Pecyn Dogfen Gyhoeddus

Swyddog Cyswllt:
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At: Cyng Aaron Shotton (Cadeirydd)

Cynghorwyr: Haydn Bateman, Adele Davies-Cooke, Kevin Hughes a Ralph Small

Aelodau Cyfetholedig
Steve Hibbert, Cllr. Andrew Rutherford, Cllr Nigel Williams a
Cllr. Huw Llewelyn Jones

Dydd Iau, 29 Awst 2019

Annwyl Gynghorydd

Fe'ch gwahoddir i fynychu cyfarfod Pwyllgor Cronfa Bensiwn Clwyd a gynhelir yn 9.30 am Dydd Mercher, 4ydd Medi, 2019 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 Aeolodau yn unol a hynny.

3 **COFNODION** (Tudalennau 3 - 14)

Cadarnhau cofnodion y cyfarfod a gynhaliwyd ar 12 Mehefin 2019 fel cofnod cywir.

ADRODDIADAU STRATEGAETH A PHOLISI

4 **DATGANIAD STRATEGAETH CYLLIDO** (Tudalennau 15 - 70)

Cyflwyno'r Datganiad Strategaeth Cyllid drafft i Aelodau'r Pwyllgor ei ystyried, adolygu a'i gymeradwyo ar gyfer ymgynghoriad gyda Chyflogwyr.

5 **POLISI BUDDSODDIAD CYFRIFOL** (Tudalennau 71 - 86)

Trafod datblygu Polisi Buddsoddiad Cyfrifol y Gronfa ac ystyried Buddsoddiad Cyfrifol Partneriaeth Pensiwn Cymru.

ADRODDIADAU MONITRO

6 **DIWEDDARIAD LLYWODRAETHU** (Tudalennau 87 - 138)

Darparu diweddariad i Aelodau’r Pwyllgor ar faterion perthnasol i lywodraethu.

7 **DIWEDDARIAD CYNLLUN PENSIWN LLYWODRAETH LEOL** (Tudalennau 139 - 154)

Diweddariad Cynllun Pensiwn Llywodraeth Leol.

8 **DIWEDDARIAD GWEINYDDU/CYFATHREBU PENSIWN** (Tudalennau 155 - 198)

Rhoi diweddariad i Aelodau Pwyllgor ar faterion yn ymwneud â gweinyddu a chyfathrebu ar gyfer Cronfa Bensiynau Clwyd ac i gytuno ar newidiadau i’r Cynllun Busnes.

9 **DIWEDDARIAD CYLLID A LLWYBR CYRRAEDD TARGED** (Tudalennau 199 - 214)

Diweddaru Aelodau’r Pwyllgor ar gynnydd sefyllfa ariannol a gwarchod rhag atebolrwydd fel rhan o’r strategaeth llwybr cyrraedd targed ar gyfer rheoli risgiau atebolrwydd.

10 **DIWEDDARIAD BUDDSODDI A CHYLLID** (Tudalennau 215 - 232)

Darparu diweddariad i Aelodau'r Pwyllgor ar faterion buddsoddi ac ariannol Cronfa Bensiynau Clwyd.

11 **CYFUNO BUDDSODDIADAU YNG NGHYMRU** (Tudalennau 233 - 248)

Diweddaru Aelodau’r Pwyllgor ar weithredu Cyfuno Buddsoddiadau yng Nghymru.

12 **DIWEDDARIAD AR YR ECONOMI A'R FARCHNAD A Y STRATEGAETH FUDDSODDI A CHRYNODEB GAN Y RHEOLWR** (Tudalennau 249 - 278)

Diweddaru Aelodau’r Pwyllgor ar yr economi a’r farchnad a pherfformiad strategaeth fuddsoddi'r gronfa a Rheolwyr Cronfa.

Yn gywir

Robert Robins
Rheolwr Gwasanaethau Democrataidd

CLWYD PENSION FUND COMMITTEE
12 June 2019

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold at 9.30am on Wednesday, 12 June 2019.

PRESENT: Councillor Aaron Shotton (Chairman)
Councillors: Haydn Bateman, Ralph Small, Billy Mullin (substitute member).

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

ALSO PRESENT (AS OBSERVERS): Mr Phil Pumford (PFB Scheme Member Representative).

APOLOGIES: Councillors Adele Davies-Cooke and Ray Hughes.

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor – Aon Hewitt), , Paul Middleman (Fund Actuary – Mercer).

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Fund), Karen Williams (Pensions Administration Manager), Nick Buckland (Fund Investment Consultant – Mercer), Iain Campbell (Fund Investment Consultant – Mercer), Paul Vaughan (Clwyd Fund Accountant), Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Michelle Phoenix (Welsh Audit Office) Simon Monkhouse (Welsh Audit Office), Ieuan Hughes (Graduate Investment Trainee).

The Chairman introduced himself to the Committee as this was his first Committee meeting. He thanked the former Committee members and the former Chairman, Councillor Dave Hughes, for all of the work that had been completed previously. The Committee, Board, officers and advisors introduced themselves to the Chairman.

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

No declarations of interest

56. **APPOINTMENT OF VICE CHAIR**

The Chairman stated that whoever is appointed Vice Chair, will also be appointed as the Deputy representative on the Joint Governance Committee for the Wales Pension Partnership. The Chairman asked for nominations for this role.

RESOLVED:

(a) Following nominations, Cllr Bateman was appointed as the Vice Chair.

57. **MINUTES**

The minutes of the meeting of the Committee held on 20 February 2019 were submitted. Cllr Bateman thanked Nikki Gemmell for the quality of the previous minutes.

RESOLVED:

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

58. **2018/19 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT**

The Chairman passed this item of the agenda to Mr Vaughan who clarified that this item is based on the draft Fund accounts and the final audited Fund accounts will be presented at the next Committee meeting in September.

Page 23 and 24 contain the income and expenditure of the Fund. In 2018/19 there were contributions of c£74m which is significantly less than the previous year of c£105m because three employers chose to pay all of their deficit contributions in 2017/18.

Overall in the Fund accounts, there was an increase of c£81m in the assets over the year.

Cllr Bateman asked for more detail on note 10 in relation to the management expenses. Mr Vaughan said that page 34 outlines the oversight and governance costs which include work in preparation for the Actuarial Valuation in 2019. There has been an increase in consultant fees over the year in relation to the Flightpath and Project Apple. The administration costs are due to the additional resources as well as the outsourcing activities. Mr Vaughan also mentioned that the Fund management fees in note 10a were higher in 2017/18.

Mrs McWilliam highlighted that she had some minor suggested amendments to be made relating to the Annual Governance Statement which she would feedback directly to the officers.

Mr Ferguson confirmed that these accounts will be taken to the Council's Audit Committee meeting on 10th July.

Mrs Phoenix from the Welsh Audit Office talked through some of the key points from the 2019 Audit Plan on page 67 highlighting the audit fee on page 73.

In terms of Annual Governance Statement (AGS), Cllr Jones noted that there is an identifiable risk involved with having new Committee members. Mrs McWilliam confirmed that this was already incorporated within the Fund's risk register and this risk would be mitigated through training.

RESOLVED:

(a) The Committee members considered the draft accounts and Annual Governance Statement and noted the WAO Audit Plan.

59. **RESPONSIBLE INVESTMENTS**

Mr Buckland highlighted that Responsible Investing has moved into the mainstream and investors are now heavily considering the Environmental, Social and Governance (ESG) risks associated with investments. He confirmed that the Fund is in a very good position in terms of responsible investing, compared to Funds who haven't considered this in the past. He noted that 'The ABC of ESG' from Mercer on page 83 is a handy reference guide in this area of investments for the Committee and officers. Equally the Mercer report "Investing in a Time of Climate Change" was a very helpful report to consider in terms of setting an investment strategy.

The Fund policies (in particular the Investment Strategy Statement) will be reviewed this year alongside the Actuarial Valuation, as well as the overall investment strategy.

Mr Buckland emphasised the importance of the views of the Committee members, therefore over the next few weeks the Committee members will be provided with a survey in order to gather their views on a number of key areas. These views will be incorporated into the policy when it is being reviewed with the officers in the summer. The results of the survey will be brought back to the Committee in September. An updated policy will then be presented to the Committee in November for approval and this will form part of the Investment Strategy Statement.

As previously mentioned there are three strands of ESG. The 'E' is focused on the environment, which is easier to measure objectively in terms of impact, for example, carbon footprint. The 'S' relates to the social impact which are more difficult to measure objectively. These factors include workforce relationships, employer practices and addressing social impact. Lastly, the 'G' relates to governance including corporate governance, audits and internal controls.

Mr Buckland explained that, as a long term investor, it is crucial to ensure that investments are sustainable. For example, at any point in time there is potential to be up to 100 years of liabilities which have accrued and which brings these factors into focus as some of the environmental factors will be very relevant in that time period. Therefore, investments need to be responsible and sustainable for the long term and meeting the fundamental objective to pay benefits when due to members.

Mr Buckland described one example approach to Responsible Investment called screening. This is where investors specifically choose not to invest in one area of the economy e.g. tobacco or fossil fuels. Fossil fuels can be a very emotive topic with climate change, but the pros/cons need to be considered in a balanced way when deciding on policy.

Following recent climate change news, Cllr Jones brought up the fact that Theresa May suggested for the UK to go carbon neutral by 2050. He wondered where that leaves the WPP asset pool in terms of investments and also if the decisions from Welsh Government differed from those of the UK Government. Mr Hibbert added that the Fund are constrained as they have to invest in line with British Government policy. Mr Everett noted these were all valid points. However, the decisions on the policy will have to be made in the best interest of the Fund. Mrs McWilliam said that the key point always comes back to the fiduciary responsibility of the Fund i.e. to pay benefits when due which relies on sustainable long term returns. In relation to climate change, she also emphasised how valuable the variety of opportunities in the market are.

RESOLVED:

(a) The Committee noted and commented on the presentation, and agreed the process for the review of the Fund's policy.

60. **POOLING INVESTMENTS IN WALES**

Mr Latham reminded the Committee that the Fund have transitioned 4% of the total Fund assets from global equities to the pool, which equates to over c£75m. As a result, the Fund will make a saving of £152k per year from Fund Manager fees on this mandate, which was the intention of pooling all along. The movement of assets resulted in transition costs of c£364k, however these costs will be paid back within 2 years and 5 months due to the annual savings.

Mr Latham said that there have been discussions about investing in private markets but it is only early days and he will provide further updates in due course.

Following the previous agenda item on responsible investment, WPP now has a draft policy which is going to all Welsh fund committees for consideration. The purpose of the policy is to set out the pool's overarching enabling policy but is not intended to restrict any individual Fund. This policy will be shared with the Committee alongside the responsible investment survey from Mr Buckland.

Regarding the governance of the WPP it was noted that the work plan is now in place. The OWG and JGC members are due to attend a governance session which will include a number of areas on the work plan. .

Mrs McWilliam said that she met with the host authority, Link Fund Solutions and other Board Chairs, in early April. At that session, the host authority highlighted that a lot of the past focus had been on the investment side of pooling as opposed to the governance side, mainly due to restricted resources. However, Mrs McWilliam came away from the meeting feeling very positive. She added that it was useful that the host authority admitted that they need to focus more now on the governance side of pooling and feel they have caught up substantially and continue to make good progress. It was agreed at the meeting that the event would be repeated twice a year.

Mr Hibbert thanked the officers for raising the overall issue of governance at the JGC. He also asked whether the Fund are any closer to having an answer to his previous questions on the governance arrangements i.e. making a clear statement as to why scheme members are not represented on the JGC, in accordance with comply or explain principles. Mr Latham confirmed that he is not aware of any written answer to this yet, but he can raise it again. Mr Hibbert expressed his concerns as this request was asked over 12 months ago, which meant that there must have been at least four meetings. Therefore, he wants this to remain an outstanding issue until it is resolved.

RESOLVED:

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

61. **GOVERNANCE UPDATE**

Due to the length of the agenda, it was confirmed that the report in this item was noted and taken as being read. The key element around the SAB good governance project survey was however highlighted as the impact of this could be significant. Mrs Fielder will follow up regarding training for the new members.

RESOLVED:

(a) That the Committee considered the update and provided any comments.

62. **COMMUNICATION AND ADMINISTRATION STRATEGIES**

Mrs Williams presented the draft strategies and stated that the Fund has 43 employers with active members and c47,000 scheme members. The aim of the strategies is to ensure that all parties are aware of their responsibilities, and there is clarity on what is to be achieved including such as having KPI's in place. The administration strategy sets out a more formal approach for when employers do not carry out their responsibilities, so it is clear for the administration team what the process of escalation is.

On page 275, Mrs Williams highlighted the two key changes, the first being the number of days that the team have to respond to starter forms. This has changed from 15 working days to 30 working days from the receipt of all information. This is due to the transition to iConnect, as the data is now received in much larger quantities on a monthly basis. The second change is the completion of the employer compliance declaration. This is outlined on page 290 and will now be embedded in the administration strategy.

Mrs Williams explained that the proposed changes to the communication strategy are highlighted throughout the document. It was confirmed that members do not need to communicate via MSS, as they can opt to continue with paper communications.

Mrs Williams highlighted that there is an online training module which is a useful tool where CPF staff members can learn about the LGPS and current regulation updates. Feedback is received from the tool and staff need to gain full understanding of each element before they can move onto the next level.

Mr Pumford noted that there may be members who do not own a computer and queried if it is possible the Fund may lose contact with those members. Mrs Williams confirmed that the Fund wrote out to all members and noted they still have the option to call the Fund. There are still lots of calls coming through and it is a great way to communicate to the members. It was also confirmed that paper form is still acceptable but still the proposed strategy is to move to more digital communication where possible.

Mr Hibbert highlighted a small grammar error in the administration strategy which Mrs Williams confirmed she would change.

RESOLVED:

(a) The Committee considered and approved the proposed amendments to the Administration and Communication Strategies, subject to consultation with stakeholders.

(b) The Committee delegated any final minor changes, following consultation, to be made by the Clwyd Pension Fund Manager and Pensions Administration Manager, with any more substantive changes being brought back to Committee for consideration.

63. **LGPS UPDATE**

The report was noted and the Chairman went straight to questions.

Mr Hibbert questioned the two reports which covered the £95k exit cap. He asked what it will mean for Welsh Government. Mr Middleman confirmed that the intention is that the Welsh Government would implement the Regulations. Mr Middleman explained he will go through where it is implemented in detail in the later report covering the draft consultation response.

RESOLVED:

(a) All Committee members noted this report and make themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund.

64. **ADMINISTRATION AND COMMUNICATIONS UPDATE**

Mrs Williams presented this report and started by highlighting it is a busy time of year for the Fund because of the actuarial valuation. On page 351, she highlighted the change in timescales in item A3 for under and overpayments to the members. The delays in this are primarily due to the GMP reconciliation exercise as this affects the calculations.

Mrs Williams explained she has been involved in the LGPS National Framework for the provision of administration software providers, as well as being involved in the administration benchmarking review with CIPFA. For the benchmarking review, the Fund have taken on board how KPI's are implemented. Mr Everett added that whilst the KPI requirements are important, he emphasised that there has to be some professional judgement on decisions made when utilising resources.

Mrs McWilliam noted the following points;

- The communications team is already working on the points highlighted by the customer satisfaction survey.
- Despite pressures including the valuation and data cleansing, the team have still managed to complete day to day responsibilities.
- The new staff are still undergoing training.

Overall, given the pressures it has been a good performance from the team.

The Chairman and Mr Everett congratulated Mrs Williams on her new role as Pensions Administration Manager.

Cllr Williams queried whether there have been any updates on iConnect for Wrexham CBC. Mrs Williams stated that the team have been heavily involved in the year-end exercise and member benefit statements, therefore the focus on iConnect for Wrexham CBC will be around September.

Cllr Bateman questioned whether there was any update on Project Apple. Mrs Williams said that there is a separate item for this but she confirmed that Project Apple is completed.

