17

#### **Market Commentary**

One of the main drivers of investment performance of any pension fund is the direction of the financial markets.

Throughout the year 2016/17 protectionist policies gained momentum with the UK voting to leave the EU and further reinforced by US President Donald Trump's win in November. Global equity markets performed strongly, primarily driven by the general optimism surrounding pro-growth and pro-inflation policies alongside reforms proposed by the new US President. Global Developed Equities returned +32.7% with Asia Pacific ex Japan Equity the strongest performer at +36.8% followed by US Equity and Emerging Market Equity which both returned +35.2%. Over the period global government bond yields generally rose on the back of increased inflation expectations, however fell towards the end of the year owing to increasing uncertainty around the implementation of Donald Trump's policies and political risk from a number of impending European elections.

In the UK, the main issue was the build up to and the outcome of the EU referendum. On the night of the referendum, Sterling depreciated as much as 11%, falling to a 30-year low. To stimulate the economy, the Bank of England, at its August 2016 meeting, cut its interest rate to 0.25% and provided additional monetary stimulus, extending the existing quantitative easing programme by £60 billion. UK Equities posted a return of +22.0% with the top 100 companies, whose earnings are primarily derived from overseas, boosted by the depreciating level of Sterling. Towards the end of the year the British Parliament passed the Brexit bill and the British Prime Minister Theresa May invoked Article 50 of the Treaty on European Union to begin the two-year exit process.

On the back of the result of the EU referendum in the UK, nationalist parties gained momentum across Europe in 2016. However, in the Dutch Elections held in March 2017, populism seemed to take a back seat as the centre-right candidate Mark Rutte won against the anti-EU party led by Geert Wilders. In addition terrorist attacks and the refugee crises divided the EU's 28 member states and there were concerns over European banks, particularly those of Italy and Portugal. The European Central Bank (ECB) decided in December 2016 to extend its monetary easing from

March 2017 to December 2017, or beyond if necessary, until it saw a sustainable increase in Eurozone inflation towards the target level.



The US economy showed signs of recovery over the year with consumer sentiment boosted by the pro-growth trade and tax reforms proposed by Donald Trump. During the last calendar quarter of 2016, the US economy grew at an annualized rate of +2.1%, culminating into a growth rate of +1.6% for the calendar year of 2016. Economic data in the US continued to be supportive with unemployment numbers falling to +4.7% in February. With the backdrop of improving economic conditions and the prospects of expansionary fiscal policy, the US Federal Reserve raised its interest rates twice during the year. In December 2016, the Federal Reserve raised its base rate by 0.25% to 0.50%-0.75%, followed by another 0.25% hike in March 2017, thereby increasing the base rate to 0.75%-1.0%. In March 2017, President Trump presented a draft budget for 2018 with the full budget to be announced in May. The beginning of the calendar year 2017 saw the US equity market start on a strong footing, reaching an all-time high. However, uncertainty around implementation of President Trump's economic and fiscal policies, further aggravated by the efforts to repeal Obamacare failing, has led to markets focusing on the potential risks of new leadership which gave rise to subsequent volatility.

China gained increasing importance in the global market: with its currency joining the IMF's basket of reserve currencies and the possibility of Chinese stocks' inclusion in MSCI indices as the Shenzhen-Hong-Kong stock-connect was approved in August 2016.

In Japan, Prime Minister Shinzo Abe announced a stimulus program of ¥28.1 trillion to be spent over several years. After, adopting the negative interest rate policy early last year, the Bank of Japan introduced 'Yield Curve Control' in September 2016 to maintain the 10-year government bond yield at zero. The yen depreciated against the US Dollar in the first half of the year, however then weakened significantly post the US elections leading to exports rising for the first time in 15 months. Core inflation (which excludes fresh food prices) rose for the first time in a year by +0.1% year on year in January, followed by a +0.2% year on year rise in February 2017. In Q4 2016, its economy expanded at an annualized rate of +1.2%, primarily driven by capital expenditures which grew at the fastest pace in three years.

UK Government Fixed Income securities posted positive returns with the Over 15 Year Gilts Index returning +12.3%. In 2016/17 yields fell sharply following the EU referendum result which is a problem for pension funds as pension fund liabilities are generally measured with reference to a Government bond yield. However the Actuarial Valuation that was undertaken as at 31 March 2016 changed the methodology in the way the Fund's liabilities are valued. The methodology now references CPI inflation instead of a Government bond yield which will reduce the explicit impact on the funding level of any falls in Gilt yields.

Over the year, Brent crude prices rose by +33.4%, with most of its gains arising post September, when OPEC initially indicated a possibility of a cut in its oil production. This was the first agreement since 2008 where they agreed to limit their output to 32.5 million barrels per day. Non-OPEC members such as Russia had also extended support to OPEC's decision to cut their output, thus supporting the oil prices towards the end of the previous year. Meanwhile, gold prices rose marginally as concerns over Brexit and other European elections boosted demand for safe-haven assets. However, a stronger US dollar, on the back of expectations of economic-boosting policies in the US by its new president, capped the rise.

UK price inflation increased significantly over the year with the CPI increasing by +2.3% due to rising fuel and food prices and the impact of the depreciation of Sterling on import prices. The increase represented the first time in more than three years that UK inflation exceeded the Bank of England's +2.0% target. This is important for pension schemes with inflation linked liabilities such as the LGPS. It will, as noted earlier, impact on the funding level of the CPF as liabilities are now valued by reference to CPI.

## **Clwyd Pension Fund Investment Performance 2016/17**

The Fund returned +21.5% in 2016/17 which is ahead of the expected return assumption of CPI +4.0% as quoted in the Investment Strategy Statement (ISS) (the requirement to produce an ISS replaces the previous requirement to produce a Statement of Investment Principles) and Funding Strategy Statement (FSS). The return of +21.5% compared with a composite benchmark (of the underlying manager benchmarks) of +16.2% and a composite outperformance target of +16.7%. However, despite this strong performance, this is only one year in isolation of a 15 year funding recovery plan.

The Equity portfolio that includes Global, Emerging and Frontier Equity exposures returned +32.9% with both the Developed Global Equity Fund and the Emerging Markets Funds producing exceptional absolute returns. However only the Wellington Emerging Markets (Core) Fund outperformed its individual benchmark. As part of the “light touch” strategic review approved by Committee in September 2016 it was agreed to remove Frontier Markets from the strategy. The Fund disinvested from the Aberdeen Frontier Markets Fund by January and so there is no annual return for this fund. The Multi Asset Credit portfolio produced a positive return of +6.6% outperforming its benchmark.

The Tactical Allocation Portfolio returned +15.0% outperforming its objective. This comprises a Diversified Growth Portfolio which returned +8.7% and a Best Ideas Portfolio that produced a return of +22.2%. Within the Diversified Growth Portfolio both the Diversified Growth managers outperformed their benchmarks and produced positive returns.

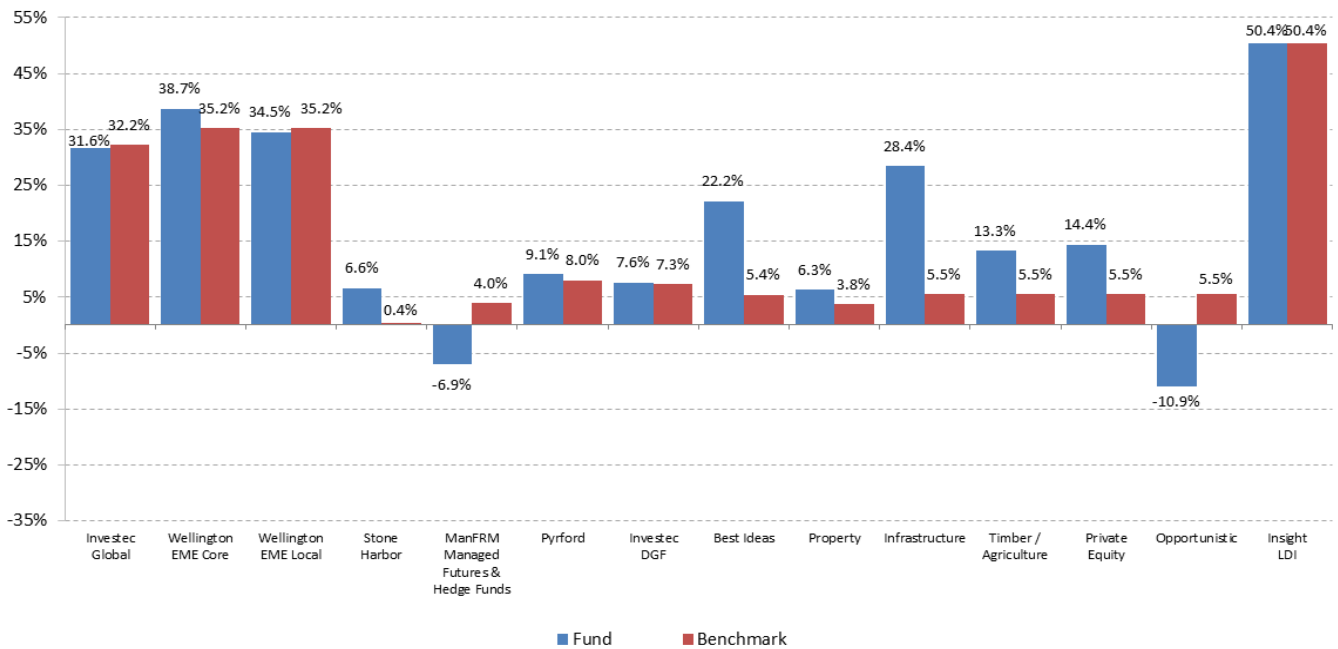
The Managed Account Platform with ManFRM contains a Managed Futures & Hedge Funds portfolio which produced a negative absolute return of -6.9%. In addition the residual balances of the Fund’s illiquid legacy Hedge Funds holdings are contained on the Platform which reduced the overall return of the Managed Account Platform to -8.6%. While this performance has been disappointing, and an improvement is expected in due course, the strategic position in the Fund’s asset portfolio remains important and acts as an additional source of diversification and “overlay” relative to the other positions the Fund allocates to.

The Fund’s In-House portfolio produced a positive overall return of +11.4%. Within this portfolio Infrastructure produced the greatest absolute return +28.4%, whilst Private Equity returned +14.4%, Timber and Agriculture +13.3% and Property +6.3% also produced positive absolute returns. However these were partially offset within the overall return by the Opportunistic assets that declined by -10.9% in the year. Within the context of the revised investment strategy the In-House assets are being divided into two sub categories; Real Assets (containing Property, Infrastructure and Timber/Agriculture) and Private Markets (containing Private Equity and Opportunistic).

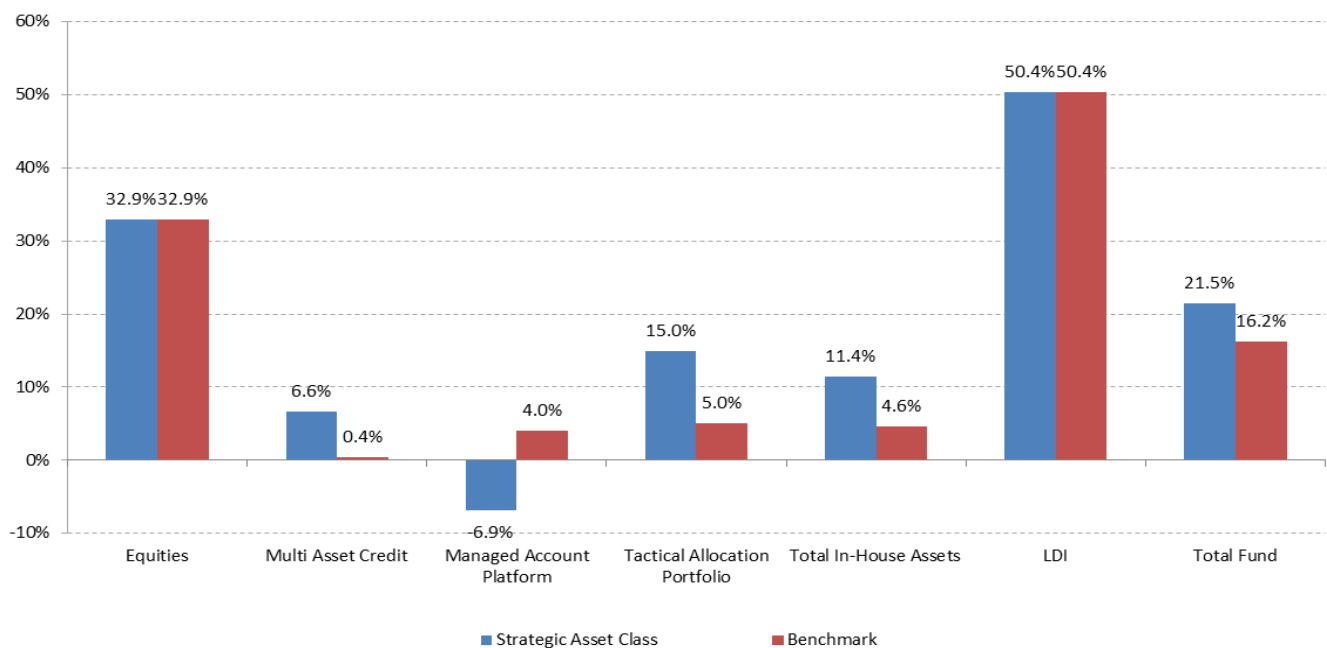
The Liability Driven Investment portfolio (a key component of the Flightpath/De-Risking Framework) which consists of regional Global Equity, Gilt and inflation exposures returned +50.4% in 2016/17.



The following charts below summarise the 12 month performance against the benchmark 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 key strategic asset classes versus their benchmark.



Source: JLT Employee Benefits

## Summary of Investment Performance

The market conditions experienced in 2016/17 were beneficial for the Fund with most of the major asset classes producing strong positive returns in particular Equity markets. Equity markets produced the strongest returns during the year however, despite this, the markets continued to experience significant volatility which was why the diversification and risk management characteristics inherent in the Fund's investment strategy were very important. This protected the Fund during the periods of volatility.

Whilst the Fund will not have produced a return as high as an investment strategy more heavily weighted to Equities 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.

The section below details the rationale in respect of the Fund's investment strategy and highlights key developments that have taken place across 2016/17 which included a "light touch" review of the existing investment strategy.

## Investment Strategy

In conjunction with the Actuarial Valuation as at 31 March 2016 JLT, as the Fund's Investment Consultant, undertook a review of the investment strategy in 2016 and the recommendations were accepted by Committee at their September 2016 meeting. The review was relatively "light touch" in nature although this did propose some changes to the previously existing strategic weightings.

The review showed that, based upon the JLT Market Forecast Group output for the Quarter 2 2016 the Fund could be expected to generate a return of 6.5% p.a.. This was equivalent to CPI inflation plus 4.3% p.a. taking the CPI assumed in the 31 March 2016 Actuarial Valuation i.e. the strategy was designed to provide an expected real return significantly above the assumed CPI inflation plus 2.0% p.a. return from which the Actuarial discount rate was derived. Due to the uncertainty in the medium term UK and Global macroeconomic outlook, JLT were comfortable that the revised investment strategy is targeting a higher return relative to what is required to adhere to the 2016 Actuarial Valuation assumptions.

A key aspect of the review was to reduce the Fund's equity risk premium as a proportion of total risk by removing the allocation to Frontier Markets Equity (2.5%) and reducing the strategic allocation to Emerging Markets Equity by 0.5%. The allocation to Developed Global Equity is to be split between active Equity and Smart Beta (a form of passive Equity investing that targets specific factors within the equity market). Part of the proceeds from this reduction to Equity were reallocated to the Best Ideas Portfolio which increased its strategic allocation from 9% to 11% resulting in the Tactical Portfolio increasing its strategic allocation from 19% to 21%.

Another 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 is progressing with the appointment of a European Private Credit manager made post the year end and the process to appoint a North American Private Credit manager ongoing. In addition there was a 1% increase in the strategic weighting to the Fund's Real Assets Portfolio. Within the Real Assets Portfolio there will be a reduction in the strategic weighting to Property and an increase to Infrastructure although these changes will be a medium to longer term "direction of travel" target due to the illiquid nature of these investments.

Although a number of JLT's recommendations are more medium term by way of implementation as at 31<sup>st</sup> March 2017 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.

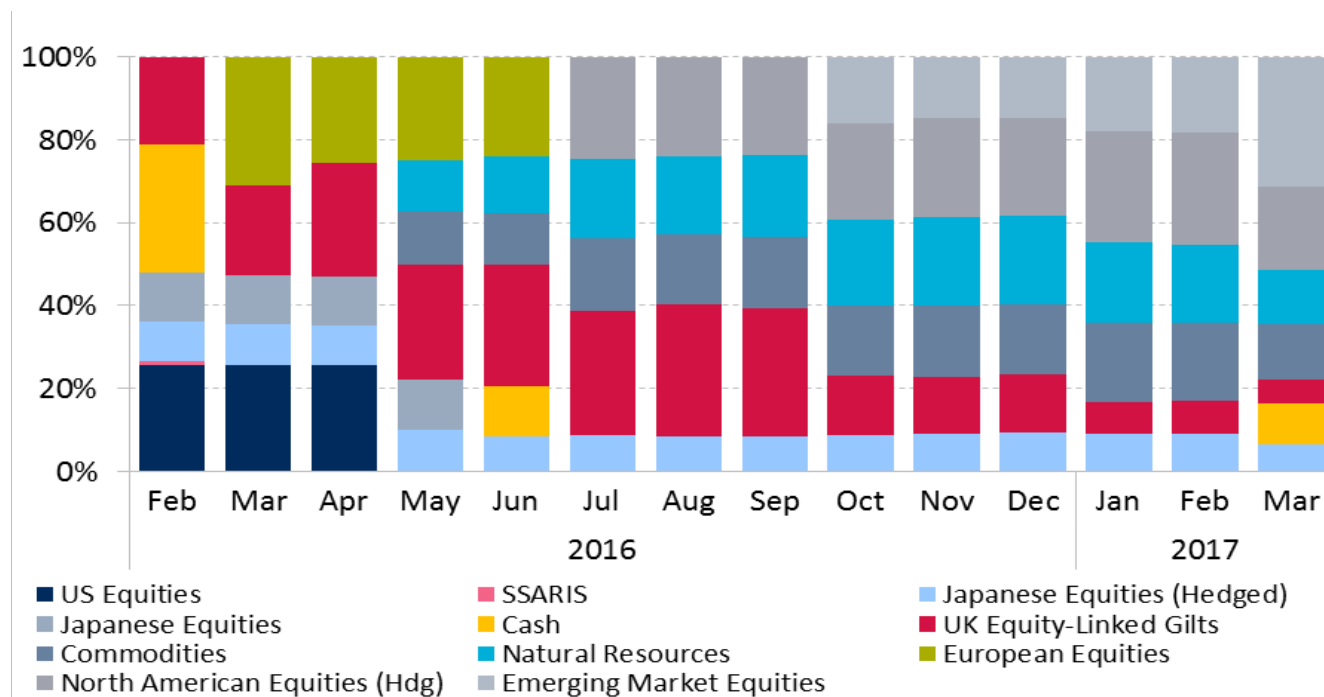
The Fund's investment strategy is more diversified than most LGPS Funds and incorporates a Flightpath/De-Risking Framework (which was not covered in the strategy review but the structure of which is being reviewed separately), which differentiates the Fund from many other LGPS Funds. The aim of the Fund's 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. On average, LGPS Funds allocate 60% to Equities which is higher than the Clwyd Pension Fund exposure.

The Fund currently has a strategic allocation of 14% to Active Global Equities (this will reduce to 10% following the implementation of the Smart Beta mandate which has a target implementation date of 31 July 2017) and 19% exposure to Passive Developed Equities (through Equity Total Return Swaps within the LDI mandate) and other varying exposures through the Tactical Portfolio. Hence, in years where Equities perform well the investment performance of the Clwyd Fund may lag most of its peers in the LGPS. However, the Fund has already established material protection of its interest rate risk and inflation risk through the design and implementation of the Flightpath/De-Risking Framework. As a result of the hedging that has taken place until 31 March 2017 it is estimated that the impact has been to improve the funding position of the Fund by c.£170m. Further details are included in the Update from the Actuary.

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 includes regional Equities, Commodities and UK Equity Linked Gilts. It also shows how the underlying holdings have changed following decisions that have been taken by the Tactical Asset Allocation Group since its inception. The relatively large holding in Cash as at 31 March 2017 was due to monies being received within the Best Ideas Portfolio to increase its allocation to the revised strategic weighting. It was a temporary position pending due diligence on a specialist US Mid Cap Equity Fund and was subsequently switched into this Fund in April 2017.

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
<i>Multi Asset Credit</i>	<i>12.0%</i>	<i>10.0 – 15.0</i>	<i>5 – 20</i>
<i>Private Credit</i>	<i>3.0%</i>	<i>2.0 – 5.0</i>	<i>0 – 10</i>
Managed Account Platform	9.0%	7.0 – 11.0	5 – 15
Tactical Allocation Portfolio	21.0%	15.0 – 25.0	10 – 30
<i>Diversified Growth</i>	<i>10.0%</i>	<i>8.0 – 12.0</i>	<i>5 – 15</i>
<i>Best Ideas Portfolio</i>	<i>11.0%</i>	<i>9.0 – 13.0</i>	<i>5 – 15</i>
Private Markets	10.0%	8.0 – 12.0	8 – 12
Real Assets	12.0%	10.0 – 15.0	5 – 20
<i>Property</i>	<i>4.0%</i>	<i>2.0 – 6.0</i>	<i>0 – 10</i>
<i>Infrastructure*</i>	<i>8.0%</i>	<i>5.0 – 10.0</i>	<i>2 – 12</i>
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 2017 and 31 March 2016.

Manager	Mandate	Strategic Allocation 15/16	Allocation 31/03/16	Strategic Allocation 16/17	Allocation 31/03/17
<b>Equities</b>					
Investec Asset Management	Global Equity	8.0% <sup>(1)</sup>	7.1%	4.0%	7.8%
Wellington Management International Ltd	Emerging Markets Equity	6.5%	5.6%	6.0%	6.4%
Aberdeen Asset Management	Frontier Markets Equity	2.5%	1.9%	0.0%	0.0%
<b>Multi-Asset Credit</b>					
Stone Harbor Investment Partners	Multi-Asset Credit	15.0% <sup>(2)</sup>	12.3%	12.0%	11.9%
<b>Managed Account Platform</b>					
ManFRM	Managed Futures & Hedge Funds	9.0%	9.1%	9.0%	8.2%
ManFRM	<i>Hedge Funds (Legacy)</i>		1.0%		0.6%
<b>Tactical Allocation Portfolio</b>					
Pyrford International	<i>Diversified Growth</i>	5.0%	4.4%	5.0%	4.9%
Investec Asset Management	<i>Diversified Growth</i>	5.0%	4.1%	5.0%	4.9%
Consultant	<i>Best Ideas Portfolio</i>	9.0%	7.9%	11.0%	10.9%
<b>In-House Assets</b>					
Various	Private Markets / Opportunistic	10.0%	10.9%	10.0%	9.8%
Various	Property	7.0%	7.9%	4.0%	6.7%
Various	Infrastructure	2.0%	2.0%	6.0%	1.9%
Various	Timber/Agriculture	2.0%	1.9%	2.0%	1.7%
<b>Liability Hedging</b>					
Insight	Liability Driven Investments	19.0%	22.8%	19.0%	23.5%
<b>Cash</b>			1.1%		0.8%

1) The Global Developed Equity Portfolio will have a 4.0% allocation to Smart Beta that has not yet been implemented

2) The Credit Portfolio will have a 3.0% allocation to Private Credit that has not yet been implemented

## 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 it is planned for the Fund to ask to become a member in 2017/18. 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 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 2016/17 is shown in the following table.

Manager	Annual/Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/Refer/Withheld
Investec	338	4,132	3,367	222	72	55
Pyrford	52	800	748	50	1	1
Wellington	334	2,636	2,195	245	56	83

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 £119m.

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.

An examples from one of our current managers covering a specific investment within a Fund, where the non financial impacts are recorded, is highlighted at the end of this report.

## **Conclusion and Outlook**

During the year the investment strategy was revisited in conjunction with the Actuarial Valuation as at 31 March 2016. Whilst the review was relatively "light touch" in nature a number of changes were proposed to the previously existing strategic weightings. The two main aspects of the review was a reduction in the Equity risk premium as a proportion of total risk through further diversification whilst also increasing the Fund's illiquidity premium to increase the long term expected return. The expected return from the strategy has been designed to provide a high certainty of real returns above the assumed CPI Inflation plus 2.0% p.a. return from which the Actuarial discount rate was derived.

The review of the Flightpath/De-risking Framework which included changes to triggers, a restructure of the existing LDI portfolio and the introduction of Equity options to protect from falls in the Equity markets was integrated into the strategy.

A significant proportion of the implementation of the Fund's revised investment strategy was completed by 31 March 2017. The planned allocations to Smart Beta and Private Credit are expected to be completed during the second half of 2017, although the planned changes to the Fund's Real Assets Portfolio will not be implemented until the medium to longer term.

### Summary of the Longer Term

The market value of the Fund has increased from approximately £885m in 2007 to approximately £1,688m in 2017. 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 corporate pension funds.

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa
1	+21.5	+16.2	+21.4
3	+11.4	+9.9	+11.2
5	+9.2	+8.3	+10.7
10	+5.7	+6.3	+7.0
20	+6.8	+6.6	+7.4

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 (%)	2017 (%)	LGPS Average
<b>Equities</b>							
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	-	-	
	<b>72.0</b>	<b>66.0</b>	<b>55.0</b>	<b>43.0</b>	<b>17.0</b>	<b>14.0</b>	<b>62.0</b>
<b>Fixed Interest</b>							
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	-	-	-	-	
	<b>14.0</b>	<b>12.0</b>	<b>13.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>17.0</b>
<b>Liability Driven Investment</b>	-	-	-	-	<b>19.0</b>	<b>19.0</b>	
<b>Alternative Investments</b>							
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	
	<b>14.0</b>	<b>22.0</b>	<b>32.0</b>	<b>42.0</b>	<b>49.0</b>	<b>52.0</b>	<b>21.0</b>

## 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		
<b>Property Closed Ended Holdings</b>			
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	1		
Partners Group Global Real Estate	2		
Schroders – Columbus UK Real Estate	1		
<b>Timber</b>			
		RMK Timberland	3
		Stafford Timberland	3
<b>Agriculture</b>			
		Insight Global Farmland	1
		GMO	1
<b>Infrastructure</b>			
Arcus European Infrastructure	1	InfraRed Environmental	1
Carlyle Global Infrastructure	1	Impax Infrastructure	2
GSAM West Street Infrastructure	1		
Harbour Vest Real Assets	1		
Hermes Infrastructure	1		
InfraRed	2		
Innisfree	1		
North Haven Global Infrastructure	2		
Partners Group Direct Infrastructure	1		
<b>Total Funds</b>	<b>31</b>		<b>15</b>

PRIVATE EQUITY



Direct Funds	Number of Funds	Environmental/Social Impact	Number of Funds
Access Capital	1	Bridges Ventures	2
Apax	5	Environmental Technologies	2
August Equity	2	Ludgate Environmental	1
Candover	2		
Capital Dynamics	3		
Carlyle	2		
Charterhouse	4		
ECI	3		
Granville Baird	2		
Parallel Ventures	3		
Partners Group Direct	2		
Unigestion	1		
<b>Fund of Funds</b>			
Access Capital	3	Harbour Vest Cleantech	1
Capital Dynamics	7	Hermes Environmental	1
Crossroads	2		
Harbour Vest	6		
Partners Group	10		
Standard Life	2		
Unigestion	2		
<b>Opportunistic</b>			
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		
<b>Total Funds</b>	<b>71</b>		<b>8</b>



**Theme** Sustainable Living

**Challenge** Around 1.5 million people in the UK are unemployed. While the rate of unemployment is slowly decreasing in other parts of the UK, it has remained largely static in Wales. The longer someone is unemployed, the less likely he or she is to ever return to work. Sustained employment offers people better health, well-being and opportunities in the long run.

**Investable Solution** Wholebake manufactures and sells gluten-free energy bars from its factory and distribution facilities in North Wales. The company manufactures for third-party national brands and sells under its own brand, NINE. Its products use natural ingredients aimed at the healthier segment of the snack market.

**Target Outcomes** To promote economic dynamism and access to employment and skills training in one of the UK's most underserved communities while also promoting healthier snacking.



#### Investment Origination

The investment opportunity in Wholebake was identified by Bridges Fund Management Partner Oliver Wyncoll through his network and a successful track record in the consumer sector. The investment was secured due to the strong alignment of values between the management, shareholders and Bridges. Bridges and management agreed a plan to create new jobs and opportunities in an economically deprived part of North

Wales and to proactively reduce sugar and fat content in its branded products where possible. We were attracted to the high-growth sector of healthier snacking which is being driven by consumers' and retailers' demands to replace high-sugar and highly processed snacking with more natural wholesome alternatives, such as fruits, nuts and seeds.

#### Impact Thesis

**Activity:** Through Wholebake's operations of manufacturing and distributing gluten-free snacks, create job opportunities in one of the most deprived parts of the UK.

**Output:** Employment of low skilled and previously unemployed individuals.

**Outcomes:** Long term career and development opportunities leading to an improvement in life outcomes for employees and for the wider local community.

## ESG Impact across the UN Sustainable Development Goals (year to 31 March 2017 data)

### Employees



- 92% of new jobs created last year went to individuals who were previously unemployed
- All entry level staff are paid the national living wage
- Over 1,700 hours of training (>10 hours per employee) were provided in 2016/17.

### Customers



- NINE, Wholebake's own brand, is a seed-based energy bar that is a healthier snack
- In 2015 Bridges worked with Wholebake to make NINE healthier, reducing sugar content per bar by an average of 23% across the range. Wholebake also manufactures for other brands that are all related to healthier life styles (e.g. high protein bars, healthy fruit bars and diet)

### Community



- Wholebake provides employment opportunities for individuals in the local area, a deprived part of North Wales
- 78% of the wage bill goes to individuals living in areas within the most deprived 20% of local authorities in the UK (as measured by the Index of Multiple Deprivation, of which employment deprivation is a key factor)

### Environment



- Inevitably, Wholebake's manufacturing activities will impact on the environment, but the business seeks to minimise these impacts as far as possible.
- Wholebake limits the amount of waste sent to landfills, recycling or reusing 104 tonnes of waste materials in the year.
  - It seeks to actively monitor its electricity consumption; its electricity consumption per tonne of product produced) decreased by 40% in the last year.

### About Bridges Fund Management

Bridges Fund Management Ltd. is a specialist fund manager focused exclusively on sustainable and impact investment, with offices in London, New York and San Francisco. It invests in growth businesses, properties and social sector organisations that can generate superior returns for investors and positive social and environmental impact for society. Founded in 2002, it has since raised over £900 million across its platform of funds.

Bridges' funds are only available to persons categorised as professional clients. Bridges acts only for the funds it manages and it does not act for, or offer advice to, any other persons, nor provide them with the protection it offers its client funds. Past performance is not indicative of future performance. Bridges Fund Management Ltd. is authorised and regulated by the Financial Conduct Authority. Registered in England No 10401079.



Bridges Fund Management Ltd.  
38 Seymour Street,  
London, W1H 7BP  
+44 (0) 20 3780 8000

[info@bridgesfundmanagement.com](mailto:info@bridgesfundmanagement.com)  
[www.bridgesfundmanagement.com](http://www.bridgesfundmanagement.com)

## 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 2016/17. 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) (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. It has also been a really important year as the 2016 actuarial valuation - a key financial governance process - was completed.

### ACTUARIAL VALUATION

The Fund's triennial actuarial valuation took place with an effective date of 31 March 2016. This gave us the opportunity to review the financial health of the Fund and refresh the objectives. These objectives are set out in the Funding Strategy Statement. The outcome of the valuation is to set employer contribution levels for the period 1 April 2017 to 31 March 2020 and these contributions are set out in my formal actuarial valuation report.

In assessing these contribution levels, I considered the experience of the Fund since the previous valuation (including demographic factors such as changes in life expectancy and changes in the membership profile). In addition, the updated approach that I adopted focused on the link between overall investment return expectations from the CPF asset portfolio versus the expected level of Consumer Price Inflation (CPI). This is important because the benefits paid by the Fund (which are the liabilities of the Fund) are linked to CPI when in payment, and so this ultimately drives my liability assessment to compare with the assets held, and ultimately the long-term cost to employers.

The results of the valuation showed an improvement in the funding position from 68% to 76%. This improvement allowed us to reduce the average period over which deficit contributions are paid into the Fund from 18 years to 15 years. I am also pleased to report that since the valuation, there has been further improvement in the funding position (this is reported on a monthly basis to the FRMG).

Overall, positive feedback was received from employers on the process and the eventual outcomes in terms of the balance between the affordability of contributions and the long term financial health of the Fund.

# 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.

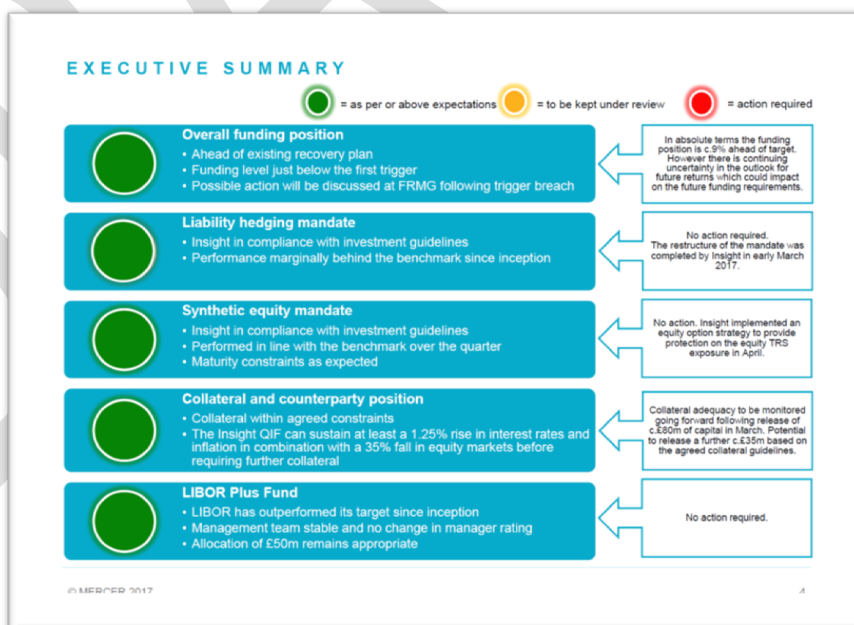
Over 2016/17, the level of risk hedging (the “hedge ratio”) within the framework did not change (remaining at approximately 20% for interest rates and 40% for inflation rates) as the market yields and the funding level remained below the relevant trigger points.

For the LGPS generally over 2016/17, asset returns have been strong due to the impact of sterling currency depreciation and also strong equity market performance. For the CPF, the funding plan was ahead of the target set as part of the 2016 valuation as at 31 March 2017. Overall the funding position was estimated to be 86% as at 31 March 2017 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 (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.

As a consequence of the flightpath strategy, the disclosed deficit was actually £170million lower than it would otherwise have been, had the current strategy not been implemented.

Whilst monitoring the funding position is central to my role, it is also important that we ensure other operational aspects of the mandate run by Insight are working correctly as this is vital to the success of the flightpath strategy. Therefore we monitor on a monthly basis using a red/amber/green (“RAG”) rating system and the summary at March 2017 is shown. It can be seen that all aspects were at least in line with expectations.



## 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.

Insight and Mercer 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. I am pleased to say that the trade was completed over the period 20th February to 3rd March 2017 and that an expected long-term gain of £36.5m (net of costs) 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 or all of the gain (subject to the minimum gain of £25m) could be realised much earlier.