Mr Middleman covered the recent HM Treasury consultation response and reminded the Committee what the £95k exit cap is and the importance of it from a policy perspective. The £95k exit cap is the maximum severance payment for members (including direct cash payment and the cost of accessing pension benefits early) who leave public sector employment. LGPS members are entitled to take their unreduced benefits immediately at age 55 on the grounds of redundancy.

Mr Middleman referred back to Mr Hibbert's question from an earlier item on who the Regulations apply to. He ran through some of the exemptions from page 368 highlighting the middle of the page where it outlines who is covered by the Regulations i.e. local authorities, Civil Service and the NHS etc. In summary the Regulations will apply in both Wales and England but it currently won't apply in Scotland. It also would not apply to Higher and Further Education employers so in that sense there would be different treatment within the LGPS by employer which complicates matters also. However, he then referred to the discretionary power to relax the cap and highlighted the bottom of 373 which shows some of the restrictions and explained this would provide some flexibility as to if the requirements were applied within Wales.

The draft response is on behalf of the Fund and outlined from page 381. The Committee approved the proposed response to the £95k exit cap consultation as attached in Appendix 7. Mr Middleman explained that, as it was a response from the Fund, it focused on the operational and implementation issues as opposed to the policy aspects, which is a matter for Welsh Government and employers affected. There was an expectation at the current time the cap will be in place for 1 April 2020. Mr Middleman noted that Fund and employer policies/processes will need to be updated to cover this matter as it critical that they align to operate the policy correctly.

Mr Middleman noted the operational technicalities that need to be implemented before the cap can be operated. For example, a set of common national factors will be needed and this will be the remit of the Government Actuary's Department. It was also noted that this cap will not just affect high earners in the LGPS as a member with 40 years' service and a salary of c£25k per annum could be affected depending on when they retire.

Mr Everett noted the redundancy exit payment and Mr Hibbert emphasised the importance that members are aware of the changes to proposals. Mr Hibbert raised his concerns with the policy and who it will affect. Mr Everett noted that any concerns on the policy should be raised by all members via the appropriate channels.

RESOLVED:

(a) The Committee considered the update and provided any comments.
(b) The Committee approved the change in timescales to the business plan as outlined in paragraph 1.01.
(c) The Committee approved the proposed response to the £95k exit cap consultation as attached in Appendix 7.

65. **EMPLOYER CARE PAY ISSUE**

Mr Latham presented this report and noted that the Pension Regulator closed the employer CARE pay case. Mr Hibbert requested for this letter to be shared with the Committee.

Cllr Bateman queried what the final settlement was in relation to the CARE pay issue. He was referred to page 421 which provides a summary of the final figures across all categories of membership.

RESOLVED:

(a) The Committee noted this report.

66. **INVESTMENT AND FUNDING UPDATE**

This item of the agenda was noted and no questions were asked by the Committee members.

RESOLVED:

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

67. **ECONOMIC AND MARKET UPDATE**

This update was noted and the Committee went straight to questions. Cllr Mullin enquired whether there was any update on Brexit. Mr Buckland said that there are still uncertainties but the biggest issue at the moment is the conservative leadership election. The result of the election is due to come out mid-July and depending on the outcome he believes that there is a possibility of a No Deal Brexit. If that was the case, he noted that there could be an impact on Sterling. Given the position of the portfolio, the impact will not necessarily be a major impact as it is protected as far as possible (due to the hedging position). Globally there is a concern on US and China trade tensions which will likely have an impact and is causing some volatility in markets. Mr Buckland confirmed that the outlook is something that will be taken into account in the strategy review later in the year.

RESOLVED:

(a) The Economic and Market Update 31 March 2019 was noted and discussed.
(b) 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.

68. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

The Committee went straight to questions on this item of the agenda and Cllr Bateman highlighted the increase of £82.1m in total market value on page 459 which was positive.

RESOLVED:

(a) The investment strategy and manager performance in the Investment Strategy and Manager Summary 31 March 2019 was noted and discussed.
(b) The Committee considered the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

69. **FUNDING AND FLIGHTPATH UPDATE**

This item of the agenda also went straight to questions and Mr Hibbert referred to Mercer's document on equity protection, specifically collateral risk monitoring. He thought that a lot of the information was new, with reference to topics that he was not aware of. Mr Middleman confirmed that this is the more detailed quarterly report which has a lot more monitoring information in it than the usual monthly report. The information includes some areas that have been highlighted for future Committee training e.g. the detail on the collateral waterfall as it will take some time to get the committee fully up to speed with this. Mr Middleman confirmed this will be picked up in a future training session.

RESOLVED:

(a) The Committee noted the updated funding position (on assumptions consistent with the 2016 valuation) and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.
(b) The Committee noted that Insight have implemented the collateral waterfall process previously agreed with the Officers and their advisors. It has also been agreed that c. £30m will be removed from the Insight QIAIF to be invested in infrastructure as directed in due course.
(c) The Committee noted that any currency risk associated with the market value of the synthetic equity portfolio with the Flightpath strategy has now been hedged.

70. **2019 ACTUARIAL VALUATION**

Mr Middleman explained the background of the Actuarial Valuation i.e. emphasising the importance of the valuation in respect of the employer budgets and setting the strategy going forward in terms of the investment strategy and risk appetites. The key driver is the expected return above CPI inflation as well as the certainty of that return. This is the core objective of the Flightpath strategy which targets a more stable return in the long term to provide as much stability in contributions as possible whist targeting the removal of the deficit over a reasonable period of time.

He noted the following points in terms of the process;

- The challenge that will be faced in relation to the McCloud judgement as this is expected to increase costs but we don't know by how much at this point.
- Mercer expect a data set by mid-July.
- Initial demographic analysis reflects a slowdown of life expectancy (which reduces the liabilities by around 3-4%) but there has been an upwards incidence of ill-health retirement.
- Going forward the expected investment returns above CPI inflation are expected to be lower than previously.
- Allowing for the lower returns and estimated change in life expectancy the estimated funding level had improved at 31 March 2019 to be c91%. As a result, there was an expectation of a substantial reduction on the deficit.
- In terms of the future service contribution rate this was expected to increase due mainly to the lower expected future investment returns.

Mr Middleman confirmed that more detail would be discussed at the September committee where there will be a draft Funding Strategy Statement for approval.

Mr Everett mentioned that officers have had detailed discussions around the valuation and the early dialogue is helpful.

Mr Middleman moved on to page 531 which presents a draft consultation Fund response for the proposed change to a 4-year valuation cycle from 2024 and management of employer risk. He covered the draft response and asked for questions from the Committee.

The main discussion points were as follows:

- The change to a 4-year cycle was to bring it into line with the unfunded public sector schemes and the cost management process. In isolation Mr Middleman didn't agree with the amendment to a 4-year valuation cycle as it weakened the governance of the LGPS and for some employers it was certainly too long. However, as interim valuations are going to be allowed where circumstances warrant it, then it was reasonable. However, his view was that this should be phased in so was supportive of the option of a valuation in 2022 and then another in 2024.
- The changes proposed in relation to Exit Credits (to clarify the previous regulations) and the implementation of Deferred Employer status options were sensible additions to the Regulations.
- Guidance from the Scheme Advisory Board should be welcomed as long as it was principles based and not prescriptive to allow funds to apply it sensibly to their own circumstances.

RESOLVED:

(a) All Committee members noted this report, the progress being made with the actuarial valuation project and the planned meetings with employers.
(b) The Committee members considered the draft response to the consultation and provided comments and required amendments. The Committee then delegated the finalisation of the response to officers.

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

RESOLVED:

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

72. **MULTI-ASSET CREDIT TRANSITION**

Mr Campbell explained that the Fund currently has a strategic allocation of 12% to Multi-Asset Credit (MAC) which has been managed by Stone Harbor Investment Partners and represents a current value of c£200m. A MAC fund is now being offered by the Welsh Pool as part of their Fixed Income Sub-Funds. After appropriate due-diligence it was agreed that the Fund holding would be transitioned to the pool sub-fund and the Committee was asked to approve this and delegate the timing of that to officers.

Mr Campbell went through a slide deck for training and information purposes for the Committee before making that decision.

RESOLVED:

(a) The Committee ratified the decision to invest in the Wales Pension Partnership Multi Asset Credit Fund which will be funded from the current mandate with Stone Harbor Investment Partners.
(b) That, in accordance with the reserved matter requirements of the IAA regarding the timing of the transition, the Committee agreed that these assets should be transitioned in the coming months having regard to the advice of a specialist transition manager.
(c) The Committee delegated the specific timing of the transition to the Clwyd Fund officers on the Officer Working Group (OWG) after considering advice from that specialist transition manager.

The Chairman thanked everyone for their attendance and updates at the Committee meeting and noted that the next Committee meeting is on 4th September. The meeting finished at 1pm.

……………………………………

Chairman

Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 4th September 2019
Report Subject	Funding Strategy Statement
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The LGPS Regulations require each administering authority to prepare and publish a Funding Strategy Statement (FSS). The draft Funding Strategy Statement attached as Appendix 1, has been produced for consultation with employers. It incorporates the initial proposals on the funding strategy.

The principal decision areas for the Committee in consultation with employers are:

- The actuarial assumptions, deficit recovery plans and updated policies;
- Allowance in the FSS for Regulation changes that will impact on the management of the Fund:
    - the McCloud judgment impact plus Cost Management
    - the introduction of a 'deferred employer' status and
    - The change to a 4-year valuation cycle and the triggers for when an interim valuation or employer contribution assessment should be undertaken between valuations.

  These are still at the consultation stage and therefore the wording in the FSS will need to evolve when the Regulations/guidance is finalised.

The draft FSS is based on preliminary information so will need to be finalised once the valuation analysis is complete. The consultation with employers will take place over the coming weeks and the final FSS will be brought back to the February 2020 Committee for final approval assuming the final amended Regulations and guidance are available.

The Actuary will present the main issues and decisions needed for approval of the FSS at the meeting.

RECOMMENDATIONS	
1	The Committee approve the draft Funding Strategy Statement.
2	The Committee delegates the refinement and finalisation of the draft FSS to the officers before formal consultation with employers.

REPORT DETAILS

1.00	**2019 Actuarial Valuation and Funding Strategy Statement**
	The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process. The FSS must also be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement. A draft FSS has been prepared and has incorporated the following updates: • Update to allow for the latest Regulations • Review of the discount rate - Expected return analysis has been performed to determine the appropriate discount rate that should apply to the 2019 valuation. The discount rate is expressed as the "real" expected asset return above CPI. Due to the strong investment returns in recent years, the outlook is lower for returns in the future. Therefore, we are proposing to reduce the expected level of real return above CPI for past service from CPI +2% p.a. at the 2016 valuation to CPI+1.75% p.a., to maintain an appropriate level of prudence in the discount rate. The discount rate for future service has also been reduced from CPI +2.75% p.a. at the 2016 valuation to CPI+2.25% p.a. • Updates to the life expectancy assumptions following analysis performed on the Fund's membership. The analysis indicates that whilst life expectancy is still increasing, the improvement in longevity is beginning to slow down and this has been incorporated into the assumptions. • There is a proposed reduction in the average deficit recovery period of 3 years, which is generally equivalent to a continuation of the 2016 deficit recovery plan. This would apply to employers, subject to covenant and affordability considerations, and has been incorporated into the assumptions. • Updates to the FSS and the Fund policies included within it (admission, termination and covenant assessment/monitoring) to allow for the potential Regulation and guidance changes. Whilst these are still at the consultation stage, it is important that they are built into the FSS as they are likely to be implemented before the valuation report is signed off. The key changes which have been incorporated are as follows: o **The Cost Management Process -** The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions. The outcomes of the

cost management process were expected to be implemented from 1 April 2019. However, this has now been put on hold due to the McCloud case discussed below and if, as expected, it is not implemented the wording will fall away.

- **McCloud judgment** - These are age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other public sector schemes). It is not known how these cases will affect the LGPS or the cost management process at this time and is almost certainly not going to be known by the time the valuation is signed off. The potential impact of McCloud/the cost management process will need to be quantified as reasonably as possible based on the information available. This is in line with the guidance from the Scheme Advisory Board. This will be communicated to employers to ensure that they are aware of the budget risk and are able to make provisions accordingly.

- **4 yearly valuation cycle and interim valuations/employer contribution reviews** – MHCLG have proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one with effect from 2024. It is proposed to phase this in by requiring a valuation in 2022, 2024 and 4 years thereafter. It is also proposed to introduce a power for LGPS funds to undertake interim valuations (in full or in part) and allow LGPS administering authorities to amend an employer's contribution rate in between valuations. The situations when this would be applied have therefore been incorporated into the FSS. The Fund have responded to the consultation as per the last committee meeting.

- **Deferred employers** - the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant.

- **Deemed employers** - This is an alternative route to the admitted body route for achieving pension protection. It relates to employers which have employees working for a third party but fall under the deemed employer for the purposes of the Regulations. An update to Fund policies is therefore required.

The Committee will be updated on the progress of these issues throughout the valuation process.

Once the draft FSS has been approved by the Committee, the draft will be refined and finalised by the Fund Officers in conjunction with the Fund Actuary. The consultation with the Fund employers will then commence. Subject to the finalisation of the Regulations/guidance, the outcome of the consultation and the final FSS incorporating the final assumptions and

	policies (including any changes post consultation) will be presented to the February 2020 Committee for approval.

3.00	**RESOURCE IMPLICATIONS**
3.01	Officers will need to spend a significant amount of time as part of the consultation with employers. This will involve meetings with employers as well as written correspondence.

4.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
4.01	The Administering Authority is required to consult with employing bodies over the development of the Funding Strategy Statement. The consultation will commence once the Committee has agreed the draft FSS and also delegated the responsibility of the refinement and finalisation of the draft FSS to Fund officers.

5.00	**RISK MANAGEMENT**
5.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
5.02	The actuarial valuation is a vital Governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements which have a material impact on budgets and local services. The funding strategy (along with the investment strategy) which comes from the actuarial valuation is a key determinant of the overall financial risk levels in the CPF. The FSS is a crucial document setting out the overall governance and controls in place to manage these risks on a whole Fund and individual employer level.

6.00	**APPENDICES**
6.01	Appendix 1 – Draft Funding Strategy Statement

7.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
7.01	1. Current FSS and 2016 Actuarial Valuation report. 2. Committee report on the actuarial valuation from June 2019 3. Separate presentation from the Fund Actuary

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8.00	GLOSSARY OF TERMS
8.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **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.

Mae'r dudalen hon yn wag yn bwrpasol

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FUNDING STRATEGY STATEMENT

CLWYD PENSION FUND

[DATE]

FLINTSHIRE COUNTY COUNCIL

This Funding Strategy Statement has been prepared by Flintshire County Council (the Administering Authority) to set out the funding strategy for the Clwyd Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

I
EXECUTIVE SUMMARY

The LGPS Regulations and CIPFA Guidance provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

THE DETAILS CONTAINED IN THIS FUNDING STRATEGY STATEMENT WILL HAVE A FINANCIAL AND OPERATIONAL IMPACT ON ALL PARTICIPATING EMPLOYERS IN THE CLWYD PENSION FUND. IT IS IMPERATIVE THEREFORE THAT EACH EXISTING OR POTENTIAL EMPLOYER IS AWARE OF THE DETAILS CONTAINED IN THIS STATEMENT.

The FSS is a document that must be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement (ISS). A consultation with employers must take place before the Administering Authority can publish their funding strategy.

The funding strategy is applicable to all types of employer within the Fund and contains a number of policies that employers should be aware of, including the admission and termination policy and the covenant policy. A glossary is included at the end to assist with understanding of the technical terms and definitions.

The drafting of the FSS has been delegated to the Pension Fund Committee by the Administering Authority, following advice from the Fund Actuary. Some aspects have also been delegated to Fund officers.

The FSS is also subject to scrutiny and possible intervention under Section 13(4)(c) of the Public Service Pensions Act 2013 which may place some restrictions on the parameters that can be applied to employers.