## IMPLEMENTATION OF EQUITY OPTION PROTECTION

In order to protect the Fund's current strong position, the CPF sought to protect itself against potential falls in the equity markets, via the use of an "Equity insurance 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 insurance contract was implemented for one year with effect from 24<sup>th</sup> April 2017 and 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. It is therefore my belief that the strong governance structure within which the Fund operates, means we are well placed to navigate any uncertainty and volatility that arises.



**Paul Middleman FIA**



# **Pensions Administration Update 2016/17**

## **Introduction**

The Fund's day to day administration service is provided by the Pension Administration Section which consists of a total of 27.2 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager. It is split between an Operational Team, a Technical Team and an Employer Liaison Team, and is separate from the Finance Team.

The Operational Team of 13.8 FTEs delivers a pensions service for over 42,000 scheme members. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team of 6.4 FTEs implements and maintains the pension software systems, reconciles employer records and a pensioner payroll service for 12,000 pensioners and dependents. Whilst the Employer Liaison Team of 6 FTEs will provide assistance to Fund Employers in providing accurate and complete notifications to the Fund and provides a communication service for members and employers.

## **Challenges**

### **Task Management review**

In order to record more accurate and relevant workflow data the task management system continues to be reviewed and updated.

### **Introduction of iConnect**

In November 2016 iConnect was launched for two smaller employers (Bodelwyddan Castle Trust and Prestatyn Town Council) whilst it was fully implemented for Denbighshire County Council from February 2017 meaning that data could now be transferred directly from the employers payroll records to the Clwyd Pension Funds administration system. The introduction of this software has enabled data to be transferred in a timelier manner for starters, leavers or changes to employment. Whilst it has reduced the amount of resource and time required to identify missing information during the year-end procedure.

### **Employer Liaison Team**

From December 2016, the Clwyd Pension Fund introduced the Employer Liaison Team to the Administration Section. Understanding the continuing pressure on resources and budgets for Employers and the Administering Authority, the Clwyd Pension Fund have made provision to step in and provide assistance to Fund Employers in providing accurate and complete notifications to the Fund (and other Employer duties) in a timely manner. The Employer Liaison Team (ELT) will mainly assist in providing notifications regarding new starters, personal/employment changes and leavers/retirements in the LGPS. It will also undertake outstanding requests for information in order to cleanse the pension records. The ELT will be monitored and progress reported on a regular basis. All costs will be met by Employers through their employer contribution rate, following the task reporting process. As a new team, depending on the Employer uptake, resources will need to match demand.

### **Pensions help desk**

The operations team launched a pension's help desk process providing a centralised hub for members to communicate with the team regarding any pension related issues. By alternating responsibilities for the help desk, the introduction of this process allows individuals on the operations team the opportunity to commence with their work without interruptions on the days which they are not fulfilling their telephone duties.

## **GMP reconciliation**

After a successful tender process, Clwyd Pension Fund appointed Equiniti to complete the GMP reconciliation exercise. Robust timescales and deadlines have been put in place with regular update meetings to report on progress. This exercise is due for completion December 2018.

## **Communications**

During 2016/17, the Clwyd Pension Fund has published or provided the following communications:-

### **Clwyd Catch Up**

- Distributed issue 12 of the pensioner newsletter to our pensioner members along with their pensions increase notification in Spring 2016. Issue 13 was subsequently sent in Spring 2017 including their first notification that pay slips and P60's will be sent electronically from April 2018 with the introduction of Member Self Service.

### **Penpal**

- Circulated issue 20 of the active members newsletter notifying members of changes to the new flat rate State Pension and the LGPS national insurance database. Issue 21 has since been sent to active members in Spring 2017 providing their first notification of electronic Annual Benefit Statements, details of Member Self Service and upcoming seminars. In order to provide all active members with their second notification of electronic statements, issue 21b was sent alongside the active Annual Benefit Statements in August 2017.

### **Deferred Diaries**

- Deferred Benefit Statements were sent to deferred members in Spring 2016. Whilst Deferred Diaries (a newsletter for deferred members) was sent alongside all members Deferred Benefit Statements in Spring 2017 to notify them of the upcoming changes to electronic benefit statements and Member Self Service.

### **Drop in surgeries and pre-retirement seminars**

- Between April 2016 and March 2017, 27 drop-in surgeries took place for scheme members at their workplace with 380 members attending. Whilst 3 pre-retirement seminars were presented with 42 attendees.

With the aim of developing our communications, the Clwyd Pension Fund is currently undergoing major developments surrounding our website and Member Self Service. By updating our website and incorporating a Member Self Service facility, these developments will only enhance the accessibility to our current and previous members, whilst also providing a centralised hub for aspects surrounding the investments and governance of the Fund, Employers, Councillors and potential members.

A review of the website is currently ongoing in association with Aquila Heywood who provide the pension software for the Fund, with the view of launching in Autumn 2017. Together with Member Self Service and the Funds bilingual Twitter accounts, all three elements hope to provide transparency and information upon the Fund and all LGPS matters.

For further information on Clwyd Pension Fund communications, please refer to our Communication Policy Statement following in this Annual Report.

## **Developing the Service**

The Clwyd Pension Fund is keen to enhance the service it provides to all members past and present at every opportunity, with continuous developments also being made to enhance the scheme employers experience being paramount. The following points have been actioned over the last 12 months to assure that the service provided is improving:

- Maintaining an effective Business Continuity Plan
- Adhering to the Administration Strategy
- Attending manager meetings to discuss LGPS administration and current regulation issues
- Attending LGPS training courses to ensure staff skills and LGPS knowledge are up-to-date
- Rolling out software, provided by a third party, to assist employers in addressing their Auto Enrolment obligations, in respect of record keeping and reporting on employee data. In addition it is a filter for the flow of information from a Scheme Employer to the Administering Authority
- Scanning of documents and post to maintain a paperless office
- Developing Member Self Service software, enabling members to view their individual details online

In 2016/17 progress continued to be made with the new operational model for the Fund. Each Team Leader looks after set scheme employers, giving a direct point of contact and reinforcing the Fund/Employer relationship. There is on-going work with our larger employers on data quality and correcting a backlog of historic records in line with the Pension Regulator's new Code of Practice.

## **Administrative Management Performance**

This section of the report focuses on key administration performance indicators, efficiency and staffing indicators, together with a five year analysis of membership data. The Fund participates in the CIPFA Pensions Administration Benchmarking Club.

### **Cases completed 2016/17:**

<b>Case Type</b>	<b>Cases</b>
New Starters	2,171
Address changes	1,794
Defers	1,370
Retirements (all types)	696
Estimates (all types)	535
Deaths (deferred, active and pensioners)	416
Transfers In	128
Transfers Out	214

## Staff Turnover 2016/17

Description	Number
Total Staff as at 31/03/2017	27.2
Staff leaving up to 31/03/2017	1
Staff joining up to 31/03/2017	3.5

## Ratio of Pensions Staff to LGPS Members 2016/17:

Although there are 27.2 full time equivalent members of staff, 13.8 full time equivalent staff deal with administration. The remaining 13.4 staff deal with I.T., pension payroll, employer liaison and communications.

As at 31/03/2017, there were 42,235 members of the Clwyd Pension Fund, meaning that there are 1,552 members per pension's staff member.

Period from – to	Contributors	Deferred Members	Pensioners	Dependant Pensioners
01/04/2012 – 31/03/2013	14,920	7,539	8,386	1,488
01/04/2013 – 31/03/2014	16,133	8,307	8,805	1,562
01/04/2014 – 31/03/2015	15,941	9,026	9,272	1,591
01/04/2015 – 31/03/2016	15,989	10,271	9,862	1,616
01/04/2016 – 31/03/2017	15,748	14,502	10,314	1,671

## Member Trends: 5 Years

### Pensioners who were awarded enhanced retirement benefits:

Period from – to	No. of Enhanced Benefits
01/04/2012 – 31/03/2013	15 Members (tier 1 & 2 ill health only)
01/04/2013 – 31/03/2014	26 Members (tier 1 & 2 ill health only)
01/04/2014 – 31/03/2015	11 Members (tier 1 only)
01/04/2015 – 31/03/2016	18 Members (tier 1 only)
01/04/2016 – 31/03/2017	27 Members (tier 1 only)

## Internal Dispute Resolution Procedure

The Clwyd Pension Fund operates a two stage Internal Dispute Resolution Procedures (IDRP) if a member feels that they are dissatisfied with a decision made by their employer or the Administration Authority (Flintshire County Council). Where a disagreement is raised by a member, the Pensions Administration Manager or Principal Pension Officers will attempt to action and resolve the problem and confirm this in writing where possible.

Examples of what Employer appeals are about, could be following the termination of employment upon medical grounds or the calculation of a members final salary pensionable pay. Whilst appeals against the Administration Authority could surround the awarding of spouse or children's benefits, death grant nominations or previous pensionable service. Written appeal applications must be made within six months.

Stage One of the appeals process requires the Funds 'nominated person' to investigate the written complaint concerning the pension benefit, who must review the dispute and make a determination as to whether the decision reached was made in line with the scheme regulations. For Stage One, this nominated person is Mr Yunus Gajra, who works for West Yorkshire Pension Fund. Should the member remain dissatisfied with the outcome they can make an application under Stage Two which can be forwarded to the Clwyd Pension Fund. The Chief Executive has appointed a suitably qualified officer to hear Stage Two appeals, this individual is Mr Robert Robins (Flintshire County Council).

If still dissatisfied, members may then take their dispute to the Pension Advisory Service and then onto the Pension Ombudsman. During 2016-17, the Fund received 7 applications under the Stage 1 process, 4 of these cases moved to Stage 2.

2016/17	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	6	1	5	0
Stage 1 - Against Administering Authority	1	0	1	0
Stage 2 - Against Employers	3	0	3	0
Stage 2 - Against Administering	1	0	1	0

Appeal Contact details:	Mrs Helen Burnham Pensions Administration Manager Clwyd Pension Fund, County Hall, Mold, CH7 6NA
Stage One decision maker:	Mr Yunus Gajra West Yorkshire Pension Fund, P O Box 67, Bradford, BD1 1UP
Stage Two decision maker:	Mr Robert Robins, Flintshire County Council, Democratic Services, County Hall, Mold, CH7 6NA

### National Fraud Initiative (NFI)

Clwyd Pension Fund participates in the NFI every other year. The NFI is a data matching exercise designed to detect and prevent fraud and overpayments across England and Wales. As a public body, we are required by law to protect the public funds we administer.

The Auditor General is responsible for carrying out data matching exercises under his powers under the Public Audit (Wales) Act 2004.

As the use of data by the Auditor General for Wales in a data matching exercise is carried out with statutory authority (Part 3A of the Public Audit (Wales) Act 2004), it does not require the consent of the individuals concerned under the Data Protection Act 1998.

In addition to this, Clwyd Pension Fund uses a mortality screening service provided by Atmos, which informs us of deceased members.

### Analysis of Pension Overpayments and Write Offs

The Fund has a policy in which it does not seek to recover any overpayments of pensioner payroll payments which are under £100. Details of those are shown below. Every effort is made to recover any payroll overpayments above £100. In some circumstances these may be written off with agreement from the Chief Executive.

	2016/17	2015/16	2014/15	2013/14	2012/13
Amounts under £100	4,694	6,062	4,228	5,975	3,443
Number of cases	109	146	108	129	97
Overpayments Recovered	30,095	28,126	21,612	19,518	39,625
Number of cases	81	77	40	57	51
Overpayments Written Off	1,741	1,284	5,647	402	0
Number of cases	5	5	10	2	0

### Participating Employers of the Fund at 31 March 2017

The Fund had 40 bodies who contributed to the Fund during 2016/17, 28 scheduled and 12 admitted. Contributions are paid over to the Fund by the 19<sup>th</sup> of the following month to the month that the contributions relate to. An analysis of contributions received during 2016/17 is shown below.

There have been twelve additional bodies admitted to the Fund during 2016/17, eight scheduled and four admitted. No bonds or any other secured funding arrangements have been facilitated. One employer left the Fund during the year and a termination payment has been received during the year for a further employer (Grosvenor Facilities Management) who left in the previous year.

The Pensions Regulator allows the Fund the option to levy interest on overdue contributions during the financial year. During the year the Fund encountered some issues with some of the new employers joining the Fund. These were monitored for timeliness of contributions and the Fund liaised with employers to overcome any problems they were experiencing. The analysis below shows the number of late contributions made to the Fund, along with the amounts and occasions concerned. The Fund did not exercise its option to levy interest against any of the employers during the year but the occurrences were registered in the Fund's breaches register and reported to the Pension Fund Committee. Five of the ten employers were new to the Fund, a meeting was held with employer D to rectify the issues. The payments totaled £1,156,989.22 (1.5% of the total contributions)

Scheduled Bodies	Employer Contribution (£)	Employee Contribution (£)
Flintshire County Council	21,396,634.18	5,037,821.29
Wrexham County Borough Council	18,836,217.36	3,941,748.01
Denbighshire County Council	14,656,310.16	3,573,675.09
Glyndwr University	1,834,708.36	509,148.14
Coleg Cambria	1,484,280.15	662,132.45
North Wales Fire Service	1,287,330.40	319,723.15
North Wales Valuation Tribunal	50,896.51	11,904.39
Rhyl Town Council	35,706.52	8,040.24
Hawarden Community Council	32,077.61	7,928.11
Prestatyn Town Council	24,251.58	9,174.67
Coedpoeth Community Council	24,210.08	4,357.96
Caia Park Community Council	23,920.18	5,548.82
Buckley Town Council	19,702.10	4,625.55
Mold Town Council	13,309.14	4,407.04
Rhos Community Council	12,844.23	3,531.14
Connah's Quay Town Council	11,210.38	6,460.43
Shotton Town Council	6,939.82	1,714.03
Cefn Mawr Community Council	5,720.64	1,202.34
Argoed Community Council	5,076.89	1,120.41
Acton Community Council	3,622.72	1,050.61
Denbigh Town Council	3,308.66	1,282.27
Offa Community Council	2,242.83	1,412.87
Penyffordd Community Council	1,563.85	420.07
Marchwiel Community Council	1,011.82	294.43
Bagillt Community Council	823.40	365.20
Hope Community Council	806.03	385.20
Llanasa Town Council	221.00	0.00
Gwernymynydd Community Council	115.39	20.88

Admitted Bodies	Employer Contribution (£)	Employee Contribution (£)
Careers Wales	329,860.51	87,070.09
Civica UK	229,876.41	80,044.06
Wrexham Commercial Services	184,577.84	57,151.06
Freedom Leisure	170,993.98	57,490.48
Cartref y Dyffryn Ceiriog	58,740.69	3,361.26
Bodelwyddan Castle Trust	36,337.37	11,688.57
Grosvenor Facilities Management	10,400.00	0.00
Compass Group UK	7,392.85	2,153.42
Glyndwr Students Union	6,832.36	6,220.02
Denbigh Youth Group	5,781.13	1,715.84
Embrace	2,315.99	633.73
Cymryd Rhan	1,077.61	1,789.23

Employer	Late Occasions	Contributions (£)
A	1	1,065,823.99
B (New Employer)	3	52,064.43
C (Payroll provided by Employer A)	1	20,929.13
D	10	13,572.79
E (New Employer)	5	1,890.75
F	2	1,249.48
G (New Employer)	6	573.05
H (New Employer)	3	544.32
I (New Employer)	1	341.28

### Administrative Responsibilities:

The Clwyd Pension Fund is solely responsible for the administration of pensioner payroll. The administration for scheme members is mainly the responsibility of the Clwyd Pension Fund although the Employers must adhere to certain standards set out in the Service Level Agreements. For example, the Employers must supply the Clwyd Pension Fund with documents in a timely manner in order for benefits to be calculated as soon as possible. Although the Clwyd Pension Fund has the power to seek compensation from Employers in respect of any breaches of such standards, the Clwyd Pension Fund has not used this power.



## Other Information

The following information is provided to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board.

### Analysis of Employers of the Fund

The table below shows a summary of the employers in the fund analysed by scheduled bodies and admitted bodies which are active and ceased.

	Active	Ceased	Total
<b>Scheduled body</b>	28	8	36
<b>Admitted body</b>	12	8	20
<b>Total</b>	40	16	56

### Analysis of Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2017.

	UK £000	Non –UK £000	Global £000	Total £000
<b>Equities</b>	0	106,336	131,149	202,826
<b>Alternatives</b>	125,727	210,153	486,461	676,601
<b>Bonds &amp; LDI</b>	393,858	0	198,621	592,479
<b>Property (Direct)</b>	0	0	0	0
<b>Cash</b>	33,623	0	0	33,623
<b>Total</b>	553,208	316,489	816,231	1,655,928

The alternatives portfolio comprises pooled investments in the following asset classes:

Hedge Fund Managed Account, Diversified Growth Funds, Property, Private Equity & Opportunistic, Infrastructure, Timber and Agriculture.

### Analysis of Investment Income

The table below provides an analysis of the Fund's investment income accrued as at 31 March 2017.

	UK £000	Non –UK £000	Global £000	Total £000
<b>Equities</b>	0	0	0	0
<b>Alternatives</b>	1,353	5,968	0	7,321

<b>Bonds &amp; LDI</b>	0	0	0	0
<b>Property (Direct)</b>	0	0	0	0
<b>Cash</b>	111	0	0	111
<b>Total</b>	1,464	5,968	0	7,432

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## CLWYD PENSION FUND ACCOUNTS

for the year ended 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> March 2016, the findings of which became effective on 1<sup>st</sup> April 2017. The valuation showed that the funding level increased from the previous valuation (31<sup>st</sup> 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 1<sup>st</sup> 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 31<sup>st</sup> March 2017 and 2016 is shown below:

	2017 No.	2016 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>

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## 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 31<sup>st</sup> 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 31<sup>st</sup> 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 change in value.

## CLWYD PENSION FUND ACCOUNTS

			2017		2016	
	Note	£000	£000	£000	£000	£000
<b>Contributions and Benefits</b>						
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
<b>NET (ADDITIONS) WITHDRAWALS</b>				<u>10,542</u>		<u>15,890</u>
<b>Returns on Investments</b>						
Investment income	5		(7,432)		(5,863)	
Change in market value of investments (Realised and Unrealised) [(Increase)/Decrease]	5		(310,601)		4,706	
<b>NET RETURNS ON INVESTMENT</b>				<u>(318,033)</u>		<u>(1,157)</u>
<b>NET DECREASE/(INCREASE) IN THE FUND</b>				<u>(307,491)</u>		<u>14,733</u>
<b>OPENING NET ASSETS OF THE SCHEME</b>				<u>1,380,675</u>		<u>1,395,408</u>
<b>CLOSING NET ASSETS OF THE SCHEME</b>				<u>1,688,166</u>		<u>1,380,675</u>

## CLWYD PENSION FUND ACCOUNTS

	Note	2017 £000		2016 £000
<b>Net Assets Statement</b>				
<b>Investment Assets :</b>	<b>5/6</b>			
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	<b>8</b>	33,623		15,034
			<u>33,623</u>	<u>15,034</u>
<b>Current Assets :</b>				
Due within 1 year	<b>9</b>	4,545		5,349
			<u>4,545</u>	<u>5,349</u>
<b>Current liabilities</b>				
Due within 1 year	<b>9</b>	(2,307)		(4,996)
			<u>(2,307)</u>	<u>(4,996)</u>
<b>NET ASSETS AT 31<sup>st</sup> MARCH</b>		<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
<b>Scheduled Bodies</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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
<b>Oversight &amp; Governance</b>		
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
<b>Investment Management Fees</b>		
Net Fund Management Fees	14,386	14,971
Custody Fees	31	28
Performance Monitoring Fees	57	30
	14,474	15,029
<b>Administration Costs</b>		
Employee Costs	648	603
Support Services	94	146
Outsourcing	260	404
Supplies & Services	366	237
	1,368	1,390
<b>Total Fees</b>	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 £000	2016 £000
<b>Fund Management Fees</b>		
<b>Core</b>		
Total Expenses including AMC	4,495	5,578
Performance Fees	0	219
Transaction Fees	83	105
<b>Non-Core</b>		
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](http://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

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## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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

The book cost of the investments as at 31<sup>st</sup> March 2017 is £1,171.084m (£1,123.290m in 2015/16). The market value of investments as at 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> March 2017 and 31<sup>st</sup> 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 1<sup>st</sup> 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](http://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 3<sup>rd</sup> 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 31<sup>st</sup> March 2017 were £33.623m (£15.034m at 31<sup>st</sup> March 2016). This was held as follows:

	Rating	2017 £000	2016 £000
<b>Money Market Funds</b>			
BlackRock	AAA	0	0
Bank of New York Mellon	AAA	20,000	1,395
<b>Bank Deposit Accounts</b>			
National Westminster Bank PLC	BBB+	13,603	13,619
<b>Bank Current Accounts</b>			
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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 2016/17	Percentage Change %	Value on Increase £000	Value on Decrease £000
<b>Cash and cash equivalents</b>	33,623	0.01	33,626	33,620
<b>Investment portfolio assets:-</b>				
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
<b>Cash and cash equivalents</b>	15,034	0.01	15,036	15,032
<b>Investment portfolio assets:-</b>				
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 31<sup>st</sup> March 2017 and as at the previous year end:

Currency Exposure - Asset Type	Market Value	Market Value
	2016/17 £000	2015/16 £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 31<sup>st</sup> March 2017, it was considered that the likely volatility associated with foreign exchange rate movements to be 5.95%. For the period to 31<sup>st</sup> 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	£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

<b>Analysis of receivables</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
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>
<b>Analysis of payables</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
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.

<b>2016/17</b>		<b>Allocation</b>		<b>Redemption/ Subscription</b>	
<b>Manager</b>	<b>Mandate</b>	<b>Initial</b>	<b>Final</b>	<b>Initial</b>	<b>Final</b>
<b>Redemptions/ Change in Allocations</b>					
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
 <b>Subscriptions</b>					
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 31<sup>st</sup> 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

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## 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.

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
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.

	<b>Payments on behalf of</b>	
<b>2017</b>		<b>2016</b>
<b>£000</b>		<b>£000</b>
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

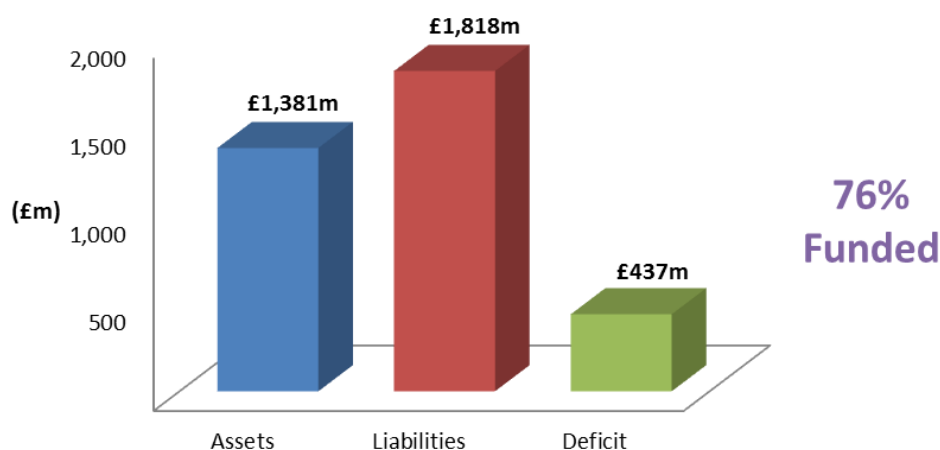
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## NOTES TO THE CLWYD PENSION FUND ACCOUNTS

### 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 31<sup>st</sup> March 2016 to determine the contribution rates with effect from 1<sup>st</sup> April 2017 to 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1<sup>st</sup> 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<sup>st</sup> March 2017 (the 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> March 2017 is therefore £2,642 million.

**Tudalen 132**



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – **Clwyd Pension Fund**

Audit year: 2016-17

Date issued: September 2017

Document reference: 145A2017-18\_

This document has been prepared as part of work performed in accordance with statutory functions.

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[infoofficer@audit.wales](mailto:infoofficer@audit.wales).

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

The Auditor General intends to issue an unqualified audit report on your financial statements. There are some issues to report to you prior to their approval

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# Summary report

## Introduction

- 1 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 (the Pension Fund) at 31 March 2017 and its income and expenditure for the year then ended.
- 2 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.
- 3 The quantitative levels at which we judge such misstatements to be material for the Pension Fund are £16.8 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and reader sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of the Pension Fund for 2016-17, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 30 June 2017, and have now substantially completed the audit work.
- 7 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 these issues with Pension Fund Officers and the Corporate Finance Manager.

## Proposed audit report

- 8 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](#).
- 9 The proposed audit opinion is included within the audit report on Council's main financial statements as set out in set out in [Appendix 2](#) of the Audit of Financial Statements report for Flintshire County Council.



## Significant issues arising from the audit

### Uncorrected misstatements

- 10 There are no misstatements identified in the financial statements which remain uncorrected.

### Corrected misstatements

- 11 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 2](#).

## Other significant issues arising from the audit

- 12 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. There were some issues arising in these areas this year.

### We have some concerns about the qualitative aspects of your accounting practices and financial reporting and the Pension Fund did not achieve its own earlier closure timetable, but it did meet its statutory deadline for preparing the draft financial statements

- 13 The Pension Fund's draft financial statements were not prepared to the standard consistently achieved in previous years. We identified a number of accounting errors and a large number of discrepancies with supporting working papers, which resulted in the financial statements being corrected. We also encountered some prolonged delays in receiving responses to audit queries. Officers advised us that the difficulties in part arose due to extenuating internal circumstances arising from staffing issues during the closedown process. Despite this, we achieved our overall completion timetable on a timely basis, enabling us to meet the Council's reporting deadlines.
- 14 With the advent of the earlier production and publication of local government annual accounts by the end May and July respectively by 2020-21, the Pension Fund also intended sharing its draft financial statements for audit by 19 June 2017. The draft financial statements were subsequently shared with us on 30 June 2017, and whilst this was in line with the statutory deadline, it was later than planned.
- 15 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 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.

- 16 Last year we also reported that monthly reconciliations of the transactions relating to lump sums and death benefit pension payments between the financial ledger and the pensions administration system identified a number of non-material differences that had not been explained or corrected. We recommended that the Pension Fund fully reconciled the monthly transactions relating to lump sums and death benefit payments, ensuring any differences were corrected.
- 17 The Pension Fund informed us that obtaining reports from the pensions system to facilitate the reconciliation remained problematic during the year. Internal Audit followed up progress in addressing our 2016-17 recommendation and found that 'lump sum reconciliations and differences resulting from these have improved from the previous year' but there remain differences between the general ledger and Pensions Administration System. The Pension Fund has accepted Internal Audit's recommendation to address the remaining variances and continues to develop reports to facilitate the reconciliation. We will following progress as part of our 2017-18 audit work.

### There are no other matters relevant to the oversight of the financial reporting process that we need to report to you and the Pension Fund has made good progress in updating the accuracy of membership records

- 18 We planned and performed our audit to address the financial statement risks as reported within our 2017 Audit Plan. No significant issues were identified from the audit of these areas.
- 19 Last year we reported that Pension Fund membership records held in the pension's administration system were not up to date for the three main employer bodies, namely Denbighshire County Council, Flintshire County Council, and Wrexham County Borough Council. We recommended that the Pension Fund should work with employer bodies to ensure that membership records were brought up to date and subsequently maintained.
- 20 Our follow up confirmed that good progress has been made in updating membership records. The Council, in its role as the administering authority, has been working with employer bodies to ensure membership records are brought up to date and subsequently maintained. An automated interface system (I –connect) has been implemented for Denbighshire County Council and some smaller bodies in 2016-17, and others bodies will use the system over the next two years. In addition, the Pension Fund has established an Employer Liaison Team to work with the admitted bodies to ensure the accurate and timely transfer of information.

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

- 21 There are no other matters to report to you. In particular:
- We did not encounter any significant difficulties during the audit.
  - 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 that we have not reported to you already.
  - There are no other matters specifically required by auditing standards to be communicated to those charged with governance.

## Recommendation arising from our 2016-17 financial audit work

- 22 The key recommendation arising from our financial audit work is set out in [Appendix 3](#). Management has responded to it and we will follow up progress during next year's audit. Where the actions remains outstanding, we will continue to monitor progress and report it to you in next year's report.

## Independence and objectivity

- 23 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.
- 24 With regards to the exception noted above, a member of the Financial Audit team's family is a member of the Pension Fund. We have taken appropriate steps to ensure that the team member has not been involved in any work that could compromise her independence.
- 25 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 Council 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

27 September 2017

### Representations regarding the 2016-17 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 2017 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 2016-17; 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
  - unrestricted access to 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 any 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 Flintshire County Council on 27 September 2017.

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 Brian Lloyd  
Chair of Flintshire County Council

27 September 2017

27 September 2017

# Appendix 2

## Summary of corrections made to the draft financial statements which should be drawn to the attention of Flintshire County Council

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.

Nature of correction	Reason for correction	Impact
<p><b>Note 3 'Expenses Borne by the Fund – Fund Management Fees'</b> table was amended as follows:</p> <p><b>Oversight &amp; Governance</b></p> <ul style="list-style-type: none"> <li>'Supplies &amp; Services' from £1,000 to £58,000.</li> <li>'Consultancy &amp; Actuarial' from £1,272,000 to £1,226,000.</li> <li>An additional 'Miscellaneous' category was included for £11,000.</li> </ul> <p><b>Investment Management fees</b></p> <ul style="list-style-type: none"> <li>'Net Fund Management Fees' from £12,904,000 to £14,386,000.</li> </ul> <p><b>Administration Expenses</b></p> <ul style="list-style-type: none"> <li>'Supplies &amp; Services' from £773,000 to £365,000.</li> </ul>	<p>The 'Net Fund Management Fees' disclosed in the Pension Fund Account was understated by £1,482,000 as a number of fund manager fees were omitted in error in the supporting analysis.</p>	<p>An appropriate corresponding adjustment was included in the Pension Fund Account.</p>
<p><b>The table in Note 5 'Transactions and Returns on Investments'</b> was amended for the following:</p> <p><b>'Unrealised Gain/(Loss)'</b></p> <ul style="list-style-type: none"> <li>Property from £4,752,000 to £5,412,000.</li> <li>Infrastructure from £5,760,000 to £6,629,000.</li> <li>Timber from £4,443,000 to £4,579,000.</li> <li>Private equity from £9,996,000 to £11,085,000.</li> <li>Opportunistic from £1,265,000 to £1,320,000.</li> </ul>	<p>To ensure the unrealised gain/(loss) on investments disclosed reflected most up to date position.</p>	<p>Appropriate corresponding adjustments were included in the Clwyd Pension Fund Account, the Net Assets Statement and corresponding notes as summarised:</p> <p>The amendments increased the unrealised gain by £2,809,000.</p>

Nature of correction	Reason for correction	Impact
<p><b>‘Market Value 2016/17’</b></p> <ul style="list-style-type: none"> <li>• ‘Property’ from £114,054,000 to £114,714,000.</li> <li>• ‘Infrastructure’ from £30,892,000 to £31,761,000.</li> <li>• ‘Timber &amp; Agriculture’ from £28,967,000 to £29,103,000.</li> <li>• ‘Private Equity’ from £151,334,000 to £154,423,000.</li> <li>• ‘Opportunistic’ from £17,911,000 to £17,966,000.</li> </ul> <p><b>‘Investment Income’</b></p> <ul style="list-style-type: none"> <li>• ‘Property’ from £1,676,000 to £2,501,000.</li> <li>• ‘Infrastructure’ from £725,000 to £1,584,000.</li> <li>• ‘Private Equity’ from £5,000 to £2,537,000.</li> <li>• ‘Opportunistic’ from £564,000 to £669,000.</li> </ul> <p><b>‘Fees within pooled vehicles – Unrealised gains/(loss)’</b> from £10,046,000 to £7,176,000.</p>	<p>To ensure the market value of investment disclosed in Note 5 reflected the most up to date valuations.</p> <p>The investment income in Note 5 did not agree with the general ledger. As a consequence investment income was incorrectly classified as and in ‘Change in Market Value of Investments’.</p> <p>To ensure the fees within pooled vehicles agreed to supporting records.</p>	<p>The amendments increased the market value of investments by £2,809,000.</p> <p>The amendment increased ‘investment income’.</p> <p>The amendment decreased the unrealised gain by a corresponding amount.</p>
<p><b>Note 7 ‘Fair Value of Investments - Fixed Interest Securities’</b> amounting to £198,621,000 in the hierarchy table analysing the Fund’s assets was amended from ‘Level 1’ to ‘Level 2’.</p>	<p>The hierarchy analysis of the Fund’s assets at 31 March 2017 was amended as it did not agree to the Pension Fund’s supporting working paper.</p>	<p>No other impact upon the financial statements. Presentational disclosure only.</p>



## Appendix 3

### Recommendations arising from our 2016-17 financial audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

<b>Matter arising 1 – Reconciliation of lumps sums and death benefit pension payments</b>	
<b>Findings</b>	Monthly reconciliations of the transactions relating to lump sums and death benefit pension payments between the financial ledger and the pensions administration system are performed. Whilst progress has been made in reconciling the differences in the reconciliations, Internal Audit have identified a number of differences that had not been explained or corrected.
<b>Priority</b>	High
<b>Recommendation</b>	The Pension Fund to fully reconcile the monthly reconciliation of transactions relating to lump sums and death benefit payments, ensuring any differences are corrected.
<b>Benefits of implementing the recommendation</b>	To ensure that transactions are both accurate and complete.
<b>Accepted in full by management</b>	Yes
<b>Management response</b>	The differences identified have now been explained and corrected
<b>Implementation date</b>	-

Wales Audit Office  
24 Cathedral Road  
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone.: 029 2032 0660

E-mail: [info@audit.wales](mailto:info@audit.wales)

Website: [www.audit.wales](http://www.audit.wales)

Swyddfa Archwilio Cymru  
24 Heol y Gadeirlan  
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: [post@archwilio.cymru](mailto:post@archwilio.cymru)

Gwefan: [www.archwilio.cymru](http://www.archwilio.cymru)

# Eitem ar gyfer y Rhaglen 7



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 September 2017
<b>Report Subject</b>	Governance Update
<b>Report Author</b>	Pensions Finance Manager

### EXECUTIVE SUMMARY

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

- (a) Business Plan 2017/18 update (Appendix 1).
- (b) Current Developments including an update on the development of the National Scheme Advisory Board's Investment Cost Code of Transparency.
- (c) Governance related policy/strategy implementation and monitoring including the latest Internal Audit report (Appendix 6) details of future events that Committee members should consider (Appendix 2) and training undertaken (Appendix 5)
- (d) Calendar of future events (Appendix 3)

It also provides a summary of the key governance elements in the current risk register (Appendix 4), with some of the key areas of concern being associated with asset pooling and resourcing.

### RECOMMENDATIONS

1	That the Committee considers the update and provide any comments.
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## REPORT DETAILS

1.00	<b>GOVERNANCE RELATED MATTERS</b>
1.01	<p><b>Business Plan 2017/18 Update</b></p> <p>Appendix 1 provides a summary of progress against the governance section of the Business Plan up to the end of quarter ending 30 June 2017. There is only one task for this quarter which is the induction training for the Committee and which is progressing as originally planned.</p>
1.02	<p>Appendix 1 also includes progress against the projected cash flows and budgeted operating costs for 2017/18. Whilst at an early stage of the financial year the Committee is asked to note the following:</p> <ul style="list-style-type: none"> <li>• Pooling (Additional Costs) is shown against both Governance Expenses and Investment Management Expenses. However, as the Pool Operator is yet to be appointed and work regarding hosting is in development, we do not yet have an indication of the likely costs for this year although they are generally relating to the establishment of the Pool which will only become operational from the 1<sup>st</sup> April 2018.</li> <li>• The Administration Budget has been adjusted for the full year aggregation project budget increase and a part year increase to the projected full year expenditure. This is explained further within Agenda item 9.</li> </ul>
1.03	<p>The Committee is asked to note the contents of the business plan update.</p>
1.04	<p><b>Current Developments and News</b></p> <p><i>National Scheme Advisory Board Update:</i></p> <p>Investment costs – Code of Transparency. As previously reported to Committee (16<sup>th</sup> February 2017), the SAB is working to develop a voluntary code of transparency a key element of which is a template for use by LGPS asset managers. This is to aid funds to better comply with the accounting standards and the pools to be able to produce transparent costs. The initial template is designed to cover the listed markets of equities, bonds and pooled funds and has now been formally launched. Of our managers for which this applies Investec and Pyrford are listed as having signed up to the Code whilst Stone Harbor have agreed to sign up this month. Further information regarding the Code can be viewed at:</p> <p><a href="http://www.lgpsboard.org/index.php/structure-reform/cost-transparency">http://www.lgpsboard.org/index.php/structure-reform/cost-transparency</a></p>
1.05	<p><i>Local Pension Board Update –The minutes of the Board held on the 27<sup>th</sup> July are not yet agreed by Board members, and when agreement is received, they will be circulated to Committee members. In the meantime, the main points discussed are summarised below:</i></p> <ul style="list-style-type: none"> <li>• CIPFA – Pension Boards 2 Year On Event. This was attended by the Chair and Mr Owen on behalf of the Board. Key issues raised included cybercrime, General Data Protection Regulations, SAB Code on Cost Transparency and the annual benefit statements. Attending the event</li> </ul>

	<p>was viewed as beneficial.</p> <ul style="list-style-type: none"> <li>• Disaster Recovery – An update was provided on the progress made on preparing the Administration team for a disaster recovery test that would include the unavailability of the team office. Preparing for this had necessitated in the purchase of some additional equipment.</li> <li>• TPR Administration and Governance Survey – The summary results of the survey undertaken by the TPR were shared with the Board. Whilst there are going to be differences in the interpretation of some of the questions asked by the TPR there was a national concern regarding data quality although how you measure this is challenging. The Board agreed to include data quality as a future work plan item due to the work being undertaken by the Fund on this matter e.g. iConnect and the backlog project.</li> <li>• SAB Pension Board Survey – The Survey, which had been completed on behalf of the Board by the Chair, was discussed and whilst it was considered that additional work was necessary in some areas, including Breaches, the Board felt that the results in relation to the Clwyd Pension Fund Board were positive. Once the overall results are available from the SAB these will be shared with both the Committee and Board.</li> <li>• TPR Code of Practice – Compliance Check - The Board undertook a preliminary view of the updated TPR Checklist, which is discussed elsewhere on the Agenda (See Agenda item 5), concentrating on items that were red or yellow. It was agreed that this item would be included on the work plan for the next meeting. It was also agreed that the Chair would develop a draft of a questionnaire/self-assessment training needs analysis and the Board Secretary agreed to ensure the IDRPs leaflet was updated. These would result in B10 and I2, which are currently red, changing to green.</li> <li>• AVC Review – default fund. The view of the Board was sought regarding a change by the Fund in that a default fund would no longer be offered by the AVC provider. The Board were in broad agreement with this change and also agreed to review the take up of AVCs after around 18 months following this change to determine any impact.</li> <li>• Asset Pooling – an update was given by the Clwyd Pension Fund Manager following the inaugural Joint Governing Committee. The Board requested that the Clwyd Pension Fund Manager feeds back to the Wales pool to ensure that the work plan includes developing the pool's business plan. Additionally, they requested that JGC meetings papers and minutes (insofar as they are public) should be a regular standard item at Board meetings.</li> <li>• Administration – A presentation was given on the work undertaken regarding key performance indicators, GMP reconciliation project, progress regarding the annual benefit statement and the number of cases referred to the Employer Liaison Team.</li> <li>• Compliments and Complaints – an anonymised log was shared with the Board who were pleased to see the number of compliments received. Whilst two complaints referred to the amount of time taken to resolve them it was clarified that these were particularly complex cases delayed by changes to the regulations and the delay in instructions being released by the Government's Actuary Department.</li> </ul>
1.06	<p><i>AVC – update.</i> The AVC review was reported to the March 2017 Committee where it was agreed to delegate implementation to officers. Following a</p>

	<p>review that included advice from Mercer and discussion with the Pension Board the decision was taken by the Clwyd Pension Fund Manager that a default fund would no longer be part of the funds offered by the AVC provider Prudential. These amendments will take effect from the 1<sup>st</sup> November with a launch at the Fund's Annual Employer Meeting on the 14<sup>th</sup> November (morning session). A communication plan is being put together and updated information concerning current investment options will be provided to scheme members.</p>
1.07	<p><i>GDPR and Cybercrime</i> – Both these items were included on the agenda of the Advisory Panel (30<sup>th</sup> August). It was agreed to develop an action plan on how to deal with these matters and further information will be provided at future meetings.</p>
	<p><b>Policy and Strategy Implementation and Monitoring</b></p>
1.08	<p><i>Internal Audit Report</i> - A routine annual audit was undertaken of Pensions Investments, Management and Accounting (Appendix 6) during the final quarter of 2016/17. An audit opinion is issued on a scale red to green, with green being substantial assurance. This audit resulted in an amber green (reasonable assurance) opinion being given.</p> <p>The audit identified that, whilst key controls are in place, and generally operating effectively, some fine tuning is required. Key controls exist but some refinement or addition would enhance the control environment enabling key objectives to be better achieved with some relatively minor adjustments. There was no evidence of any significant impact.</p> <p>In total, four medium priority action and four low priority actions were identified. These are detailed in the report and remedial actions have been agreed with management. Internal Audit found that all other areas within the scope of their audit were well managed.</p>
1.09	<p><i>Training Policy</i> – The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to</p> <ul style="list-style-type: none"> <li>• have training on the key elements identified in the CIPFA Knowledge and Skills Framework</li> <li>• attend training sessions relevant to forthcoming business</li> <li>• attend at least one day each year of general awareness training or events.</li> </ul>
1.10	<p>Appendix 5 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training.</p>
1.11	<p>Appendix 5 also includes training and various external events attended by Committee Members, Pension Board members and Senior Officers during 2017/18 as well as The Pension Regulator modules undertaken. Appendix 3 includes details of all future training planned including forthcoming events considered suitable for general awareness training.</p>
1.12	<p><i>Recording and Reporting Breaches Procedure</i> – 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.</p>

	Whilst breaches have been identified since the last Committee information is still being gathered to enable it to be fully recorded. An updated extracts of the breaches register will be provided to the Committee at the meeting on the 20 <sup>th</sup> September.
1.13	<p><b>Delegated Responsibilities</b></p> <p>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.</p>
1.14	<p><b>Calendar of Future Events</b></p> <p>Appendix 2 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. Please note that the Fund's Employer and Annual Joint Consultative Meetings will be held on the 14<sup>th</sup> November with the morning focused on employer and administration matters and the afternoon on governance and investments (including some focus on environmental, social and governance matters as they relate to investments). All Committee and Board members are encouraged to attend this meeting.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.

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

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>Appendix 4 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:</p> <ul style="list-style-type: none"> <li>• potentially insufficient resource, which puts a risk on us being able to deliver our legal and policy objectives, and</li> <li>• 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.</li> </ul>

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - 2017/18 Business plan update

Appendix 2 - Calendar of events Appendix 3 - Training Plan Appendix 4 - Risk register update Appendix 5 - Training undertaken Appendix 6 - Internal Audit Report
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<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Report to Pension Fund Committee – Business Plan 2017/18 to 2019/20 – 21 March 2017  <b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager <b>Telephone:</b> 01352 702264 <b>E-mail:</b> philip.latham@flintshire.gov.uk

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>CPF – Clwyd Pension Fund</b> – 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</p> <p>(b) <b>Administering authority or scheme manager</b> – 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.</p> <p>(c) <b>PFC – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>LPB or PB – Local Pension Board or Pension Board</b> – 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.</p> <p>(e) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(f) <b>AVC</b> – Additional Voluntary Contributions made by pension fund members to enhance their retirement (investments value can rise or fall) to Prudential who are the Fund’s AVC provider.</p> <p>(g) <b>GDPR</b> – The General Data Protection Regulation was introduced to strengthen and unify data protection for all individuals within the European Union.</p> <p>(h) <b>Cybercrime</b> – criminal activities carried out by means of computers or the internet.</p>



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| <ul style="list-style-type: none"><li>(i) <b>iConnect</b> – an interface between an employer’s payroll system and the pension administration system that facilitates the upload of data.</li><li>(j) <b>GMP</b> – Guaranteed Minimum Pension – protects you and ensures that a person’s pension value is not below a certain value determined by the Directorate of Works and Pension. Applies only to those people contracted out between 6 April 1978 and 5 April 1997.</li><li>(k) <b>TPR – The Pensions Regulator</b> – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF.</li><li>(l) <b>SAB – The national Scheme Advisory Board</b> – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG.</li><li>(m) <b>DCLG – Department of Communities and Local Government – the government department responsible for the LGPS legislation.</b></li></ul> |
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# Business Plan 2017/8 to 2019/20 – Q1 Update

## Governance

### Budget

All the costs associated with the management of the Fund are a charge to the Fund and not to the Council. Actual 2017/18 figures are to end of Quarter 1 (2017).

### Cashflows projections for 2017/18

	2015/16 £000s	2016/17 £000s	2017/18 £000s			
	Actual	Actual	Budget	Actual	Projected for full year	Final under/over
<b>Opening Cash</b>	(43,735)	(13,640)	(13,623)	(13,623)		
<b>Payments</b>						
Pensions	52,932	54,684	55,860	14,005	56,500	640
Lump Sums & Death Grants	14,906	14,857	15,000	3,193	14,443	(557)
Transfers Out	5,889	5,473	3,200	2,396	4,796	1,596
Expenses	4,881	3,001	3,400	1,008	3,558	158
Support Services	167	300	120	0	120	0
<b>Total Payments</b>	<b>78,775</b>	<b>78,315</b>	<b>77,580</b>	<b>20,602</b>	<b>79,417</b>	<b>1,837</b>
<b>Income</b>						
Employer Contributions	(30,506)	(32,787)	(34,100)	(14,873)	(35,473)	(1,373)
Employee Contributions	(14,535)	(13,779)	(14,000)	(2,926)	(13,426)	574
Employer Deficit Payments	(27,872)	(28,474)	(51,784)	(51,508)	(52,192)	(408)
Transfers In	(1,791)	(2,540)	(2,000)	(1,853)	(3,353)	(1,353)
Pension Strain	(3,204)	(2,282)	(1,200)	(7)	(907)	293
Income	(74)	(146)	(100)	(4)	(79)	21
<b>Total Income</b>	<b>(77,982)</b>	<b>(80,008)</b>	<b>(103,184)</b>	<b>(71,171)</b>	<b>(105,430)</b>	<b>(2,246)</b>
<b>Cashflow Net of Investment Income</b>	<b>793</b>	<b>(1,693)</b>	<b>(25,604)</b>	<b>(50,569)</b>	<b>(26,013)</b>	<b>(409)</b>
Investment Income	(2,497)	(3,019)	(3,000)	(979)	(3,229)	(229)
Investment Expenses		2,991	3,000	477	2,727	(273)
<b>Total Net of In House Investments</b>	<b>(1,704)</b>	<b>(1,721)</b>	<b>(25,604)</b>	<b>(51,071)</b>	<b>(26,515)</b>	<b>(911)</b>
<b>In House Investments</b>						
Draw downs	34,021	45,146	47,008	17,919	64,101	17,093
Distributions	(64,836)	(56,614)	(77,834)	(9,665)	(63,722)	14,112
<b>Net Expenditure /(Income)</b>	<b>(30,815)</b>	<b>(11,468)</b>	<b>(30,826)</b>	<b>8,254</b>	<b>379</b>	<b>31,205</b>
<b>Total Net Cash Flow</b>	<b>(32,519)</b>	<b>(13,189)</b>	<b>(56,430)</b>	<b>(42,817)</b>	<b>(26,136)</b>	<b>30,294</b>
Rebalancing Portfolio	62,614	13,206	40,000	(266)	40,000	0
<b>Total Cash Flow</b>	<b>30,095</b>	<b>17</b>	<b>(16,430)</b>	<b>(43,083)</b>	<b>13,864</b>	
<b>Closing Cash</b>	<b>(13,640)</b>	<b>(13,623)</b>	<b>(30,053)</b>	<b>(56,706)</b>	<b>241</b>	

## Operating Costs

	2015/16	2016/17	2017/18			
	Actual	Actual	Budget	Actual	Projected for full year	Projected under/over
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Governance Expenses</b>						
Employee Costs (Direct)	225	236	238	60	238	0
Support & Services Costs (Internal Recharges)	12	17	8	0	8	0
Premises	8	5	7	0	7	0
IT (Support & Services)	11	4	9	0	9	0
Other Supplies & Services)	54	58	50	0	50	0
Miscellaneous Income	0	(11)	0	0	0	0
Audit Fees	39	39	40	(16)	40	0
Actuarial Fees	222	335	202	0	202	0
Consultant Fees	371	703	399	90	399	0
Advisor Fees	225	188	187	11	187	0
Legal Fees	35	59	40	1	40	0
Pooling (Additional Costs)				6	6	6
<b>Total Governance Expenses</b>	<b>1,202</b>	<b>1,633</b>	<b>1,180</b>	<b>152</b>	<b>1,186</b>	<b>6</b>
<b>Investment Management Expenses</b>						
Fund Manager Fees*	14,971	14,386	11,878	109	14,386	2,508
Custody Fees	28	31	34	2	34	0
Performance Monitoring Fees	30	57	58	14	58	0
Pooling (Additional Costs)				0	n/k	n/k
<b>Total Investment Management Expenses</b>	<b>15,029</b>	<b>14,474</b>	<b>11,970</b>	<b>125</b>	<b>14,478</b>	<b>2,508</b>
<b>Administration Expenses</b>						
Employee Costs (Direct)	603	648	776	159	768	0
Support & Services Costs (Internal Recharges)	46	94	42	0	42	0
Outsourcing	404	260	900	25	900	0
Premises	33	6	33	0	33	0
IT (Support & Services)	243	290	250	244	250	0
Member Self Service	0	0	75	37	75	0
Other Supplies & Services)	61	70	70	0	70	0
Miscellaneous Income	0	0	0	0	0	0
<b>Total Administration Expenses</b>	<b>1,390</b>	<b>1,368</b>	<b>2,146</b>	<b>465</b>	<b>2,138</b>	<b>0</b>
<b>Employer Liaison Team</b>						
Employee Costs (Direct)			144	32	144	0
<b>Total Costs</b>	<b>17,621</b>	<b>17,475</b>	<b>15,440</b>	<b>774</b>	<b>17,946</b>	<b>2,514</b>

## 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	2017/18 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
G1	Induction and refresher training for PFC	x	x				

## Governance Task Descriptions

### G1 – Induction Training for PC

#### What is it?

The Fund's Training Policy details how the Fund will ensure that training is delivered, and how the required training is identified for each member of both the Clwyd Pension Committee and the Pension Board. Ongoing training to meet the requirements of this policy will take place. Although there is expected change at a minimal level with the PFC, Pension Board and officers, the Council elections in May 2017 could result in significant changes to membership, in which case intensive induction training will be required.

#### Timescales and Stages

Source and ensure delivery of induction training

2017/18 Q1/2

#### Resource and Budget Implications

Training requirements to be determined by Pension Fund Manager with assistance from the Independent Adviser. Other advisers and external sources may be used for delivering training. There will be external adviser costs associated with this exercise which are incorporated into the 2017/18 budget.

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## CLWYD PENSION FUND - CALENDAR OF EVENTS APRIL 2017 ONWARDS

Month	Date	Day	Committee	Training
<b>2017</b>				
<b>May</b>	15-17	Mon - Wed		PLSA Local Authority Conference
<b>June</b>	23 Jun	Fri	10AM - 1PM	
	27 Jun	Tue		
	28 Jun	Wed		CIPFA and Barnett Waddingham: Local Pension Boards - Two Years On...
	29 Jun	Thu		
	29-30 Jun	Thur - Fri		LGA Trustee Conference
<b>July</b>	19 Jul	Wed		Day 1 Induction/ Refresher - Governance
	27 Jul	Thu		
<b>September</b>	05 Sep	Tue		Day 2 Induction/ Refresher Training - Administration
	6-8	Wed-Fri		LGC Investment Summit
	14 Sep	Thu		Day 3 Induction/ Refresher Training - Investments
<b>October</b>	03 Oct	Tue		CIPFA Pensions Workshop
<b>November</b>	02 Nov	Thu		
	08 Nov	Wed		CIPFA Local Board Event
	14 Nov	Tue	Employer Meeting/ Annual Meeting	
	29 Nov	Wed	10AM - 1PM	
<b>December</b>	6-8	Wed-Fri		LAPFF
<b>2018</b>				
<b>February</b>	21 Feb	Wed	Special Committee 10AM- 1PM	
	27 Feb	Tue		
<b>March</b>	21 Mar	Wed	2PM - 5PM	

Pension Board	Location
	Gloucestershire
	County Hall
1.30PM - 4.30PM	County Hall
	London
	Cttee Rm 4, City Hall, Cardiff
	Bournemouth
	Northop College
County Hall am	
	Northop College (Rm G22)
	Newport
	Northop College (Rm G20)
	Cardiff
9.30AM - 12.30PM	County Hall Cardiff
Employer Meeting/ Annual Meeting	County Hall
	County Hall
	Bournemouth
	County Hall
9.30AM - 12.30PM	County Hall
	County Hall



## Clwyd Pension Fund

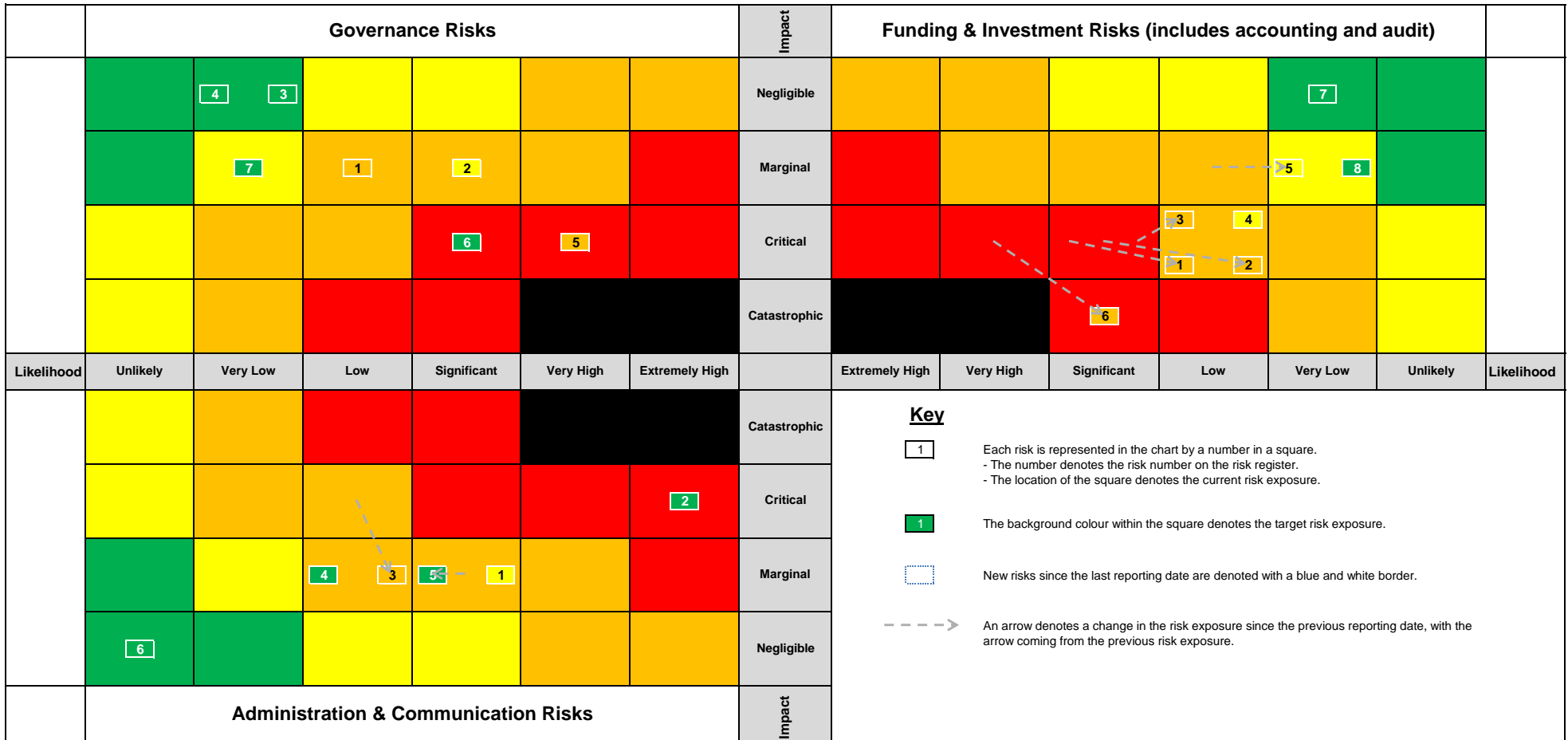
### Training Plan 2017/18 - as at 13 September 2017

Title of session	Training Content	Timescale	Training Length	Audience	Complete
PLSA Local Authority Conference, Gloucestershire	tbc	15-17/05/2017	2 days	Committee, Pensions Board and Officers	Y
CIPFA and Barnett Waddingham: Local Pension Boards - Two Years On...	Update by key players together with a focus on the Scheme's financial viability and the problem of managing data.	28/06/2017	1 day	Pensions Board	Y
Day 1 Induction/ Refresher training	DAY 1: Governance including Freedom of Information	19/07/2017	1 days	Committee, Pensions Board and Officers	Y
LGA Annual Conference, Birmingham	Various topical presentations including pooling, cost control and the potential impact of European legislation.	04-06/07/2017	2 day	Committee, Pensions Board and Officers	Y
Day 2 Induction/ Refresher training	Administration and Communication Training	05/09/2017	1 day	Committee, Pensions Board and Officers	Y
LGC Investment Summit, Newport	Various topical presentations. Agenda not yet available.	6-8/09/2017	1.5 days	Committee, Pensions Board and Officers	Y
Day 3 Induction/ Refresher training	Investments	14/09/2017	1 day	Committee, Pensions Board and Officers	Y
Employer Risk Management	Employer Risk Management including the monitoring framework (employer covenant, funding and protections)	20/09/2017	Before Cttee	Committee, Pensions Board and Officers	
CIPFA Pensions Workshop - Governance in a Changing Environment	Updates on topical issues including Governance, Legal Issues (MiFID II and Data Protection), Pension Boards, National LGPS Framework	03/10/2017	1 day	Committee, Pensions Board and Officers	
Fund Employer/ Annual General Meeting	Various	14/11/2017	1 day	Committee, Pensions Board and Officers	
CIPFA Local Board event	n/k	08/11/2017	1 day	Pensions Board and Officers	
LAPFF, Bournemouth	Various topical presentations around the work of the LAPFF	6-8/12/2016	2	Committee, Officer	
TPR Toolkit - public sector modules	To be covered at a future committee meeting		Before Cttee	Committee, Officer	

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All Fund Risk Heat Map and Summary of Governance Risks

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**Clwd 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 Clwd 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 Clwd 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.

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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?	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
1	Losses or other detrimental 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	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	Low	☺	None	CPFM	30/09/2017	13/04/2017	Marginal	Low	Low	
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	Marginal	Significant	High	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 - 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	High	☹	Current impact 1 too high Current likelihood 1 too high	CPFM	31/07/2017	13/04/2017	Marginal	Significant	High	
3	Our legal 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	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	Low	☺		CPFM	30/09/2017	13/04/2017	Negligible	Very Low	Low	
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low	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	Low	☺	Current likelihood 1 too high	Pension Finance Managers	30/06/2017	13/04/2017	Negligible	Very Low	Low	
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such as scheme change and asset pooling	G1 / G4 / G6 / G7	Critical	Very High	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 identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IJA in place 6 - Officers on Wales Pool OWG	Marginal	Low	High	☹	Current impact 1 too high Current likelihood 2 too high	CPFM	31/07/2017	13/04/2017	Critical	Very High	High	
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	Significant	High	1 - 2017/18 business plan identifies key officer risk 2 - Review of admin structure in 2015/16 3 - Quarterly update reports consider resourcing matters 4 - Advisory Panel provide back up when required 5 - Additional resources, such as outsourcing, considered as part of business plan	Negligible	Very Low	High	☹	Current impact 2 too high Current likelihood 2 too high	CPFM	30/09/2017	13/04/2017	Critical	Significant	High	
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	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	Low	☹	Current impact 1 too high	CPFM	30/09/2017	13/04/2017	Marginal	Very Low	Low	

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	S Hibbert
<b>Committees (3hrs)</b>								
June 2017	✓	✓	✓	✓	✓	✓		
September 2017								
November 2017								
Special Committee February 2018								
March 2018								
<b>CIPFA Framework Requirements 2017/18 – 2019/20</b>								
Governance (1 day)	✓	✓	✓	✓	✓	✓		✓
Administration (1 day)	✓	✓	✓	✓	✓	✓		✓
Funding & Actuarial (1 day)	✓	✓		✓	✓	✓		✓
Investments (1 day)								
Accounting								
<b>Additional Training &amp; Hot Topics</b>								
Employer Risk Management								
<b>Pensions Regulator Modules</b>								
Conflicts of Interest							✓	✓
Managing Risk & Internal Controls								✓
Maintaining Accurate Member Data								✓
Maintaining Contributions								✓

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	S Hibbert
Providing Information to Members & Others								✓
Resolving Disputes								✓
Reporting Breaches								✓
<b>Conferences (Restricted spaces)</b>								
PLSA 16-18 May 2016								
LGA Trustee Conf. Bournemouth (1.5 days) June 2017								
LGC Investment Summit (1.5 days) Sept 2017	✓	✓						✓
LAPFF Annual Conference (1.5 days) Dec 2017								
LGC Seminar (1.5 days) March 2018								

# Flintshire Internal Audit

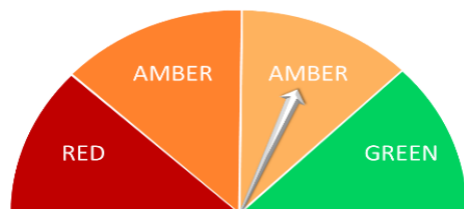
# Audit Report

**Title:** CPF - Investments, Management & Accounting  
**Portfolio:** External  
**Issued Dated:** August 2017  
**Report No:** 47-2016/17  
**Report Status:** Final

Internal Audit engagements are conducted in conformance with the Public Sector Internal Audit Standards.

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## Audit Opinion



# 1. Executive Summary:

## Introduction and Scope:

An audit of Pensions Investment Management and Accounting was undertaken as part of the approved Internal Audit Annual Plan for 2016/17.

The value of the Clwyd Pension Fund as at 31st December 2016 was £1.6bn. The Actuarial Valuation at 31st March 2016 estimated the funding level at 76% equating to a funding deficit of £437m with a predicted level of 80% funding by 31st March 2019. The funding level at the end of January 2017 however was estimated at 84% well ahead of predictions and at the funds' highest since 1991.

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The Fund's investment strategy has been designed to provide an appropriate trade-off between risk and return in Equity Risk, Interest Rate Risk and Inflation Risk. As part of the Actuarial Valuation Process, the Fund's investment strategy was reviewed and agreed by the Clwyd Pension Fund Committee in September 2016. A number of small changes were recommended by Jardine Lloyd Thompson (JLT), the fund's investment consultant in order which have been acted on. Progress in implementing agreed changes has been made and these have been reported to the Clwyd Pension Fund Committee.

One of the biggest challenges in the current year has been to progress the move to a Wales Pool in which eight pension funds in Wales with a combined £15bn of assets, are required to pool investments by April 2018. The move has been mandated by the UK Government and will mean that the fund manager appointments will be delegated to the selected Pool Operator. In addition to reducing costs through joint governance arrangements, the arrangement will also allow the Welsh Pension Fund administrators to share knowledge and best practice. The overall ambition for the Pool is 'to create appropriate vehicles for collective investment for all participating funds across all asset classes in time'. Administering authorities will however retain control over setting the investment strategy and detailed asset allocation for their individual funds. The Clwyd Pension Fund has been fully engaged with the project for asset pooling and this has taken up resource time due to the

## Audit Opinion:

In each report we provide management with an overall assurance opinion on how effectively risks are being managed within the area reviewed. Appendix A of the report details our assurance levels:

Assurance:	Explanation
Amber Green - Reasonable	Reasonable Assurance – Key Controls in place but some fine tuning required
	•Key controls exist but there are weaknesses and/or inconsistencies in application though no evidence of any significant impact
	•Some refinement or addition of controls would enhance the control environment
	•Key objective could be better achieved with some relatively minor adjustments
	Conclusion: key controls generally operating effectively.

The table below highlights the number and priority of agreed actions to be implemented.

Priority	High (Red)	Medium (Amber)	Low (Green)	Total
No.	0	4	4	8



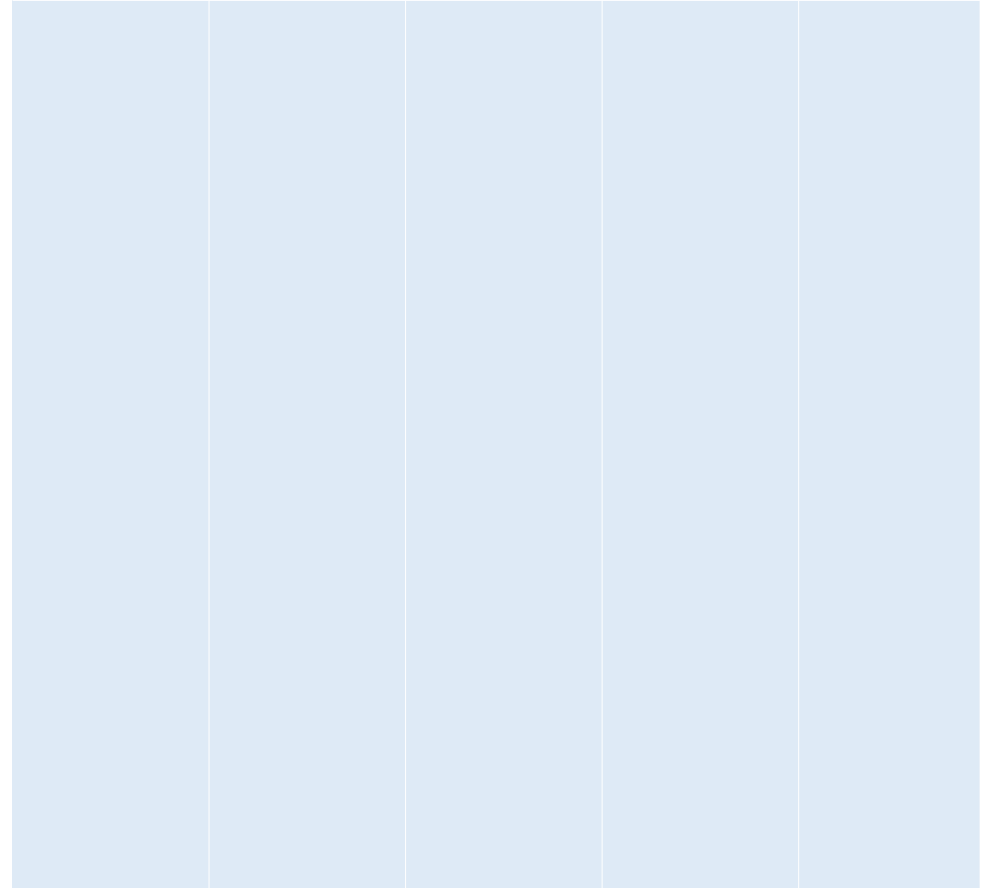
relatively short timescales set by central government.

The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Shorter term tactical decisions are made by the Tactical Asset Allocation Group (TAAG). This is represented by the Pension Fund Manager, a Pensions Finance Manager and Investment Consultant. The minutes of the meetings are sent to the Advisory Panel for scrutiny. The Funding and Risk Management Group has also been established represented by the same members as TAAG plus the Fund's Actuary and meet on an ad hoc basis.

At the time of the review the Clwyd Pension Fund was over performing on targets and benchmarks set but this is being primarily driven by the over performance of the In-House Portfolios.

This review has focused on the adequacy and controls relating to:

- Fund strategy changes;
- Oversight of the Liability Driven Investment Strategy and Mercers independent assurance of the LDI Mandate;
- Appointment of new Fund Managers;
- The administration of the Fund's Bank Account and reconciliation; and
- The Fund's Investment Strategy Statement and compliance with regulations.



## 2. Summary Findings:

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Areas Managed Well	Areas for Further improvement
<ul style="list-style-type: none"> <li>• Regular monitoring of the Fund is undertaken by Mercers and the Investment Consultant Jardine Lloyd Thompson (JLT) and reported to the Clwyd Pension Fund Committee.</li> <li>• Monthly and quarterly monitoring undertaken by Mercers demonstrates compliance against the Liability Driven Investment (LDI) mandate.</li> <li>• The Hedging Strategy is compliant with CIPFA guidance.</li> <li>• Due diligence is undertaken with regard to Audit and Assurance Faculty (AAF) reports.</li> <li>• Any issues arising from the Actuarial Valuation are acted upon.</li> </ul>	<ul style="list-style-type: none"> <li>• Supporting documentation and scoring mechanism to assist with the validation of the scores submitted in the fund manager selection process was not readily available.</li> <li>• Training Needs Analyses have not been developed and undertaken for committee and pension board members.</li> <li>• There is potential for single points of failure relating to the delivery of the service due to the size of the team and specific role profiles.</li> <li>• The Clwyd Pension Fund bank account reconciliation procedures are not comprehensive and are out of date.</li> <li>• The Clwyd Pension Fund has not applied to be a signatory to the Stewardship Code as advised by regulation.</li> <li>• Evidence of the meeting of individual fund managers and the Clwyd Pension Fund Finance Manager to discuss performance is not available.</li> <li>• Definitions of risks within the Risk Register do not match those listed in the risk matrix.</li> <li>• The current risk register does not highlight when risks fall outside of appetite and when they are expected to be within the target set.</li> </ul>

### 3. Action Plan:

Priority	Description
High (Red)	Action is imperative to ensure that the objectives of the area under review are met.
Medium (Amber)	Requires action to avoid exposure to significant risks in achieving the objectives of the area.
Low (Green)	Action encouraged to enhance control or improve operational efficiency.