Key elements of the funding strategy are as follows:

- Employer covenant and investment strategy will have a major influence on the valuation results.
- Deficit recovery periods will be determined by the Administering Authority with the aim of recovering deficits as quickly as possible and vary by employer. Existing contribution plans will not be reduced even if the funding position has improved unless the employer covenant is sufficiently strong and if the Administering Authority agrees. The average recovery period for the Fund is [12] years. Deficit recovery contributions will be expressed as £s amounts.
- It will be possible for employers to prepay their deficit contributions for the full 3 years or annually at each April which would result in a cash saving.
- The key financial assumption – the discount rate – has been derived by considering the long term expected return on the Fund's investment over and above assumed future Consumer Price Inflation (CPI).
- The demographic assumptions for the whole Fund have been determined by carrying out a bespoke analysis of the Fund's membership along with a review of other LGPS Funds.
- It is strongly recommended that employers consider and understand the Fund policies which primarily relate to employers joining the Fund, ongoing monitoring of the financial strength of employers (covenant) and the approach adopted when employers leave the Fund (termination).

Ensuring that the Clwyd Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (Flintshire County Council). The Funding Strategy adopted by the Clwyd Pension Fund will therefore be critical in achieving this.
The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

Given this, and in accordance with governing legislation, all interested parties connected with the Clwyd Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND'S OBJECTIVE

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members' accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected which would normally lead to volatility of contribution rates at future valuations if these margins were not included. The level of prudence has been quantified by the Actuary to show the level of contingency to provide protection against future adverse experience in the long term. This takes into account the risk controls implemented as part of the Flightpath Strategy. Individual employer results will also have regard to their covenant strength.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is [92]% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which would result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations, where a deficit exists and depending on the level of deficit, a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

The average recovery period for the Fund as a whole is [12] years at this valuation which is [3] years shorter than the average recovery period of 15 years from the previous valuation. Subject to affordability and other considerations, individual employer recovery periods would also be expected to reduce by [3] years at this valuation.

Where there is a material increase in contributions required at this valuation, subject to affordability constraints, the employer may be able to 'phase in' contributions over a period of [3] years. Employers should be aware that if they elect to 'phase in' their contributions, this may have an effect on the level of contributions required in the future. Equally employers will be able to phase in their contributions changes to tie in with their financial year if this does not end on 31 March.

[The Fund has also considered its policy in relation to costs that could emerge from the Cost Management Process and/or McCloud judgement in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. The costs have been quantified and notified to employers so they can make provisions where relevant.]

[Drafting Note- This paragraph has been added following the guidance issued by the Scheme Advisory board on 14 May 2019 concerning how to deal with the potential additional liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case (McCloud) (found here:

http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf).

This may need further adaptation once the outcome of the consultation is known. The Actuary will look at the potential cost to employers as part of the 2019 valuation process. This will have to be set out clearly in the policies once the way forward is agreed.]

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in an appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities should be [1.75]% per annum and [2.25]% per annum for determining the future service ("primary") contribution rate.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share maybe restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's approach and polices in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

The Fund will continue to monitor changes in covenant in conjunction with the funding position over the inter-valuation period which will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix in this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Mandatory Scheme Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or an entity that provides some form of public service and their funding primarily derives from local or central government.
- [Employers may also join the Fund under the 'Deemed Employer' route. Further information on this is set out within Appendix C.]

  [Drafting Note – This has been added following the consultation published by the MHCLG on 10 January 2019 (found here: https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

Where there is **no guarantor** who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to Government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately, although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 3 months of cessation by the Actuary. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it, [and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers].

Where there is a **guarantor** who would subsume the assets and liabilities of the outgoing employer the policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor.

[An employer may participate in the Fund with no contributing members and utilise the "Deferred Employer" Arrangements at the sole discretion of the Administering Authority which will be subject to a satisfactory covenant review on an ongoing basis. In this circumstance they will be treated as per any other participating employer in relation to overall funding strategy (including potentially requiring a final exit payment at some point) allowing for the covenant.]

[Drafting Note – This section has been adjusted following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

4. Insurance arrangements

The Fund has implemented an internal captive ill health insurance arrangement which pools these risks for eligible employers. This arrangement will not affect eligible employer contribution rates at this valuation but may affect them going forward. More details are provided in **Appendix E**.

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1
INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations"), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Clwyd Pension Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Clwyd Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Clwyd Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every by the actuary, including the provision of a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution. [The period for a statutory valuation will change to every 4 years from 2024.]

In line with the Regulations, the Administering Authority has the ability to review employer contributions or request a full interim valuation. If considered appropriate, the Fund will carry out an interim valuation or a review of contributions for a specific employer or employer(s) under the circumstances set out within Section 9.

[Drafting Note – This has been added following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile and whether it admits new employees, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the [three years] beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the [three years] shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

2
PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3

AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designated and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims and the risk controls in place under the Flightpath Strategy.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and

pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations

4

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee), the individual employers and the Fund Actuary, and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5
SOLVENCY FUNDING TARGET

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, the employer rate would ultimately revert to the Future Service or Primary Rate of contributions.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful, potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

- The Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain, unless there is compelling reason to do so and any reduction will need clear justification on affordability grounds. Any employer whose covenant (as assessed by the Administering Authority) is not sufficiently strong in the long term will not normally be allowed to reduce contributions where the position has improved.

- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least [3] years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). This has resulted in an average recovery period of [12] years being adopted across all employers.

- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (i.e. run-off) over a [12] year period, subject to a total contribution minimum of zero. If an employer is expected to exit the Fund before this period, contribution requirements will be set to target a nil termination deficit within reasonable expectations (subject to periodic review).

- The employer contributions will be expressed and certified as two separate elements:
    - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
    - the **Secondary rate**: a schedule of lump sum monetary amounts and/or % of pay amendments over 2020/23 in respect of an employer's surplus or deficit (including phasing adjustments)

  Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum period of 3 years. Any step up in future service contributions will be implemented in steps of at least [0.5]% of pay per annum unless agreed otherwise based on the overall contributions paid over the certificate period. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.

Alternative patterns of contribution, on grounds of affordability, will be considered on an individual employer basis, subject to the total contribution requirement being met over the 2020/23 period covered by the contribution certificate. Employers should be aware that varying their contribution pattern could have an effect on the level of contributions required in the future.

- For employers that do not have a financial year end of 31 March 2020 (e.g. 31 July 2020), the Fund can allow the employer to continue to pay their current contribution plan until their financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2020 if the year-end is 31 July 2020).

- Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will normally review their certified contribution in order to target a fully funded position at exit. Consideration will be given to any risk sharing arrangements when reviewing contribution rates.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

The policy for employers who have a **guarantor** participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. If all parties do not agree, then the following arrangements will apply:

- In the case of a surplus, the Fund will pay this directly to the exiting employer within 3 months of completion of the cessation assessment by the Actuary (despite any other agreements that may be in place).
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

The Fund will notify all parties in the event that agreement cannot be reached, however ultimately the Fund will comply with the Regulations and therefore pay any exit credit to the exiting employer. In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate agreement. This would only be taken into account if the Administering Authority is made aware of any such arrangement. [For the avoidance of doubt where the outgoing employer is not responsible for any costs under a risk sharing agreement (including for employers entering through the deemed employer route) then no exit credit will be paid as per the Regulations.]

If a guarantor unjustifiably deviates from the policy (e.g. selectively chooses which cases are subsumed and which cases involve immediate payments), any future termination events will be treated in line with the approach adopted for employers without a guarantor in the Fund (e.g. the exiting employer/guarantor will be required to pay the termination deficit as a lump sum cash payment at the time of exit, any surplus would also be paid by the Fund to the exiting employer at this point). The ongoing valuation basis will still be adopted in this case.

The policy for employers who do not have a **guarantor** participating in the Fund:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of completion of the cessation assessment by the Actuary).

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without recourse to that employer, the valuation of the termination payment will be calculated using a discount rate linked to Government bond yields and a more prudent life expectancy assumption. Further details are set out in the Termination Policy in Appendix C.

The Administering Authority can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary [and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers].

[Subject to sufficient financial covenant and at the sole discretion of the Administering Authority an employer may continue to participate in the Fund with no contributing members under the Deferred Employer arrangement.]

The termination policy [(including Deferred Employer arrangements)] is set out in Appendix C.

[Drafting Note – This has been added following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

7 LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2019 valuation show the liabilities to be [92]% covered by the current assets, with the funding deficit of [8]% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, a prudent allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of [negative 1]% per annum at the valuation date and a more prudent longevity assumption. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of [53%]. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The long term strategic allocation is:

[INSERT ASSET CHART POST STRATEGY REVIEW]

Based on the investment strategy above and the assessment of the return expectations for each asset class leads to an overall best estimate average expected return of [xx]% per annum in excess of CPI inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

A measure of overall prudence to protect against adverse experience in the future is to consider the funding level if it was assessed on a “best estimate” basis for all the principal assumptions (mainly the investment return and life expectancy). The actuary has assessed this funding level as [xx%]. This level of prudence is built in to allow the Fund to address adverse events whilst maintain stability (within reasonable parameters) in employer contributions where appropriate.

8 IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Protection and risk management policies fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle
- Employer contributions are unaffordable and/or unstable
- Investment and/or funding objectives and/or strategies are no longer fit for purpose
- Insufficient assets to pay benefits
- Loss of employer income and/or other employers become liable for their deficits
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under regular review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) that cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. The Fund's ill health captive arrangement will also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members (see further information in Appendix E).

Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge. [The level of this charge (taking into account any other exit payments from the employer) will be capped by the Exit Cap of £95,000 and the member's benefits will be adjusted accordingly.]

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund. This for example could include insurance of ill-health costs or death in service benefits for members. Further information on the insurance of ill health costs is set out in **Appendix E**.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. [So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments and placed a copy on the Fund's website. The first draft was approved at the Committee meeting on 4th September 2019 and finalised on [18th March 2020] after the Fund received consultation feedback from the employing bodies and the final document was ratified by the Committee].

As part of their governance arrangements, the Fund holds regular Advisory Panel meetings. The Advisory Panel is made up of Fund Officers, Investment Consultants, an Independent Advisor and the Fund Actuary.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes to Committee membership

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. the implementation of iConnect for transferring data from employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

Full details of the risks and the controls in place are set out in the CPF risk register.

9
MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every [three/four] years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

FLIGHTPATH - DE-RISKING STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a "Flightpath" risk management investment strategy with effect from 1 April 2014. A Liability Driven Investments (LDI) mandate has also been implemented in order to hedge part of the Fund's assets against changes in liabilities for one or more employers.

The principal aim of this risk management strategy is to effectively control and limit interest and inflation risks being run by the Fund (as these factors can lead to significant changes to liability values). At the valuation date the level of hedging was approximately 20% in relation to interest rates and 40% in relation to inflation. The intention is that the Fund will achieve a hedge ratio of 80% in the long term for both interest and inflation rates. The overall funding flightpath strategy structure was reviewed in conjunction with the actuarial valuation and a summary of the real yield triggers above CPI is shown below (split by duration of liabilities). In practice the triggers are split into separate interest rate and inflation triggers.

		Real rate above CPI			
Proposed triggers	**Hedge ratio**	**15y**	**20y**	**30y**	**40y**
Trigger 1	30%	-	-	-	-
Trigger 2	40%	-	-	-	-
Trigger 3	50%	1.40%	1.40%	1.40%	1.40%
Trigger 4	60%	1.60%	1.60%	1.60%	1.60%
Trigger 5	70%	1.80%	1.80%	1.80%	1.80%
Trigger 6	80%	2.00%	2.00%	2.00%	2.00%

FLIGHTPATH – MONITORING/TRIGGER REVIEW

A summary report is provided to the Fund (on a monthly and quarterly basis) which includes a "traffic light" analysis of the key components of the Flightpath and hedging mandate. The "traffic light" indicates whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required. In particular, a separate fund-wide mechanism has been introduced, such that if the funding level falls more than 5% below the "expected" funding level (based on valuation assumptions), then discussions will follow at the Advisory Panel level as to the continued appropriateness of the funding strategy. There are no formal funding level triggers in place although it has been agreed that when the funding level hits 100% or higher consideration will be given to whether the allocation to more liability matching assets should be increased.

The funding level has materially improved since the valuation date due in part to strong equity performance in the portfolio including the exposure via the risk management mandate with Insight.

A dynamic Equity Protection strategy was put in place in 2018. This was after rigorous analysis and value for money considerations by the Fund's Funding and Risk Management Group. The strategy protects against falls of 10% or more of the average market position over the previous 12 months on c£350m of equity exposure in the Insight portfolio. The cost of this will be offset by the Fund's participation in losses beyond a fall of 35% from average market levels of the same 12 months. This arrangement will be financed by giving up some potential upside return on a monthly basis. Whilst more complex to set up, the dynamic strategy provides advantages versus the previous static approach as follows:

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

Due to the requirements of implementing the strategy on a daily rolling basis, it was agreed that the strategy would be delivered using a counterparty bank rather than an investment manager. Mercer went through a process of determining the best counterparty bank and it was agreed that JP Morgan would deliver the strategy via the existing Insight investment vehicle.

As part of the Flightpath strategy the Fund has implemented a currency hedging policy to lock-in gains from this recent depreciation in sterling and reduce the risk of a materially strengthening pound following the Brexit outcome on 31 October 2019. The overall currency hedge is 75% of the overall equity portfolio.

Further details of the updated funding level triggers, equity market protection and currency hedging are shown in the relevant Committee report.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations as part of the Flightpath monitoring detailed above and regular funding reviews. If considered appropriate, the funding and flightpath strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the CPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- if there have been any significant special contributions paid into the CPF
- if there has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy

When monitoring the funding position, if the Administering Authority considers that any action is required, the employing authorities will be contacted to provide an update and details of any proposed remedial actions at the next valuation or earlier if appropriate.

[REVIEW OF CONTRIBUTIONS

In line with the Regulations, the Administering Authority has the ability to review employer contributions or request a full interim valuation. If considered appropriate, the Fund will carry out an interim valuation or a review of contributions for a specific employer or employer(s), if there:

1. has been a significant change in market conditions so that the funding level has changed by [more than 10% over a period of [6] months / the whole Fund funding level drops below 80%],
2. has been a material change in an employer's covenant assessed in line with the policy in Appendix G.
3. the employer has notified the Fund of their intention to exit within the next [6] months or longer up to the next formal valuation. Employers must notify the Fund as soon as they become aware of their planned exit date.
4. has been a deviation in the progress of the funding strategy for an employer.
5. have been significant changes to the Scheme membership, or LGPS benefits.
6. has been a change in employer status.
7. have been any significant special contributions paid into the Fund.
8. have been significant statutory or regulatory changes.

In the normal course of events, contributions will only be reviewed for statutory or tax raising employers as part of a full actuarial valuation (statutory or interim valuation).

Consideration will be given to any cap and collar arrangements when reviewing contribution rates.

In exceptional circumstances, not envisaged in the Funding Strategy Statement, the Fund can apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of the Fund either on representation from funds, scheme employers or of his own motion.

Where the contribution review is triggered by an employer request (e.g. points 2, 3, 4, 5, 6 and 7 above), the costs associated with the review will be included in the assessment of the contributions if deemed appropriate.]

[Drafting Note – This has been added following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

COST MANAGEMENT AND THE MCCLOUD JUDGEMENT

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board issued guidance here which sets out how the McCloud case should be allowed for within the 2019 valuation.

The potential impact of the judgement (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. In line with the Regulations, [employer contributions can be reviewed once the outcome is known, if deemed appropriate for some or all of the employers. Updated employer rates will then be implemented from the following 1 April for practical purposes.]

[Drafting Note – This paragraph has been added following the guidance issued by the Scheme Advisory Board on 14 May 2019 concerning how to deal with the potential additional liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case (McCloud) (found here: http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf). This may need further adaptation once the outcome of the case is known. The Actuary will look at the potential cost to employers as part of the 2019 valuation process.]