No.	Findings and Implications	Agreed Action	Who	When
1 (A)	<p>The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to:</p> <ul style="list-style-type: none"> <li>•Have training on the key elements identified in the CIPFA Knowledge and Skills Framework.</li> <li>•Attend training sessions relevant to forthcoming business.</li> <li>•Attend at least one day each year of general awareness training or events.</li> </ul> <p>The Chartered Institute of Public Finance and Accounting (CIPFA) has developed a technical knowledge and skills framework which is intended as a tool for pension funds to determine whether they have the right skill mix to meet their scheme financial management needs and an assessment tool for individuals to measure their progress and plan their development. Pension Board members also have certain legal requirements under the Pensions Regulator Code of Practice No 14. Members themselves under the Code of Practice should:</p> <ul style="list-style-type: none"> <li>•invest sufficient time in their learning and development</li> <li>• be aware of their responsibilities and duties from the date they take up their post.</li> <li>•undertake a personal training needs analysis and review their skills to identify gaps.</li> <li>•use a personalised training plan to document training needs.</li> <li>•gain appropriate knowledge to fulfil their role if taken on</li> </ul>	<p>A Training Needs Analysis will be developed for all members and this will form part of the Business Plan 2018/19.</p> <p>URN 01939</p>	Phil Latham	31/03/2018

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No.	Findings and Implications	Agreed Action	Who	When
	<p>new responsibilities.</p> <p>We looked at the training undertaken by the Committee and Pension Board members as reported to the Clwyd Pension Fund Committee in February 2017 and assessed this against the requirements and guidance as laid out by CIPFA in their Knowledge and Skills Framework and found this to be satisfactory. We noted however that individual Training Needs Analyses have not been undertaken.</p>			
Tudalen 172	<p>2 (A) Performance of the Clwyd Pension Fund is reported to the Clwyd Pension Fund Committee on a quarterly basis. Review of the Committee reports for the four quarters to 31/12/2016 identified a consistent under performance of the majority of the Investment Fund Managers against agreed target. In three out of the four quarters sampled, it was only some of the In-House funds that consistently exceeded their targets.</p> <p>In February 2017, it was reported at the Clwyd Pension Fund Committee that there were no concerns with any of the Fund's Investment Managers and that regular meetings are held with the managers to discuss individual mandates. From April 2017 JLT now produce an Annual Performance Monitoring Plan which sets out the timescales for the monitoring of the individual funds with outcomes reported to Committee.</p> <p>Investment Fund Manager performance is also measured against benchmarks and for the period ending March 2017 we noted from the Manager Performance Report at 31/03/2017, that two Investment Fund Managers that have consistently under-performed during the year, have also underperformed against their objective.</p>	<p>It is agreed that it would be appropriate to look at the underperforming Fund managers to ensure that the Clwyd Pension Fund is satisfied that it is utilising the most appropriate Fund managers to optimise returns on behalf of its members. However a decision has been made that since Asset Pooling is being implemented by April 2018, it would not be financially advantageous at this point to make any changes to the Investment Fund Managers.</p> <p>URN 01945</p>	Debbie Fielder	30/04/2018

No.	Findings and Implications	Agreed Action	Who	When
	<p>Although the overall fund is over performing, this is primarily driven by the over performance of the In-House portfolios. Evidence of feedback to under performing fund managers was not available during the review.</p> <p>It is also recognised that individual Pensions Committees will have less control over their Investment Fund Managers under Asset Pooling, however one of the key principles is that administering authorities will retain control over setting the investment strategy and detailed asset allocation for their individual funds.</p> <p>By considering changing certain Investment Fund Managers, the Clwyd Pension Fund may have the opportunity to have improved returns.</p>			
3 (A)	The documented procedure to facilitate the Clwyd Pension Fund bank accounts reconciliation is too high level and out of date. Additionally a formal sign off of the reconciliation is not always complete and evidence retained.	<p>The Clwyd Pension Fund Bank Account Reconciliation procedure to be updated as per current practices and to provide step by step instructions on how to facilitate the monthly reconciliation. Reconciliation to be reviewed and formal sign off to be provided by the pensions finance manager. Evidence of the review to be retained for audit purposes.</p> <p>URN 01942</p>	Alwyn Hughes	31/03/2018
4 (A)	Due to the size of the team and specific role profiles, there is an inherent risk for the potential for single points of failure relating to the delivery of the service. This could pose a risk of business continuity due to long term absence or attrition. There is no Operational Plan for the service delivery.	An Operational Plan will be devised to assign roles and responsibilities for the core functions within the Clwyd Pension Fund team. This will assist with the identification of single points of failure within the team. Individuals to be trained outside of their core role in order to facilitate the delivery of service in the event of long term absence or attrition. Succession planning will also be considered given the relative age of individuals completing these	Debbie Fielder	31/12/2017

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No.	Findings and Implications	Agreed Action	Who	When
		functions relative to retirement age. The Clwyd Pension Fund manager has arranged a meeting with the Chief Officer and HR to discuss succession planning. The current Business Plan includes key person risk.  URN 01943		
5 (G)	The current risk register does not highlight how long a specific risk has been outside of agreed tolerance. Additionally it is not clear when the actions to bring the risk back within agreed tolerance are due to be completed and by whom. This may pose a risk that there is a lack of accountability and any given risk may be outside of agreed tolerance for longer periods than originally expected.	Additional columns to be introduced to the current risk register to capture the following: <ul style="list-style-type: none"> <li>• month and year a risk has gone outside of agreed tolerance</li> <li>• dates when actions will be completed to bring risk within agreed tolerance</li> <li>• Individuals responsible for delivering agreed actions to assist with bringing risk within agreed tolerance</li> </ul> URN 01941	Phil Latham	30/09/2017
6 (G)	Inconsistencies have been identified in the assessment criteria for risk likelihood within the current pension fund risk register definitions. This may pose a risk that the committee may be misinformed relating to the current risk status of the Clwyd Pension Fund.	A review of the definitions within the risk register will be completed to ensure the detailed definition are aligned with those listed on the risk matrix.  URN 01978	Phil Latham	30/09/2017
7 (G)	Clwyd Pension Fund Officers did not request all the supporting documentation and scoring mechanism to assist with the validation of the scores submitted in the fund manager selection process.	Clwyd Pension Fund Officers will in future request and retain all supporting information and scoring mechanisms relating to new fund manager selections in order to facilitate a full audit trail of evidence.  URN 01929	Debbie Fielder	30/09/2017
8 (G)	The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force from 1st November 2016 and replaced the 2009 Investment Regulations.	The Clwyd Pension Fund will look to apply to be a signatory to the Stewardship Code.  URN 01940	Alwyn Hughes	31/03/2018

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No.	Findings and Implications	Agreed Action	Who	When
	<p>Regulation 7(1) of the new regulations require administering authorities to have an Investment Strategy Statement (ISS) which replaces the existing Statement of Investment Principles (SIP). The ISS must be published by 1st April 2017 and kept under review and revised at least every three years.</p> <p>The Council's first ISS was approved by the Clwyd Pension Fund Committee on 21st March 2017 and has been published on the CPF website.</p> <p>The ISS guidance states that administering authorities should become signatories to the Stewardship Code and state how they implement the seven principles and guidance of the Code. The Clwyd Pension Fund has implemented the seven principles and guidance of the code but has not as yet applied to become a signatory of the Stewardship Code as recommended by Regulation 7(2)(f).</p>			

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## 4. Distribution List:

Name	Title
Phil Latham	Accountable Officer Responsible for the Implementation of Agreed Actions
Colin Everett	Chief Executive
Phil Latham	Clwyd Pension Fund Manager
Debbie A Fielder	Pensions Finance Manager
Alwyn Hughes	Pensions Finance Manager

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## Appendix A - Audit Opinion:

The audit opinion is the level of assurance that Internal Audit can give to management and all other stakeholders on the adequacy and effectiveness of controls within the area audited. It is assessed following the completion of the audit and is based on the findings from the audit. Progress on the implementation of agreed actions will be monitored. Findings from **Some** or **Limited** assurance audits will be reported to the Audit Committee.

Assurance	Explanation
<b>Green - Substantial</b>	<p><b>Strong controls in place (all or most of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls exist and are applied consistently and effectively</li> <li>• Objectives achieved in a pragmatic and cost effective manner</li> <li>• Compliance with relevant regulations and procedures</li> <li>• Assets safeguarded</li> <li>• Information reliable</li> </ul> <p>Conclusion: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.</p>
<b>Amber Green - Reasonable</b>	<p><b>Key Controls in place but some fine tuning required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact</li> <li>• Some refinement or addition of controls would enhance the control environment</li> <li>• Key objectives could be better achieved with some relatively minor adjustments</li> </ul> <p>Conclusion: key controls generally operating effectively.</p>
<b>Amber Red - Some</b>	<p><b>Significant improvement in control environment required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively</li> <li>• Evidence of (or the potential for) financial / other loss</li> <li>• Key management information exists but is unreliable</li> <li>• System / process objectives are not being met, or are being met at an unnecessary cost or use of resources.</li> </ul> <p>Conclusion: key controls are generally inadequate or ineffective.</p>
<b>Red - Limited</b>	<p><b>Urgent system revision required (one or more of the following)</b></p> <ul style="list-style-type: none"> <li>• Key controls are absent or rarely applied</li> <li>• Evidence of (or the potential for) significant financial / other losses</li> <li>• Key management information does not exist</li> <li>• System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources.</li> </ul> <p>Conclusion: a lack of adequate or effective controls.</p>

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## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 September 2017
<b>Report Subject</b>	LGPS Current Issues
<b>Report Author</b>	Clwyd Pension Fund Manager

### EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the key issues affecting the LGPS as at September 2017 and makes recommendations for Members to review the update document found at Appendix 1 from Mercer covering many of the current ongoing issues, in particular:

- The latest news since the last Committee update in February including the landmark rulings on survivor's pensions, the section 13 data collection exercise, MIFID II and the possible removal of the public sector pay cap.
- Updates from the Scheme Advisory Board on tier 3 employers and the consultation on the Cross Pool Information Forum.
- Concerns from the Pensions Regulator on data security and discussion of their recently released publications which provides a taste of its new approach to regulation.
- Other developments on Regulations and Consultation including the Consultation on Indexation and Equalisation of GMPs and Pension Scams, and general updates on taxation issues, including Auto-Enrolment and Voluntary Scheme Pays.
- The results from a survey carried out by Mercer during the summer.

### RECOMMENDATIONS

1	It is recommended that all PFC 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 CPF.
2	In particular, members are asked to note: <ul style="list-style-type: none"><li>• the ruling on survivor pensions</li></ul>

	<ul style="list-style-type: none"> <li>• the possible removal of the public sector pay cap</li> <li>• the MiFID II update on whether to opt-up</li> <li>• the consultation on the Cross Pool Information Forum</li> <li>• the consultation regarding GMPs</li> </ul> <p>which may have a significant impact on the CPF and lead to further action in the future.</p>
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## **REPORT DETAILS**

<b>1.00</b>	<b>LGPS Current Issues</b>
1.01	<p>The purpose of this report is to provide a general update to PFC Members on various current issues affecting the LGPS.</p> <p>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.</p>
1.02	<p>Key points to be aware of are:</p> <ul style="list-style-type: none"> <li>• Following the Brewster ruling on survivor pensions by the Supreme Court, funds should be reviewing cases during the relevant period mentioned to ascertain whether any potential claims may arise as a result of the judgement.</li> <li>• The possible removal of the public sector pay cap which will impact on pensionable salaries and ultimately on the liabilities for the Fund (given an allowance for the current cap was made as part of the 2016 valuation).</li> <li>• the need to elect to opt-up to Professional investor status under MiFID II in order to access the full range of investment vehicles and managers</li> <li>• Cost Management - the GAD have been provided with the required section 13 data from the LGPS Funds and we await their findings in anticipation of potential action with effect from 1 April 2019. The calculations may lead to compensatory benefit or member contribution changes from this date.</li> <li>• The SAB has agreed in principle that an elected member led Cross Pool Information Forum be established to share and disseminate information on the pooling of LGPS assets and a consultation has been issued. The closing date is 29 September 2017.</li> <li>• The Pensions Regulator has again urged pension schemes to check their internal controls and the safety of scheme data in the wake of recent global ransomware attacks. If not already done so, Administering Authorities should, in conjunction with their legal advisers, begin reviewing current data protection processes and service provider contracts in order to be prepared for the changes.</li> </ul>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	<p>Some of the actions arising out of the issues identified will take significant input from Fund officers, including but not limited to responding enquiries regarding pension tax implications. Further consultation responses may</p>

	also be needed on the implementation of the New Fair Deal principles, Freedom and Choice for AVCs, Exit Cap and Recovery Regulations.
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<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report but noting the developments in the highlighted areas.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
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): <ul style="list-style-type: none"> <li>• Governance risks: G2 &amp; G7.</li> </ul>
4.02	Some key risks need to be considered. In particular the cost impact GMP consultation, outcomes of the Cost Management process, the findings of the Scheme Advisory Board for Tier 3 employers. Matters arising will need to be dealt with under the overall Governance objectives.  This report also is intended to support the Knowledge & Understanding of the PFC and officers thereby reducing risk around decision making as per the Risk Register noted in 4.01.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – LGPS Current Issues - September 2017 edition

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

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	(a) <b>CPF – Clwyd Pension Fund</b> – 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) <b>Administering authority or scheme manager</b> – 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) **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 1/49<sup>th</sup> 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 amount that individuals can contribute to their pension each year, while still receiving tax relief.
- (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) **MiFID** - the EU Markets in Financial Instruments Directive (MiFID) introduced in 2007. MiFID II refers to the updates with the aim of

	improving the functioning of financial markets in light of the financial crisis and to strengthen investor protection.
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# LGPS CURRENT ISSUES



## NEWS IN BRIEF

### EQUITY PROTECTION

Whilst there have been significant gains in equity markets over the past year or so, the economic outlook remains uncertain. We have been actively engaged with a number of Funds in order to implement “Equity Protection” strategies to protect these gains and to ensure current contributions can at least be maintained at the next actuarial valuation. We’d be happy to discuss such strategies further with Funds requiring more details on the options available.

### LANDMARK RULINGS ON SURVIVORS’ PENSIONS

**Ruling on Same Sex Pension:** On 12 July, the Supreme Court overturned a decision of the Court of Appeal in the case of Walker vs Innospec. The ruling has important implications for defined benefit schemes that have not fully equalised survivors’ pensions for civil partners or same-sex spouses. The Government is currently considering the impact on the public sector pension schemes but we do not expect any material impact on the LGPS.

**Brewster Ruling On Survivor’s Pension:** Following the Brewster ruling on survivor pensions earlier this year by the Supreme Court, we understand that LGPS funds in England and Wales will be reviewing cases during the relevant period mentioned to ascertain whether any potential claims may arise as a result of the judgement. For Mercer clients, our funding assumptions for proportions partnered used in the 2016 round of valuations included an allowance for ‘cohabiting spouses’ so results will be unaffected by the judgement. There may be one or two past cases that need to be reinstated, although we do not expect this to be material.

For the Scottish LGPS, it has been decided that this change should be applied to any case from 1 April 2009, and those potentially affected have been advised to contact their administering authority.

### IN THIS ISSUE

- [News in Brief](#)
- [Scheme Advisory Board and the Pensions Regulator Updates](#)
- [Other Developments on Regulations and Consultation](#)
- [Taxation Round Up](#)
- [LGPS Survey Results](#)
- [Dates To Remember](#)
- [Contacts](#)



In August, a letter was sent to pension managers by DCLG setting out the implications on pension funds and the approach that they consider to be reasonable and this is set out here:

<http://lgpslibrary.org/assets/bulletins/2017/161App1.pdf>.

## NATIONAL INITIATIVES

- **Section 13** – The section 13 data for LGPS Funds has been provided to the GAD and we will update funds once we hear anything further.
- **Cost Management 2016** - The GAD is also using the section 13 data to do their cost management calculations and we await their findings in anticipation of potential action with effect from 1 April 2019. Funds should be mindful that current expectations are that the costs of the scheme will have increased (not least due to lack of 50:50 take-up), although we await more information.
- **Academies** - Prompted by the DfE, GAD are collecting some further information from actuaries under the umbrella of their s13 work. It is expected that the results will be reported on separately and prior to the main s13 report.

## ARE YOU UP TO SPEED WITH MiFID II

As you will most likely be aware, under the EU Markets in Financial Instruments Directive (MiFID II) Local Authorities are automatically classed as a Retail investor. To allow continued access to the full range of vehicles and managers needed for investment strategies, local authorities should consider making use of the “opt-up” process to Professional investor status. The opt-up applies to relationships with all investment service providers. The SAB website ([www.lgpsboard.org/index.php/mifidii-lgps](http://www.lgpsboard.org/index.php/mifidii-lgps)) contains useful material setting out the background together with detail on the “opt-up” process (including documentation). This has been compiled following the FCA’s policy statement issued in July on the implementation MiFID II ([www.fca.org.uk/publication/policy/ps17-14.pdf](http://www.fca.org.uk/publication/policy/ps17-14.pdf)).

## ADDITIONAL VOLUNTARY CONTRIBUTIONS - A TIME TO REVIEW?

- **A time to review** - In accordance with its codes of practice, The Pensions Regulator requires an assessment against its 2016 DC Code in respect of money purchase AVCs. This also applies to LGPS AVCs and it can be surprising how different LGPS AVC arrangements are, even within the main provider’s product. At the PLSA Local Authority conference earlier this year, the need to regularly review AVCs was frequently mentioned. Given this and the changes to legislation on money purchase AVCs (i.e. Freedom and Choice), Administering Authorities should consider whether it is now appropriate to conduct a review. Your usual Mercer consultant would be pleased to discuss this further with you.
- **Prudential** – on 31 May 2017, Prudential closed their Deposit fund to new AVC members (this will not impact on existing members). Whilst an alternative fund is available (M&G cash fund), this will impact on what LGPS funds currently offer as AVC arrangements to members and highlights the importance of regular reviews as mentioned above.

## PUBLIC SECTOR PAY CAP

It is understood that Theresa May and Philip Hammond are drawing up plans to raise the public sector pay cap, which has limited pay rises to 1% per year since 2010. The initial indication is that they may prioritise areas such as nursing initially and that the increases may be staggered. However, if there are changes to the cap that is applied to LGPS staff, this will impact on pensionable salaries and ultimately will impact on the liabilities for LGPS Funds. In particular there will be an impact for those Funds where an allowance for the current cap (to 31 March 2020) has been allowed for in the latest funding valuation (and thus contribution outcomes). We will provide further comment on this in due course once further details are known.

## EARLY RETIREMENT STRAIN COSTS

Given the delays to the Public Sector exit payment regulations being effected (as referenced below), it is unlikely that a standardised set of factors to calculate Early Retirement Costs (ERCs) across all LGPS Funds will be in place in the near future. This is, and always has been our preference for such calculations.

As a result of the delays, it is therefore appropriate for the factors currently underlying the calculation of Early Retirement Costs (ERCs) to be reviewed in light of the assumptions adopted at the 2016 actuarial valuation (for our English and Welsh clients). The factors were last reviewed in July 2014. We will shortly be communicating the results of our analysis to administering authorities, although it is likely that there will be a small increase to the cost factors, and thus early retirement costs emerging.

## DCLG GUIDANCE IN RELATION TO INVESTMENT STRATEGY STATEMENTS

The guidance governs the investment strategy for the local government and permits ethical and social objections to a particular investment to be taken into account. However, the High Court has ruled that the original guidance from DCLG "Guidance on preparing and maintaining an investment strategy statement" was unlawful when it stated that administering authorities must not:

".... [use] pension policies to pursue boycotts, divestment and sanctions ["BDS"] against foreign nations and UK defence industries...other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government" or "pursue policies that are contrary to UK foreign policy or UK defence policy".

This restriction operates even if an investment strategy with an element of boycott, divestment and sanction would not involve significant financial risk to the scheme and irrespective of member support. The guidance has since been updated to remove this statement; however, we understand that DCLG are planning to appeal this decision and we will provide an update on this in due course once the outcomes of any appeal are known.

## CLIMATE CHANGE

Back in February, ClientEarth and ShareAction submitted a referral to the Pensions Regulator (TPR) highlighting varying standards across the LGPS in how funds were assessing and managing climate risk in investment decision-making. This was due to more than 80% of LGPS funds making no mention of climate risk in their latest Investment Strategy Statements. ClientEarth and ShareAction will continue to monitor funds and, where appropriate, may make further representations. We would therefore recommend that Funds review and update their Investment Strategy Statements as required.



## OMBUDSMAN RULING

In March, the Pension Ombudsman ruled ([PO-7277](#)) that an LGPS could not withhold a convicted fraudster's pension rights under the regulations at the time (Regulation 74 of the 2008 Regulations). This ruling was on the basis that the reasons for leaving the original employment were wholly unconnected with the previous criminal conduct. The person did not leave employment in consequence of their criminal, negligent or fraudulent act and so the conditions of regulation 74 had not been satisfied.

# SCHEME ADVISORY BOARD AND THE PENSIONS REGULATOR UPDATES

## SCHEME ADVISORY BOARD

**2016 Annual Report** - The SAB issued its 4th Annual Report to coincide with Cllr Roger Phillips' address to the PLSA Local Authority Conference on 16th May. Key statistics emerging are; the scheme now has 5.3 million members, over 14,000 employers, assets of £217bn, and remains cashflow positive (including investment income).

**Code of Transparency** - The SAB has also launched its voluntary Code of Transparency for LGPS asset managers in order to help move towards investment fee transparency and consistency. Compliance will require managers to complete and submit a template to their LGPS Funds.

**Local Pension Board Survey** - The SAB recently issued a survey to all LGPS stakeholders in order to gather feedback on their experiences/views of their Local Pension Fund boards. This was provided to administering authorities and the closing date for survey responses is the **29th September 2017**.

**Tier 3 employers** - Following its work on academies, the Scheme Advisory Board is beginning a project on Tier 3 employers. This stream of work will be conducted in two concurrent phases; 1) The Board will be working with LGPS administering authorities to gather data regarding the number, membership, liabilities and covenants of these employers; and 2) separately the Board has commissioned further analysis to be carried out in this area. In order to facilitate the project, the Board is asking the actuarial advisers to provide details of each of these employers' funding positions and relevant supporting information, in a standardised format. The details of this are currently under discussion.

**Consultation on Academies Objectives** – Following the publication of PWC's report, the SAB is investigating the options available to LGPS funds to address issues associated with the policy objective to convert all schools to academies. The SAB has issued a very short consultation for Funds about the underlying principles for any review in this area. It will run from 17 July 2017 to **29 September 2017** and we would recommend funds respond to this if they have not already done so.

**Consultation on a Cross Pool Information Forum** – The SAB has agreed in principle that an elected member led Cross Pool Information Forum should be established to share and disseminate information on the pooling of LGPS assets. A consultation has been issued on the remit, membership and frequency of the proposed Forum and also seeks views on whether a one-off open session on progress towards pooling should be organised. The consultation is aimed at Chairs of LGPS pension committees and runs from 17 July 2017 to **29 September 2017** and we would recommend all LGPS funds respond to this, if they have not done so already.

## NEWS FROM THE PENSIONS REGULATOR (TPR)

### DATA SECURITY

*The Pensions Regulator has again urged pension schemes to check their internal controls and the safety of scheme data in the wake of recent global ransomware attacks.*

Ransomware attacks, which have targeted the UK's National Health Service among other organisations, can cripple IT systems and lead to demands for payment for access to be restored. The Regulator itself has admitted to being subject to a partially successful ransomware attack in December 2015, although it stresses that no data was compromised and it has successfully blocked over 40,000 attacks in the last three financial years. Even where attacks are unsuccessful, the increasing number of attempts to breach computer systems emphasises the scale of the problem being faced by organisations, including pension schemes.

Administering Authorities are responsible for the security of their scheme data, they are expected to ensure that their administrators and other providers have sufficient controls in place to keep data safe, and have plans in place for dealing with security breaches should they occur. In addition, the Regulator expects cyber security to be a key item on scheme risk registers.

As well as ensuring that their scheme data is protected against cyber attacks, Administering Authorities should also be taking a broader look at their data processes and procedures in light of the European Union's General Data Protection Regulation (GDPR). The GDPR will apply directly to all member states from 25 May 2018 and, as the UK is still expected to be part of the EU on this date, it must comply with the requirements.

The GDPR introduces more stringent requirements than the existing UK data protection legislation. For example, individuals will need to give clear and affirmative consent for their personal data to be processed, and there will be direct compliance obligations for data processors (such as scheme administrators), who will be liable for fines for non-compliance. The GDPR also emphasises accountability and transparency, and so those responsible for personal data will need to ensure that processes around data protection are explicit and documented.

If not already done so, Administering Authorities should, in conjunction with their legal advisers, begin reviewing current data protection processes and service provider contracts in order to be prepared for the changes.



### PUBLICATIONS

The Pensions Regulator has recently released a number of publications, perhaps providing a taste of its new approach to regulation. There are already indications that the Regulator is acting faster and more robustly in cases that might previously have expected little attention. The regulatory regime is changing and attention to regulatory risk will need to increase.

**THE REGULATOR'S FUTURE** - The Regulator has been assessing the way in which it works and is considering medium to long-term changes in a project called "TPR Future". A

short report on the first phase was published in July. The Regulator's priorities for change are summarised as follows:

1. **Clarifying its identity** – including its relationship with other regulators and improving how it engages
2. **Setting clear expectations** – the Regulator believes standards will be improved if its expectations and the results of non-compliance are clearer to all
3. **Improving regulatory oversight** – better use of data and intelligence to monitor compliance with the Regulator's clearer expectations, enabling it to undertake better-targeted and risk-based interventions

4. **Broadening the range of regulatory interventions** – the Regulator plans to draw from its full spectrum of powers, look for swifter and more frequent use of powers and, more publicly, to demonstrate “visible policing” that creates a deterrent to poor behaviour
5. **Being more efficient and effective** – including better management of casework and enhanced ability to adapt to fluctuating challenges.

The report provides a good indication that the Regulator will be seeking to demonstrate a more robust approach overall, including more use of its powers. To some extent, it plans for the current “educate, enable, enforce” regime to evolve into a “comply or explain” regime. An update on progress is expected in spring 2018.

**FIRST FINE ISSUED TO AN LGPS FUND** - TPR has fined an LGPS fund £1,000 for failing to submit basic information required by law. TPR issued the fine for failure to submit its 2016 scheme return. [A regulatory intervention report](#) published on 27 July 2017 outlines the case and action taken by TPR.

Scheme managers of public service schemes are expected to complete a scheme return which provides TPR with basic information about a scheme such as number of members and participating employers, contact details and information about its pension board. Depending on the nature and size of the scheme, trustees and managers are sent a scheme return notice at least once every three years.

**PUBLIC SERVICE SURVEY 2016** - TPR has published the results of its public service governance and administration survey 2016. The survey covers a broad range of topics including but not limited to data quality, key processes, managing risk, the reporting of breaches, and many others. More focus will be given to record-keeping, internal controls and communications as part of this survey. We recommend that all Funds review this survey and consider whether it is appropriate to take further or different steps given its findings.

<http://tpr.gov.uk/docs/public-service-research-summary-2017.pdf>



# OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATION

## PENSION SCAMS CONSULTATION

The Government has published a [response](#) to its pension scams consultation, confirming that it intends to legislate for a ban on pensions cold calling "when Parliamentary time allows". The ban will extend to electronic communications, including emails and text messages. The Government also plans to introduce legislation - although not until late 2018 - to limit the circumstances in which an individual will have a statutory right to transfer their pension benefits. It will also make it harder for fraudsters to open pension schemes likely to be used for scam purposes. The Information Commissioner's Office will be responsible for enforcing the ban.

Mercer supports the Government's proposal to ban pension cold calling, albeit we believe that the ban is not a solution on its own. We also welcome the extension to cover other means of contacting an individual and hope the proposals will be wide enough to anticipate the evolution of scamming practices.

## INDEXATION AND EQUALISATION OF GMPs

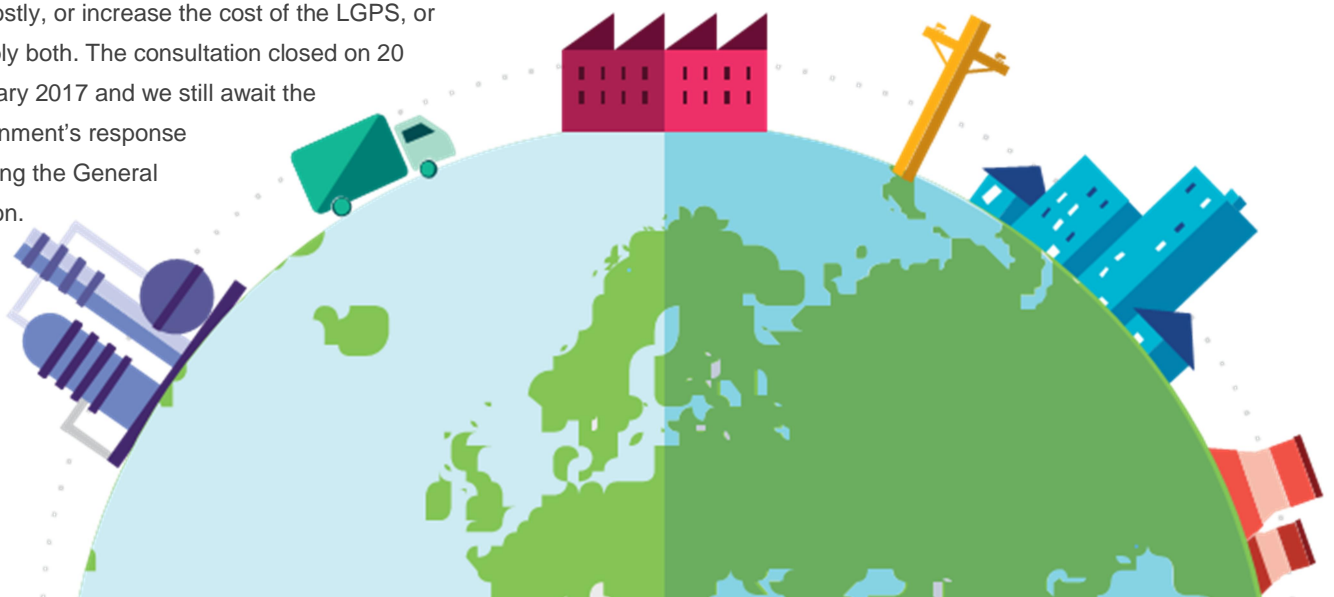
As reported in a previous current issues, the Government has consulted about equalisation and indexation of Guaranteed Minimum Pensions (GMPs) for public service scheme members who reach State Pension Age (SPA) after 5 December 2018.

The consultation addressed two issues simultaneously, namely:

- The equalisation of male and female GMPs accrued after 17 May 1990
- Historic commitments by previous Governments that all public sector workers will receive full indexation on their pensions (including GMPs)

Under all the consultation options, it seems that the burden of providing indexation on GMPs will now fall on the public service schemes themselves and all the associated employers in those schemes, whether public sector or not. This is because these increases will no longer be provided through the Additional State Pension (ASP) following recent changes to state pension provision.

The proposals are either administratively complex and costly, or increase the cost of the LGPS, or possibly both. The consultation closed on 20 February 2017 and we still await the Government's response following the General Election.



## OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATION

- [New Fair Deal](#) - following the consultation carried out last year, further details and clarifications needed have been identified. We believe that a further consultation may be needed on an updated set of provisions to apply the principles of New Fair Deal to the LGPS, and expect to hear more in the near future.
- [Exit payments and claw back provisions](#) - Following on from our update in the previous edition, the General Election put a number of timetables on hold. We are expecting to hear more about both the cap and clawback regulations from the Government in due course.
- [Plans for Single Financial Guidance Body](#) - Free and impartial financial guidance to individuals is currently provided by three public services: The Money Advice Service, The Pensions Advisory Service and Pension Wise. However, the Government has consulted on plans to change this model with the creation of a single financial guidance body (SFGB).

The Government is of the view that there are gaps, as well as duplication, in the guidance currently available, and that a SFGB would be better suited to respond to the different financial needs of consumers.



# TAXATION ROUND UP

## UPDATE ON AUTO-ENROLMENT EXEMPTIONS FOR MEMBERS WITH LIFETIME ALLOWANCE PROTECTION

Where an employee has a form of Lifetime Allowance protection, often this protection is lost if the employee continues accruing pension benefits. Therefore it is necessary to ensure that the employee who has opted out is not automatically re-enrolled into a pension scheme.

There is already a clear exemption for any of the 'pre-2016' protections (i.e. Enhanced Protection, Primary Protection, Fixed Protection 2012, Fixed Protection 2014 and/or Individual Protection 2014). That is the employer can already choose whether or not to automatically enrol (or re-enrol) those Jobholders who have one or more of these "pre-2016" LTA protections. However, the employer must have "reasonable grounds" to believe an employee has a tax protected status and any such employee retains the right to opt-in or request to join a pension scheme.

After the introduction of the 2016 LTA Protections, the DWP indicated that it was working with HMRC to extend the auto-enrolment exemptions to cover the new protections but the timescale was unclear. This exemption has now been introduced via regulations coming into force on 6 March 2017. Again, the employer must have "reasonable grounds" to believe an employee has a tax-protected status, such as a print out from the online HMRC protection system.

## VOLUNTARY SCHEME PAYS – INDIVIDUALS WITH A TAPERED OR MONEY PURCHASE ANNUAL ALLOWANCE

Where an individual's Pension Input Amount ('PIA') for a tax year exceeds the Annual Allowance ('AA') for that tax year, the individual will be liable for an AA tax charge, unless they have sufficient unused AA that they can carry-forward from the previous three tax years. Where a member has pension savings of more than the standard AA (i.e. £40,000) in a scheme and has an AA tax charge in excess of £2,000, the member can require the pension scheme to pay the AA tax charge on their behalf: a process known as Mandatory Scheme Pays. Where the individual does not meet all of the conditions for Mandatory Scheme Pays to apply, the scheme can still pay any Annual Allowance charge on the individual's behalf, if the scheme and member agree to do so. This is a process known as Voluntary Scheme Pays.

If the member has an AA tax charge to pay as a result of them being impacted by the Money Purchase Annual Allowance ('MPAA') or the Tapered AA then the member may not qualify in full for Mandatory Scheme Pays. They might therefore want to fall back on the Voluntary Scheme Pays process to meet some/all of their 2016/17 tax charge, although in practice they may not be aware of all the details especially if their PIA is under £40,000.

Therefore, given that Funds are only required to issue pension savings statements to members after the end of a tax year (by 5 October) when pension savings exceed the standard AA of £40,000, it is possible that members with a PIA of between £10,000 and £40,000 and also are subject to the Tapered AA (likely to only be the top earning members) will need to request details of the PIA from Funds themselves.

Whilst Voluntary Scheme Pays operates in a similar way to Mandatory Scheme Pays (i.e. the scheme pays the AA tax on behalf of the member and benefits are reduced), there are some crucial differences that members (and Funds) should be aware of.

- **Timing** – For the members, the deadlines for Voluntary Scheme Pays tie in with the Self-Assessment Tax Return deadlines. Hence the Voluntary Scheme Pays process must be completed by 31 January following the end of the tax year (i.e. 31 January 2018 for the 2016/17 tax year). In order to avoid any interest charged on the AA tax charge due by the member, this must also be paid to HMRC on behalf of the member by the 31 January.

- **Liability for the tax** – The sole responsibility for the tax payment with Voluntary Scheme Pays is the member's, and there is no joint and several liability with the Scheme (unlike with Mandatory Scheme Pays).

## ACTION

If Fund's have not done so already therefore, they should be looking to communicate the above to those members who may think they are eligible for Mandatory Scheme Pays for this tax year when in fact they may not be, if are subject to the Tapered AA. Funds should also look to review who receives an annual pension savings statement automatically and also ensure that current processes and timings are fit for purpose.

Should you wish to discuss any of the above further, Mercer's tax specialists would be happy to provide assistance and support in this area as required.



# LGPS SURVEY RESULTS

## LGPS SUMMER SURVEY - THE RESULTS ARE IN!

Over the summer we conducted a survey of those within the LGPS to obtain views on the current issues faced by Funds and also various holiday preferences. The results are now in and are summarised in this section along with supporting comments on what action Funds may look to take in certain areas.

### ADMINISTRATION CHALLENGES

Case backlogs, increasing employer numbers, GDPR requirements, GMP reconciliations and of course, the day-to-day administration of the Fund. These are just some of the challenges currently facing administration teams at present. The majority of respondents to the survey confirmed that whilst all of the above do present challenges at present, dealing with case backlogs was the biggest challenge faced.

Mercer has, and continues to, assist Administering Authorities with meeting case backlogs and we would be happy to provide further details to Funds/administrators wanting to explore such options further.

### RISK MANAGEMENT

It was no surprise that Data Quality, Managing Employers, Covenant Risk and Investment Risks all scored consistently (4 on average for each risk) when those surveyed were asked to rank them on a scale of 1-5 in terms of how critical they saw each risk over the next few years.

We would recommend that administering authorities look to consider and implement risk management policies in each of these areas and we'd be happy to liaise with authorities to consider the options available as required.

### POOLING

The general expectation (65% of replies) is that there will be further compulsory pooling over the next 3 years now that the investment pools have been established.

### ALTERNATIVE DELIVERY MODELS

Given the increasingly complex nature of outsourcings, 50% of respondents believe that it will be useful for managers and officers (and employer representatives) involved in commissioning services to benefit from additional information on all aspects of the process (rather than individual elements). Mercer can provide training to various stakeholders to assist their understanding in this area should Fund's wish to offer this.