FURTHER INFORMATION

If you require further information about anything in or related to this Funding Strategy Statement, please contact:

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APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence as a contingency against future adverse experience. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of [1.75]% per annum above CPI inflation i.e. a real return of [1.75]% per annum and a total discount rate of [4.15]% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. The discount rate will be reviewed as a matter of course at the time of a formal valuation.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation to arrive at the CPI inflation assumption at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of [1.25]% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. As a variation to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. Depending on the circumstances of the employer, the variants on short term pay that have been applied are either no adjustment or an allowance of [2]% per annum for each year from the valuation date up to [31 March 2023].

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. To the extent that experience differs from the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the accelerated trend in longevity seen in recent years (as evidenced in the 2018 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum.

The mortality before retirement has also been reviewed based on LGPS wide experience.

Commutation

It has been assumed that, on average, [50]% of retiring members will take the maximum tax-free cash available at retirement and [50]% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

[Drafting note: This assumption will be reviewed further as part of the valuation depending on experience.]

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next [3] years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding [0.6]% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. and is calculated by estimating the level of expenses for the Fund over the period from 1 April 2020 to 31 March 2023. Investment expenses have been allowed for implicitly in determining the discount rates. In addition, any expenses that are directly attributable to specific employers via the Employer Liaison team, will be included in the assessment of that employer's expense allowance from the 2019 actuarial valuation.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

At the valuation date, the financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of [2.25]% per annum above the long term average assumption for consumer price inflation of [2.40]% per annum. This leads to a discount rate of [4.65%] per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. Cashflows and investment returns are assumed to be paid/earned evenly over each year or relevant period.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.40% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	[4.15]% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	[3.65]% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	[4.65]% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	[3.65]% p.a.
Pension increases/indexation of CARE benefits	[2.40]% p.a.

*short term salary increases of [2]% per annum for each year from the valuation date up to 2023 also apply for most employers.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	100% S3PMA_CMI_2018 [1.75%] 92% S3PFA_M_CMI_2018 [1.75%]
	Dependant	132% S3PMA_CMI_2018 [1.75%] 92% S3DFA_CMI_2018 [1.75%]
	Ill Health	122% S2IMA_CMI_2018 [1.75%] 132% S2IFA_CMI_2018 [1.75%]
	Future Dependant	128% S3PMA_CMI_2018 [1.75%] 111% S3DFA_CMI_2018 [1.75%]
Active	Normal Health	106% S3PMA_CMI_2018 [1.75%] 93% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	122% S2IMA_CMI_2018 [1.75%] 142% S2IFA_CMI_2018 [1.75%]
Deferred	All	128% S3PMA_CMI_2018 [1.75%] 110% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	135% S3PMA_CMI_2018 [1.75%] 118% S3DFA_CMI_2018 [1.75%]

Life expectancies at age 65:

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.4	25.3
Actives aged 45 now	24.0	27.2
Deferreds aged 45 now	22.6	26.0

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement although employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of recovery periods is summarised in the table below:

Category	Average Deficit Recovery Period (whole years)	Derivation
Unitary Authority Councils	[12] years	Determined by reducing the period from the preceding valuation by 3 years (where appropriate).
Other Tax-raising Scheduled and Designating Bodies	[tbc] years	Determined by reducing the period from the preceding valuation on a case by case basis with the intention of reducing by at least 3 years.
Education Bodies (Universities and Colleges)	[tbc] years	Determined by reducing the period from the preceding valuation by at least 3 years.
Admission Bodies (guaranteed by another Scheme Employer within the Fund)	[tbc] years	Subject to agreement with guarantor.

Individual employers have been notified separately of their individual recovery periods when they were provided with their individual valuation results.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The financial plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- changes in the funding position after the valuation date which is deemed reasonable.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed.

OTHER FACTORS AFFECTING THE EMPLOYER DEFICIT RECOVERY PLANS

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice. Typically, this will be managed primarily through an adjustment to the recovery period and/or phasing/stepping of contributions.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the Fund Actuary, retains ultimate discretion in agreeing final employer contribution plans, and will consider whether any exceptional arrangements should apply to any participating employer within the Fund.

APPENDIX C - ADMISSION AND TERMINATION POLICY

INTRODUCTION

This document details the Clwyd Pension Fund's (CPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers CPF's policy on admissions into the Fund and sets out the considerations for current and former *admission bodies*. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the CPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the CPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- If the admitted body has an expected limited lifespan of participation in the Fund;

- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the CPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the CPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the CPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the CPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy can be assumed as a match to the liabilities if agreed by the Administering Authority based on the advice of the Actuary. In particular, the employing body’s notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

[JOINING THE FUND VIA THE 'DEEMED EMPLOYER' ROUTE

This is an alternative route to the admitted body route for achieving pension protection. It relates to employers which have employees working for a third party but fall under the "Deemed Employer" for the purposes of the Regulations.

It will be the outsourcing Scheme Employer's choice, when initially putting the contract out to tender, whether the Admission Agreement or Deemed Employer approach will be used. The outsourcing scheme employer will be also known as the deemed employer with regard to this admitted body.

If the Deemed Employer route is chosen, the admitted body will not join the Fund and will instead be grouped/pooled with the original scheme employer. This may be used when a pass through arrangement has been agreed.

The Fund's policy will be dependent on the deemed employer's policy and approach to dealing with these outsourcings. This makes it imperative that each outsourcing scheme employer has a clear policy on the treatment of each type of admitted body. The Fund also requires an agreement (similar to the admission agreement) with the admitted body to ensure their duties are fulfilled e.g. payment of contributions.]

[Drafting Note – This has been added following the consultation published by the MHCLG on 10 January 2019 (found here: https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

EXITING THE FUND

TERMINATION OF AN EMPLOYER'S PARTICIPATION

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

EMPLOYERS WITHOUT A GUARANTOR

The CPF's policy is that a termination assessment will be made based on a minimum risk funding basis (as set out below), unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated). The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of completion of the cessation assessment by the Actuary).

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary [and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers].

[Subject to sufficient financial covenant and at the sole discretion of the Administering Authority an employer may continue to participate in the Fund with no contributing members under the Deferred Employer arrangement.]

[Drafting Note – This has been added following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]

EMPLOYERS WITH A GUARANTOR

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the CPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the CPF otherwise.

The guarantor or successor body will then, following any termination payment made by the exiting employer, subsume the assets and liabilities (and any surplus or deficit) of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This is subject to the agreement of all parties involved (i.e. the Fund, the exiting employer and the guarantor) who will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. If all parties do not agree, then the following arrangements will apply:

- In the case of a surplus, the Fund will pay this directly to the exiting employer within 3 months of completion of the cessation assessment by the Actuary (despite any other agreements that may be in place).
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

The Fund will notify all parties in the event that agreement cannot be reached, however ultimately the Fund will comply with the Regulations and therefore pay any exit credit to the exiting employer. In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate agreement. This would only be taken into account if the Administering Authority is made aware of any such arrangement. For the avoidance of doubt where the outgoing employer is not responsible for any costs under a risk sharing agreement (including for employers entering through the deemed employer route) then no exit credit will be paid as per the Regulations.]

With regard to subsuming the residual assets and liabilities, this may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

If a guarantor unjustifiably deviates from the policy to subsume the residual assets, liabilities and any surplus or deficit, future termination events with regard to the payment of the surplus or deficit will be treated in line with the approach adopted for employers without a guarantor in the Fund (the ongoing valuation basis will still be adopted in this case).

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases, no termination assessment is required as there will no longer be any orphan liabilities in the CPF. A separate assessment of the assets to be transferred will be required.

[Drafting Note – Wording has been added following the LGPS (Amendment) Regulations 2018, which amended the LGPS 2013 Regulations to provide for the payment of an exit credit to an existing employer where, at the exit date, that employer's assets in the fund exceed its liabilities. In the case where the employer has a guarantor, the above clarifies who the recipient of the exit credit should be.]

[EMPLOYERS THAT JOINED VIA THE 'DEEMED EMPLOYER' ROUTE

In the event of cessation, the assets and liabilities will remain with the outsourcing scheme employer and no termination assessment or payment will be required.]

[Drafting Note – This has been added following the consultation published by the MHCLG on 10 January 2019 (found here: https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection*). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]*

[EMPLOYERS WITH NO CONTRIBUTING MEMBERS

An employer may participate in the Fund with no contributing members and utilise the "Deferred Employer" Arrangements at the sole discretion of the Administering Authority which will be subject to a satisfactory covenant review on an ongoing basis. In this circumstance they will be treated as per any other participating employer in relation to overall funding strategy (including potentially requiring a final exit payment at some point) allowing for the covenant.]

[Drafting Note – This has been added following the consultation published by the MHCLG on 8 May 2019 (found here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/800321/LGPS_valuation_cycle_reform_consultation.pdf*). The Funding Strategy Statement and Fund policies may need further adaptation once the consultation process has been completed.]*

FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer. In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of completion of the cessation assessment by the Actuary).

MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Minimum risk assumptions	31 March 2019
Discount Rate	[1.4]% p.a.
CPI price inflation	[2.4]% p.a.
Pension increases/indexation of CARE benefits	[2.4]% p.a.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the long term trend of improvement in mortality rates to [2.25]% p.a. from the 1.75% p.a. used in the 2019 valuation for ongoing funding and contribution purposes.

APPENDIX D – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant (including those with no active members who are operating under a deferred employer arrangement) underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

> Type of body and its origins
> Nature and enforceability of legal agreements
> Whether there is a bond in place and the level of the bond
> Whether a more accelerated recovery plan should be enforced
> Whether there is an option to call in contingent assets
> Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and investment strategy (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

APPENDIX E – INSURANCE ARRANGEMENTS

OVERVIEW OF ARRANGEMENTS

For certain employers in the Fund, following discussions with the Fund Actuary, a captive ill health insurance arrangement was established by the Administering Authority to cover ill health retirement costs by pooling these risks for eligible employers. The aim of the arrangement is that smaller employers, whose funding position could be significantly affected by the retirement of one or more of their members on the grounds of ill health, pay a premium to the Fund within their future service contribution rate. This has applied to all ill health retirements since 1 April 2017.

INTERNAL CAPTIVE INSURANCE

The internal captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2020/23 is [tbc]% of pay per annum.

- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of both active and deferred members i.e. so there is no initial impact on the deficit position for employers within the captive.

- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or lower premiums at the discretion of the Administering Authority based on the advice of the actuary.

- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However, the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.

- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

EMPLOYERS COVERED BY THE ARRANGEMENT

Those employers (both existing and new) that will generally be included in the captive are:

- Community related Admitted Bodies
- Town and Community Councils

These employers have been notified of their participation. New employers entering the Fund who fall into the categories above will also be included. At the discretion of the Administering Authority and where is it felt to be beneficial to the long term covenant and financial health of an employer, specific employers (outside of the categories listed above) may be included within the captive arrangement. In addition, the Administering Authority has the ability to exclude any employer in order to manage employer risk within the Fund.

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply. The Fund therefore continues to monitor ill-health retirement strain costs incurred in line with the allowance made in the actuarial assumptions. Once the allowance is exceeded, any excess costs would be recovered from the employer. This would normally be at the next valuation but could be at an earlier review of the contributions due, including on termination of participation.

APPENDIX F - GLOSSARY

ACTUARIAL VALUATION: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

ADMINISTERING AUTHORITY: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

ADMISSION BODIES: A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

BENCHMARK: a measure against which fund performance is to be judged.

BEST ESTIMATE ASSUMPTION: an assumption where the outcome has a 50/50 chance of being achieved.

BONDS: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

MINIMUM RISK BASIS: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

COVENANT: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

DEEMED EMPLOYER: This is an alternative route to the admitted body route for achieving pension protection for staff transferred to work for a third party. The Deemed Employer will be the original employer for the purpose of the members’ participation in the Fund.

DEFERRED EMPLOYER - a status that will allow funds to defer the triggering of an exit payment for certain employers who have no contributing members.

DEFICIT: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

DEFICIT RECOVERY PERIOD: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

DISCOUNT RATE: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount means lower liabilities and vice versa.

EMPLOYER'S FUTURE SERVICE CONTRIBUTION RATE ("PRIMARY RATE"): the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

EMPLOYING BODIES: any organisation that participates in the LGPS, including admission bodies and scheme employers.

EQUITIES: shares in a company which are bought and sold on a stock exchange.

EQUITY PROTECTION: an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

EXIT CREDIT: the amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

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 OR SOLVENCY LEVEL: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

FUNDING STRATEGY STATEMENT: This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

GOVERNMENT ACTUARY'S DEPARTMENT ("GAD"): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

GUARANTEE / GUARANTOR: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

HEDGING: a strategy that aims to reduce funding volatility. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

HEDGE RATIO: The level of hedging in place as a percentage of the liabilities. This can be in relation to interest rates, inflation rates or real rates of return.

ILL HEALTH CAPTIVE: this is a notional fund designed to immunise certain employers against excessive ill health costs in return for an agreed insurance premium.

INVESTMENT STRATEGY: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

LETTING EMPLOYER: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LIABILITIES: the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

MATURITY: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

MEMBERS: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

MINIMUM RISK FUNDING BASIS: more cautious funding basis than the existing valuation basis. The relevant discount rate used for valuing the present value of liabilities is based on the yields from Government Bonds or Swaps.

ORPHAN LIABILITIES: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

PERCENTILES: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

PHASING/STEPPING OF CONTRIBUTIONS: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

POOLING: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

PREPAYMENT: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

PRESENT VALUE: the value of projected benefit payments, discounted back to the valuation date.

PROFILE: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

PRUDENT ASSUMPTION: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

RATES AND ADJUSTMENTS CERTIFICATE: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

REAL RETURN OR REAL DISCOUNT RATE: a rate of return or discount rate net of (CPI) inflation.

RECOVERY PLAN: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

SCHEDULED BODIES: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

SCHEME EMPLOYERS: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

SECTION 13 VALUATION: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

SOLVENCY FUNDING TARGET: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

VALUATION FUNDING BASIS: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 SCHEME: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 4 September 2019
Report Subject	Responsible Investment
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

As part of the CPF's Business Plan it has been agreed to review the Fund's Responsible Investment and Sustainability policies in conjunction with the review of the Fund's Investment Strategy. It is proposed to present the refreshed/revised policies to the Committee in November, and this paper and discussion/presentation at the Committee will help inform this process. Committee members are invited to express views and comment on the progress made to date.

In addition to the Fund's own Responsible Investment policies, the Wales Pension Partnership has been developing a specific policy for the Pool. This draft policy has been reviewed by Officers and Advisers and the Committee are invited to add any further comments.

RECOMMENDATIONS	
1	To express views on the Fund's RI beliefs, to help develop the Fund's policies.
2	To provide comments on the Wales Pension Partnership RI Policy, subject to any changes/comments/views that the Committee wish to see in an updated document.

REPORT DETAILS

1.00	RESPONSIBLE INVESTMENT
1.01	**CPF Responsible Investment Policies** At the last two meetings the Committee have had training sessions on the importance of Responsible Investing (RI) and the integration of Environmental, Social and Governance (ESG) factors within the Fund's investment strategy. After the meeting in June the Committee were issued, by email, a survey to establish the ESG beliefs of the Fund. The intention being that these beliefs could then be reflected within the Fund's revised RI and Sustainability policies. At the forthcoming meeting the views that have been expressed will be interpreted by the Fund's Investment Consultant, and there will be an opportunity for further views to be expressed by members of the Committee. This will then be developed by the Officers and Advisers to revise the fund RI policies for presentation to the Committee in November.
1.02	**Wales Pension Partnership – Draft Responsible Investment Policy** The Wales Pension Partnership has developed a draft RI policy (attached at Appendix 1) which was circulated to the Committee via email in July. Officers and Advisers have had the opportunity to comment and ask questions which are attached at Appendix 2. This sets out these questions and responses from the WPP. Officers and Advisers are generally accepting of the responses from WPP and we are pleased that, in a number of areas, the comments have been well received by the WPP Advisor, Hymans Robertson. The aim of the WPP Policy is to be overarching and enable each of the 8 funds to implement their own RI Policy which remains the responsibility of each fund. The Committee are invited to ask questions and comment upon this draft policy.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

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

4.00	**RISK MANAGEMENT**
4.01	It is now commonly accepted that ESG risks and the consideration of such should be embedded with consideration of any investment. The CPF has an RI policy, and it is appropriate to review and refresh this on a regular basis. It is also important to ensure that through the pooling of investment, these policies are properly reflected.