### MARKET OUTLOOK

The current uncertainties regarding the market outlook were evident in the responses provided to the survey with a 50/50 split between those who were very concerned and those who weren't really concerned about the impact of market movements (in particular the potential impact of Brexit) on funding positions and contribution outcomes.

Given the recent gains in equity markets, we have been actively engaged with a number of Funds in order to implement strategies to protect these gains to ensure current contributions can at least be maintained at the next actuarial valuation. We'd be happy to discuss such strategies further with other Funds that might wish to explore the options available.

## CHANGES TO THE LGPS

Over the past few years, the one constant within the LGPS has been *change*, with the introduction of the new CARE Scheme, investment pooling etc. Such changes would seem to have influenced the responses provided to the survey. If they could change one thing about the LGPS, 60% of respondents would request that the Scheme be changed again to be made simpler, in particular from a regulatory perspective. A sample of the responses provided is shown below.

- “remove historical protections - after I've retired though.”
- “simplify into a single set of regulations applying to all members”
- “Simplification of regulations to ease admin workload”
- “Less Government interference”

## EMPLOYER CONCERNS

Of all the various employer types participating in the LGPS, the group causing most concern at the moment would be Historic Admitted Bodies according to the survey with nearly 50% of the responses. One of the key drivers behind this outcome is likely to be the fact that the liabilities of such employers are not guaranteed by any other employer in the Fund and therefore pose risks to all other employers in the Fund should unfunded liabilities emerge on termination.

Although contribution outcomes from the 2016 actuarial valuations in England and Wales have only been recently agreed (and outcomes emerging from the Scottish 2017 valuations will be agreed in the coming months), we would urge administering authorities to continue to monitor certain employers during the inter-valuation periods in order that any issues regarding employer covenant can be identified and actioned prior to the next actuarial valuation. Mercer has specialist covenant advisors who are able to assist Funds in carrying out covenant assessments where required.

## HOLIDAYS

Whether Brexit has an impact on holiday destinations going forwards remains to be seen but for the moment, the preferred destination this summer of those within the LGPS (over 50%) has been mainland Europe.

Whilst enjoying the sun (when it decides to appear in this country), 40% of respondents confirmed they would opt for a Magnum from the ice cream van, closely followed by 30% opting for a 99.

And finally, if money was no object then nearly 50% of those taking part in the survey chose New Zealand as their preferred destination (the Galapagos Islands being the other stand-out response to this question). It's not clear though whether the favoured destination was due to a love of Rugby, the breathtaking scenery, family connections or simply being over 11,000 miles away from the LGPS!

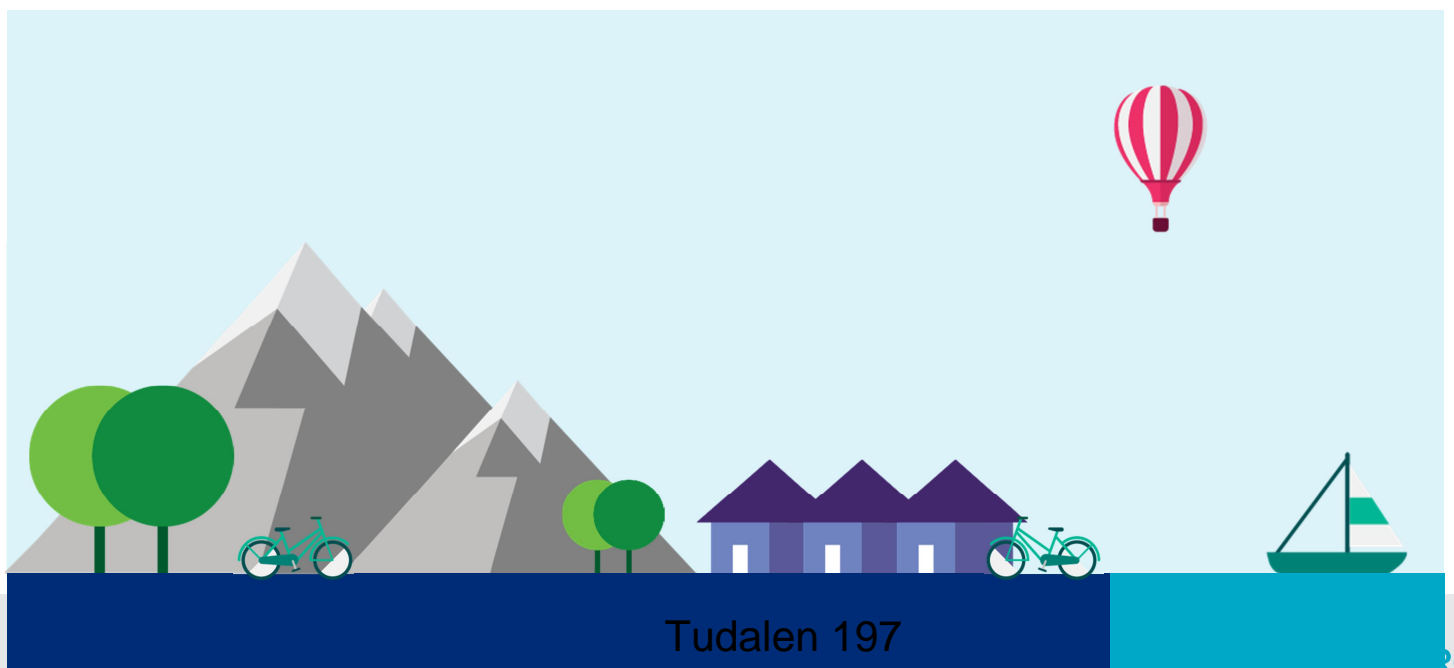


Thanks to all those who took part in the survey.

**As referred to above, we would be happy to assist Funds further with dealing with the issues commented on and so please speak to your usual Mercer consultant if you would like to discuss how we can help you.**

## DATES TO REMEMBER

DATE	ISSUE	THE LATEST
29 September 2017	SAB Consultations	Deadline for response to the Consultation on Academies Objectives and the Consultation on a Cross Pool Information Forum
1 October 2017	Auto Enrolment	From this date, employers of defined benefit pension schemes will no longer be able to postpone auto-enrolment of certain members.
November/December 2017 (date tbc)	Autumn Statement	The Chancellor is set to give the Autumn Budget 2017 at the end of November or the beginning of December, as the update on country's finances is switched from the Spring
3 January 2018	MiFID II	MiFID II becomes effective from this date.
31 March 2018	Actuarial Valuation	Deadline for the 2017 Scottish actuarial valuation exercises to have been formally signed off by the fund actuary.



## CONTACTS



Paul Middleman  
[paul.middleman@mercer.com](mailto:paul.middleman@mercer.com)  
0151 242 7402



Leanne Johnston  
[leanne.johnston@mercer.com](mailto:leanne.johnston@mercer.com)  
0161 837 6649



Ian Kirk  
[ian.kirk@mercer.com](mailto:ian.kirk@mercer.com)  
0151 242 7141



Nigel Thomas  
[nigel.thomas@mercer.com](mailto:nigel.thomas@mercer.com)  
0151 242 7309



John Livesey  
[john.livesey@mercer.com](mailto:john.livesey@mercer.com)  
0151 242 7324



Clive Lewis  
[clive.lewis@mercer.com](mailto:clive.lewis@mercer.com)  
0151 242 7297



Charlotte Dalton  
[charlotte.dalton@mercer.com](mailto:charlotte.dalton@mercer.com)  
0161 837 6660

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## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 September 2017
<b>Report Subject</b>	Administration and Communications Update
<b>Report Author</b>	Pensions Administration Manager

### EXECUTIVE SUMMARY

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

- (a) A Business Plan 2017/18 Quarter 1 update for administration and communication and the Employer Liaison Team.
- (b) Current Developments and News.
- (c) Administration and communications related policy/strategy implementation and monitoring, the current risks and how they are being managed.

In summary, there is some slippage in the Business Plan, mainly due to year end pressures, but this has been addressed in Quarter 2. The focus remains on making improvements to provide a service in line with the Administration and Communication Strategies. There is new project on 'aggregation' that we wish to add to the Business Plan and the report seeks Committee approval to make this change.

### RECOMMENDATIONS

1	That the Committee consider the update and provide any comments, including in relation to the results of the communications satisfaction surveys.
2	That the Committee agree a change to the Business Plan to include a new project on 'aggregation'.

## REPORT DETAILS

1.00	ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS
1.01	<p data-bbox="304 443 767 477"><b>Business Plan 2016/17 Update</b></p> <p data-bbox="304 517 1375 658">Appendix 1 provides a summary of progress against the administration, communications and Employer Liaison Team Business Plans up to the end of quarter 1 (April to June 2017). The majority of the work was completed as originally planned or is being addressed in Quarter 2.</p> <ul data-bbox="304 701 1375 1330" style="list-style-type: none"><li data-bbox="304 701 1375 808">• The website launch is now planned for week commencing 18 September 2017 and the Member Self Service for during October 2017.</li><li data-bbox="304 815 1375 987">• Work force planning is on-going. The more immediate concern relating to the staffing within the Technical Section, which was considered and approved at the previous Committee, has progressed and the immediate risks within the Technical Section have therefore be addressed.</li><li data-bbox="304 994 1375 1167">• The original backlog project which was outsourced to Mercers is now complete (as summarised in Appendix 3)., albeit some of the final cases have been passed to the Employer Liaison Team to gather the required employer information due to lack of systems access within Mercers</li><li data-bbox="304 1173 1375 1330">• The Employer Liaison Team is still relatively new but already having a positive impact. The current commitments to assist Wrexham County Borough Council and Flintshire County Council need time to bed in before discussing with any more employers.</li></ul>
1.02	<p data-bbox="304 1368 1375 1733">Workflow and data quality is being continually monitored by officers, with oversight from the Pension Board. At this point in time the performance targets set in the Administration Strategy are not being achieved albeit there is an improving trend. There remains a considerable number of outstanding cases to be completed. A review of these cases identified a large number where 'aggregation' is required. This is where members move/leave employments, and have more than one pensionable employment, and therefore there are a number of options available relating to whether or not (and how) those records are 'aggregated' which need to be conveyed to the member concerned.</p> <p data-bbox="304 1776 1375 2092">We currently have in the region of 3,500 outstanding cases where members need either to be informed that their records have been aggregated or be provided with their options. These cases are complex and the administration team members undertaking them need excellent knowledge of deferred benefits, transfer values and estimates and are therefore at Pension Officer level. Accordingly a new temporary team is being created from existing Pension Assistants who will be trained to enable them to undertake these Pension Officer tasks. Due to the number of cases involved discussions are also taking place with Mercer on</p>



	<p>whether they can provide some resource now the original backlog project has been completed. This is being treated as a new project in the Business Plan so progress can be monitored and reported and Committee are asked to approve this addition to the Business Plan resulting in an increase in the staffing costs budget of £13,683 plus any additional Mercers costs.</p>
1.03	<p>The Committee is asked to note the contents of the business plan and the update above, and approve the addition to the business plan and budget, which will be subject to ongoing updates and monitoring.</p>
1.04	<p><b>Current Developments and News</b></p> <p>A separate LGPS Update report has been provided by Mercer and included with the Committee papers. Particular points to note in relation to the impact on Clwyd Pension Fund are as follows:</p> <ul style="list-style-type: none"> <li>• The "Brewster" judgement means that we will be reviewing any scheme members who died in the period between 2008 and 2014 when a "nominated cohabiting partner" test was applied, so as to determine whether we should now retrospectively pay a survivor's benefit.</li> <li>• Data security – we are currently working with Flintshire County Council's data protection and IT specialists on the subjects of the new General Data Protection Regulations and cybercrime. A further update on our plans and progress will be brought to future Committee meetings.</li> </ul>
1.05	<p><b>Policy and Strategy Implementation and Monitoring</b></p> <p><i>Administration Strategy</i></p> <p>In relation to other staffing and resource matters, there are currently 3.7 Pension Assistant posts going through the recruitment process relating to the Employer Liaison Team and a longer term vacancy. These posts have become available due to the promotion and also the movement of the current Pension Assistants to Pension Officers.</p>
1.06	<p>The membership numbers, and performance monitoring reports which will compare performance to targets in the Administration Strategy to 31 August 2017, will be provided as a handout at Committee.</p>
1.07	<p>Below is a summary of the internal dispute resolution cases received in the last 12 months. Of the appeals received against Employers at Stage 1 in the current year 2017/18, 4 are based on the non-payment of ill health benefits, 1 is based on the no-payment of deferred benefits on compassionate grounds. There has been 1 appeal received against the Administering Authority which is in relation to a late payment of deferred benefits. 2 cases were progressed to Stage 2, 1 in respect of the Employer and non-payment of ill health benefits and 1 against the Administering Authority for late payment of deferred benefits. All appeals at Stage 2 were rejected at Stage 1 and have subsequently been rejected at Stage 2.</p>

		2017/18			
		Received	Upheld	Rejected	Ongoing
		5	1	4	0
		1		1	0
		1		1	0
		1		1	0
		2016/17			
		Received	Upheld	Rejected	Ongoing
		7		7	
		1		1	
		3		3	
		1		1	
1.08	<p><b>Communications Strategy</b></p> <p>A major element of communication completed by the legal deadline of 31<sup>st</sup> August was the issue of the annual benefit statements to active, deferred, pension credit and deferred pensioner members.</p>				
1.09	<p>More generally, the Communication Officer has provided a number of presentations on Member Self Service at various locations. In addition, the following communications have been distributed during this period:</p> <ul style="list-style-type: none"> <li>• Clwyd Catch Up (for pensioners)</li> <li>• Penpal Newsletter (for active members)</li> <li>• Deferred Benefit Statements with Newsletter</li> <li>• Active Annual Benefit Statements with Newsletter</li> <li>• Posters advertising the launch of Member Self Service</li> </ul> <p>These have included the notifications required by regulation that members will not receive paper copies of their Annual Benefits Statements unless they opt out of Member Self Service.</p>				
1.10	<p>In addition, the Communications Officer recently undertook satisfaction surveys with scheme members and employers. The results of the survey are attached in Appendix 4. The Pension Fund Committee is asked to comment on the results.</p>				
1.11	<p><b>Delegated Responsibilities</b></p> <p>The Committee has delegated a number of responsibilities to officers of the Fund, one being making decisions relating to admitting new bodies to the Fund or allowing bodies to exit the Fund.</p> <p>As a result of alternative delivery models being introduced a number of new employers have joined the Clwyd Pension Fund :-</p> <ul style="list-style-type: none"> <li>• Holywell Leisure</li> <li>• Cartref Ni</li> <li>• Newydd</li> <li>• Aura</li> </ul> <p>Two employers have also withdrawn from the Fund and have received termination certificates from the Actuary determining the final monies due to the Fund as a result of their termination:-</p> <ul style="list-style-type: none"> <li>• Denbighshire Voluntary Services</li> </ul>				

- Cymryd Rhan

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	The additional cost of the temporary promotion of three Pension Assistants to Pension Officers for the Aggregation project is £13,683 per annum. The budget has been adjusted. There will also be some additional consultancy costs if Mercer is also used to assist with the project, which will be reported back to future meetings.
<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report.
<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Appendix 2 provides the current risks relating to administration and communications. There are a number of risks which are higher than target but improvements are in place to gradually reduce these risks towards the target. The highest risk remains not meeting legal and performance expectations.
<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - 2017/18 Business plan update Appendix 2 – Risk Register Update Appendix 3 – Mercer Backlog Progress Appendix 4 – Satisfaction Survey Results
<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Report to Pension Fund Committee – Business Plan 2017/8 to 2019/20 – 21 March 2017  <b>Contact Officer:</b> Helen Burnham, Pension Administration Manager <b>Telephone:</b> 01352 702872 <b>E-mail:</b> Helen.Burnham@flintshire.gov.uk
<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	(a) <b>CPF – Clwyd Pension Fund</b> – 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

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| <p>(b) <b>Administering authority or scheme manager</b> – 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.</p> <p>(c) <b>PFC – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) <b>TPR – The Pensions Regulator</b> – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF.</p> |
|--|

# Business Plan 2017/8 to 2019/20 – 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
*	Original item where the period has been moved or task deleted since original business plan

### Administration (including Communications) Tasks

Ref	Key Action –Task	2017/18 Period				Later Years	
		Q1	Q2	Q3	Q4	2018/19	2019/20
A1	Development of Workflow Management including Data improvements	x					
A2	Website Launch	x					
A3	Member Self Service	x	x				
A4	Workforce Planning	x					
A5	Backlog to 31 March 2013 (Mercers)	x					
A6	Electronic and Centralised internal procedures	x	x	x	x		
A7	Move to Electronic Annual Benefit Statements	x		x		x	
A8	GMP Reconciliation	x	x	x	x	x	x

# Administration and Communication Task Descriptions

## A1 – Development of Workflow Management including Data Improvements

### What is it?

Following the requirement to provide Key Performance Indicators, to improve the quality of data and to identify/record Breaches, a full review is being undertaken of our workflow systems and data quality to enable identification of issues and plans to resolve these issues.

### Timescales and Stages

Develop workflow management	2017/18 Q1
Identify data improvement requirements	2017/18 Q1

### Resource and Budget Implications

To be completed by the Pensions Administration Team. Internal costs are being met from the existing budget.

## A2 – Website Launch

### What is it?

Following a review of the Pension Fund Website in 2016/17, a new look website on the Member Self Service platform is to be launched.

### Timescales and Stages

Launch alongside Member Self Service	2017/18 Q1
--------------------------------------	------------

### Resource and Budget Implications

All internal costs to be met from the existing budget.

## A3 – Member Self Service

### What is it?

Member Self-Service (MSS) will provide members with an easy-to-use interface which will enable them to access information, undertake data amendments, view their documents and carry out benefit projections online without taking up valuable administration staff time.

### Timescales and Stages

Implement System	2017/18 Q1
Advise all scheme members of MSS availability	2017/18 Q1
Presentations and on-going promotions	2017/18 Q1/Q2

### Resource and Budget Implications

To be led by the Pensions Administration Manager and implemented by the Technical Team with assistance from the Operational Team. The cost of the MSS system is included within the budget figures.

## **A4 Workforce Planning**

### **What is it?**

To ensure that a plan is in place to review the Pensions Administration workforce due to the age profile of staff, to have appropriate succession planning, and to provide all training requirements.

### **Timescales and Stages**

Develop workforce plan

2017/18 Q1

### **Resource and Budget Implications**

All internal costs to be met from the existing budget.

## **A5 – Backlog to 31 March 2013 (Mercers)**

### **What is it?**

A backlog of tasks prior to 31 March 2013 amounting to approximately 2,500 member cases was identified. This has now been reduced to approximately 200 but further interpretation of data relating to those cases is taking longer to resolve than expected.

### **Timescales and Stages**

Clear cases externally and eliminate backlog

2017/18 Q1

### **Resource and Budget Implications**

A proportion of the budget has been transferred into 2017/18 from 2016/17.

## **A6 – Electronic and Centralised internal procedures**

### **What is it?**

Developing an on-line procedures manual for use by the Pensions Administration staff. This will amalgamate, expand and update current procedure documents ensure consistency, easy access and efficient working as well as providing a useful training tool.

### **Timescales and Stages**

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

Develop, collate, update and maintain

2017/18

### **Resource and Budget Implications**

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

## **A7 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 being planned for the 2018 statements. In order to comply with disclosure requirements the Clwyd Pension Fund will be writing

out to the home address of all categories of membership within the Clwyd Pension Fund on at least two occasions to notify them on this change.

**Timescales and Stages**

First communication to all members	2017/18 Q1
Second communication to all members	2017/18 Q3

**Resource and Budget Implications**

All internal costs to be met from the existing budget.

**A8– GMP Reconciliation**

**What is it?**

The government's announcement that contracting out will cease and that HMRC will no longer be responsible for maintaining GMP and other contracting out member records. This means that the onus will be on individual funds to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC before they cease holding these records. Unfortunately this has shown 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. The timescales below are subject to change depending on the magnitude of the work.

**Timescales and Stages**

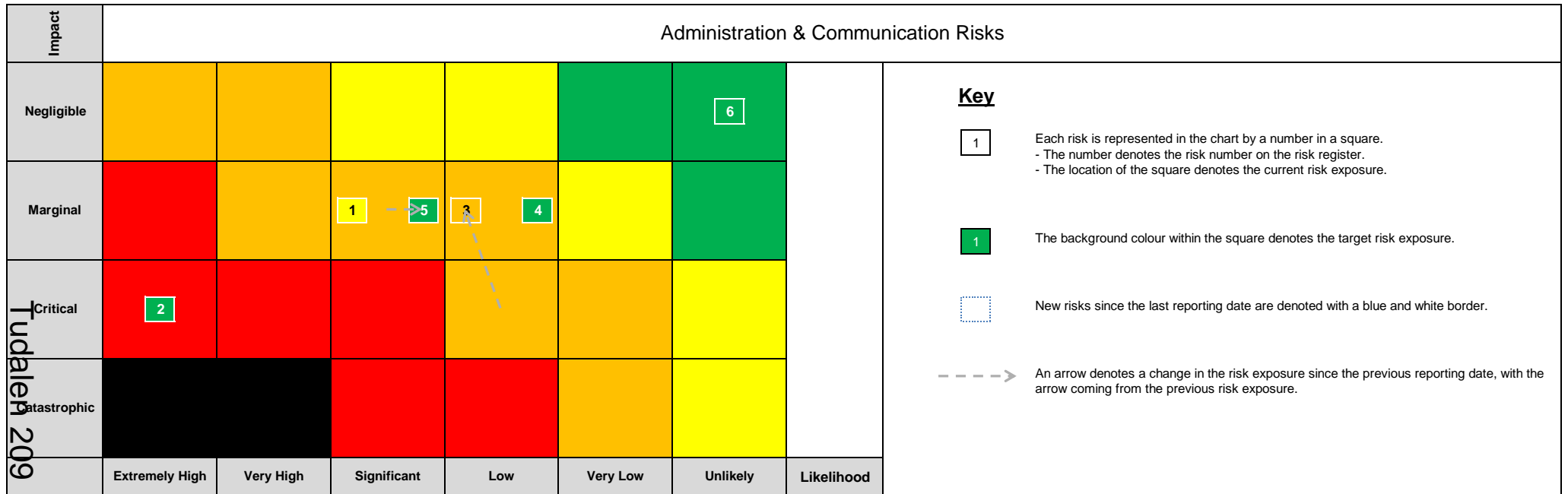
GMP data reconciliation and investigation	2017/18 & 2018/19
Reconciliation of national insurance information (Active Members)	2017/18 & 2018/19
Benefit correction and system updates:	2018/19 & 2019/20

**Resource and Budget Implications**

Due to the magnitude of this project it is being outsourced. A tender process has resulted in this work being awarded to Equiniti and the estimated cost has been included in the budget for 2017/18.



Administration and Communication Risks Heat Map and Summary



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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?	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
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	Marginal	Significant	Orange	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 - Recent restructuring of team 6 - Data protection training, policies and processes in place 7 - System security and independent review/sign off requirements 8 - ELT established	Negligible	Low	Yellow	☹️ Current impact 1 too high Current likelihood 1 too high	1 - Consider risk from senior staff/similar age 2 - Ongoing recruitment and training	Pensions Administration Manager	30/06/2017	21/03/2017	Marginal	Significant	Orange	
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	Red	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	Green	☹️ Current impact 2 too high Current likelihood 4 too high	1 - Roll out I-connect 2 - Continued expansion of ELT	Pensions Administration Manager	30/06/2017	21/03/2017	Critical	Extremely High	Red	
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	Marginal	Low	Orange	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	Orange	😊 Current impact 1 too high Current likelihood 1 too high		Pensions Administration Manager	30/09/2017	21/03/2017	Critical	Low	Orange	
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1 / C2 / C3	Marginal	Low	Green	1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed	Negligible	Very Low	Green	😊 Current impact 1 too high Current likelihood 1 too high	1 - Continue with website development 2 - Ongoing roll out member self service	Pensions Administration Manager	30/06/2017	21/03/2017	Marginal	Low	Orange	
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	Orange	1 - Business plan has number of improvements (I-connect/MSS etc) 2 - Pension Admin Manager on management group for admin software	Negligible	Very Low	Green	😊 Current impact 1 too high Current likelihood 2 too high	1 - Various improvements in 2017/18 business plan (e.g. I-connect and MSS)	Pensions Administration Manager	30/09/2016	21/03/2017	Critical	Significant	Red	
6	Service provision is interrupted	System failure or unavailability	A1 / A4 / C2	Negligible	Unlikely	Green	1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented	Negligible	Unlikely	Green	😊 Current impact 1 too high Current likelihood 2 too high	1 - Testing to take place (spring/summer 2017)	Pensions Administration Manager	30/09/2017	21/03/2017	Negligible	Unlikely	Green	

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# CLWYD PENSION FUND BACKLOG CLEARANCE PROJECT

PROGRESS UPDATE - 30 JUNE 2017

Set out below is the final update on the progress made on the project to 30 June 2017

Employer	Cases in scope	Cases completed				Cases remaining		Cases in WIP		Cases to be started	
		2015	2016	2017	Total	Number	%	Queried	Checking	Number	%
DCC	309	242	67	0	309	0	0	0	0	0	0
FCC	1,227	594	491	142	1,227	0	0	0	0	0	0
WCBC**	465	24	391	50	465	0	0	0	0	0	0
WCBC (pre2003)	153	0	2	151	153	0	0	0	0	0	0
Others***	213	23	69	121	213	0	0	0	0	0	0
Total in scope	2,367	883	1,020	464	2,367	0	0	0	0	0	0

\* calendar year to reporting date

\*\* excluding pre-2003 Wrexham cases

\*\*\*including cases referred back to the in-house team for completion (including the last remaining query cases for Wrexham CBC).

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**Mercer Limited**  
**August 2017**

Mae'r dudalen hon yn wag yn bwrpasol

## ANNUAL SATISFACTION SURVEY RESULTS

### Employee Satisfaction Survey



21 original surveys (5Q's) and 80 revised surveys (8Q's) sent

		Strongly Disagree	Disagree	Agree	Strongly Agree	> Agree
Administration	...offers documentation, guidance and information in a professional manner?	8.7%	4.3%	52.2%	34.8%	87.0%
	...is proactive in their approach to provide a service to members?	8.7%	8.7%	52.2%	30.4%	82.6%
	... gives an appropriately timed service with regular updates?	13.0%	8.7%	60.9%	17.4%	78.3%
	... is customer focused and meets the needs of its members	8.7%	4.3%	60.9%	26.1%	87.0%
	... has provided a high quality service throughout your membership?	8.7%	8.7%	43.5%	39.1%	82.6%
Communications	... promotes the scheme as a valuable benefit and provide sufficient information so you can make informed decisions about your benefits?	15.4%	7.7%	46.2%	30.8%	76.9%
	... communicate in a clear and concise manner?	15.4%	7.7%	46.2%	30.8%	76.9%
	... use the most appropriate means of communication?	7.7%	15.4%	38.5%	38.5%	76.9%

5 out of the 23 responses included positive written feedback

22.8% response rate

Some negative responses refer to things out of the Pension Section's control

### Our Vision

Improvements to be made, to provide professional and consistent **branded forms and documentation** 24/7 access to the Clwyd Pension Funds **services** via Member Self Service will enhance the member experience **Regular updates** to be provided in **news section** of the website, along with posted newsletters until 2018 Bulletins, tweets and newsletters across all communication channels **to promote the scheme** as a valuable benefit Pushing for electronic communication, however, elections available **to preferred means** of communication

### Employer Satisfaction Survey



86 surveys emailed, with one reminder via Survey Monkey

		Strongly Disagree	Disagree	Agree	Strongly Agree	> Agree
Employer Survey	...offers documentation, guidance and information in a professional manner?	0.0%	0.0%	88.9%	11.1%	100.0%
	...is proactive in their approach to provide a service to employers?	0.0%	11.1%	72.2%	16.7%	88.9%
	...gives an appropriately timed service with regular updates?	0.0%	16.7%	72.2%	11.1%	83.3%
	...is customer focused and meets the needs of its employers?	0.0%	5.6%	77.8%	16.7%	94.4%
	... ensures you are aware of your LGPS employer related roles and responsibilities for the administration of the Clwyd Pension Fund?	0.0%	5.6%	83.3%	11.1%	94.4%
	... communicates in a clear and concise manner?	0.0%	11.1%	72.2%	16.7%	88.9%
	... uses the most appropriate means of communication?	0.0%	0.0%	83.3%	16.7%	100.0%

20.9% response rate

An average of 92.8% agree with the service provided to employers

No negative written feedback received

### Our Vision

**Maintain guidance** and information provided, with a vision to provide **e-learning opportunities** for employers **Regular updates** through employer website section, and integration of **Employer Relationship Management** Provide opportunities for **employer training** where required, advertised via emails and website Become clearer when communicating with employers by providing **adequate, relevant but simplified** information

# Portfolio of all written feedback received

## Employee

"I would in any case have wanted to express my confidence in all involved with the Clwyd Pension Fund. I have received helpful, efficient and entirely professional advice, documentation, information and good standard of service."

"I found information on how my pension will be taxed very confusing. It was so unclear that I emailed for further assistance."

"I can say that all people I spoke to were professional and pleasant in their approach and the end result was that I received my lump sum on my 60<sup>th</sup> birthday. I had expected to receive information 8-12 weeks before."

"I am particularly grateful for the 'pension workshops' and the seminar clearly indicated the advantages of the Prudential in-house AVC scheme. Kerry Robinson presented these, and they proved invaluable given that I had to give up work early to care for my mother"

"I appreciate the proactive approach towards pension transfer opportunities."

"I was not informed of a technical problem with the payment of my pension. I had to phone five times before the issue was resolved. Pension matured in January 2017. It still hasn't been received by April 2017. Contact and information instigated by the pension department would have been preferable to me having to repeatedly contacting the department."

Although I have been in it a short time, the people I have dealt with in that time have been helpful in all matters to do with my pension"

"Complete confusion and miscommunication in terms of non-provision of payslips, lack of clear timely information regarding how much and when pension is paid. This is marked contrast to other local authorities with whom I have a very small pension – they were both efficient and effective. Also, bilingual service also seems unavailable in Flintshire."

## Employer

"It is quite difficult to give much constructive feedback as we have only been with the scheme for a year and it is a small, closed scheme, but all my dealings to date have been dealt with swiftly and efficiently."

"Have been very supportive to this council"

"Staff are very professional and knowledgeable."

# Eitem ar gyfer y Rhaglen 10



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 September 2017
<b>Report Subject</b>	Investment and Funding Update
<b>Report Author</b>	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 2017/18 update for quarter 1 (April to June 2017) is attached as Appendix 1. The only task relating to this quarter is in relation to Asset Pooling and is progressing on target.
- (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 4. MiFID II is now progressing since final guidance was issued. An update is given on paragraph 1.02.
- (c) Delegated responsibilities (Appendix 3). This details the responsibilities which have been delegated to officers since the last Committee meeting. These 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 including the delegated responsibilities and provide any comments.
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## REPORT DETAILS

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
1.01	<p><b>Business Plan Update</b></p> <p>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 2017.</p> <p>Work in relation to Asset Pooling is ongoing and the appointment for an Operator for the Wales Pension Partnership is currently in progress. A verbal update has been provided at Agenda item 4.</p>
1.02	<p><b>Current Developments and News</b></p> <p><b>MiFID II.</b></p> <p>Members were provided with an update on MiFID II at the June 2017 Committee along with a presentation from the Fund Consultant, JLT. The report recommended that the Clwyd Pension Fund follow the procedures which would be set in the Financial Conduct Authority Handbook in order for the Fund to be recognised as a professional investor. The FCA published the Handbook in late June which confirmed that the LGPS will be required to complete an “opt up” process with each of its fund managers.</p> <p>The Fund will be required to contact all its managers to inform them we wish to be considered as Professional Investors and will need to complete quantitative and qualitative questionnaires and provide supporting documentation. A copy of these is attached at Appendix 2.</p> <p>In order to ensure all the managers have sufficient time to satisfy themselves with the documentation provided to them, they have requested that this is provided by 30<sup>th</sup> September 2017.</p> <p>The Pension Finance Manager is working alongside the Funds Consultant, JLT to ensure all the documentation is available to achieve the deadline requested by the managers.</p>
1.03	<p><b>Cost Transparency</b></p> <p>Work is ongoing with the Financial Conduct Authority and the Local Government Association on finding ways to ensure consistent reporting of manager costs across the LGPS.</p>
1.04	<p><b>Policy and Strategy Implementation and Monitoring</b></p> <p>The Advisory Panel receive a detailed investment report from the Funds 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.</p>



	<p>The Advisory Panel also receive reports from the following groups:</p> <ul style="list-style-type: none"> <li>• Tactical Asset Allocation Group (TAAG)</li> <li>• Funding and Risk Management Group (FRMG)</li> <li>• Private Equity and Real Assets Group (PERAG)</li> </ul> <p>There are currently 3 outstanding items from the investment review undertaken in August 2016:</p> <ul style="list-style-type: none"> <li>• Appointment of a US Private Credit Manager</li> <li>• Allocation to Smart Beta mandate</li> <li>• Reduction of Property (3%) and increase to Infrastructure exposures (3%)</li> </ul> <p>Progress on the first two are explained in more detail in the delegated responsibilities in Appendix 3. The move between Property and Infrastructure has a longer term objective although we are actively looking for suitable infrastructure investments.</p>
1.05	<p><b>Delegated Responsibilities</b></p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 3 updates the Committee on the areas of delegation used since the last meeting.</p> <p>To summarise:</p> <ul style="list-style-type: none"> <li>• There is sufficient liquidity to meet short term requirements</li> <li>• Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG).</li> <li>• Within the “In House” portfolio, 2 further commitments have been made in the Real Asset portfolio totalling a sterling equivalent of £16 million. All these commitments follow the strategy agreed by the AP for these asset classes.</li> <li>• There are no significant matters to bring to the attention of the Committee as a result of the Fund Manager monitoring meetings.</li> </ul>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.

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

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Appendix 4 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

	<p>target. Four of the five risks (relating to the Actuarial Valuation) improved from the previous risk status one of the area target risk. Of the remaining three risks in Investments and Funding, one is substantially different to the target risk with the other two being just one step away from their targets.</p> <p>Risk F6 is now the only risk with a significant likelihood and this relates to matters related to Pooling, Brexit and MiFID II.</p>
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<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 - 2017/18 Business plan update  Appendix 2 – Delegated Responsibilities  Appendix 3– MiFID II Questionnaire  Appendix 4 – Risk dashboard and register – Investments and Funding</p>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Report to Pension Fund Committee – Business Plan 2017/18 to 2019/20 – 21 March 2017.</p> <p><b>Contact Officer:</b> Debbie Fielder, Pension Finance Manager  <b>Telephone:</b> 01352 702259  <b>E-mail:</b> debbie.a.fielder@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>CPF – Clwyd Pension Fund</b> – 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</p> <p>(b) <b>Administering authority or scheme manager</b> – 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.</p> <p>(c) <b>PFC – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>TAAG – Tactical Asset Allocation Group</b> – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.</p> <p>(e) <b>AP – Advisory Panel</b> – 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.</p>

- (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) **MiFID II** – this and the Regulation on Markets in Financial Instruments and Amending Regulation (“MiFIR”) are both European Commission legislation and are commonly referred to as “MiFID II”. Together they seek to provide a European-wide legislative framework for regulating the operation of financial markets in the EU.
- (l) A full glossary of Investments terms can be accessed via the following link.  
<http://www.fandc.com/uk/private-investors/tools/glossary/>

Mae'r dudalen hon yn wag yn bwrpasol

# Business Plan 2017/8 to 2019/20 – 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	2017/18 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
F1	Asset Pooling	x	x	x	x	x	x

### Funding and Investments (including accounting and audit) Task Descriptions

#### **F1 –Asset Pooling**

##### **What is it?**

To enable the Wales funds to pool assets an operator will be appointed to provide the investment infrastructure and advice. Once the Operator has been appointed and registers the appropriate vehicles with the Financial Conduct Authority then asset transfers can begin.

##### **Timescales and Stages**

Appointment of Operator and registration  
Asset transition

2017/18  
2018/19 & 2019/20

### **Resource and Budget Implications**

The Clwyd Pension Fund Manager and Pension Finance Manager will be involved in the procurement of the operator and agreeing asset transitions. Initially this this be within existing budget although the implications on internal resources will be kept under review.

**Elective Professional Client - Status Assessment**

**NAME OF LOCAL AUTHORITY:** \_\_\_\_\_

**CAPACITY:** As administering authority of the local government pension scheme

**NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:** \_\_\_\_\_

**DATE:** \_\_\_\_\_

**QUANTITATIVE TEST**

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

<i>Please answer question (a) with a "Yes" / "No" answer</i>	
<p>(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme <b>exceed GBP 10,000,000</b>?</p> <p>Portfolio size _____ as at date: .....</p>	<p><input type="checkbox"/> Yes      <input type="checkbox"/> No</p>
<p>(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?</p>	<p><input type="checkbox"/> Yes      <input type="checkbox"/> No</p>
<i>If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases</i>	
<p>(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least <b>10 per quarter</b> for the <b>previous four quarters</b> (i.e. at least 40 investments on the relevant market in the last year)?</p> <p>Transaction total: .....</p>	<p><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> N/A</p>
<p>(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged?</p> <p>Details of role: .....</p>	<p><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> N/A</p>

## QUALITATIVE TEST

The “qualitative test” requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions and understanding the risks involved**<sup>1</sup>.

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

### TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

#### Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.
----	---

a	All decisions delegated to committee or sub-committee.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so)</i>	YES NO	<input type="checkbox"/> <input type="checkbox"/>
		Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so)</i>	YES NO	<input type="checkbox"/> <input type="checkbox"/>
		Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>
c	All decisions delegated to an officer or officers.	YES NO	<input type="checkbox"/> <input type="checkbox"/>
d	Other	YES NO	<input type="checkbox"/> <input type="checkbox"/>

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>
----	---	------------------	--

3.	If you have selected model “d - other” above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions.  Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

<sup>1</sup> COBS 3.5.3R (1)



## Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee?  <i>(Please tick whether you have enclosed or provided a link to a copy of an example of the briefing)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
2	Are members provided with training on investment matters?  <i>(Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.		hours offered hours delivered
3	Is the attendance of members at training monitored and recorded?	YES NO	<input type="checkbox"/> <input type="checkbox"/>
4	Please state the average number of hours of training committee members have attended over the last 12 months.		hours
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.		hours
6	Are members required to complete a self-assessment with regard to their knowledge of investments?  <i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
7	Please state the number of years served on the committee (or other such investment committees) on average for each member		years
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

### Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).
---	--

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Index-linked securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Listed equities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property PIVs	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Private equity funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Exchange traded derivatives (ETDs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Over-the-counter derivatives (OTCs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commodities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Cash deposits	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commercial paper	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Floating rate notes	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Money market funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed <input type="checkbox"/>	Link <input type="checkbox"/>
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES <input type="checkbox"/>	NO <input type="checkbox"/>

#### Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	<p>Does the authority have a risk framework and/or risk management policy in place in relation to investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to a details of the framework/policy)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	
2	<p>Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?</p> <p>If yes, please provide the name of the advisor:</p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p>	
3	<p>Is the risk framework/policy reviewed on a regular basis?</p> <p>If YES please state the frequency of the review.</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the last review)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p>	
4	<p>Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	
5	<p>Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management?</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	

## Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each <u>officer providing support</u> to the committee or sub-committee please provide the following information.
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Job title	Relevant qualifications	Years experience in role <sup>2</sup>

2.	For each <u>officer with delegated investment powers</u> please provide the following information (these may be the same officers as above).
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Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers?  <i>(Please tick whether you have enclosed or provided a link to details of the succession plan)</i>	YES NO	<input type="checkbox"/> <input type="checkbox"/>
		Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>

4.	For each individual investment advisor used by the authority please provide the following information <i>only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below</i> .
----	--

Name	Relevant qualifications	Years experience in role <sup>3</sup>

<sup>2</sup> Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

<sup>3</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

5. For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6. For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below*).

Name	Relevant qualifications	Years experience in role <sup>4</sup>

7. For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8. Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities. YES  NO

<sup>4</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

## Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment?	YES	<input type="checkbox"/>
		NO	<input type="checkbox"/>
	<i>(If yes please tick whether you have enclosed or provided a link to a details of the breach)</i>	Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>

2.	Please use the box below to provide any further information which may be useful in the support of your application.
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**DELEGATED RESPONSIBILITIES**

	<b>Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
1.051	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 2017, there were no rebalancing or transition 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 31<sup>st</sup> June 2017 was £56.7m (£60.7m at 31<sup>st</sup> May 2017). Cash balance as at August 30<sup>th</sup> 2017 was £47.0m. The cash flow has been monitored to ensure there is sufficient monies to pay benefits and capital calls for investments.

	<b>Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of</b>

			<b>Delegation</b>
1.052	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:

- Redemption of Wellington Commodities exposure - £23.6m
- Redemption of LGIM Japanese Equities -12.8m
- Part redemption of LGIM US Equity (Hedged) -£10m
- Part redemption of BlackRock Emerging Market Equities - £9m
- Invest £12.8m in BlackRock European Equity (Hedged)
- Invest £11.8m in LGIM Global Real Estate Equity
- Invest £11.8m in LGIM Infrastructure MFG (Hedged)
- Invest £19m in Investec Emerging Market Debt (Local Currency)

The current allocations within the portfolio following the transactions are:

- Commodities (1.1%)
- US Equities (2.2%)
- Equity Linked Bonds (0.5%)
- Emerging Market Equities (2.5%)
- European Equities (0.6%)
- Emerging Market Debt (0.9%)
- Real Estate (0.6%)
- Infrastructure (0.6%)

Detailed minutes of the Group identifying the rationale behind the recommendations made to the Clwyd Pension Fund Manager and decisions made under this delegation have been circulated to the Advisory Panel.

As at the end of July 2017, the Best Ideas portfolio has both outperformed its target and added value to the investment return at total Fund level.



	<b>Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
1.053	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 3%. 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 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,

### **Action Taken**

Due diligence has been undertaken on two Infrastructure investments and the following commitments have been made under delegated authority since the last Committee:

- \$10 million to Goldman Sachs West Street Infrastructure III (Global Infrastructure Fund targeting 8 - 12% Net IRR)
- €10 million to Carlyle Global Opportunities I (Global Infrastructure Fund targeting 8-12% net IRR)

Carlyle is an existing manager with other mandates within the Private Markets allocation, although this is the first within the Infrastructure allocation. Goldman Sachs is a new manager appointed to the increasing Infrastructure allocation. The Funds aim is not to increase the number of fund manager relationships already in place unless absolutely necessary to assist with the governance of the in house portfolio.

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 have been circulated to the Advisory Panel.

	<b>Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
1.054	Selection, appointment and dismissal of Fund Managers	PFM, CFM and CEO (having regard to ongoing advice of the IC) and subject to ratification by PFC	Notified to PFC via ratification process.

### **Background**

On occasion, as a result of changes to the Fund's investment strategy or persistent poor performance by a fund manager, changes are required. The Committee delegate these changes to officers having regard to advice from the Investment Consultant and only ratify the process. In the longer term fund manager selection and dismissal will be the responsibility of the Wales Pool.

### **Action taken**

The strategy changes agreed by Committee as a result of the "light touch" strategic review included a 3% allocation to Private Credit and 4% allocation to Smart Beta within the global equity allocation.

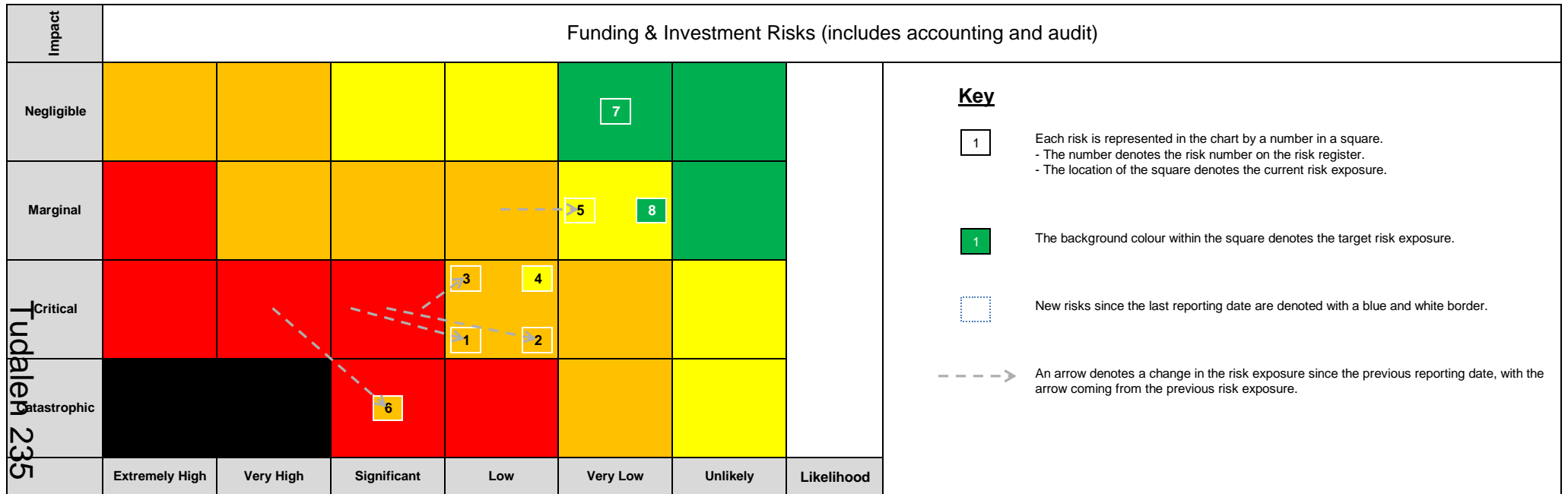
For Private Credit the search for one or more managers began in March 2017. As reported to the Committee in June, Permira, a European Private Credit manager, were awarded a £30m mandate.

The search is now underway for a US Private Credit manager and a selection of managers were invited to submit their suitability for the specific mandate agreed with the Fund and its Investment Consultant, JLT. 12 managers responded to the search and a short list of 4 managers have been agreed to take through to the next stage of the process.

Due diligence meetings will be held with the short listed manager, JLT and the Pension Finance Manager in October 2017.

The Committee has previously agreed that the implementation of the new smart beta asset allocation (4% of the Fund) will be done via Blackrock as part of the Wales Pool arrangements for this asset class. Discussions are on-going with Blackrock and it is planned to fund this by the end of September 2017.

## Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



12 September 2017

**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 reasonable 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 reporting procedures take full account of longer-term risks and sustainability
- F9 Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

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Risk nr:	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?	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low	High	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	High	☹️ Current likelihood 1 too high	1 - Finalise employer covenant monitoring and ill health captive	CPFM	30/09/2017	21/03/2017	Critical	Significant	High	
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	High	See points within points 3,4 and 5	Marginal	Low	High	☹️ Current impact 1 too high	See points within points 3,4 and 5	CPFM	30/06/2017	21/03/2017	Critical	Significant	High	
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	High	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	High	☺️	1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG)	Pension Finance Managers	30/06/2017	21/03/2017	Critical	Significant	High	
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	High	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	High	☹️ Current impact 1 too high Current likelihood 1 too high	1 - The level of hedging will be monitored and reported regularly via FRMG	Pension Finance Managers	30/06/2017	21/03/2017	Critical	Low	High	
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	High	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	High	☺️	1 - Assumptions and experience will be reviewed at the 2019 valuation.	Pension Finance Managers	31/03/2019	21/03/2017	Marginal	Low	High	
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	High	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 - Participation in National consultations and lobbying	Marginal	Low	High	☹️ Current impact 2 too high Current likelihood 1 too high	1 - Fund has no control over this except through responses to consultations etc.	CPFM	30/06/2017	21/03/2017	Critical	Very High	High	
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	F1 / F6	Negligible	Very Low	High	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	High	☺️	1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place).	Pension Finance Managers	30/06/2017	21/03/2017	Negligible	Very Low	High	
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	High	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	High	☹️ Current likelihood 1 too high	1 - Employer risk management framework to be finalised	Pension Finance Managers	30/09/2017	21/03/2017	Marginal	Very Low	High	

# Eitem ar gyfer y Rhaglen 11



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 September 2017
<b>Report Subject</b>	Funding, Flightpath and Risk Management Framework Update
<b>Report Author</b>	Clwyd Pension Fund Manager

### EXECUTIVE SUMMARY

Members should note that:

- On a consistent basis the estimated funding position at the end of August is 92% which is around 13% ahead of the expected position from the 2016 actuarial valuation. However, there remains uncertainty in future return expectations.
- The level of hedging remains at 20% for interest rate and 40% for inflation at 30 June 2017.
- The Insight investment guidelines were updated during August 2017 to incorporate the interest rate triggers that were agreed at the November 2016 PFC. No interest rate triggers have been breached since the interest rate triggers were re-introduced.
- The LDI restructure completed in March 2017 is expected to achieve a net long-term gain of £36.5m. A gain could be crystallised earlier in certain market conditions. Since the restructure, the Fund has benefitted by around £6.1m at the end of August. This position will continue to be monitored to highlight an opportunity to crystallise a gain earlier (subject to a minimum of £25m).
- The Equity protection strategy was implemented on 24th April 2017 to protect against losses of more than 15% over a one year period on the equity mandate with Insight but retain full gains in the markets. This incurred an expected "premium" of £7.2m. The value of the equity option will be monitored on a quarterly basis.

### RECOMMENDATIONS

1	Note the updated funding and hedging position for the CPF and the progress being made on the various elements of the Risk Management Framework. <b>Tudalen 237</b>
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## REPORT DETAILS

1.00	<b>FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE</b>
	<b><i>Update on funding and the flightpath framework</i></b>
1.01	<p>The monthly summary report as at 31 August 2017 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.</p>
1.02	<p>The estimated funding level is 92% with a deficit of £162m at 31 August. In absolute terms the relative funding position is 13% ahead of the expected position at the end of August 2017 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 5% to 87% with a corresponding increase in deficit of £90m to £252m.</p>
1.03	<p>The revised interest rate and inflation triggers agreed at the November 2016 PFC are in place with Insight following updated investment guidelines being signed in August. None of the new triggers have been satisfied.</p>
1.04	<p>The level of hedging was around 20% for interest rates and 40% for inflation at 30 June 2017. 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.</p>
1.05	<p>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.</p>
	<b><i>Update on Risk Management framework</i></b>
1.06	<p>(i) Restructuring the Insight Portfolio</p> <p>As reported previously, Insight and Mercer identified an opportunity to restructure Insight’s mandate that will 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.</p> <p>Insight implemented the trade subject to achieving a minimum level of benefit (net of transaction costs) of £25m. The trade was completed over the period 20<sup>th</sup> February to 3<sup>rd</sup> March 2017.</p>

	<p>The net long-term gain achieved was £36.5m (made up of a yield gain of £38m and transaction costs of £1.5m) which was a very positive result and lower trading costs than expected. The Fund's hedge ratios remain at 20% for interest rates and 40% for inflation.</p> <p>Going forward the relative value trade will be monitored to see if a gain can be crystallised earlier if market conditions allow. Since inception the Fund has benefitted by around £6.1m. This will continue to be monitored.</p> <p>Cash collateral of £80m was released from the LDI portfolio on 23<sup>rd</sup> March following advice from Mercer. The ongoing collateral adequacy of the LDI portfolio mandate is monitored on a quarterly basis.</p> <p>As at 30 June 2017 the Fund had an additional collateral buffer which could be released to invest elsewhere, however, this should be taken into context with the wider liquidity constraints of the Fund. The suitability of disinvestment will be discussed further at FRMG.</p>
1.07	<p>(ii) Implementation of Equity protection on the Insight mandate</p> <p>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 will provide further stability in employer 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.</p> <p>It was agreed by the FRMG that the Equity protection should only cover exposure within the Equity mandate managed by Insight. Mercer and JLT were tasked to consider various options and put forward a recommendation to the FRMG for agreement on 12<sup>th</sup> April 2017.</p> <p>It was agreed to implement a 1 year term contract to cover any losses on the mandate (£325m) of 15% or more. This was subject to the premium being no more than 3% of the total exposure (£10m). The strategy was implemented on 24<sup>th</sup> April 2017 at a premium of £7.2m (including transaction costs) or 2.2% of exposure.</p> <p>The strategy and the value of the equity option contract will continue to be monitored.</p>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None required

<b>4.00</b>	<b>RISK MANAGEMENT</b>
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): <ul style="list-style-type: none"> <li>• Governance risk: G2</li> <li>• Funding and Investment risks: F1 - F6</li> </ul>
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 in the Insight mandate only.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - Monthly monitoring report - August 2017

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
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.  <b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager <b>Telephone:</b> 01352 702264 <b>E-mail:</b> philip.latham@flintshire.gov.uk

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>CPF – Clwyd Pension Fund</b> – 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.</p> <p>(b) <b>Administering Authority or Scheme Manager</b> – 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.</p> <p>(c) <b>PFC – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.</p> <p style="text-align: center;">Tudalen 240</p>



- (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) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (g) **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.
- (h) **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.
- (i) **GAD – Government Actuary's Department** - The Government Actuary's Department is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.
- (j) **Section 13 Actuarial Valuation** - Section 13 of the Public Service Pensions Act 2013 provides for a review of the LGPS valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where it is considered appropriate. The GAD will undertake this review based on the results of the 2016 actuarial valuations.
- (k) **ISS – Investment Strategy Statement**  
The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund
- (l) **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.
- (m) **Deficit**  
The extent to which the value of the Fund's liabilities exceeds the value of the Fund's assets.
- (n) **Funding level**  
The difference between the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

- (o) **Hedging**  
A strategy that aims to reduce funding volatility. This is achieved by investing in assets that mimic changes in liability values due to changes in market conditions.
- (p) **Hedge ratio**  
The level of hedging in place in the range from 0% to 100%.
- (q) **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.
- (r) **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.
- (s) **Equity option**  
A financial contract in which the Fund can define the return it receives for movements in equity values.
- (t) **Equity TRS (Equity Total Return Swap)**  
A financial contract in which the Fund receives the return on an equity index. In return the Fund must pay a regular financing fee to a counterparty bank.
- (u) **Collateral**  
Liquid assets held by the Fund as security which may be used to offset the potential loss by a counterparty.
- (v) **Counterparty**  
Commonly an investment bank on the opposite side of a financial transaction (e.g. swaps).
- (w) **London Interbank Offer Rate (LIBOR)**  
An interest rate at which banks can borrow funds from other banks in the London interbank market.
- (x) **Z-spread**  
The difference between the yield on gilts and swaps.

# CLWYD PENSION FUND

## RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT

September 2017

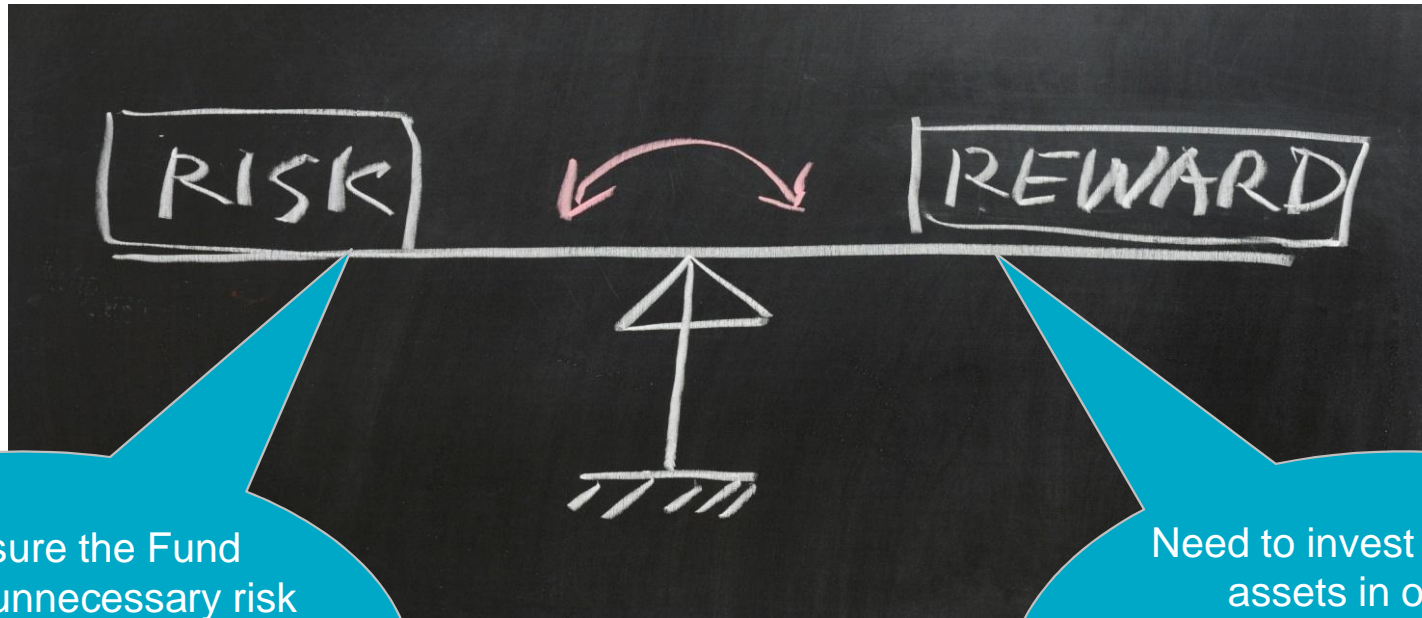
Fudalen 243

Paul Middleman

Adam Lane



# THE PERENNIAL BALANCING ACT



Tudalen 244

Need to ensure the Fund does not take unnecessary risk in order to **protect** the current funding position – implies investing in assets which give a more certain real return.

Need to invest in “growth” assets in order to (expect to) **improve funding level** without further employer contributions – Implies investing in growth assets (e.g. equities).

Maintaining required expected return

+

Better Risk Management

=

Improved long-term affordability and sustainability in the cost of pension provision

# FRAMEWORK - 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) than when 110% funded?

# RISK MANAGEMENT OPTIONS

## IMPACT OF HEDGING AT ATTRACTIVE LEVELS

### Increasing certainty

- Increasing the liability hedge ratio at an attractive rate of return will increase certainty of real return outcomes.
- Tudalen 246
- What this means is that the Fund would have a better chance of meeting the required return target.

### Maintaining/Improving affordability

- As we now are more certain about achieving the required level of return it is possible to increase the liability discount rate (all other things equal).
- The impact of this would be to reduce any deficit.

### Reducing asset risk

- In isolation, increasing the hedge ratio does not change the volatility associated with growth assets.
- Instead of maintaining/improving affordability, the Fund could reduce the risk associated with growth assets without impacting the value placed on the liabilities.

In practice a balanced approach could be adopted

# EXECUTIVE SUMMARY



= as per or above expectations



= to be kept under review



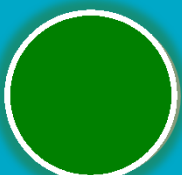
= action required



## Overall funding position

- Ahead of existing recovery plan
- Funding level just below the first trigger
- Possible action will be discussed at FRMG following trigger breach

In absolute terms the funding position is c.13% 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
- Performance marginally behind the benchmark since inception

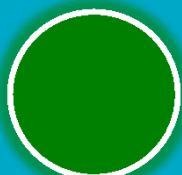
No action required.



## Synthetic equity mandate

- Insight in compliance with investment guidelines
- Performed in line with the benchmark over the quarter
- Maturity constraints as expected

No action required. Insight implemented an equity option strategy to provide protection on the equity TRS exposure in April.



## Collateral and counterparty position

- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.25% rise in interest rates and inflation in combination with a 35% fall in equity markets and a 0.5% increase in z-spreads before requiring further collateral

Collateral adequacy to be monitored quarterly. Potential to release further monies into the portfolio based on the agreed collateral guidelines at 30 June 2016.



## LIBOR Plus Fund

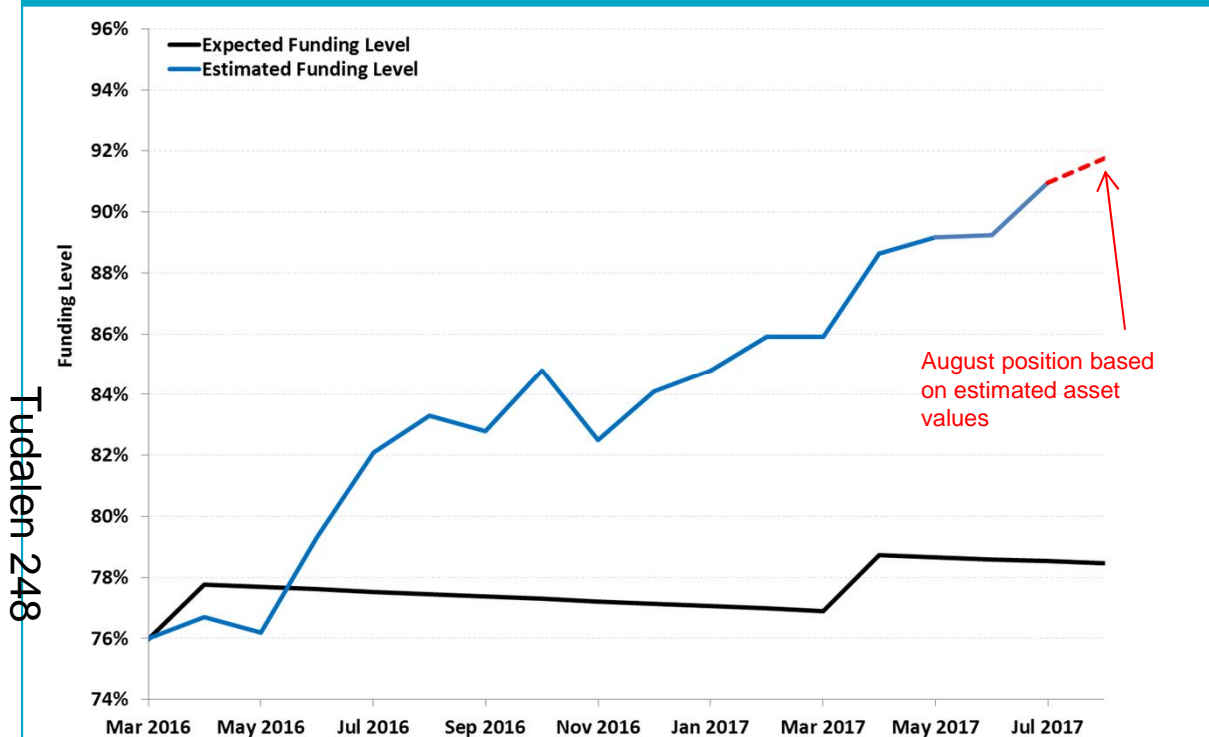
- LIBOR has outperformed its target since inception
- Management team stable and no change in manager rating
- Allocation of £50m remains appropriate

No action required.

Tudalen 247

# FUNDING LEVEL MONITORING TO 31 AUGUST 2017

## Estimated funding position since 31 March 2016



Tudalen 248

## 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 August 2017 was around 79%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 31 July 2017. The **red line** shows the progression of the estimated funding level over August 2017. At 31 August 2017, we estimate the funding level and deficit to be:

# 92% (£162m\*)

This shows that the Fund's position was ahead of the expected funding level at 31 August 2017 by around 13% 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 5% to 87% with a corresponding increase in deficit of £90m to £252m.

This will be kept under review in light of changing market conditions.

## 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.

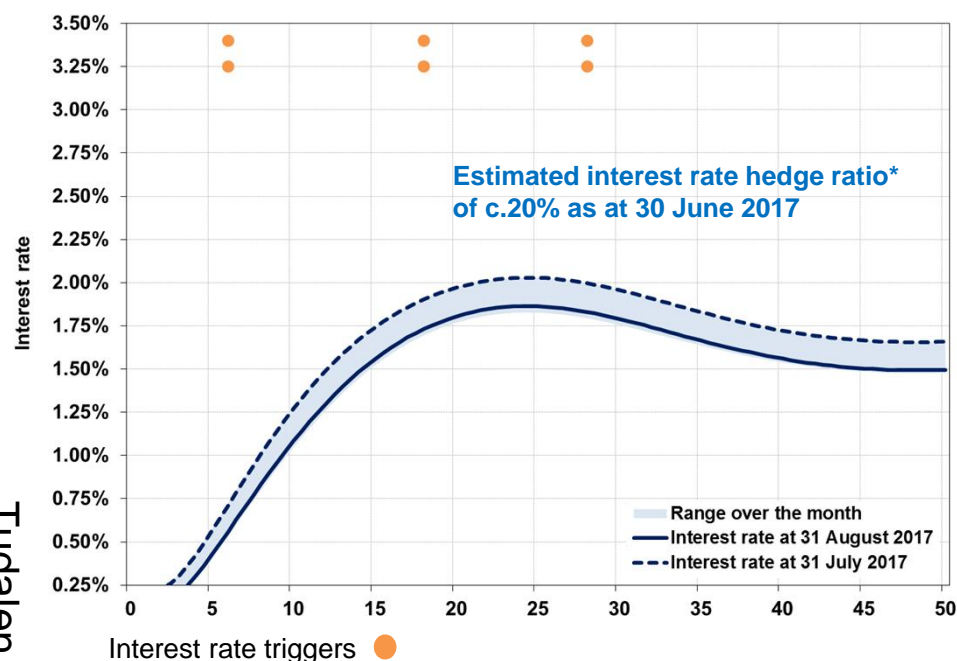
It was agreed that a "soft" trigger will be put in place to prompt FRMG discussions regarding potential actions as the funding level approaches 100% on the current funding basis. This funding level will be monitored approximately by Mercer on a daily basis.

\*Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 31 July 2017 to 31 August 2017. 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

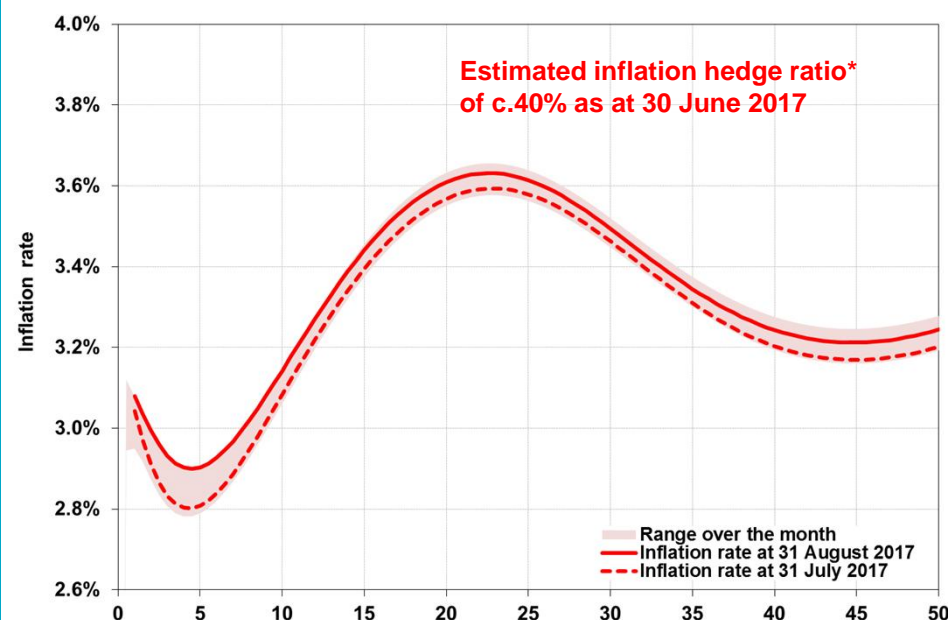
## Change in interest rates



Tudalen 249

Date	Band 1	Band 2	Band 3	Band 4	Actual
30 June 2017	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
30 June 2017	40.0%	40.0%	40.0%	40.0%	40.0%

## Comments

Interest rates fell across the curve during August, with falls of around 0.2% p.a. across most durations. No triggers were hit over the month.

Following the restructure of the Fund's LDI portfolio in March 2017, the Fund implemented a revised interest rate trigger framework during August. The triggers are shown in the chart above.

## Comments

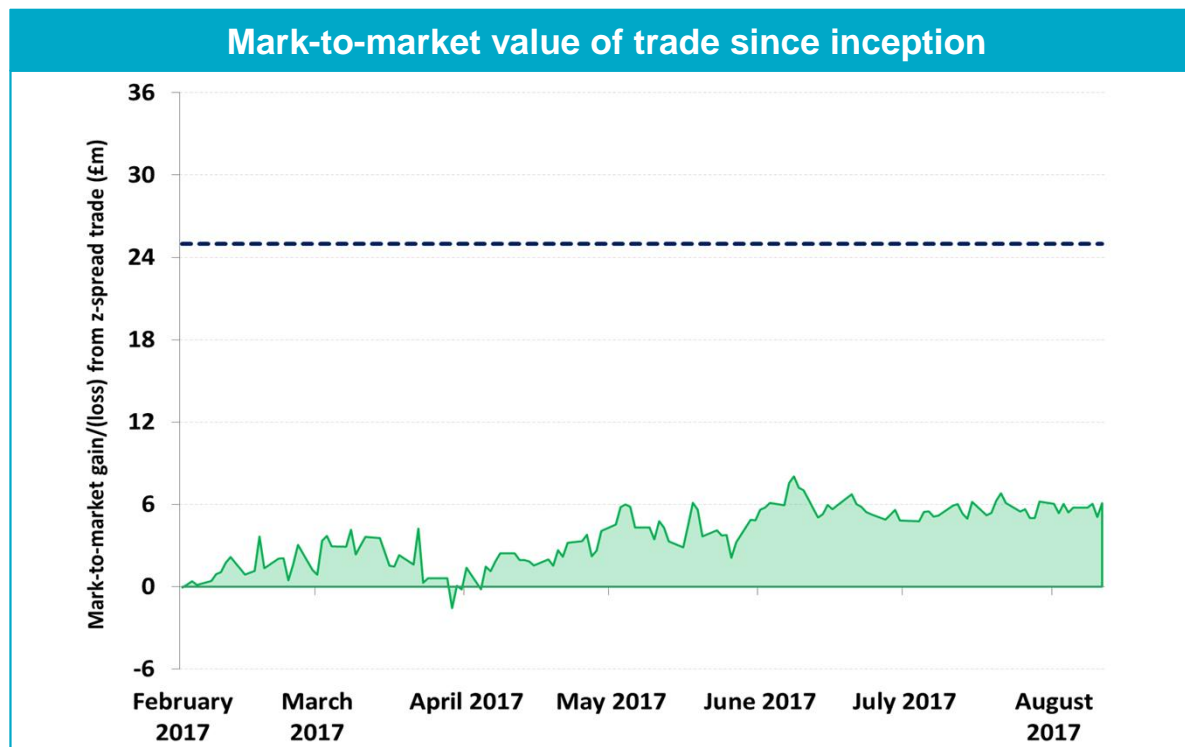
Inflation expectations have risen at all durations over August 2017, with average increases of 0.1% observed across the curve.