5.00	**APPENDICES**
5.01	Appendix 1 – WPP Responsible Investment Policy Appendix 2 – WPP Draft RI Policy Q&A.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Presentations to Committee Training Day on 20 March 2019, and Committee Meeting on 12 June 2019. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

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Wales Pension Partnership
Responsible Investment Policy

1 Introduction and oversight

1.1 The Wales Pension Partnership ("WPP") is the pooling arrangement for the assets of the eight Welsh Local Government Pension Scheme funds ("Constituent Authorities").

1.2 The investment arrangements of WPP are overseen by a Joint Governance Committee ("JGC") and supported by an Officer Working Group ("OWG") and implemented through pooled funds managed by its "Investment Managers".

1.3 This document sets out WPP's policy on responsible investment for all assets invested within the WPP. This policy has been developed by WPP in consultation with the Constituent Authorities.

1.4 WPP's objective in preparing and implementing this policy is to be able to:

1.4.1 demonstrate to its stakeholders that the WPP is a Responsible Investor; and

1.4.2 enable the Constituent Authorities to substantially deliver their own Responsible Investment and Social Impact policies through the WPP.

1.5 WPP recognises that responsible investment considerations pose financially material risks to the assets of Constituent Authorities held within WPP. Such considerations are relevant in relation to both the way the assets of Constituent Authorities are invested and in the exercise of stewardship responsibilities.

1.6 This policy will be reviewed by WPP on an annual basis and, if necessary, changes to the policy will be proposed to and agreed by the JGC and OWG. In order to inform the policy review, WPP will consult with or otherwise obtain the views and requirements of all Constituent Authorities.

1.7 In developing and implementing this policy, WPP will have regard to the Well-being of Future Generations (Wales) Act 2015, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any relevant guidance provided by the Scheme Advisory Board ("SAB"), the Ministry of Housing Communities and Local Government ("MHCLG") and the Welsh Government.

2 Ambition and beliefs

2.1 WPP's long-term ambition is to demonstrate leadership on RI practices in managing assets for and on behalf of the Constituent Authorities. WPP, in conjunction with the OWG & JGC, will update its annual business plan to ensure that sufficient time and resources are provided to implement the requirements of this policy.

2.2 WPP recognises that the development of beliefs represents best practice for asset owners. In consultation with the Constituent Authorities, the WPP has developed and agreed the following responsible investment beliefs which serve to underpin its decision-making and governance processes.

2.2.1 The RI behaviours we want to see demonstrated by all our stakeholders must be led by WPP;

2.2.2 Integration of ESG factors, including climate change, into investment processes is a prerequisite for any strategy given the potential for financial loss;

2.2.3 WPP is most effective as an investor engaging for change from within, particularly in collaboration with other like-minded investors, as opposed to a campaigner lobbying for change from outside.

2.2.4 Our impact on corporate behaviours will be greatest when we speak with one voice;

2.2.5 Effective oversight of RI practices requires clear disclosure and measurement of comprehensive data.

2.3 WPP recognises that these beliefs represent a starting point for the guidance of its approach to responsible investment. Although WPP does not expect to regularly change these beliefs, it will test the ongoing appropriateness of them on a periodic basis in light of changing best practice and developing knowledge.

3 Investment strategy

3.1 The Constituent Authorities are individually responsible for setting investment strategy for their own funds which reflect their membership profile and funding position. The investment strategy is the high-level split between asset classes including but not limited to equities, debt, property and infrastructure. The role of WPP is to provide a means for each Constituent Authority to implement its agreed strategy.

3.2 WPP openly encourages the Constituent Authorities to develop their own RI policy as part of their investment strategy. WPP has developed and may periodically amend this RI policy to ensure that it complements those of the Constituent Authorities.

3.3 WPP will consult with Constituent Authorities on at least an annual basis to determine their individual investment requirements and longer-term aspirations, including strategies which either meet the responsible investment requirements of Constituent Authorities or have the potential to deliver benefit within the regions covered by the Constituent Authorities. WPP will use this information to prioritise the development and launch of future investment solutions/funds within the WPP.

3.4 In conjunction with its advisers the WPP will also consider opportunities arising from a greater understanding of ESG factors. These opportunities could include impact and/or sustainability themed strategies, as well as social beneficial investments. WPP may propose such opportunities directly for consideration by Constituent Authorities.

4 Climate change

4.1 Climate change presents a systemic risk that has the potential to affect economies, financial returns and demographics. The risks arising from climate change may arise from environmental, social, governance or other factors and are generally characterised as follows:

4.1.1 Physical risks, such as damage to property from flooding or lower precipitation giving rise to crop failure;

4.1.2 Transition risks, being the financial risks arising from changes in policy and technology to adjust to a lower-carbon economy; and

4.1.3 Liability risks, being the potential costs arising from parties who have suffered loss or damage due to climate change seeking compensation from those they hold responsible.

4.2 Climate change is increasingly being recognised by regulatory bodies and legislators as an issue that must be explicitly addressed by asset owners and investment managers. The uncertainty arising from climate change has implications for Constituent Authorities through the investments made within WPP.

4.3 WPP will engage with its providers to ensure that a common mechanism for monitoring climate related risks can be developed in respect of all WPP assets. Through this, WPP aims to provide support to Constituent Authorities in developing and implementing their own climate risk management policies.

4.4 WPP will encourage, through its delegates, all investee companies to disclose in line with the requirements of the Taskforce for Climate Related Financial Disclosures.

4.5 In developing its ongoing approach to responsible investment, WPP will consult further with Constituent Authorities with a view to developing a WPP-specific climate risk policy.

5 Exclusions

5.1 WPP has not adopted a policy of exclusionary practices within its underlying active manager portfolios. However, the WPP recognises that the Constituent Authorities may individually adopt an exclusionary policy.

5.2 WPP recognises that active investment management is by its very nature exclusionary and therefore expects that all the investment managers employed within WPP will properly consider climate-related and other ESG risks in decision making within their respective portfolios.

5.3 Constituent Authorities have the ability to invest in passive or other rules-based strategies through WPP's passive Investment Manager which may follow an exclusionary approach.

6 Implementation of strategy

6.1 WPP expects that the Investment Managers employed to manage WPP assets will take account of ESG-risks as part of their investment analysis and decision-making process. WPP further expects that its Investment Managers can demonstrate they are 'best-in-class' with regards to their integration of responsible investment considerations.

6.2 WPP expects that, in all relevant circumstances, its Investment Managers will be signatories to the Principles for Responsible Investment ("PRI") and the Financial Reporting Council ("FRC") UK Stewardship Code.

6.3 WPP will engage with its Investment Managers on an ongoing basis to ensure that ESG factors are transparently reflected in decision making processes and that the approach taken to the management of ESG factors can be properly evidenced. WPP expects that such processes extend beyond reliance purely on third party ratings/data.

6.4 Within rules-based or index tracking mandates managed, WPP recognises the influence of benchmarks on the selection of assets. Where appropriate, WPP will work with its Investment

Managers and Constituent Authorities to ensure that the potential implications and impact of ESG factors on different approaches are properly understood.

7 Stewardship

7.1 WPP believes that failing to exercise voting or other rights attached to assets could be contrary to the interest of the beneficiaries of the Constituent Authorities. WPP also believes that successful engagement with investee companies can protect and enhance the long-term value of the Constituent Authorities' investments within WPP.

Voting

7.2 WPP has agreed a set of voting principles with its Operator which is responsible for the implementation of these principles. The Operator has instructed the underlying active investment managers within pooled funds to apply these voting principles on a comply or explain basis in respect of their portfolio(s).

7.3 WPP recognises that its passive Investment Manager may adopt a single voting policy across their pooled funds and WPP will review the appropriateness of such a policy on a periodic basis. WPP will engage with its passive Investment Manager to consider how WPP's voting principles can be extended to assets managed by its passive Investment Manager.

7.4 WPP will receive a report on all voting activity, including details of any votes which have not been cast and explanations where votes have not been cast in accordance with the agreed principles on a quarterly basis. WPP will discuss any issues of concern with its Investment Managers or other delegates as necessary.

7.5 WPP will review the voting principles in conjunction with its advisers and Investment Managers on an annual basis. WPP has also agreed an ambition to appoint a single proxy voting adviser to ensure that voting on all shares held within WPP is undertaken on a consistent basis.

7.6 All the Constituent Authorities are members of the Local Authority Pension Fund Forum ("LAPFF"). As members, the Constituent Authorities receive LAPFF Alerts when there is a campaign to vote in a certain way. WPP and its Constituent Authorities will give consideration to all such LAPFF Alerts and, where possible, instruct its Investment Managers to vote in line with the LAPFF Alert unless there is sufficient reason not to.

Stock lending

7.7 WPP has agreed that stock lending will be permitted within WPP's actively managed pooled funds, subject to consultation with Constituent Authorities in respect of each underlying sub-fund at the point of set up. However, WPP will not lend 100% of the holding in any single stock so WPP can express its views and make a policy stance on any topic it deems worthy though its right to vote.

7.8 WPP recognises that stock lending may inhibit the full application of its voting policy as votes may not be cast on stock on loan. WPP will continue to monitor the impact of this policy stance over time and revise its policy if required.

Shareholder engagement

7.9 WPP considers that, in many cases, its Investment Managers are best placed to engage with investee company management due to:

- the practical constraints of the investment structure;
- the resources available to these managers which are funded by the fees paid through WPP; and
- the existence of relationships between investment managers and the underlying investee companies.

7.10 The Investment Managers are ultimately accountable to WPP for all engagement activity; they should be able to demonstrate, when challenged, the reason for any engagement activity and the objectives of the engagement. Further to this Investment Managers should be able to justify the approach taken to achieve their objectives and explain the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.

7.11 WPP adopts an evidence-based approach to assessing engagement activity by managers. WPP will receive a report on engagement activity undertaken by investment managers on a quarterly basis. WPP will discuss any issues of concern with the Investment Managers.

7.12 WPP has agreed to explore the possibility of employing a single engagement provider in conjunction with the prospective consideration of a proxy voting agent.

8 Collaboration

8.1 WPP believes that collaboration has an important role in helping the WPP achieve its RI objectives. WPP will continually assess potential collaboration opportunities and will inform and seek input from the Constituent Authorities on any such opportunity that it deems to be relevant.

8.2 WPP together with all Constituent Authorities are members of LAPFF and engagement takes place with companies on behalf of members of the Forum.

8.3 WPP has an ambition to work collaboratively with other like-minded investors and representative bodies in order to maximise the influence of WPP's assets on investee companies. WPP will seek to identify investor led responsible investment initiatives and collaborations that can be actively supported.

8.4 WPP will encourage underlying investment managers to participate in or support collaborative engagements where it is deemed to be in the best overall financial interests of Constituent Authorities.

8.5 WPP will continue to collaborate with the cross-pool RI collaboration project at any suitable opportunity.

9 Monitoring, Reporting and Measurement

9.1 WPP aims to be aware of, and monitor, financially material ESG-related risks and issues within WPP assets. In consultation with Constituent Authorities, Advisers and the Investment Managers, WPP will develop appropriate monitoring metrics for its portfolios. Such metrics are expected to include climate-related risk exposures. WPP expects that such metrics will be incorporates within quarterly reporting to Constituent Authorities.

9.2 WPP requires that the responsible investment credentials of all appointed Investment Managers are subject to annual review. In conjunction with the relevant parties, the WPP will develop an appropriate reporting framework for its Investment Managers.

9.3 On an annual basis, the WPP will prepare and publish a stewardship report detailing the actions undertaken in fulfilment of this policy and the results achieved.

10 Other

10.1 WPP recognises the need for ongoing education for Constituent Authorities on a broad range of investment matters, including responsible investment. As part of its annual business planning, WPP will ensure there is at least one formal training session is directly focused on Responsible Investment.

10.2 WPP is investigating, and will seek guidance from the Constituent Authorities, on whether it should become a signatory to the PRI and the updated FRC UK Stewardship Code. WPP will also explore the possibility of incorporating the United Nations' Sustainable Development Goals into its RI beliefs and its monitoring and measurement mechanisms.

10.3 WPP expects that all investment managers employed on behalf of WPP will disclose costs in accordance with the SAB Code of Transparency.

10.4 WPP will review the adherence of all parties to this policy on an annual basis. WPP will publish the results of their assessment as part of their annual stewardship and governance report.

11 Further Information

11.1 If you require any further details on the RI Policy please contact ……………..and refer to the WPP website.

Version 1.0
May 2019

Glossary

Engagement refers to the process of interaction between an investor (or its delegate) and the management of an investee company with the objective of creating change in how the underlying company is managed or governed.

ESG is used to collectively describe a series of different risk factors arising from Environmental (e.g. resource scarcity, waste management, pollution, energy efficiency), Social (e.g. health & safety, workforce diversity, working conditions, data protection) and Governance (e.g. board structure, business ethics, shareholder rights, executive compensation) issues.

Impact is a term generally used to describe the social or environmental outcome arising from a particular investment or investment decision, being distinct from the associated financial outcome.

Investment Managers refers to those investment managers appointed directly or indirectly by WPP for the purposes of managing assets on behalf of WP.

Operator means Link Fund Solutions as the appointed operator of the Authorised Contractual Scheme through which sub-funds are implemented for WPP.

Principles for Responsible Investment is a global network of asset owners, asset managers and service providers which has the objective of advancing responsible investment practices.

Proxy Voting Agent means an entity which is instructed to advise on and/or cast votes on resolutions on behalf of an asset owner.

Responsible investment refers to investment practices that integrate the consideration of ESG factors into investment management processes and ownership practices, recognising that these factors can have a material impact on financial performance.

Stewardship describes the activities of investors in exercising the rights and responsibilities that come with asset ownership. These practices can include voting on shares and engaging with company management but also includes the oversight of those to whom such responsibilities are delegated.

UK Stewardship Code is a set of principles and provisions produced by the Financial Reporting Council which sets out best practice in stewardship activities by Asset Owners and Asset Managers.

UN Sustainable Development Goals are a set of 17 global goals for 2030 set by the UN General Assembly in 2015.

Mae'r dudalen hon yn wag yn bwrpasol

Wales Pension Partnership
Draft Responsible Investment Policy
Clwyd Pension Fund Questions/Comments

The Wales Pension Partnership (WPP) drafted a Responsible Investment Policy, and the Clwyd Pension Fund in reviewing raised a number of questions and comments. These are summarised below with the responses from WPP. These responses give officers and advisers a good degree of comfort over the proposed direction of travel for WPP, and look forward to working with WPP to develop this policy.

Questions/Comments with the appropriate paragraph reference and WPP responses in Red:

<u>Paragraph 2 – Ambition and beliefs</u>

2.3 *- The phrase "….represents a starting point for the guidance of its approach….." is quite strange and I'm not quite sure what it is actually meaning. It also refers to testing the appropriate of the beliefs, but will it also regularly test whether the beliefs have been followed in how the pool is operating? If not, what is the point in having them.*

We would propose that the wording is changed to – 'WPP will test adherence of the investment arrangements it implements to these beliefs on an annual basis. WPP will also periodically test the continuing appropriateness of its beliefs. ' – We would expect that the WPP Oversight Advisor will assess whether the beliefs have been adhered too, we would expect this to be pick in other WPP documents (such as the Work plan or Oversight Advisors contract).

<u>Paragraph 3 – Investment Strategy</u>

3.1 *– Is there a reason for only referring to four asset classes by name. I appreciate it says "not limited to" but wondered why there was no mention of Private Markets, or Multi-Asset for example. Not sure why it needed to mention any of the asset classes by name? It appears to reflect only a high level split- this will be a public document so it is important it is accurate/doesn't provide false implications.*

We suggest leaving in the four asset class names; it helps define what is meant by asset classes. In regards to the second point, we would suggest the following wording – "3.1 The Constituent Authorities are individually responsible for setting investment strategy (and the underlying structure of those strategies, e.g. geographical exposure) for their own funds which reflect their membership profile and funding position. The investment strategy is the high-level split between asset classes including but not limited to equities, debt, property and infrastructure. The role of WPP is to provide a means for each Constituent Authority to implement its agreed strategy.

3.3 *- "…including strategies which either meet…." – Does this mean individual strategies? The sentence doesn't work if it does that. Perhaps is should be something like "including ensuring this WPP strategy either meets the ......". Also the words "either" and also "or" in that sentence - seems like it could imply it won't meet individual AA RI strategies.*

Agreed – 3.3. refers to the consultation with CA's and the use of information to determine priorities. 3.4 then covers the potential for opportunistic investment. We suggest removing the phrase "including strategies which either meet the responsible investment requirements of Constituent Authorities or have the potential to deliver benefit within the regions covered by the Constituent Authorities" from 3.3. but to include the second part of this in 3.4.

<u>4 – Climate Change</u>

4 *- The paragraphs on Climate Change are a useful addition, and imagine that these may be expanded and developed over time*

The content of points 4.1.1 & 4.1.2 is intended to provide an overview of climate risks, not to be all encompassing. They follow the risks listed by Mark Carney and consequently the way in which climate risks are typically described. The intent is to develop a separate climate change policy as noted in 4.5 which will be more detailed. This will be an evolving document

<u>6 - Implementation of strategy</u>

6.1 *- How will this be implemented? What if a manager doesn't do this? Do they get replaced?*

We prefer engagement with managers as a means of dealing with this issue, rather than removing a manager – this is consistent with the belief stated at 2.2.3. To reflect the expected engagement, we suggest amended wording as follows: 'WPP expects that the Investment Managers employed to manage WPP assets will take account of ESG-risks as part of their investment analysis and decision-making process. WPP further expects its Investment Managers to be or aspire to be 'best-in-class' with regards to their integration of responsible investment considerations. Where necessary, WPP or its delegates will engage with investment managers who fail to meet WPP's expectations to agree a plan to address any shortcomings.'

<u>7 - Stewardship</u>

7.2 *- Is it necessary to give Investment Managers the ability to comply or explain? Is it not reasonable as the owner of the underlying investments to expect them to vote how we want them to?*

Yes. This reflects the current approach whereby voting principles are cascaded to managers who are then responsible for implementation at a fund level and may have good reason for not following the principle. Voting is one issue which we expect to move forward over the next 12 months, as noted at 7.5.

7.2 *- Does this give CPF any flexibility to decide how something should be voted on or are you giving that right away to WPP through this policy? Separate point – how will Constituent Authorities feed into individual votes where they feel strongly about them (i.e. where you want WPP to vote but you all want to feed in your thoughts about how to vote)?*

No, CPF will have input into how WPP votes on a particular issue, it will not have the flexibility to deviate from WPP's view. It important to stress that communication, compromise and collaboration will be key to ensuring that all Constituent Authorities come to an acceptable agreement.

7.5 *– I note the wording "WPP has agreed an ambition to appoint a single proxy voting adviser…" is there a reason that it is an ambition not a plan? Ambition suggests that it may well not happen? We would prefer this to be more strongly worded, such as "WPP will be appointing…." Has this not been agreed by all?*

Agreed. We would suggest the following wording changes 'WPP intends to appoint a single proxy voting adviser to ensure that voting on all shares held within WPP is undertaken on a consistent basis.'

7.9 *- Would this restrict CPF doing engagement if it wanted to? It is becoming more common these days for funds to take control by going along to AGMs*

No, this does not restrict engagement. The policy wording suggests that managers are best placed to engage, but that does not in any way preclude CPF from engaging.

***7.12** – I note the wording is even more uncertain than Para 7.5?*

Agreed. We would suggest the following wording changes 'WPP is exploring the appointment of a single engagement provider and a proxy voting agent.'

9 – Monitoring. Reporting and Measurement

***9.1** – Last sentence says "WPP expects that such metrics…" Again it seems a bit vague. Could the wording to commit WPP to providing this reporting? Is consideration of ESG matters at the time of appointment sufficiently covered previously or does it need to come into this section too? Perhaps something more explicit that as each portfolio is developed, the minimum ESG requirements are agreed by the Constituent Authorities? If there is nothing at the starting point, then it's going to be more difficult to get managers up to an appropriate level.*

We would suggest the following wording changes – 'WPP aims to be aware of, and monitor, financially material ESG-related risks and issues within WPP assets. In consultation with Constituent Authorities, Advisers and the Investment Managers, WPP will develop appropriate monitoring metrics for existing portfolios and agree appropriate metrics in respect of all new portfolios. Such metrics are expected to include climate-related risk exposures. WPP will require managers to include such metrics in their quarterly reporting to Constituent Authorities.'

Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 4th September 2019
Report Subject	Governance Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

On each Committee agenda LGPS governance matters and the impact on the Clwyd Fund are provided for discussion along with updates on the Clwyd Fund's governance strategy and policies for information. The LGPS items for discussion this quarter are:

- The update from the LGPS Scheme Advisory Board (SAB)
- The proposals relating to the SAB Good Governance Project
- The outcomes of The Pension Regulator's (TPR) annual survey of public service pension schemes

Updates on the implementation of governance strategy and policies for monitoring:

- An update on progress with the 2019/20 business plan
- Update to the Fund's risk dashboard and in particular governance risks
- A summary of the key points discussed at the Local Pension Board
- The latest changes to our breaches of the law register.
- Information to note on training and other events.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments. The Committee should particularly highlight any concerns or suggestions they have in relation to the SAB Good Governance Project (paragraph 1.05) and the TPR's survey results (paragraph 1.06) to ensure the Fund continues to focus on high quality governance and administration.

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
1.01	**Business Plan 2019/20 Update** Appendix 1 shows progress with this quarter's work in the 2019/20 business plan which covers the following two actions: • The business continuity plan (G1) was due to commence this quarter but this work is slightly behind schedule. • The review of the pension administration system contract (G2) is making good progress as part of the national framework.
1.02	The Committee is asked to note the contents of the business plan update.

1.03	**Current Developments and News**
	
	Pension board update
	
	The Clwyd Pension Fund Board met on 1 July 2019. The minutes from the meeting will be circulated when they are finalised. The key points from the meeting are as follows:
	• Data Improvement Plan – The latest version of the Plan was shared and the Board were provided with an update on the excellent progress made in relation to the planned improvements. It was noted that the work would also assist in having more robust data for the actuarial valuation process.
	• Business Continuity – The Board requested that the first draft of the Business Continuity plan be shared with them when it was available.
	• Guaranteed Minimum Pension (GMP) Reconciliation Project – The Pensions Administration Manager highlighted that the main reconciliation results were due shortly and then this could result in the need to adjust pension payments for some pensioners and dependants. A policy would need to be agreed in relation to how any overpayments were to be dealt with, including whether they would be reclaimed. The Board asked for some information to be gathered into how others dealt with these cases, including gathering advice form national bodies. The sensitivity around this was noted.
	• Administration Update –
	  ○ The Board received an update on the latest performance statistics and particularly noted the increasing numbers of retirements and quotations being carried out by the team. Some of this is because of system issues with the on-line Member Self Service facility.
	  ○ The Board also noted the results of the latest annual scheme member and employer surveys and, although disappointed to see a decline in some areas, they were assured that actions were already in place within the team to turn this around.
	  ○ The Board were very pleased to hear that all the vacant positions in the Administration Team were now filled.
	• TPR Code of Practice and Action Plan – The Board were pleased with the progress with the outstanding actions. They noted that some were delayed due to the recruitment in the Finance Team.

	- McCloud/Cost Cap Process and Brexit – The Board received updates on these matters. - Asset Pooling – - The Chairman of the Board updated the Board on her meeting in April with the Host Authority and the other Welsh Pension Board Chairs. The meeting had been set up as a result of ongoing concerns around the governance of the Wales Pensions Partnership (WPP). The Chairman reported that the Host Authority had shared their plans for their priorities for the year and this provided a high level of assurance that the outstanding matters would be dealt with during this financial year. It was agreed that similar meetings would take place twice yearly. - The Clwyd Pension Fund Manager also updated the Board on other matters, including: - WPP had written to Link looking for assurance following some issues relating to other assets they managed (Woodford). - A draft WPP Responsible Investment Policy was to be considered at the next JGC as well as with each Funds' Committee. - There is ongoing work to ensure the detail within investment monitoring reports for WPP assets meets the requirements of each Fund. The Clwyd Pension Fund Manager was also asked to question why the investment performance reports at JGC were private, rather than public, items. - Change in PFC Membership - The Board asked for assurance that training would be put in place for the new Committee members as soon as possible. - Annual CIPFA Pension Board event – the Chairman updated the Board on this event. She particularly noted that most Pension Boards appear to be adding value and more Boards are now reporting that they have positive relationships with their administering authorities.
1.04	*National LGPS Scheme Advisory Board (SAB) Update* The LGPS SAB Board met on 8 July 2019. A summary of that meeting, provided by the Secretary to the SAB, is attached in Appendix 2.
1.05	*SAB Good Governance Project* The SAB commissioned this report to example the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward. As mentioned in the SAB update, the results of the good governance project have now been published and the full report can be found here - http://www.lgpsboard.org/images/PDF/GGreport.pdf. Two working groups are being established by SAB to take forward the next stage of the project; one to focus on defining good governance outcomes and the guidance needed to clearly set them out and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. Both groups will comprise a wide range of

	scheme stakeholders to ensure a full range of views and options are considered. The aim is for an options report to be ready for the SAB's consideration when it meets in November. Any proposals agreed by the SAB would be subject to a full stakeholder consultation before being put to MHCLG. The Clwyd Pension Fund Manager and the Fund's Independent Advisor have carried out an assessment of the findings against the current practices of the Fund. The results are included in Appendix 3 and purely focus on the areas that are directed specifically at Funds. As you can see, the Fund already carries out most of the areas highlighted for improvement.
1.06	*The Pension Regulator's Survey Results* TPR carries out an annual survey of public service pension schemes to identify where they follow the Regulator's Code of Practice 14, which focusses on strong governance and administration of schemes. The results of the fourth survey were issued in July and the summary of the results, with commentary, is attached as Appendix 4. The full results can be viewed here - https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/public-service-research-2019.ashx. As you can see from the commentary, the survey highlights improvements in many areas compared to previous years. As assisting in ensuring compliance with TPR requirements is a role of the Pension Board, it will consider the results in detail at their next meeting. In the meantime, the following summarises where CPF are in relation to the six areas highlighted by TPR (albeit it should be noted that TPR's focus relating to governance is on the Pension Board rather than the Pension Fund Committee): • Pension Board meetings - TPR suggests it is good practice for a Board to meet at least quarterly. CPF Pension Board only meet three times a year, albeit they have regular contact outside of the formal meetings, including during attendance at Committee meetings. • Knowledge and understanding – TPR highlights barriers relating to evaluating knowledge, and recruitment, training and retention of staff. It also highlights concern over turnover in Pension Board members. CPF has carried out a self-assessment of knowledge and skills with Committee and Board members, and this will be repeated in the next 6 to 12 months. There has been issues with recruitment of staff within CPF but excellent progress has been made in turning this around in the last 6 months. Whilst there have been no particular concerns around turnover of PB members the Board have recently learned that a scheme member representative is standing down with immediate effect. A recruitment process is underway. • Pension Board membership – TPR raised significant concerns about Pension Boards operating with fewer board members than required. All vacant positions at Clwyd Pension Fund have been filled very quickly so this is not considered to be an issue and noting that a recruitment exercise is underway as highlighted in the point above. • Risk registers – TPR expects risk registers to be reviewed at least quarterly with the Pension Board and Scheme Manager reviewing registers at every meeting. This is standard practice at Clwyd Pension Fund and the risk register is also reviewed regularly by the

	Fund's officers and advisers in between PFC and Pension Board meetings. • Collecting data – TPR suggests data should be collected electronically and more frequently (e.g. monthly). Clwyd Pension Fund has been moving to this with over a number of years with the implementation of i-Connect and all employers will be live by the end of 2020/21. • Cyber security – TPR highlighted that many schemes did not have basic measures to combat cyber security in place. They also highlighted the need to consider where scheme data is held with third parties. Clwyd Pension Fund has carried out some work in considering these areas, including inviting some suppliers to present on how they protect CPF data, and has already identified the need for ongoing work in this area. • Data quality – TPR identified a number of schemes with data quality issues. As highlighted in the Administration Update report, the CPF Administration Team has been working through a data improvement plan, and this has already resulted in data quality improvements. • Annual benefit statement – TPR has concerns annual benefit statements are not being issued on time, and where they are, they do not contain all required information. CPF has always been focussed on delivery high quality statements as well as meeting the legal timescale. It is expected that all statements will be issued by the legal timescale this year. • Administration – TPR expects all Pension Boards to consider administration as part of their standard agenda and CPF have always done this. TPR did also highlight that a number of complaints against schemes relate to poor administration and therefore Pension Boards should ensure they identify issues and advise the scheme manager. Again this is something CPF Pension Board already does.
1.07	**Policy and Strategy Implementation and Monitoring** *Training Policy* The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to: • have training on the key elements identified in the CIPFA Knowledge and Skills Framework • attend training sessions relevant to forthcoming business and • attend at least one day each year of general awareness training or events. To date for 2019/20 there have been no training dates provided, just attendance at the June 2019 committee. Appendix 5 includes details of planned training events including forthcoming events considered suitable for general awareness training. Training is being arranged for the new Committee members. Committee members are reminded to highlight, at any point, topics they feel they need further training on.
1.08	*Recording and Reporting Breaches Procedure*

	The Fund's procedure requires that the Clwyd Pension Fund Manager maintains a record of all breaches of the law identified in relation to the management of the Fund. Appendix 6 details the current breaches that have been identified.
1.09	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to governance matters.
1.10	**Calendar of Future Events** Appendix 7 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report.

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

4.00	**RISK MANAGEMENT**
4.01	Appendix 8 provides the dashboard showing the current risks relating to the Fund as a whole, as well as the extract of governance risks. The biggest governance risk relates to the impact of externally led influence and scheme change which could also restrict our ability to meet our objectives and/or legal responsibilities. This is due to the ongoing uncertainty around the cost cap process, the McCloud judgement and also some concerns around the governance of asset pooling.
4.02	There have been no changes to the risk register since it was last shared with the Committee other than changing the expected back on target date for risk numbers 4 and 7, which is mainly due to recruitment in the Finance Team taking longer than expected.

5.00	APPENDICES
5.01	Appendix 1 – Business plan progress 2019/20 Appendix 2 – LGPS SAB update Appendix 3 – SAB Good Governance Project – CPF self-assessment Appendix 4 – The Pension Regulator's Public Service Scheme – summary survey results Appendix 5 – Training plan Appendix 6 – Breaches Appendix 7 – Calendar of future events Appendix 8 – Risk register

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

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of. (f) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to MHCLG.

	(g) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation. (h) **JGC – Joint Governance Committee** – the joint committee established for the Wales Pension Partnership asset pooling arrangement.