The inflation hedge is at the maximum level currently allowable. 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 VALUE OF THE MANDATE RESTRUCTURE

Tudalen 250



*Note: no allowance made for yield improvement from the inflation trade*

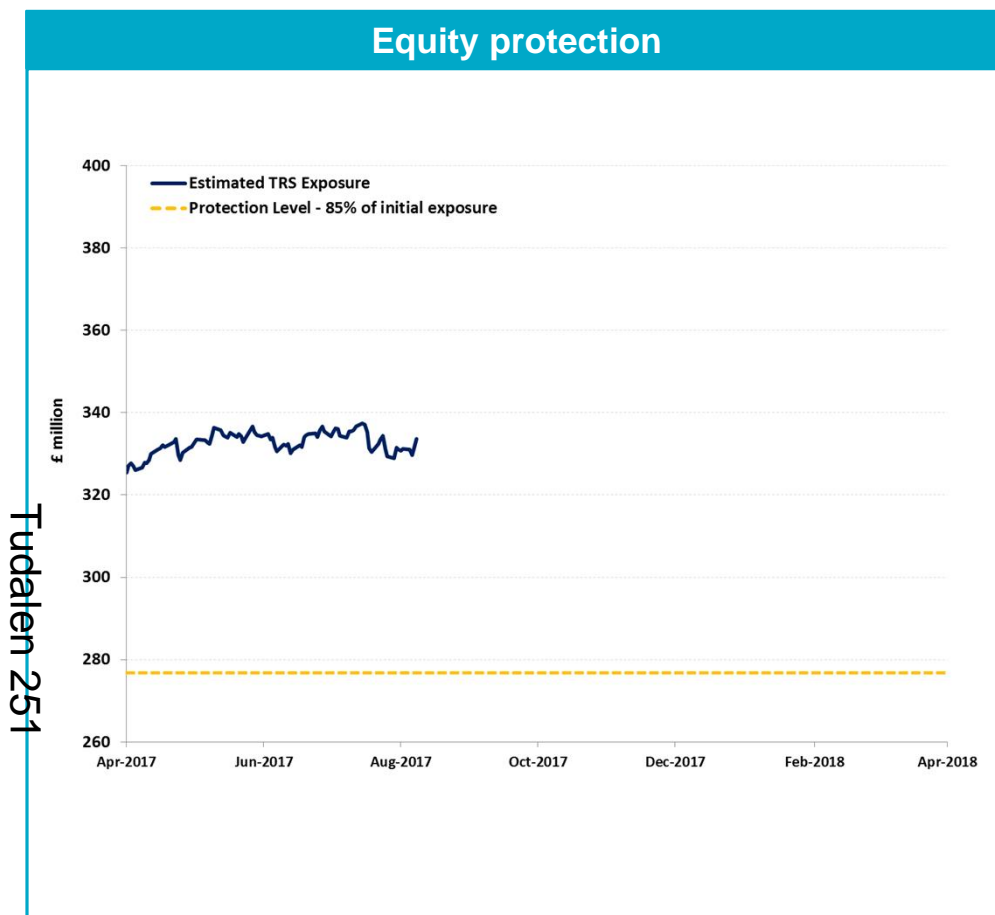
## Comments

Insight estimated the potential net gain of the LDI restructure to be c.£36.5m. This gain will 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 fell slightly over the month given the marginal increase in z-spreads, providing an estimated gain of c. £6.1m as at 31 August 2017. This position will be monitored over time.

At the FRMG on 20 June 2017, it was agreed that Mercer would monitor a “soft” trigger to prompt discussions around closing out the trade to “bank” the gain if the mark-to-market gain exceeds £25m.

# EQUITY TOTAL RETURN SWAP (TRS) PROTECTION



### Comments

An equity option strategy has been implemented to protect the Fund against falls in equity market values over a one-year period to 24 April 2018.

In particular, put options were purchased to protect the value of the current equity TRS exposure beyond 15% market falls over the period to April 2018.

The chart illustrates the value of the equity TRS over the period from 24 April 2017 to 31 August 2017 (the **dark blue line**) and the **yellow dotted line** shows the level at which the protection will start to take effect.

Overall, the value of the Fund's TRS is broadly unchanged as at 31 August 2017 when compared with the 31 July 2017 position, although equity markets remained volatile over the month.

North American and UK equity markets saw gains over August 2017 whilst European and Japanese equity markets fell.

We will continue to monitor this position on a monthly basis.

# GLOSSARY

Tudalen 252

- 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.
- Collateral – Liquid assets held by the Fund as security which may be used to offset the potential loss by 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.
- Equity option – A financial contract in which the Fund can define the return it receives for movements in equity values.
- Equity TRS (Equity Total Return Swap) – A financial contract in which the Fund receives the return on an equity index. In return the Fund must pay a regular financing fee to a counterparty bank.
- 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.

# IMPORTANT NOTICES

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This analysis is TAS 100 compliant.

10/25/17



# Eitem ar gyfer y Rhaglen 12



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 September 2017
<b>Report Subject</b>	Economic and Market Update
<b>Report Author</b>	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 2017.

The economic and market environment during the second quarter was dominated by political uncertainty. The UK General Election result led to questioning on how successful the coalition Government and the outcome of future Brexit negotiations would be. In addition there was uncertainty as to whether US President Donald Trump can deliver his election promises. However in general there was strong resilience from equity markets to the political instability. Key contributors driving sentiment include:

- Falling unemployment but muted wage growth
- Strengthening economic data
- A pick up in inflation

Over the quarter all equity markets with the exception of the US produced positive returns with strong returns in Europe ex UK and Emerging Markets. Commodities markets declined heavily whilst rising UK Government bond yields led to capital value falls in UK fixed income assets.

### RECOMMENDATIONS

1	To note and discuss the Economic and Market Update 30 June 2017.
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

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
1.01	<p><b>Economic and Market Update 30 June 2017</b></p> <p>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:</p> <ul style="list-style-type: none"><li>• <b>Market Background</b> – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies.</li><li>• <b>Economic Statistics</b> – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing</li><li>• <b>Market Commentary</b> – section provides detailed commentary on the economic and market performance of major global regions and financial markets (including alternative assets).</li></ul>
<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report.
<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report.
<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	None.
<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Economic and Market Update Period Ending 30 June 2017
<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Economic and Market Update Period Ending 31 March 2017.



	<p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>
<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>A list of commonly used terms are as follows:</p> <ul style="list-style-type: none"> <li>(a) <b>Absolute Return</b> – The actual return, as opposed to the return relative to a benchmark.</li> <li>(b) <b>Annualised</b> – Figures expressed as applying to 1 year.</li> <li>(c) <b>Duration</b> – 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.</li> <li>(d) <b>Market Volatility</b> – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.</li> <li>(e) <b>Money-Weighted Rate of Return</b> – The rate of return on an investment including the amount and timing of cashflows.</li> <li>(f) <b>Relative Return</b> – 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.</li> <li>(g) <b>Three-Year Return</b> – The total return on the fund over a three year period expressed in percent per annum.</li> <li>(h) <b>Time-Weighted Rate of Return</b> – The rate of return on an investment removing the effect of the amount and timing of cashflows.</li> <li>(i) <b>Yield (Gross Redemption Yield)</b> – 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.</li> </ul> <p><b>A comprehensive list of investment terms can be found via the following link:</b></p> <p><a href="http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf">http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf</a></p>

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CLWYD PENSION FUND  
ECONOMIC AND MARKET UPDATE  
PERIOD ENDING 30 JUNE 2017

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# 1 MARKET BACKGROUND

## PERIOD ENDING 30 JUNE 2017

### MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	1.4	18.1	7.4
Global Developed Equities	0.3	22.3	16.0
USA	-0.7	21.6	19.9
Europe	4.6	28.7	11.2
Japan	1.5	24.0	16.7
Asia Pacific (ex Japan)	1.3	27.7	14.0
Emerging Markets	2.4	27.8	11.2
Frontier Markets	2.3	23.2	6.3
Property	2.5	5.1	10.3
Hedge Funds	-2.7	11.1	12.4
Commodities	-9.0	-6.4	-17.6
High Yield	-0.7	15.7	13.3
Emerging Market Debt	-0.5	10.7	5.4
Senior Secured Loans	1.1	7.3	4.7
Cash	0.1	0.3	0.4

Yields as at 30 June 2017	% p.a.
UK Equities	3.61
UK Gilts (>15 yrs)	1.80
Real Yield (>5 yrs ILG)	-1.58
Corporate Bonds (>15 yrs AA)	2.57
Non-Gilts (>15 yrs)	2.94

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-2.3	-1.8	12.3
Index-Linked Gilts (>5 yrs)	-2.4	7.1	13.2
Corporate Bonds (>15 yrs AA)	-0.3	5.5	11.1
Non-Gilts (>15 yrs)	0.4	7.3	10.5

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	3.9	-2.8	-8.8
Against Euro	-2.6	-5.4	-3.0
Against Yen	4.7	6.4	-5.5

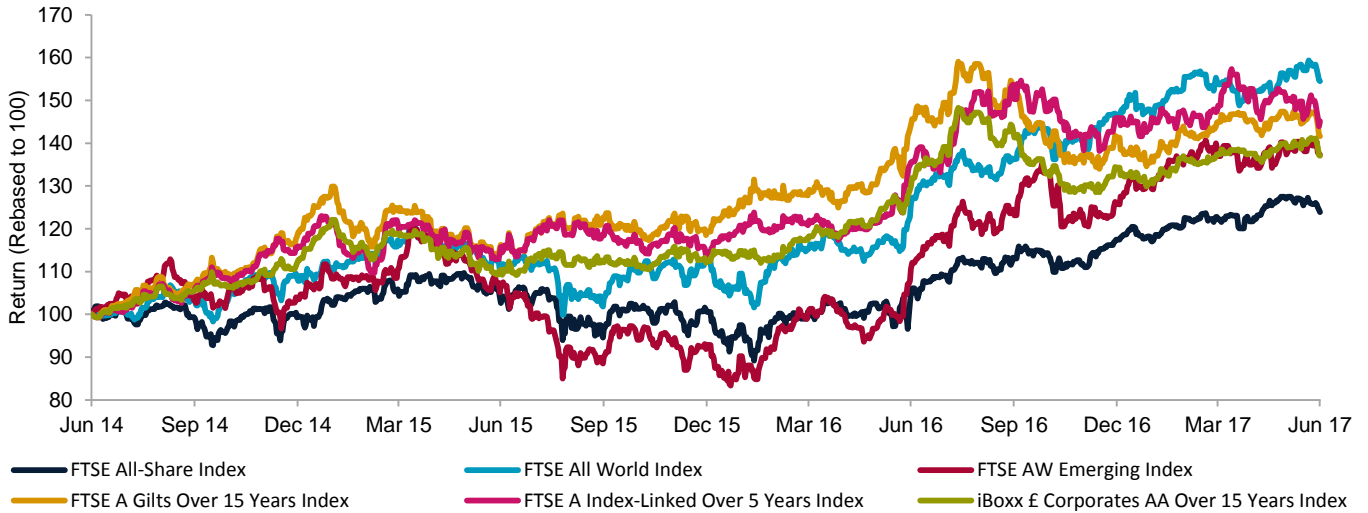
Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	1.1	3.5	2.0
Price Inflation – CPI	0.8	2.6	1.0
Earnings Inflation*	1.6	2.4	2.4

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.14	-0.05	0.34
UK Gilts (>15 yrs)	0.15	0.19	-1.54
Real Yield (>5 yrs ILG)	0.14	-0.19	-1.46
Corporate Bonds (>15 yrs AA)	0.05	-0.19	-1.60
Non-Gilts (>15 yrs)	0.04	-0.25	-1.49

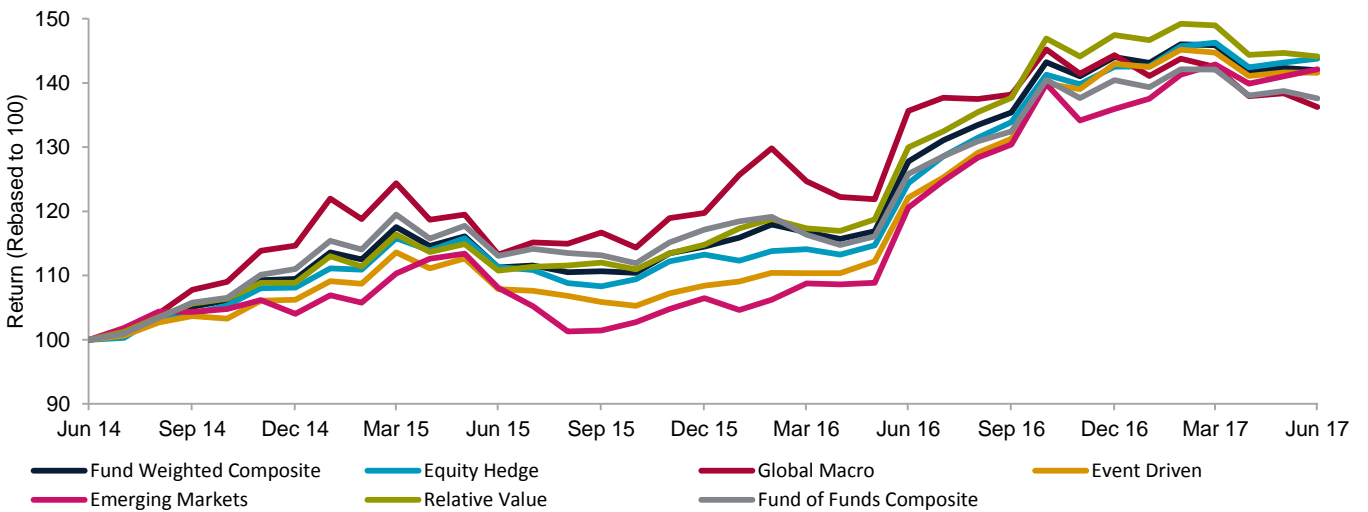
Source: Thomson Reuters and Bloomberg  
Note: \* Subject to 1 month lag

# MARKET SUMMARY CHARTS

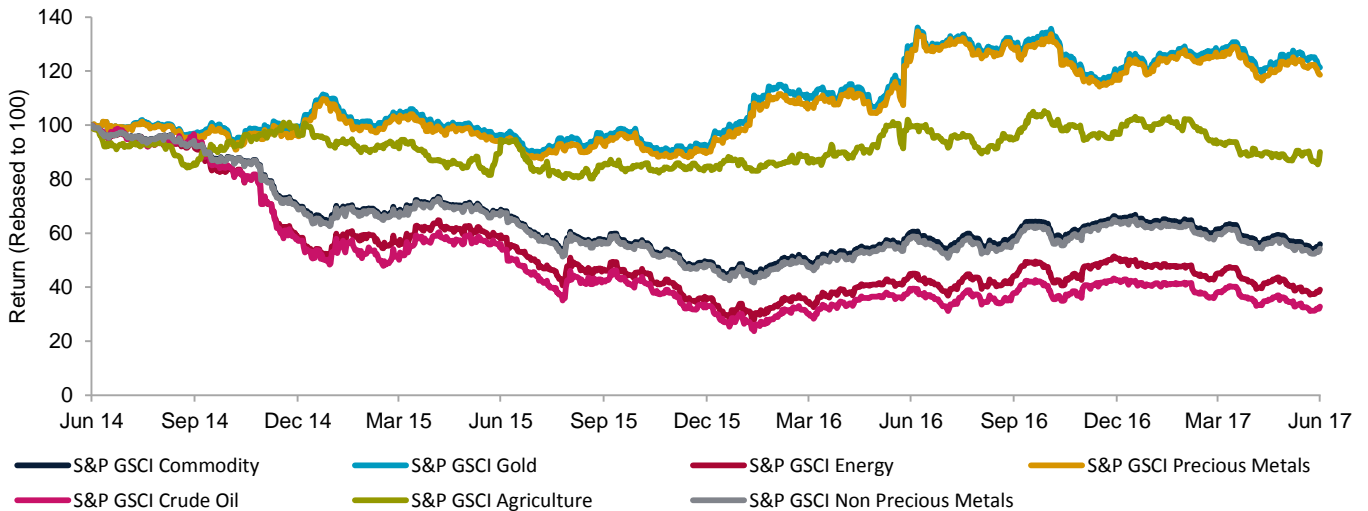
## Market performance – 3 years to 30 June 2017



## Hedge Funds: Sub-strategies performance – 3 years to 30 June 2017



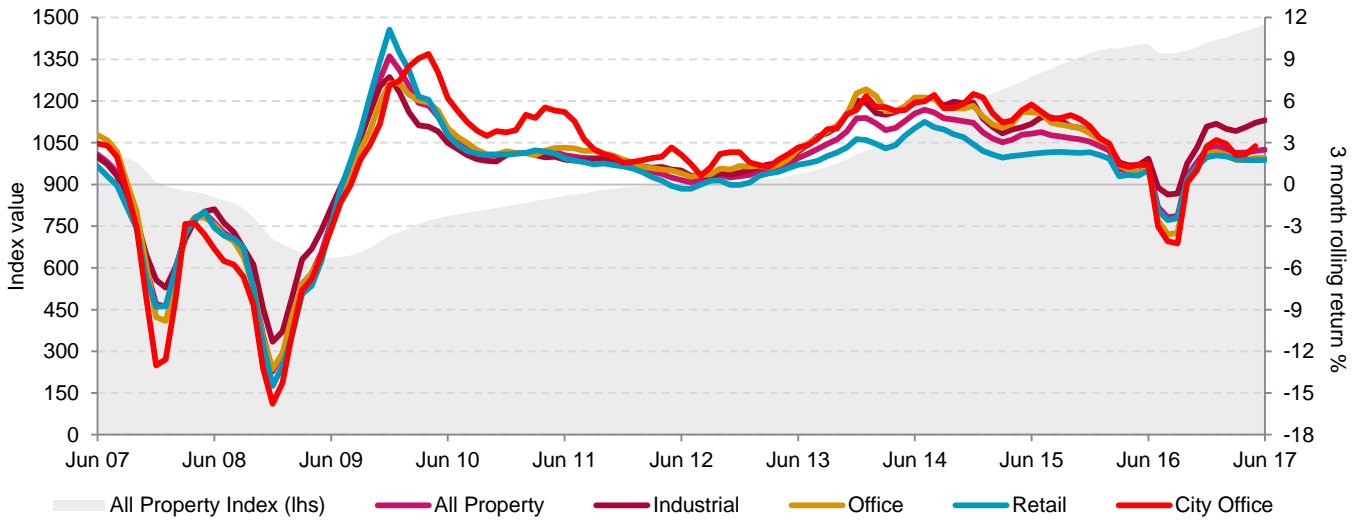
## Commodities: Sector performance – 3 years to 30 June 2017



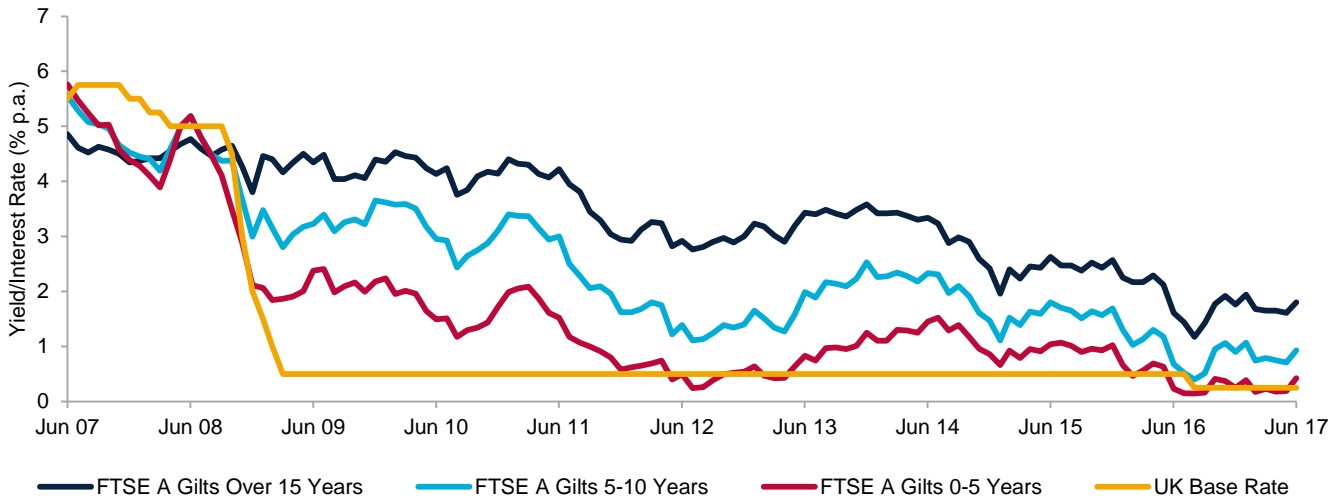
Source: Thomson Reuters

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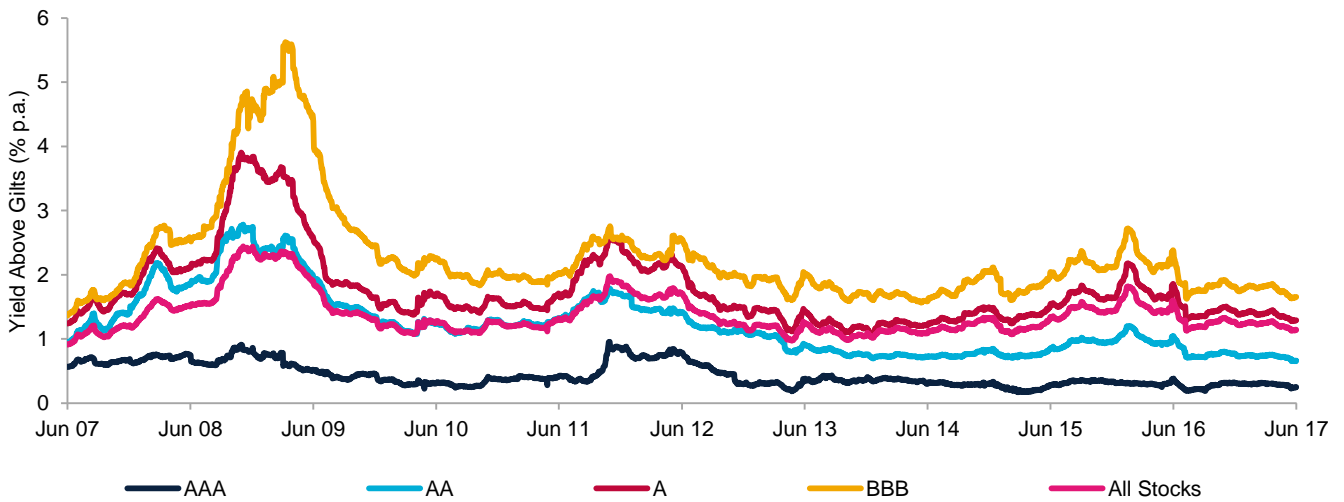
**Property: Sector performance – 10 years to 30 June 2017**



**UK government bond yields – 10 years to 30 June 2017**



**Corporate bond spreads above government bonds – 10 years to 30 June 2017**



Source: Thomson Reuters

# 2 ECONOMIC STATISTICS

Economic Statistics as at:	30 June 2017			31 March 2017			30 June 2016		
	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US
Annual Real GDP Growth <sup>2</sup>	2.0%	2.6%	2.0%	1.9%	2.7%	1.8%	1.6%	2.7%	1.4%
Annual Inflation Rate <sup>3</sup>	2.6%	1.3%	1.6%	2.3%	1.5%	2.4%	0.5%	0.1%	1.0%
Unemployment Rate <sup>4</sup>	4.5%	9.2%	4.4%	4.7%	9.5%	4.7%	4.9%	10.1%	4.9%
Manufacturing PMI <sup>5</sup>	54.2	57.4	52.0	54.3	56.2	53.3	52.5	52.8	51.3

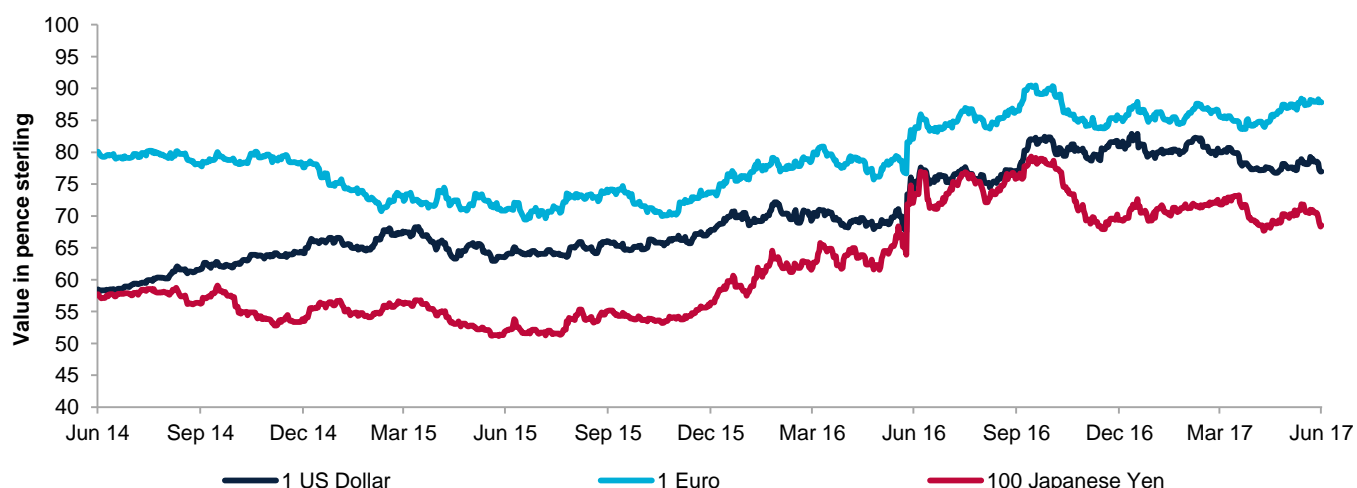
Change over periods ending:	3 months			12 months		
	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US
31 Mar 2017						
Annual Real GDP Growth <sup>2</sup>	0.1%	-0.1%	0.2%	0.4%	-0.1%	0.6%
Annual Inflation Rate <sup>3</sup>	0.3%	-0.2%	-0.8%	2.1%	1.2%	0.6%
Unemployment Rate <sup>4</sup>	-0.2%	-0.3%	-0.3%	-0.4%	-0.9%	-0.5%
Manufacturing PMI <sup>5</sup>	-0.1	1.2	-1.3	1.7	4.6	0.7

Notes: 1. Euro Area 19 Countries. 2. GDP is lagged by one quarter. 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 June 17	31 Mar 17	30 June 16	3 months	12 months
1 US Dollar is worth	76.99p	79.97p	74.81p	3.9%	-2.8%
1 Euro is worth	87.81p	85.54p	83.10p	-2.6%	-5.4%
100 Japanese Yen is worth	68.52p	71.77p	72.92p	4.7%	6.4%

### Exchange rate movements – 3 years to 30 June 2017



Source: Thomson Reuters, Markit, Institute for Supply Management, Eurostat, US Department of Labor and US Bureau of Economic Analysis.

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# 3 MARKET COMMENTARY

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## INTRODUCTION

“Strong and Stable”: that was the tag line, that was the pledge, that is what the UK General Election was meant to deliver. Instead, for the second year in a row there are many more questions than answers.

Will the Conservative/Democratic Unionist Party (DUP) coalition survive/succeed? Will there be a future minority Government? Will Theresa May remain as the Conservative Party leader and Prime Minister? Will the Labour Party move even further to the left with Jeremy Corbyn as leader? Will there be another General Election before Brexit negotiations are complete? Will there be another EU referendum?

These are just some of the British questions that remain unanswered, even now, although many seem unlikely, we will only find out the answers in the coming months. Time is of the essence of course, particularly as Brexit negotiations have formally commenced.

Where the result leaves these negotiations is uncertain. It is unlikely to be completely resolved in the short term; much has been talked about the approach to Brexit and whether it will be hard or soft? Could we see a cliff edge departure at the end of the two-year deadline following the triggering of Article 50?

A deal is possible to extend the timetable for Brexit, but this is dependent on the agreement of all 27 European Union (EU) members, let alone a coherent approach from a UK Government coalition. Talks with the EU started on 19 June, but the approach the UK will take throughout these talks has been left looking confused following the Election result.

With no party having an absolute majority, any possible coalition involving the Liberal Democrats or the Scottish Nationalist Party would have most likely have come at the price of another referendum (either EU or Scottish or both!); that however was seen as unpalatable to members of the two main parties. Instead the Conservatives have decided that the smaller DUP is the preferred choice of partner but at what price to the Government's austerity programme?

The immediate implication that this result will give impetus to a softer approach is not so clear; a weaker UK position gives greater power to those Eurosceptic Conservative MPs, and indeed to any with marginal positions. This is further complicated by the need to satisfy the DUP as a coalition partner.

To quote the Godfather Part 2 ‘Power is nothing without control’ and it is hard to see any political personality wielding power or control at this point in time.

## UNITED KINGDOM

- With the 2017 General Election aftermath and Brexit negotiations finally underway, political uncertainty remains high on risk agendas. Currency stability and controlled inflation are also weighing on UK performance.
- The annual UK inflation rate has continued to climb this year, mainly due to rising petrol and diesel prices, along with a pickup in food prices. Rising prices at factory gates, assisted by a weak Sterling also added to the inflationary pressure.
- The number of people unemployed has fallen considerably. The unemployment rate fell to 4.7% earlier in the year, its lowest level since the summer of 1975.
- The triggering of Article 50, initiating the UK's formal exit from the EU was already discounted and as expected the notification itself did not have any marked bearing on the asset class. However, the two years of negotiations which follow the enforcement of Article 50 are likely to have a significant impact on UK companies

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and markets. Recurring spells of heightened market volatility are likely as the bargaining continues and as investors respond to, and anticipate, negotiating positions.

- The marked pick-up in inflation is a sign that Sterling's sharp depreciation in the wake of the UK's vote to leave the EU coupled with rising energy prices is becoming a cause for concern. While the prevailing inflationary pressures are still benign, the concerns around the impending nature of accelerating inflation have already started to make headlines.
- With inflationary forces of the likes of rising prices of imported goods, lower interest rates and global commodity rallies at play, inflation can rise steeply. This in turn would erode the purchasing power of consumers and trigger a painful rise in input costs for UK plc, both of which are potentially negative for UK domestically focussed equities.
- The UK economy has been resilient but uncertainty remains surrounding its future relationship with the EU. Consumers are still spending but businesses have cut back on investment and hiring. As anticipated, inflation has moved sharply higher, which could add downward pressure on household spending in the coming months.

## EUROPE EX UK

- The election of Emmanuel Macron as President of France in May and the election of Mark Rutte as Prime Minister of the Netherlands in March, both defeating Far Right candidates can be considered as a blow to the populist movement that has been manifesting across Europe over the past year. These election results have been positive for European investor sentiment and confidence.
- The European economy has continued its expansion with France and Germany delivering strong relative levels of growth. Employment levels have accelerated to the highest level in nearly 10 years, with all the 'big four' nations registering employment growth in the first half of 2017.
- The ECB left its benchmark refinancing rate unchanged at 0%. It also continued with its quantitative easing programme; however minutes of recent meetings suggest that the ECB is leaving the door open for potential tapering should market conditions improve in the future.
- Investors are finally appearing to pay heed to the group of analysts who have been cheering for European equities over the past few months. Strengthening economic data, improving manufacturing and consumer sentiment, rising employment levels along with steadily improving inflation are finally enticing investors to this region.
- Recent economic data in the euro-zone has been on a stronger footing, meanwhile monetary policy remains accommodative and corporate earnings could well be on course to deliver the first earnings growth in six years.
- Political risk is likely to take centre stage again later in the year with the general election in Germany.

## NORTH AMERICA

- Rising domestic debt levels being seen in the US can be a significant headwind to economic activity. In a rising interest rates scenario, the interest payments on the outstanding debt would also increase and can create a hindrance to the growth of the economy as consumers would lower spending in order to provide for the higher interest costs.
- The Fed hiked the Federal Funds rate by 25 bps during its March and June meetings as anticipated, signalling that the economy is strong and growing. Fed policy makers are being pulled in two directions, with strong unemployment numbers but with a muted reaction from wages and prices.
- Equity markets have been on an upward trajectory, expecting reflationary policies from the Trump administration. The failed effort to pass some promised key changes have been instrumental in dampening the 'Trump trade'. Realisation has however dawned that President Trump may not be able to win support from the Republican Party to implement all of his election promises. Furthermore, while the Fed may be well placed to continue with rate hikes in 2017, expectations of a similar pace in 2018 can be seen clouding, particularly as they try to reduce its balance sheet size.

- A change in the Fed leadership could occur in 2018, which may impact the pace of rate hikes. Candidate Trump had been highly critical of the Fed's slow pace of tightening during his campaign.
- While equities are trading at high multiples to earnings, they remain marginally attractive in terms of earnings yield when compared to fixed income securities of similar risk, given historically low bond yields and spreads. This, along with improving macro-economic conditions in the US and an imminent turnaround in corporate earnings could help fuel further increase in asset prices. On the other hand, the lack of awareness towards evolving downside risks is a sign of market euphoria, which could lead to a correction in the near-term as the risks become apparent.
- The proposed tax reform, including lower taxes and a reduced regulatory burden could support US equity markets however implementation and detailed plans are both proving difficult and elusive. Inflationary pressures are beginning to build and faster than expected rate rises could slow economic growth.

## JAPAN

- The prospects for Japanese equities are closely linked to the economic conditions in China and the US, which are its major trading partners. The global rebound in trade has been a key factor in providing strength in the region.
- There are sufficient cash holdings on Japanese company balance sheets, improving economic conditions and industrial production likely to increase in the coming months.
- Japanese companies posted increased profits through the latter part of 2016 and into 2017. Apart from the domestic economy, higher growth expectations in the US and China have also augured well for its exports so far in this calendar year. Dividends and share repurchases have also been on the rise in Japan over the recent years. In spite of the above, Japanese stocks have not witnessed a significant increase in their valuations.
- There are however considerable political and economic risks looming around the global economy. With the efforts to repeal Obamacare failing, there are growing concerns over whether the Trump administration's economic proposals would boost the US economy. On the other hand, worries about China's property bubble bursting, upcoming European elections and unstable oil prices can also draw investors to park their money in the Yen thereby detracting from Japanese equities. However, most of these concerns are of a short-term nature.
- Over the near-term, the Bank of Japan has reiterated its commitment to achieve their inflation target of 2% along with its intentions to maintain lower interest rates. This has had a beneficial impact on Japanese banks in particular. Easy monetary policy and fiscal stimulus for 2017, helped by a cheaper Yen will potentially drive forward corporate earnings and business investment.

## ASIA PACIFIC EX JAPAN / EMERGING MARKETS

- Emerging Market (EM) equities have been supported by improved macroeconomic conditions, stable commodity prices and improved global economic activities. The strong EM equity returns were also backed by appreciating currency over the US Dollar and improved capital inflows.
- Stronger EM current account balances, improving growth, relatively controlled inflation, and well-managed US rate expectations have helped EMs currencies against the US Dollar and are expected to continue to do so.
- Countries such as India, Brazil and Russia saw a rapid expansion of their manufacturing activities as output and new orders inched upwards. Additionally, central banks in Brazil and Russia continue to cut their benchmark interest rates as inflation eased in both nations. South Africa, whose economy is struggling to adopt strong reforms, has seen a downgrade in its sovereign debt to junk status by Fitch and S&P, leading to business and consumer confidence taking a hit. In addition, Turkey continues to remain a major concern due to the political tensions surrounding the economy.
- In the recent talks between China and the US, both parties agreed to a "100-day plan" to ensure that they work on further strengthening their ties rather than hampering relations. Even if this cordial trade deal between China

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and US doesn't pan out well, China is not expected to suffer too much as their exports to the US accounts for only 18% of its total exports.

- The risk of a sharp US Dollar rally is fading and growth is broadening out. Strong earnings growth is expected across many of the larger economies such as India and Mexico. Commodity prices continue to show signs of firming and the emerging economies as a whole have been successful in improving their economies, using measures to spur economic activities.

## FIXED INCOME

- Persistent Sterling weakness and the rise in commodity prices are feeding through into headline inflation rates. Lower than anticipated wage growth is likely to mean lower consumer spending and consequently, potentially lower inflation – a key aspect the Bank of England (BoE) is keeping a close eye on, especially given the current inflation spike. The longer-term outlook will depend not only on the BoE's policy directions but also by the demand/ supply dynamics; however, in the short-term investors are still prepared to pay a high price for bonds that protect against inflation.
- A sustained and substantial overshoot of the BoE's 2% inflation target remains a concern. The ongoing economic resilience and above-target inflation expectations could mean pressure for the BoE to raise rates. That said, the uncertainties surrounding the UK's planned EU exit could reduce the probability of tightening quickly, but the recent split vote and the recent comments from Monetary Policy Committee members has added to potential expectations of an imminent rate rise.
- The divergence between UK and US yields is becoming more apparent, with interest rates in the US likely to continue to move higher over the next 12 months.
- The BoE's corporate bond purchase programme has come to a close and there appears to be no obvious signs of pressure on the asset class.
- A lack of new issuance means that order books are over subscribed as investors continue their appetite for yield. In addition, Quantitative Easing from the European Central Bank (ECB) has driven European yields to unattractive levels making Sterling corporate bonds a consideration.
- The US labour market continues to show signs of strength and headline CPI inflation is close to the Federal Reserve's (Fed) target. The impact of the new administration's economic policies remain uncertain at this stage but the Fed's economic projections have remained broadly unchanged with further interest rate hikes expected in the US in 2017.
- A recent firming in oil prices has benefitted US high yield as investors continue their search for yield in a low interest rate environment.
- Corporate profits seem to be in a cyclical upturn and have beaten most estimates over the first half of 2017; this bodes well for the credit conditions of most firms. Company balance sheets remain in relatively good shape and default levels are not an issue currently. The pro growth agenda in the US could also mean that the credit cycle is extended further, as infrastructure plans and tax reforms are eventually put into effect.

## ALTERNATIVES

- Hedge Fund capital rose by \$34.1 billion over the quarter, with total assets ending the quarter at \$3.1 trillion. Investor inflows exceeded redemptions for the first time since Q3 2015. Global Macro strategies in particular received the highest level of inflow as investors increased allocations to funds with a strategic emphasis on non-directional and equity beta-reducing exposures, credit and multi-strategy for protection against rising rates. Hedge Funds (in Sterling terms) returned -2.7% over the quarter; this was primarily due to the depreciation of the US dollar against Sterling, as hedge funds returned 1.1% in US dollar terms. In Sterling terms, all strategies generated negative returns over the quarter, with Global Macro (-4.3%) displaying the worst performance.
- UK commercial property increased by 2.5% over the quarter. Capital values increased by 1.1%, whilst rental income continued to remain steady at 1.4%. All sectors posted positive returns; Industrials increased by 4.6%,

followed by City Offices which returned 2.6%. Office and Retail sectors grew by 1.9% and 1.8%, respectively. At the end of June, the annual property yield stood at 5.6%.

- Commodity markets worsened over the quarter, as three consecutive months of negative returns led to a total loss of 9.0%. All sectors declined; Energy (-13.5%) was the worst performing sector as Crude oil (-14.0%) was hampered by Russia's refusal to OPEC's production cut agreement to reduce market supply. Following the news that all US banks passed the Fed's stress tests, Gold suffered in June as investors moved away from perceived safe haven assets in search of yield. Prices for Non-precious metals (-9.2%), Precious metals (-5.5%), Gold (-4.5%) and Agriculture (-3.8%) all declined over the quarter.

## CONCLUSION

It has been said many times before and will be said many times in the future: 'markets do not like uncertainty' and although the uncertainty from the Election and Brexit negotiations will cause volatility, the effect should be limited to the UK markets.

Market reaction since the UK General Election has been mixed, but relatively subdued. The FTSE 100 with its international revenue streams has been buoyed by the fall in Sterling, much as it was following the referendum vote last year. The more domestically focused FTSE 250 has fallen on the back of the uncertainty caused by the result.

Currency markets abhor instability and uncertainty. This was evident in the falls in Sterling following the Brexit referendum, pre-election opinion polls and indeed the Election result. The value of Sterling remains significantly down against the Dollar over the last twelve months.

Forecasts for shorter-term increases in inflation have been realised over 2017. Further weakening in Sterling could provide greater inflationary pressure. Long dated bond yields have continued to point to a muted view on future inflation. More worryingly for the UK economy, inflation is out-stripping wage inflation which could leave the UK economy in a perilous position as earnings and savings are eroded.

Bond yields could fall as investors seek a safe haven, but there is debate over what can be considered a safe haven. Over the medium-term, greater uncertainty over Brexit lends itself to a narrative of "lower for longer". However, recent Bank of England rhetoric has indicated a willingness to control inflation which could indicate an earlier than expected rise in UK interest rates, which would lead to the potential of increasing UK bond yields.

In general, we've seen strong resilience from equity markets to political instability. News flow on European, US and Chinese economic data is far more influential.

As Warren Buffet once said 'Never test the depth of the water with both feet'.

# 4 INDICES USED IN THIS REPORT

Asset	Index
<b>Growth Assets</b>	
UK	FTSE All-Share Index
Global Developed	MSCI World Index
USA	FTSE USA Index
Europe (ex UK)	FTSE AW Europe (ex UK) Index
Japan	FTSE Japan Index
Asia Pacific (ex Japan)	FTSE AW Asia Pacific (ex Japan) Index
Emerging Markets	MSCI Emerging Markets Index
Frontier Markets	MSCI Frontier Markets Index
Property	UK IPD Monthly Property Index
Hedge Funds	HFRI Fund Weighted Composite Index
Commodities	S&P GSCI TR Index
High Yield	Bank of America Merrill Lynch Global High Yield Index
Emerging Markets Debt	JPM GBI-EM Composite Index
Senior Secured Loans	Credit Suisse Western European Leveraged Loan Index
Cash	IBA GBP LIBOR 1 Week Index
<b>Bond Assets</b>	
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
<b>Yields</b>	
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)
<b>Inflation</b>	
Price Inflation – RPI	All Items Retail Price Index (NADJ)
Price Inflation – CPI	All Items Consumer Price Index (Estimated NADJ)
Earnings Inflation	Average Weekly Earnings Index (Whole Economy excluding Bonuses)
<b>Exchange Rates</b>	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Note: All indices above are denominated in Sterling.

## **CONTACT**

**KIERAN HARKIN**

Director

+44 (0)161 957 8016

kieran\_harkin@jltgroup.com

**ANTHONY KERSHAW**

Senior Consultant

+44 (0)161 253 1157

anthony\_kershaw@jltgroup.com

**ANTHONY WRAY**

Consultant

+44 (0)161 253 1121

anthony\_wray@jltgroup.com

**NATALIE ZANI**

Associate Consultant

+44 (0)161 253 1124

natalie\_zani@jltgroup.com

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# Eitem ar gyfer y Rhaglen 13



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 20 September 2017
<b>Report Subject</b>	Investment Strategy and Manager Summary
<b>Report Author</b>	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 2017.

From an Investment Strategy perspective, the Total Equity, Total Multi Asset Credit and Total In-House assets produced positive returns and outperformed their composite targets. The Managed Account Platform and Best Ideas Portfolio detracted. Key facts covered in the report are as follows:

- Over the 3 months to 30 June 2017, the Fund's total market value increased by £66.3m to £1,742,375,697.
- 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 0.9% compared with a composite target of 1.0%.

The benchmarks are reflective of the new strategic weightings although full implementation of the strategy is on going.

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 2017.
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

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
1.01	<p><b>Investment Strategy and Manager Summary 30 June 2017</b></p> <p>Over the 3 months to 30 June 2017, the Fund's total market value increased by £66.3m to £1,742,375,697.</p> <p>Total Fund assets returned 0.9% over the quarter, compared with a composite target of 1.0%.</p> <p>Over the one year period, Total Fund assets returned 16.4%, compared with a composite target of 12.7%.</p> <p>Over the last three years, Total Fund assets returned 11.0% p.a., compared with a composite target of 9.9% p.a.</p> <p>The strongest absolute returns over the quarter came from the Equity allocation and the Total In-House assets.</p> <p>The Fund's asset portfolio is broadly within the new strategic ranges set for the asset classes as agreed in the recent strategy review. However there are a number of deviations which will be addressed as part of the Private Credit manager searches.</p>
1.02	<p>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.</p> <p>The Fund's investment consultant has undertaken the manager search from the appointment of a Private Credit manager. An appointment has been made in respect of a European Private Credit manager whilst the process to appoint a North American Private Credit manager is ongoing and due to conclude in October 2017.</p> <p>The Smart Beta allocation, which will be managed by BlackRock, will be implemented upon completion and approval of the relevant documentation.</p>

## 2.00 RESOURCE IMPLICATIONS

2.01	None directly as a result of this report.
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<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	None directly as a result of this report.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>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.</p> <p>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.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Investment Strategy and Manager Summary 30 June 2017.

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Investment Strategy and Manager Summary 31 March 2017.</p> <p><b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>A list of commonly used terms are as follows:</p> <p>(a) <b>Absolute Return</b> – The actual return, as opposed to the return relative to a benchmark.</p> <p>(b) <b>Annualised</b> – Figures expressed as applying to 1 year.</p> <p>(c) <b>Duration</b> – 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.</p> <p>(d) <b>Market Volatility</b> – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.</p>

- (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 2017

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# 1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

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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 2017, the Fund's total market value increased by £66.3m to £1,742,375,697.

Over the quarter, total Fund assets returned 0.9% compared with a composite target of 1.0%. Total Fund (ex LDI) returned 1.4%, in line with its target.

In-House assets and total Equities both generated returns of 2.9%, followed by total Credit which returned 1.0%. Managed Account Platform (-1.9%) and the Best Ideas Portfolio (-0.7%), both declined, with the latter delivering its first negative quarterly return since September 2015.

In relative terms, total Fund assets returned -0.1% below the target, which was mainly attributable to the Managed Account Platform and Best Ideas portfolios which underperformed their targets by -2.8% and -2.3% respectively.

Equities returned 2.9% against a composite target of 1.8%, contributing 0.4% to total Fund performance and 0.1% to relative performance.

Multi-Asset Credit outperformed its target by 0.7% and added 0.1% to relative performance.

Managed Futures and Hedge Funds underperformed its target by -1.6% over the quarter, which detracted -0.1% from relative outperformance.

In-House assets returned 2.9% over the quarter, ahead of its target by 1.3% and made a positive contribution of 0.3% to relative returns.

Insight's LDI portfolio fell by -0.6%, mainly attributable to rising yields over the quarter. Due to the overweight allocation to LDI, overall this detracted -0.1% from the total Fund's relative outperformance.

## EQUITIES

Global equity markets gained over the quarter, with positive returns (in Sterling terms) observed in all major regions except the US.

Equity assets remained resilient over the quarter despite heightened geopolitical risk and political uncertainty in Europe. Equity market growth was mainly attributable to strong economic data and corporate earnings growth across all regions. In particular, the Global Purchasing Managers' Index (PMI) for manufacturing showed expansion across developed and emerging economies, and notably in Europe. Corporate results growth bolstered investor's confidence as encouraging results were visible across most sectors except energy, where companies were affected by falling commodity prices. In local terms, US equities were positive, however, the depreciation of the US dollar against Sterling resulted in a negative Sterling return.

In Developed markets, Europe provided the strongest returns increasing by 4.6%, followed by Japan which returned 1.5%. UK and Asia Pacific (ex Japan) posted returns of 1.4% and 1.3%, respectively. Meanwhile, the US was the only region that posted negative returns, returning -0.7%.

Over the last 12 months, all developed regions posted positive returns, with Europe providing the strongest returns, increasing by 28.7%. UK equities continued to experience the lowest return of the developed markets, increasing by 18.1%.

Emerging Markets and Frontier Markets both rose by 2.4% and 2.3% respectively over the quarter, both markets saw a strong annual return of 27.8% and 23.2%, respectively.

Total Equity assets returned 2.9%, which was 1.1% above the composite target. All funds in the strategy increased, although the Wellington Emerging Markets (Core) was the only equity fund to underperform, returning 2.2% against its target of 2.7%.

Global equity exposure to financials and healthcare, which are both overweight their benchmark allocations were the main sources of return. Banks in particular outperformed the index as Citigroup gained on the positive outcome of the Fed's capital adequacy tests, doubling its dividends and increasing its share buy back programme. Stock selections within the Informational Technology sector were strong, and the overweight allocation to emerging markets and underweight to US also helped the strategy.

In Emerging Markets, stock selection in China and Russia contributed to the majority of gains, although this was offset to some extent by stock selection in South Korea and Brazil. Stock selection added most within Telecommunications and Materials, which was partially offset by detractors within Informational Technology and Financials.

## MULTI-ASSET CREDIT

Global credit markets generally gained in local terms over the second quarter of 2017, with EM Debt, High Yield and Global Investment Grade all advancing, although the strengthening of Sterling against the Dollar and other currencies over the period led to declines in Sterling terms. Government bond yields, having fallen since the start of the quarter, saw a substantial rise towards the end of the quarter as the US Federal Reserve raised interest rates in June and projected a further hike later in the year. Investors reacted to the comments from central banks that suggested the European Central Bank may begin to reduce its quantitative easing purchases sooner and Mark Carney hinted that the Bank of England might raise interest rates later this year.

The US economy continued to improve and unemployment was reported to be at its lowest level since 1970; as a result the Fed raised interest rates by 25bps in June and said that it is likely to begin reducing its balance sheet. However, despite this, yields on US treasuries fell lower over the quarter.

Investment Grade bond markets rose over the quarter, supported by low volatility and improving earnings. Credit spreads tightened to three-year lows as global demand remains very strong.

Over the quarter, Long Dated Fixed Interest Gilts, Long Dated Index-Linked Gilts and Long Dated UK Corporate Bonds produced returns of -2.3%, -2.4% and -0.3% respectively, as the sell-off at the end of June reversed earlier gains. Global Bonds increased by 0.6% in local terms but returned -1.2% in Sterling terms, Emerging Market Debt and High Yield Bonds declined 0.5% and 0.7%, respectively.

Total Multi-Asset Credit returned 1.0% over the quarter, ahead of its target by 0.7%, this contributed 0.1% to total Fund performance. Overall exposure to Investment Grade Corporates contributed 0.3% to total returns, whilst High Yield, EM Debt, Securitised and Global Rates added around 0.1% to the strategy. Security selection within the High Yield and EM Debt sectors of the portfolio detracted over the period but was supported by credit spreads.

Within High Yield, Energy was the worst sector for the portfolio following increased volatility and a falling price of oil. Although elsewhere, Banking, Pharmaceuticals, Leisure and Chemicals drove the positive returns in the portfolio. In EM Debt, exposures in Sub-Saharan Africa and Eastern Europe were the portfolios' largest regional contributors, particularly Ukraine and Ivory Coast. Latin American positions declined mainly due to currency returns in Brazil, Argentina and Colombia, although exposures in Mexico outperformed significantly.



## HEDGE FUNDS

Hedge Fund capital rose by \$34.1 billion over the quarter, with total assets ending the quarter at \$3.1 trillion as investor inflows exceeded redemptions for the first time since Q3 2015. Global Macro strategies in particular received the highest level of inflow as investors increased allocations to funds with a strategic emphasis on non-directional and equity beta-reducing exposures, credit and multi-strategy for protection against rising rates.

Hedge Funds (in Sterling terms) returned -2.7% over the quarter; this was primarily due to the depreciation of the US dollar against Sterling, as hedge funds returned 1.1% in US dollar terms. In Sterling terms, all strategies generated negative returns over the quarter, with Global Macro (-4.3%) delivering the worst performance.

ManFRM's Managed Futures & Hedge Funds strategy posted a negative return of -0.7%, underperforming its target by -1.6% and detracting -0.1% from relative outperformance.

ManFRM Hedge Funds (Legacy) portfolio which consists of Duet, Liongate and Pioneer (until August 2016) assets generated a negative return of -19.1%, attributable to two write-downs in the Liongate portfolios totalling c. £1.78 effective at the end of April 2017.

## TACTICAL ALLOCATION PORTFOLIO

### *DIVERSIFIED GROWTH*

Total Diversified Growth assets returned 1.7% over the quarter, underperforming the target by 0.5%. Overall, this contributed 0.2% to total Fund performance but detracted 0.1% from relative performance.

Pyrford returned 0.1% compared to a target of 2.3%. The Fund's overseas equities performed better than UK equities, returning 0.9% and -0.2% respectively. Overseas performance was led by positions in VTech Holdings (Hong Kong), as the company continued to perform strongly following an acquisition of its main competitor and Nestle (Switzerland), whose price rose following a significant investment by an activist hedge fund. In the UK portfolio, United Utilities fell 10% over the quarter on the back of fears that the next regulatory review in 2019 is likely to prove more challenging for the company. The portfolio's bond holdings detracted, as yields rose sharply towards the end of the quarter. In particular, UK bonds performed well relative to the wider market whilst overseas bonds were weaker due to Sterling strength over the period.

Investec's portfolio generated a return of 3.3% compared to a target of 2.0%. Performance was driven primarily by the Fund's 'Growth' strategies, with its 'Uncorrelated' holdings also adding to performance, albeit marginally. Almost half of the returns came from non-traditional sources of return, including relative value positions across equities, government bonds, credit and volatility, as well as active currency positions across the Growth, Defensive and Uncorrelated assets. The biggest detractor was the newly initiated Germany vs Italian government bond position and the long Japanese Yen exposure. The receding likelihood of an early election in Italy contributed to Italian bonds outperforming German bonds, while the Japanese Yen's depreciation against Sterling and the US Dollar, cost the portfolio modest amounts.

### *BEST IDEAS PORTFOLIO*

The Best Ideas Portfolio returned -0.7%, below its target by 2.3%. Overall, this detracted -0.1% from total Fund performance and -0.2% from total Fund relative performance. Over the last 12 months, the total Best Ideas Portfolio delivered a return of 12.8% and outperformed its target of UK CPI +3.0% p.a. by 7.0%.

The performance of the Best Ideas Portfolio was negatively impacted by the Investec Global Natural Resources Fund (-9.4%) and the Wellington Commodities Fund (-4.0%) which suffered as a result of sharp price declines in the energy sector. Both funds detracted -0.1% from total Fund relative performance and total Fund performance.

The Best Ideas' strongest performer was the LGIM Japanese Equities (Hedged) Fund (6.2%) which benefitted from Sterling's appreciation against the Japanese Yen, leading to a gain of 6.2% and outperforming its target by 4.6%. Elsewhere in the portfolio, growth was generated by the LGIM North American Equity Fund (2.4%), outperforming its target by 0.8% and the BlackRock Emerging Market Equities Fund (0.7%), although this underperformed its target by -0.9%.

The F&C UK Equity-Linked Gilt Fund returned -0.4% underperforming its benchmark by -2.0%, however made neutral contributions to both total Fund relative performance and total Fund performance.

During the quarter, a new position in the BlackRock US Opportunities Fund was established with an initial investment of approximately £18m.

## IN-HOUSE ASSETS

Total In-House Assets returned 2.9%, ahead of their composite target by 1.3%. Overall this contributed 0.6% to total Fund performance. The two sub-sections of the In-House assets; the Real Assets Portfolio and the Private Markets Portfolio returned 1.5% and 4.3% respectively.

It should be noted that the revised strategic weightings to Property and Infrastructure differ to the actual allocations as these are longer term allocations which will be reached once the final portfolio has been fully constructed.

Private Equity assets were the strongest section of the portfolio, returning 4.7%, ahead of its target by 3.4%.

Property (2.5%) and Opportunistic assets (1.0%) underperformed their targets by -0.2%, and -0.3% respectively.

Timber/Agriculture returned 1.6% and outperformed its target by 0.3%.

Infrastructure was the only section to decline, returning -2.1% and underperforming its target by -3.4%.

# 2 STRATEGIC ASSET ALLOCATION

## 30 JUNE 2017

### Allocation by underlying asset class

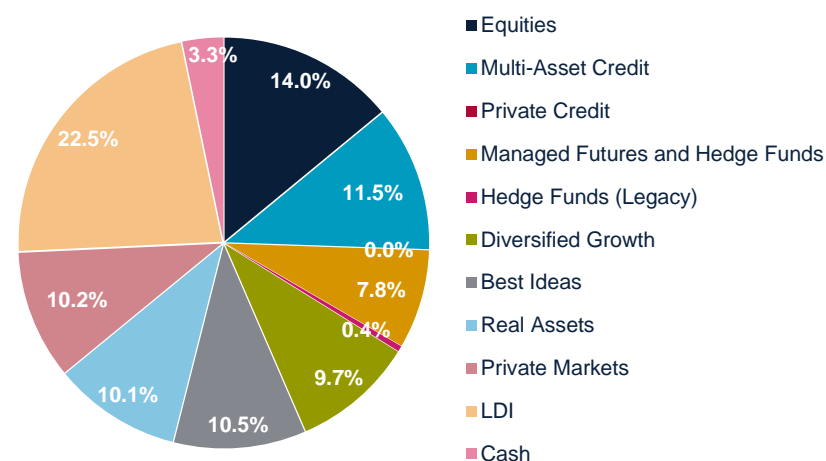
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	134,161,874	7.7	8.0	-0.3	5.0 – 10.0
Emerging Market Equities	110,309,775	6.3	6.0	+0.3	5.0 – 7.5
Multi-Asset Credit	200,536,383	11.5	12.0	-0.5	10.0 – 15.0
Private Credit	0	0.0	3.0	-3.0	2.0 – 5.0
Managed Futures and Hedge Funds	136,647,732	7.8	9.0	-1.2	7.0 – 11.0
Hedge Funds (Legacy)*	7,791,136	0.4	0.0	+0.4	–
Diversified Growth	168,361,075	9.7	10.0	-0.3	8.0 – 12.0
Best Ideas	182,119,487	10.5	11.0	-0.5	9.0 – 13.0
Property	114,593,207	6.6	4.0	+2.6	2.0 – 6.0
Infrastructure / Timber / Agriculture	61,717,453	3.5	8.0	-4.5	5.0 – 10.0
Private Equity / Opportunistic <sup>^</sup>	177,942,490	10.2	10.0	+0.2	8.0 – 12.0
LDI & Synthetic Equities	391,485,816	22.5	19.0	+3.5	10.0 – 30.0
Cash	56,709,270	3.3	0.0	+3.3	0.0 – 5.0
<b>TOTAL CLWYD PENSION FUND</b>	<b>1,742,375,697</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	

Notes: \* Hedge Funds (Legacy) includes the S.A.R.E (Duet) and Liongate portfolios. ^ Private Equity / Opportunistic includes an allocation to Private Credit.

### Points to note

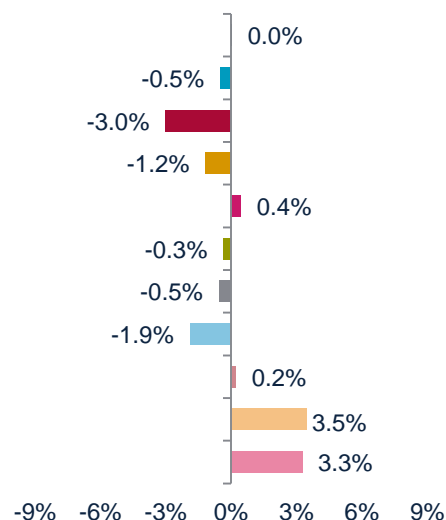
- Asset allocation reflects the strategy to be implemented as part of the 2016 Investment Strategy Review, as such a number of asset classes will be underweight for an interim period until the portfolio is fully constructed.
- Total allocation to LDI decreased by -1.0% over the quarter, however, the fund remains overweight the strategic allocation by 3.5%.

### Strategic Asset Allocation as at 30 June 2017



Note: Totals may not sum due to rounding

### Deviation from Strategic Allocation



# 3 VALUATION AND ASSET ALLOCATION AS AT 30 JUNE 2017

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
<b>Investec</b>	Global Strategic Equity	134,161,874	7.7	4.0	5.0 – 10.0 <sup>(1)</sup>
<b>Wellington</b>	Emerging Market Equities (Core) <sup>#</sup>	52,936,825	3.0	3.0	5.0 – 7.5
<b>Wellington</b>	Emerging Market Equities (Local) <sup>#</sup>	57,372,950	3.3	3.0	
<b>Total Equity</b>		<b>244,471,649</b>	<b>14.0</b>	<b>14.0<sup>(1)</sup></b>	
<b>Stone Harbor</b>	Libor Multi-Strategy Portfolio	129,838,303	7.5	12.0	10.0 – 15.0
<b>Stone Harbor</b>	Multi-Asset Credit Portfolio	70,698,081	4.1		
<b>Total Credit Portfolio</b>		<b>200,536,383</b>	<b>11.5</b>	<b>15.0<sup>(2)</sup></b>	<b>10.0 – 20.0<sup>(2)</sup></b>
<b>ManFRM</b>	Managed Futures and Hedge Funds	136,647,732	7.8	9.0	7.0 – 11.0
<b>ManFRM</b>	Hedge Funds (Legacy)*	7,791,136	0.4	0.0	–
<b>Managed Account Platform</b>		<b>144,438,867</b>	<b>8.3</b>	<b>9.0</b>	<b>7.0 – 11.0</b>
<b>Pyrford</b>	Global Total Return	82,797,426	4.7	5.0	8.0 – 12.0
<b>Investec</b>	Diversified Growth	85,563,649	4.9	5.0	
<b>Total Diversified Growth</b>		<b>168,361,075</b>	<b>9.7</b>	<b>10.0</b>	<b>8.0 – 12.0</b>
<b>BMO</b>	UK Equity-Linked Gilts	10,625,922	0.6	11.0	9.0 – 13.0
<b>LGIM</b>	Japanese Equities (Hedged)	12,770,571	0.7		
<b>Investec</b>	Global Natural Resources	21,786,288	1.3	11.0	9.0 – 13.0
<b>Wellington</b>	Commodities (Hedged)	23,595,851	1.4		
<b>LGIM</b>	North American Equities (Hedged)	37,436,967	2.1	11.0	9.0 – 13.0
<b>BlackRock</b>	Emerging Markets Equities	57,983,510	3.3		
<b>BlackRock</b>	US Opportunities	17,920,378	1.0	11.0	9.0 – 13.0
<b>Best Ideas Portfolio</b>		<b>182,119,487</b>	<b>10.5</b>		
<b>Tactical Allocation Portfolio</b>		<b>350,480,562</b>	<b>20.1</b>	<b>21.0</b>	<b>15.0 – 25.0</b>
<b>In-House</b>	Property	114,593,207	6.6	4.0	2.0 – 6.0
<b>In-House</b>	Infrastructure	33,295,943	1.9	8.0	5.0 – 10.0
<b>In-House</b>	Timber / Agriculture	28,421,510	1.6		
<b>Real Assets Portfolio</b>		<b>176,310,660</b>	<b>10.1</b>	<b>12.0</b>	<b>10.0 – 15.0</b>
<b>In-House</b>	Private Equity	153,209,878	8.8	10.0	8.0 – 12.0
<b>In-House</b>	Opportunistic	21,968,797	1.2		
<b>In-House</b>	Private Credit	2,763,815	0.2	10.0	8.0 – 12.0
<b>Private Markets Portfolio</b>		<b>177,942,490</b>	<b>10.2</b>		
<b>Total In-House Assets</b>		<b>354,253,150</b>	<b>20.3</b>	<b>22.0</b>	
<b>Insight</b>	LDI Portfolio	391,485,816	22.5	19.0	10.0 – 30.0
<b>Total LDI</b>		<b>391,485,816</b>	<b>22.5</b>	<b>19.0</b>	<b>10.0 – 30.0</b>
<b>Trustees</b>	Cash	56,709,270	3.3	-	0.0 – 5.0
<b>TOTAL CLWYD PENSION FUND</b>		<b>1,742,375,697</b>	<b>100.0</b>	<b>100.0</b>	

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 Includes a 4.0% strategic allocation to Smart Beta. 2 Includes a 3.0% strategic allocation to Private Credit.

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# 4 PERFORMANCE SUMMARY

## PERIODS ENDING 30 JUNE 2017

Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance vs Objective
		Fund	Target	Fund	Target	Fund	Target	
● Investec	Global Strategic Equity	2.3	1.0	28.0	25.3	15.0	17.7	Target not met
● Wellington	Emerging Markets (Core) <sup>#</sup>	2.2	2.7	27.6	29.1	11.0	12.3	Target not met
● Wellington	Emerging Markets (Local) <sup>#</sup>	5.2	2.9	28.4	30.3	13.9	13.4	Target met
<b>Total Equity</b>		<b>2.9</b>	<b>1.8</b>	<b>28.5</b>	<b>27.0</b>	<b>13.1</b>	<b>15.0</b>	
● Stone Harbor	Multi-Asset Credit Portfolio	1.0	0.3	6.6	1.3	1.4	1.4	Target met
<b>Total Credit Portfolio</b>		<b>1.0</b>	<b>0.3</b>	<b>6.6</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>	
n/a ManFRM	Managed Futures & Hedge Funds	-0.7	0.9	-6.2	4.0	n/a	n/a	n/a
n/a ManFRM	Hedge Funds (Legacy)*	-19.1	0.9	-30.9	4.0	-3.8	4.9	n/a
<b>Managed Account Platform</b>		<b>-1.9</b>	<b>0.9</b>	<b>-8.2</b>	<b>4.0</b>	<b>n/a</b>	<b>n/a</b>	
● Pyrford	Global Total Return	0.1	2.3	5.4	8.5	5.2	7.0	Target not met
n/a Investec	Diversified Growth	3.3	2.0	10.0	7.7	n/a	n/a	n/a
<b>Total Diversified Growth</b>		<b>1.7</b>	<b>2.2</b>	<b>7.9</b>	<b>8.1</b>	<b>4.2</b>	<b>6.8</b>	
<b>Best Ideas Portfolio</b>		<b>-0.7</b>	<b>1.6</b>	<b>12.8</b>	<b>5.8</b>	<b>n/a</b>	<b>n/a</b>	
<b>Tactical Allocation Portfolio</b>		<b>0.4</b>	<b>1.6</b>	<b>10.3</b>	<b>5.9</b>	<b>n/a</b>	<b>n/a</b>	
● In-House	Property	2.5	2.7	5.8	5.2	10.5	10.5	Target met
● In-House	Infrastructure	-2.1	1.3	18.9	5.5	19.5	5.6	Target met
● In-House	Timber / Agriculture	1.6	1.3	8.7	5.5	7.0	5.6	Target met
<b>Real Assets</b>		<b>1.5</b>	<b>1.8</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	
● In-House	Private Equity	4.7	1.3	14.7	5.5	14.5	5.6	Target met
● In-House	Opportunistic	1.0	1.3	2.9	5.5	-10.4	5.5	Target not met
<b>Private Markets Portfolio</b>		<b>4.3</b>	<b>1.3</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	
<b>Total In-House Assets</b>		<b>2.9</b>	<b>1.6</b>	<b>10.8</b>	<b>4.8</b>	<b>11.9</b>	<b>7.1</b>	
n/a Insight	LDI Portfolio	-0.6	-0.6	34.4	34.4	26.3	26.3	n/a
<b>Total (ex LDI)</b>		<b>1.4</b>	<b>1.4</b>	<b>10.8</b>	<b>8.4</b>	<b>6.7</b>	<b>6.5</b>	
<b>TOTAL CLWYD PENSION FUND</b>		<b>0.9</b>	<b>1.0</b>	<b>16.4</b>	<b>12.7</b>	<b>11.0</b>	<b>9.9</b>	
<b>Strategic Target (CPI +4.1%)</b>		<b>1.6</b>		<b>6.3</b>		<b>6.3</b>		
<b>Actuarial Target (CPI +2.0%)</b>		<b>1.1</b>		<b>4.2</b>		<b>4.2</b>		

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 and Liongate portfolios.

<sup>#</sup> 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 (Q2 2017 forecasts based on conditions as at 31 March 2017). Current long term 10 year CPI assumption 2.2% p.a.

● Fund has met or exceeded its performance target    ● Fund has underperformed its performance target

# 5 STRATEGIC ASSET CLASSES

## PERFORMANCE TO 30 JUNE 2017

Strategy	3 months %	12 months %	3 years % p.a.
<b>Total Equities</b>	<b>2.9</b>	<b>28.5</b>	<b>13.1</b>
Composite Objective	1.8	27.0	15.0
Composite Benchmark	1.3	24.5	12.6
<b>Total Multi-Asset Credit</b>	<b>1.0</b>	<b>6.6</b>	<b>1.4</b>
Objective	0.3	1.3	1.4
Benchmark	0.1	0.3	0.4
<b>Managed Account Platform</b>	<b>-1.9</b>	<b>-8.2</b>	<b>n/a</b>
Objective	0.9	4.0	n/a
Benchmark	0.9	4.0	n/a
<b>Total Hedge Funds (Legacy)</b>	<b>-19.1</b>	<b>-30.9</b>	<b>-3.8</b>
Composite Objective	0.9	4.0	4.9
Composite Benchmark	0.9	4.0	4.9
<b>Total Diversified Growth</b>	<b>1.7</b>	<b>7.9</b>	<b>4.2</b>
Composite Objective	2.2	8.1	6.8
Composite Benchmark	2.2	8.1	6.8
<b>Best Ideas Portfolio</b>	<b>-0.7</b>	<b>12.8</b>	<b>n/a</b>
Objective	1.6	5.8	n/a
Benchmark	1.6	5.8	n/a
<b>Total In-House Assets</b>	<b>2.9</b>	<b>10.8</b>	<b>11.9</b>
Composite Objective	1.6	4.8	7.1
Composite Benchmark	1.6	4.8	7.1
<b>Total LDI Portfolio</b>	<b>-0.6</b>	<b>34.4</b>	<b>26.3</b>
Composite Objective	-0.6	34.4	26.3
Composite Benchmark	-0.6	34.4	26.3
<b>Total (ex LDI)</b>	<b>1.4</b>	<b>10.8</b>	<b>6.7</b>
<b>Composite Objective</b>	<b>1.4</b>	<b>8.4</b>	<b>6.5</b>
<b>Composite Benchmark</b>	<b>1.3</b>	<b>7.9</b>	<b>5.8</b>
<b>Total Clwyd Pension Fund</b>	<b>0.9</b>	<b>16.4</b>	<b>11.0</b>
<b>Composite Objective</b>	<b>1.0</b>	<b>12.7</b>	<b>9.9</b>
<b>Composite Benchmark</b>	<b>0.9</b>	<b>12.2</b>	<b>9.3</b>

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% <sup>(4)</sup>
TBC	Smart Beta	Global Developed Equities	TBC	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%
<b>Total Equity</b>				<b>14.0%</b>
Stone Harbor	Libor Multi-Strategy Portfolio	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a. <sup>(1)</sup>	12.0%
Stone Harbor	Multi-Asset Credit Portfolio	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.	
TBC	Private Credit	Private Credit	TBC	3.0%
<b>Total Credit Portfolio</b>				<b>15.0%</b> <sup>(5)</sup>
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0% <sup>(3)</sup>
<b>Managed Account Platform</b>				<b>9.0%</b>
Pyrford	Global Total Return	Diversified Growth	UK Retail Price Index +4.5% p.a. <sup>(2)</sup>	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%
<b>Tactical Allocation Portfolio</b>				<b>21.0%</b>
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 Balanced Funds Weighted Average	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%
<b>Total In House<sup>(6)</sup></b>				<b>22.0%</b>
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%
<b>Total Liability Hedging</b>				<b>19.0%</b>

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 Assets from Investec are to be apportioned to a Smart Beta Manager. Investec currently hold c. 8.0% of assets. 5 Current weighting represented by Stone Harbor benchmark. 6 An allocation to Private Credit within the In-House portfolio assets was made during the quarter.

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## **CONTACT**

**KIERAN HARKIN**

Director

+44 (0)161 957 8016

kieran\_harkin@jltgroup.com

**ANTHONY KERSHAW**

Senior Consultant

+44 (0)161 253 1157

anthony\_kershaw@jltgroup.com

**ANTHONY WRAY**

Consultant

+44 (0)161 253 1121

anthony\_wray@jltgroup.com

**NATALIE ZANI**

Associate Consultant

+44 (0)161 253 1124

natalie\_zani@jltgroup.com

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