Business Plan 2019/20 to 2021/22 – Q2 Update
Governance

Cashflows projections for 2019/20

	2017/18 £000s	2018/19 £000s	2019/20 £000s			
	Actual	Actual	Budget	Actual	Projected for full year	Final under/ over
Opening Cash	(13,623)	(21,188)	(3,599)	(5,764)		
Payments						
Pensions	57,452	59,447	61,600	14,887	61,600	0
Lump Sums & Death Grants	13,500	14,708	15,000	3,571	15,000	0
Transfers Out	5,600	6,791	6,000	817	6,000	0
Expenses	3,935	4,263	4,600	680	4,600	0
Support Services	120	265	140	0	140	0
Total Payments	80,607	85,474	87,340	19,955	87,340	0
Income						
Employer Contributions	(34,617)	(39,554)	(40,000)	(10,577)	(40,000)	0
Employee Contributions	(15,259)	(14,794)	(14,400)	(3,591)	(14,400)	0
Employer Deficit Payments	(52,612)	(18,811)	(19,800)	(18,238)	(19,800)	0
Transfers In	(4,813)	(4,220)	(4,000)	(1,030)	(4,000)	0
Pension Strain	(1,057)	(1,644)	(1,200)	(151)	(1,200)	0
Income	(29)	(45)	(48)	(44)	(48)	0
Total Income	(108,387)	(79,068)	(79,448)	(33,631)	(79,448)	0
Cashflow Net of Investment Income	(27,780)	6,406	7,892	(13,676)	7,892	0
Investment Income	(3,540)	(7,990)	(6,000)	(1,735)	(6,000)	0
Investment Expenses	3,035	3,593	3,000	1,309	3,000	0
Total Net of In House Investments	(28,285)	2,009	4,892	(14,102)	4,892	0
In House Investments						
Draw downs	73,893	91,883	77,019	22,510	85,163	8,144
Distributions	(52,294)	(58,348)	(77,930)	(14,001)	(76,726)	1,204
Net Expenditure /(Income)	21,599	33,535	(911)	8,509	8,437	9,348
Total Net Cash Flow	(6,686)	35,544	3,981	(5,593)	13,329	9,348
Rebalancing Portfolio	(879)	(20,120)	(10,000)	0	(20,000)	(10,000)
Total Cash Flow	(7,565)	15,424	(6,019)	(5,593)	(6,671)	
Closing Cash	(21,188)	(5,764)	(9,618)	(11,357)	(12,435)	

Operating Costs

	2017/18	2018/19	2019/20			
	Actual	Actual	Budget	Actual	Projected for full year	Projected under/ over
	£000s	£000s	£000s	£000s	£000s	£000s
Governance Expenses						
Employee Costs (Direct)	229	193	299	**64**	**299**	0
Support & Services Costs (Internal Recharges)	23	23	22	**0**	**22**	0
IT (Support & Services)	5	0	5	**0**	**5**	0
Other Supplies & Services)	69	64	70	**14**	**70**	0
Audit Fees	39	39	40	**(20)**	**40**	0
Actuarial Fees	217	407	435	**134**	**435**	0
Consultant Fees	511	598	664	**84**	**664**	0
Advisor Fees	202	436	179	**55**	**179**	0
Legal Fees	37	57	40	**0**	**40**	0
Pension Board		58	69	**13**	**69**	0
Pooling (Consultants & Host Authority)	0	85	109	**0**	**109**	0
Total Governance Expenses	1,332	1,960	1,932	**344**	**1,932**	0
Investment Management Expenses						
Fund Manager Fees*	20,539	21,218	21,000	**1,315**	**21,225**	225
Custody Fees	31	31	31	**(2)**	**31**	0
Performance Monitoring Fees	67	60	66	**22**	**66**	0
Pooling (Operator / Manager)			186	**0**	**186**	0
Total Investment Management Expenses	20,637	21,309	21,283	**1,335**	**21,508**	225
Administration Expenses						
Employee Costs (Direct)	649	777	893	**215**	**893**	0
Support & Services Costs (Internal Recharges)	105	113	66	**0**	**66**	0
Outsourcing	227	394	900	**104**	**900**	0
IT (Support & Services)	286	364	424	**346**	**424**	0
Other Supplies & Services)	139	86	63	**16**	**63**	0
Miscellaneous Income	0	0	0	**0**	**0**	0
Total Administration Expenses	1,406	1,734	2,346	**681**	**2,346**	0
Employer Liaison Team						
Employee Costs (Direct)	163	205	213	**48**	**213**	0
Total Costs	**23,538**	**25,208**	**25,774**	**2,408**	**25,999**	**225**

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	2019/20 Period				Later Years	
		Q1	Q2	Q3	Q4	2020/21	2021/22
G1	Develop business continuity plan		x	x			
G2	Review pension administration system contract	x	x	x	x	x	

Governance Task Descriptions

G1 – Develop business continuity plan

What is it?

The Fund has carried out a number of tests in recent years to ensure services can continue to be maintained in various scenarios, such as an office fire. It is now necessary to capture the Fund's business continuity plans and processes into one central document, based on the current methods of working, within a central document that will be maintained and subject to further testing.

Timescales and Stages

Develop business continuity plan	2019/20 Q2 & Q3

Resource and Budget Implications

To be led by the Deputy Head of Clwyd Pension and the Pensions Administration Manager and it is hoped that all costs can be met from existing budgets.

G2 - Review administration system contract

What is it?

The Fund has a rolling one year contract with Aquila Heywood in relation to their Altair administration system. It has not been subject to a full review through tender for a number of years and it would be good practice to carry this out in the near future. However, due to significant projects involving the administration system (e.g. 2016 actuarial valuation, implementing iConnect and scheme/GMP reconciliation) and to tie in with end dates of existing add-on modules within Altair, it was agreed as part of the 2017/18 business plan to defer this until 2019/20. In recent months, a feasibility study has been carried out into whether a national framework can be put in place for LGPS administration systems. CPF has been participating in carrying out this study. It is therefore recommended that CPF participates as a founding authority in the development of the national framework (assuming it proceeds) and then carries out the CPF tender for the administration system once that framework is in place. It is hoped that this will allow a new contract to be appointed to before the end of 2020/21.

Timescales and Stages

Take part in national framework for pensions administration system and conduct tender for CPF administration system	2019/20 & 2020/21

Resource and Budget Implications

To be led by Pension Administration Manager and Principal Pensions Officer - Technical. Any associated costs or assistance from advisers will be considered nearer the time.

Scheme Advisory Board

This note summarises the meeting of the Scheme Advisory Board on the 8th July 2019. Full details of the meeting and agenda papers can be found at www.lgpsboard.org.

The Chair opened the meeting by thanking former Councillor, Denise Le Gal, for all the help and support she has given during her membership of the Board.

Under "Actions and Agreements" the Board was asked to seek further clarification from the Pensions Regulator about the scope of Codes of Practice and other guidance, apart from Code of Practice 14, that LGPS administering authorities need to have regard to. This follows a case involving one English shire county fund who has been fined for failing to alert all their scheme members to a late payment of contributions. The Secretariat will be meeting the Pension Regulator's public service pension team on the 13th August and will raise this matter with them.

Good Governance Project

The project team at Hymans Robertson presented the final draft report to the Board. The Board agreed that the report should be published before the end of July to allow Board members a short period to submit any comments they may have. The Board also agreed that following publication of the report, the Secretariat should commence work, in conjunction with scheme stakeholders, to outline the practical steps necessary to implement the main options set out in the report for consideration by the Board in November. Once approved, scheme stakeholders will be given the opportunity to comment on the Board's recommendations before any formal approach is made to MHCLG Ministers for changes to the scheme's regulations or guidance.

SAB Levy Invoices

The Board was advised that there were still four administering authorities who have yet to pay SAB levy invoices dating back to 2017/18. The Secretariat will continue to discuss payment with these authorities but for the future, the Board agreed that failure to pay the SAB levy within a reasonable timeframe could result in non-payees being identified in summary reports and with certain services and access to LGA/SAB events being withdrawn.

MHCLG Consultations

A : 95k Cap

Following consultation with Board members and those of the Cost Management, Benefit Design and Administration committee, a response to HM Treasury's consultation was submitted. The response included individual examples where the proposed 95K cap was impacting on the local government workforce unfairly and disproportionately with long serving members as well as the high paid being subjected to the proposed cap. A response from the LGA has also been submitted.

B : Fair Deal

The Board was advised that discussions are continuing with MHCLG, in particular, on what the default position should be if negotiations between employer and contractor fail to reach agreement. The Board agreed that the “deemed employer” option should be the default position given that it would give employers, contractors and scheme members complete clarity about the position should no agreement be reached on whether the “deemed employer” or “admitted body” should apply. The Board agreed the draft response.

C : Four Year Valuation period; exit payments/credits and HE/FE

On the proposal to move local fund valuations in the scheme to a four yearly valuation cycle in line with valuations undertaken by unfunded public service pension schemes and all scheme valuations. The next round of scheme valuations will be undertaken in 2020 and 2024 which means that there would be a potential 5 years between the current 2019 LGPS local valuations and the first of the four year period valuations. The Board agreed that five years without local valuations would not be the best way forward and that despite the administrative complexities of the alternative of an interim full set of valuations after 3 years, that is, in 2022 followed by another set in 2024, this was marginally the better of the two options. The Board also agreed that the response should record some concern about allowing administering authorities too much flexibility in exercising the proposed facility to hold an interim valuation. The Board took the view that the regulations and guidance must be clear that the circumstances in which the interim valuation power is to be used must be fully set out in an authority’s Funding Strategy Statement.

On exit payments, the Board was advised that the proposals included a new concept of “deferred employer” that would allow employers to continue to be recognised as such despite having no active members and having exited the scheme. The Board agreed the draft response on exit payments and noted that supplementary guidance would help to provide a robust framework to govern the exercise of the proposed power.

On exit credits, the Board was advised that the draft response included representations to close an unintended loophole whereby administering authorities were liable to pay exit credits at the end of a contract even though steps had been taken by the employer to remove any risk from the contractor. The draft response agreed by the Board proposes that the amending regulations should include a provision requiring fund actuaries to take any side agreement into consideration when assessing exit credit payments.

On the proposal in the consultation to change the status of HE/FE bodies from scheduled to designated bodies, although a view was expressed that the proposed response was too negative regarding the potential impact on the scheme; the substantive view taken was that that this part of the consultation should be deferred until the outcome of the Third Tier Employer’s project is concluded and that such a delay was necessary to properly assess the impact of the proposed changes on scheme membership and cash flow positions. The Board agreed that the Board

Secretary should re-draft the relevant section of the consultation response to reflect the different views expressed by Board members.

Copies of all the draft responses referred to above can be found at http://lgpsboard.org/index.php/about-the-board/prev-meetings

Pensions Tax

The Board was advised that HM Treasury is willing to hear representations from public service pension schemes concerned about the impact annual and lifetime allowances are having on the effectiveness of their workforces and service delivery. Particular reference was made to the situation in the health sector where it is claimed that waiting list targets are not being met because NHS staff are refusing to work overtime and additional shifts for fear of taking earnings and pension benefits over tax thresholds. It was suggested that some of these claims were being exaggerated. There was also a concern whether any remedy forthcoming from government may apply retrospectively to put right decisions taken in the past to avoid tax thresholds. The Board noted that the Secretariat will continue to attend the working group established by a number of public service pension schemes to lobby HM Treasury.

McCloud

The Board was advised that a meeting between MHCLG, external auditors and GAD would take place shortly to discuss the implications of the Supreme Court's decision to refuse the government's application to appeal the McCloud judgement and, in particular, the impact this is having for signing off local authority accounts. Although there is now certainly that the McCloud judgement stands and that the case will now go back to the Employment Tribunal for remedy, there was clear support for the Board to issue a message to scheme stakeholders clarifying the uncertainties that remain. The Board agreed that the Secretariat should prepare a draft statement for consideration and approval of the Chair.

Local Pension Board Survey

The Board agreed that members should be given until the end of July to comment on the draft survey prepared by the Investment, Governance and Engagement committee. The Secretariat will then prepare the survey for publication in August with a deadline of completion by the end of November. This will allow provisional findings to be reported to the Board when it next meets on the 4th November. The Secretariat was also tasked to open discussions with stakeholders on the best way of distributing the survey to ensure a good response.

Dates of next meetings

These are scheduled for the 4th November and the 3rd February, 11th May, 3rd August and the 2nd November 2020/

Scheme Advisory Board

Bob Holloway
Pensions Secretary
9th July 2019

Appendix 3

SAB Good Governance Project
Clwyd Pension Fund self-assessment against proposals

Proposal	Why	Suggested Actions	CPF Self Assessment
Critical features of the 'outcomes-based' model to include:			
2a - Robust conflict management. Administering authorities should be able to decide locally how they will evidence this requirement including for example: • Published conflicts policy. • Protocols for setting and managing budgets. • Schemes of delegation. • Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers.	Elected councillors and s151 officers have multiple competing statutory responsibilities, within their roles in the LGPS and in wider council responsibilities. High professional standards and experience help them to navigate. Additional measures specific to their LGPS duties can help reduce conflicts and perception of conflicts. Many administering authorities already have a conflicts policy or alternative arrangements to help reduce the risk of conflicts including, for example, schemes of delegation or well defined and documented roles and responsibilities.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.	**Fully compliant** • CPF has had a pension fund specific conflicts policy since March 2015 which is regularly reviewed. It outlines the requirements in relation to managing both potential and actual conflicts of interest in relation to pension fund matters. • The CPF budget is agreed by the PFC (i.e. the s101 committee) as part of the annual business plan, and budget monitoring is included at each PFC meeting. • As well as the delegated responsibilities relating to the CPF in the FCC Constitution, there is a further officers' scheme of delegation for matters delegated from PFC to officers. • The CPF roles and responsibilities relating to PFC, Pension Board, the Section 151 officer and Chief Executive are contained within the FCC Constitution, and reproduced in the CPF Governance Policy. All CPF employee roles are outlined as part of job descriptions. The key priorities are included in the annual business plan which is agreed by the CPF.

2b - Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate. This will require a transparent approach to setting and managing budgets. Administering authorities should be able to decide locally how they will evidence this requirement including for example: • Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. Administering authorities may need freedom to use market supplements to attract and retain staff and should not be tied to council staffing policies such as recruitment freezes.	The administrative burden on the LGPS has increased significantly due to increasing complexity (pre- and post-Hutton benefits) and the massive growth in employer numbers. At the same time, there is increased scrutiny from TPR and risk of fines and other regulator interventions. It is critical that pension administration teams are sufficiently well resourced with competent personnel and appropriate administration systems. This aim must be supported by transparent processes for setting appropriate budgets. Pensions administration is a specialist role and, at the current time, it is difficult to attract and retain staff. Many administering authorities already have pay and recruitment policies relevant to the needs of their pension functions rather than being tied to the general policies of the council.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.	**Fully compliant** • Administration team provide regular measures against regulatory requirements which is reviewed by senior officers, Pension Board and PFC. • CPF budget for resources is the responsibility of the PFC, agreed annually as part of the business plan and monitored at each PFC meeting, with ongoing maintenance of sufficient resources alongside flexibility for changes in budget throughout the year. • Market supplements have been used to a limited degree as part of recent restructuring but this is still operated within FCC framework for job evaluation. There has been some challenges historically in recruiting and retaining staff due to pay rates being lower than expected in the market. This resulted in abandoning recruitment of one post. Currently CPF positions are nearly all filled. • PFC and Pension Board have been supportive in increasing resources.

Proposal	Why	Suggested Actions	CPF Self Assessment
2c - Explain policy on employer and member engagement and representation in governance. At the current time, employer and member representation (with or without voting rights) should be encouraged but not compelled. Decisions on the approach to member representation should remain a local matter but administering authorities should explain their approach.	Most administering authorities have non-administering authority employer and scheme member representatives. Non-administering authority employers are often chosen to represent certain employer constituencies (e.g. academies, FE, charities and housing associations). In some cases, scheme member representatives have voting rights. Many survey respondents support greater encouragement to include scheme member reps on s101 committees. However, administering authorities prefer some local flexibility on this, including how representatives are selected and whether they have voting rights. Importantly, administering authorities should retain majority voting representation because of the statutory responsibilities they bear.	SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1 i.e. an 'outcomes based' approach).	**Fully compliant** • CPF's Governance Policy and Compliance Statement outlines the participation of both scheme member and employer representatives in governance structure. • For more than 20 years, CPF has embraced the involvement of scheme member and employer representatives: ○ Before 2014, the Advisory Panel included WCBC, DCC and trade union representatives ○ From 2014, the PFC included WCBC, DCC, other bodies and scheme member (trade union) representative, all with full voting rights. ○ Legal requirement to introduce the Pension Board in 2015 expanded engagement with scheme member and employer representatives. ○ Culture has been of partnership with administering authority including full attendance and participation at PFC meetings.

Proposal	Why	Suggested Actions	CPF Self Assessment

2d - Regular independent review of governance to assess effectiveness of administering authority's governance arrangements in the context of the desirable features and expected outcomes set out in guidance on an 'outcomes-based' model.
 	
This should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
 	
Guidance should not prescribe the approach but could set out acceptable methods which may include:
i. Internal or external audit assessment;
ii. Scrutiny by LPBs;
iii. A peer review process.
	It is important that any 'outcomes based' approach is policed.
	
	Self-assessment is insufficient. Independent review is required for a more objective assessment.
	
	We discovered that some funds do this on a regular basis already using a variety of approaches including internal and external audit and other external experts and advisors.
		SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.	**Fully compliant**
			CPF operates a range of independent assessments of effectiveness of governance arrangements including:
			• Independent adviser appointed from 2014 focussed on governance matters who:
			    ○ Attends all formal meetings (PFC and AP) as well as having regular meetings with officers.
			    ○ Carries out annual formal review against a formal good practice governance framework.
			    ○ Carried out and now oversees the CPF doing a self-assessment against TPR Code of Practice.
			
			• Internal and external audit assessments of governance have included engagement with Pension Board and also focus on areas such as TPR Code of Practice.
			
			• Pension Board regular involvement includes:
			    ○ Standard agenda items on a number of governance matters including TPR Code of Practice, risk register, PFC meetings, asset pooling.
			    ○ Meetings often involve requests from Board for updates on specific matters.
			    ○ Attendance at regular meetings with WPP regarding governance standards.
			    ○ Attendance at PFCs – since inception, at least one Pension Board member has been at every PFC meeting, as well as all training sessions which are held jointly.
			    ○ Annual report produced by Pension Board and published in the Fund's Annual Report highlighting work of Board and any areas of concern.

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Public service governance and administration survey 2018

Commentary on results

July 2019

Background

Public service pension schemes provide pensions for nearly 17 million civil servants, judiciary, local government workers, teachers, health service workers, members of fire and rescue services, members of police forces and members of the armed forces.

Our code of practice 14 sets out the standards we expect of the people who manage these schemes. Our aim is to improve standards across the board, focusing our interventions on the schemes that we consider present the greatest risk.

In the past year we have engaged with a number of pension scheme managers and pension board members. This, together with one-to-one relationships with large schemes, has helped to inform our understanding of the landscape.

To gather further information about public service pension schemes, we carried out our fourth annual governance and administration survey in November and December 2018. Previous surveys identified that key features of good governance were becoming more commonplace across public sector schemes. In the latest survey, we looked in more depth into how these features were operating in practice.

The survey findings support our existing assessment that the top risks in this landscape are around governance, record keeping, and member communications. They also identify cyber security as a significant issue requiring attention.

The survey is anonymous by default, although scheme representatives can attribute their answers so that we and/or their Scheme Advisory Board can see them. We do not take direct regulatory action based on the answers given, but the answers in aggregate may inform our regulatory approach.

This commentary accompanies the full research report which details all the survey results. It is intended to draw out the key points and areas of concern we have identified. Scheme managers should read the full results of the survey to understand more about the issues highlighted in this statement.

Key issues

Three-quarters (74%) of public service schemes had all six of our key processes in place, an improvement on previous years. However, it is disappointing that the remainder of schemes still did not have all six of these simple measures in place.

Pension Board meetings

Only half of schemes had four or more pension board meetings in the previous 12 months. We have previously highlighted that scheme governing bodies should meet at least quarterly. We are concerned that irregular meetings may be an indicator of poorly-governed schemes. We note that Fire schemes had both infrequent meetings and were the most likely cohort to postpone meetings. We expect to see an improvement in this area.

Knowledge and understanding

Almost all respondents believed that the scheme manager and pension board had access to all the knowledge and skills necessary to run the scheme and were more confident than in previous years that they had sufficient time and resources to do so. However, the survey results did not fully support this view. Only in four-fifths (82%) of schemes did the scheme manager and pension board evaluate the board's knowledge and understanding at least annually. Furthermore, 39% of schemes saw recruitment, training and retention of staff and knowledge as a barrier to improving their governance and administration over the next 12 months, and 47% cited lack of resources or time. We see this lack of knowledge and resources as a key reason for scheme managers not being able to drive the improvements that we expect.

The concerns expressed by respondents about knowledge and understanding may partly be driven by the significant annual turnover in pension board members. On average schemes reported that 20% of the total positions on their pension board had left in the previous 12 months. The loss of knowledge and understanding that this represents is significant. It is essential that pension boards have documented processes in place to ensure the preservation of knowledge and should carry out a skills analysis to assess the areas where their knowledge may be weakest. This will also highlight situations where there is a concentration of knowledge in particular individuals. This will help in the recruitment of members with the knowledge, skills and experience required. Pension boards should also ensure that they have all appropriate training in place for new recruits to build their own understanding.

Board membership

We have very significant concerns about 11 schemes that reported that at the time they completed the survey they were operating with fewer pension board members than required by their respective scheme regulations. The situation appears to have been temporary in most cases until new pension board members could be recruited. In the meantime, however, these schemes were breaching the law. We urge scheme managers to maintain a pension board with more than the minimum number of members to avoid this situation. They should also take steps to ensure that pension board members are recruited before a vacancy exists to enable an effective handover to take place.

Risk registers

While more schemes had a risk register than in previous years, it does not appear that every scheme recognises their value. Only half of schemes had reviewed their exposure to new and existing risks at least quarterly in the previous 12 months. The risk register should be a living document that recognises how risks are emerging, developing and being mitigated or controlled. The pension board and scheme manager are key players in identifying and controlling risks, and a review of the risk register should form part of every meeting.

Collecting data

We expected to see that multi-employer schemes had lower levels of employers presenting data in a timely or accurate and complete manner. This was borne out by the survey findings, although some single employer Police and Fire schemes also reported that they were facing issues. However, we feel that some schemes, particularly the local government schemes, could do more to facilitate the collection of data. Only half of Local Government schemes said that all their employers submitted data electronically and just two-fifths said that all their employers submitted their data monthly. Monthly electronic data submission should be the default for all schemes and we recommend that schemes take steps to put this in place. Aligning data submission with payroll cycles makes it easier for employers to comply as information can be provided as part of the payroll process. Current practices that allow data to be submitted by annual paper return increase the burden for both participating employers and the schemes processing that data. Paper schedules also increase the chances of mistakes occurring that take longer to rectify.

Cyber security

In recent years we have asked schemes to recognise the importance of cyber security. The survey found that there were generally high levels of compliance with basic security measures such as system and access controls and policies on data and use of devices. However, these basic measures were not universal - for example, 17% of schemes did not report that they have controls restricting access to systems and data. A similar number (18%) did not report that they have systems controls such as firewalls, antivirus or software updates. Around half of schemes said that they had experienced a cyber breach or attack in the previous 12 months. The majority of these involved staff receiving fraudulent emails or being directed to fraudulent websites and attacks that try to take down websites or online services.

It is vital that schemes also consider their cyber footprint. Pension schemes share large amounts of data with third parties such as administrators, actuaries, employers and legal advisors. An awareness of the security processes that these bodies have in place is necessary too. Cyber security is not just about reducing the risk of incidents occurring, but also requires preparation for when things go wrong. Schemes need to have an incident response plan in place, and the scheme manager must be aware of the contingencies in place. The lack of pension boards and scheme managers who received regular updates on cyber risks, incidents and controls indicates that this risk is still not being taken seriously.

Data quality

Around three-quarters of schemes that had reviewed their common data in their most recently completed review said that they had identified problems with it. This is lower than we would expect, given that common data includes addresses which can rapidly become out of date. We therefore think it is likely that schemes are not reporting on all elements of common data. Fewer Police schemes reported identifying issues with their common and scheme specific data in their most recently completed review than other cohorts. We are aware that data cleansing has been a focus for Police schemes for some time now and we trust that their results indicate that a well-functioning and effective data cleansing process has now been widely adopted. To ensure comparability within cohorts, we support the work of Scheme Advisory Boards to develop a common definition and standard for their schemes to report on.

Annual benefit statements

There was a general improvement in the number of annual benefit statements issued on time again this year. However, there is still considerable scope for improvement by schemes in this area. We are troubled by the 10% of schemes (15% of Local Government schemes) that did not report that all the annual benefit statements they sent out in 2018 contained all the data required by regulations. We understand that schemes may be taking this action to meet the 31 August deadline for issuing statements. In our view however, deliberately sending out a statement with missing or incorrect data is worse than sending out an accurate statement late. Those schemes that have given us a Breach of Law report in relation to annual benefit statements in recent years have typically had a plan to get their statements out very soon after the deadline, for the few members it affected. We are unlikely to take action on the basis of a breach of law report on its own where there is a reasonable plan for rectification of the situation.

Administration

Pension boards have two fundamental responsibilities - to oversee both the governance and administration of the scheme. A board that is failing to meet its basic responsibilities by not having administration as a feature of every meeting is failing in one of its fundamental functions. We are pleased to see that more schemes are giving administration the attention it deserves, with three-quarters of schemes considering it at every pension board meeting in the previous 12 months. We do still see some space for improvement in the locally administered (Police, Fire and Local Government) schemes, however. It is notable that most of the complaints received by schemes continue to stem from poor administration. This might be around disputes or queries about the amount of benefit paid, slow or ineffective communication, delays to benefit payments, or inaccuracies or disputes around pension value or definitions. Pension boards should continue to ensure that administration is considered on every agenda to identify persistent and emerging issues, and to advise the scheme manager to make improvements.

Conclusion

The pattern of results this year indicates that while pension boards have managed to drive improvements in some areas, they continue to struggle in many others. The locally administered schemes appear to find it particularly hard to meet their responsibilities. There are a variety of reasons for this depending on the exact circumstances of the scheme. Scheme managers and pension boards need to drive improvements in the key areas highlighted here. Some are more straightforward than others but taken together will improve the running of the scheme. We suggest that pension boards, scheme managers and scheme advisory boards examine ways in which collaboration and sharing of resources can deliver better governance and administration.

The information gathered in the survey will be used to inform our regulatory initiatives with all schemes. Over the course of the next year some public service schemes will experience greater engagement from us through our new supervisory processes. This new range of regulatory tools and techniques, which includes one-to-one relationships with schemes of strategic importance and broader scheme supervision and thematic work, helps clarify our expectations of schemes on whom millions of savers rely.

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www.tpr.gov.uk

www.trusteetoolkit.com
Free online learning for trustees

www.pensionseducationportal.com
Free online learning for those running public service schemes

Public service governance and administration survey 2018 Commentary on results

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Clwyd Pension Fund

Training Plan 2019/ 20 - as at 30 August 2019

Title of session	Training Content	Timescale	Training Length	Audience	Complete
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	Deferred
New Chair Induction	TBD	12/06/2019	0.5 day	Chair Committee	Y
Day 1 - Induction / Refresher Training Investments	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
Day 2 - Induction / Refresher Training Governance & Funding	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
Day 3 - Induction / Refresher Training Agenda TBC	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
Day 4 - Induction / Refresher Training Agenda TBC	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
PLSA Local Authority Conference, Gloucestershire	Various	13-15/05/2019	3 days	Committee, Pensions Board and Officers	Y
CIPFA Local Pension Board Seminars	Annual Event	26/06/2019 London	9.30 - 16.00	Pension Board	
LGC Investment Summit, Newport	Various topical presentations.	4-6/09/2019	2 days	Committee, Pensions Board and Officers	
CIPFA Local Pension Board Seminars	Autumn Event	03/10/2019	1 day	Pension Board	
Investment Strategy Review	Covering new Investment Strategy	07/10/2019	0.5 day	Committee, Pensions Board and Officers	
LGA Fundamentals Training	Day 1 Legal Framework	17/10/19 Leeds 03/10/19 London 31/10/19 Cardiff	1 day	Committee, Pensions Board	
LGA Fundamentals Training	Day 2 Investments	14/11/19 Leeds 06/11/19 London 21/11/19 Cardiff	1 day	Committee, Pensions Board	
LGA Fundamentals Training	Day 3 Duties and Responsibilities	5/11/19 Leeds 12/11/19 London 12/12/19 Cardiff	1 day	Committee, Pensions Board	
LAPFF, Bournmouth	Various topical presentations around the work of the LAPFF	4-6/12/2019	2 days	Committee, Officer	
LGA Annual Conference	Various	23 - 24 Jan 2020	2 day	Committee, Pensions Board and Officers	
LGC Investment Seminar, Carden Park	Various	27 -28/02/2020	2 days	Committee, Pensions Board and Officers	

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Ref	A1	**Date entered in register**		19 Sep 2017
Status	Open	**Date breached closed (if relevant)**		
Title of Breach	Late notification of joining		**Owner**	SB/JT
Party which caused the breach	CPF + various employers			
Description and cause of breach	Requirement to send a Notification of Joining the LGPS to a scheme member within 2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled. Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale. 14/8/19 General data cleansing including year-end is affecting whether legal timescale is met. Individual on long-term sick impacting this.			
Category affected	Active members			
Numbers affected	2017/18: 2676 cases completed / 76% (2046) were in breach. 2018/19: - Q1 - 1246 cases completed / 84%(1050) were in breach - Q2 - 551 cases completed / 87% (480) were in breach - Q3 - 1123 cases completed / 50% (563) were in breach - Q4 - 935 cases completed / 49% (458) were in breach 2019/20: - Q1 - 822 cases completed / 62% (507) were in breach			
Possible effect and wider implications	- Late scheme information sent to member which may result in lack of understanding. - Potential complaints from members. - Potential for impact on CPF reputation.			
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of new joiners (ongoing). - Set up of Employer Liasion Team (ELT) to monitor and provide joiner details more timelessly. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 -Streamlining of aggregation cases with major employers. - Consider feasibility and implications of removing reminders for joining pack (agreed not to change). - Consider feasibility of whether tasks can be prioritised by date of joining (agreed not to change).			

Outstanding actions (if any)	- Ongoing roll out of i-Connect. - Bedding in of new staff/ training. - Carrying out backlogs of previous joiners (most of which are due to i-Connect roll out). - Contacting employers which are causing delays. 28/1/19: - Introduce process to analyse specific employers causing problems.
Assessment of breach and brief summary of rationale	29/1/19 Large proportion of joining members affected but business case has been put forward to increase resources. In the meantime, temporary resources are being requested to assist. 4/6/19 Reassessed - New resource put in place but may take a few months to see full impact.
Reported to tPR	No

Ref	A2	**Date entered in register**	19 Sep 2017
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late transfer in estimate	**Owner**	JT

Party which caused the breach	CPF + various previous schemes
Description and cause of breach	Requirement to obtain transfer details for transfer in, and calculate and provide quotation to member 2 months from the date of request. Breach due to late receipt of transfer information from previous scheme and late completion of calculation and notification by CPF. Only 2 members of team fully trained to carry out transfer cases due to new team structure and additional training requirements. 29/1/19 National changes to transfer factors meant cases were put on hold/stockpiled end of 2018/early 2019.
Category affected	Active members
Numbers affected	2017/18: 235 cases completed / 36% (85) were in breach. 2018/19: - Q1 - 60 cases completed / 42% (25) were in breach - Q2 - 66 case completed / 38% (25) were in breach - Q3 - 31 case completed / 32% (10) were in breach - Q4 - 56 cases completed / 62% (35) were in breach 2019/20: - Q1 - 51 cases completed / 59% (30) were in breach
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/previous schemes. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with in a more timely manner.
Outstanding actions (if any)	- Completion of training of team members in transfer and aggregation processes. 29/1/19: - If KPIs don't improve, investigate how much of the delay is due to external schemes and look for ways to improve this.
Assessment of breach and brief summary of rationale	29/1/19 Stockpiling will likely make KPIs worse in short term but then longer term additional training will result in improvements.
Reported to tPR	No

Ref	A3	**Date entered in register**	19 Sep 2017
Status	Closed	**Date breached closed (if relevant)**	14 Aug 2019
Title of Breach	Late transfer out estimate	**Owner**	JT

Party which caused the breach	CPF
Description and cause of breach	Requirement to provide details of transfer value for transfer out on request within 3 months from date of request (CETV estimate). Late completion of calculation and notification by CPF. Only 2 members of team fully trained to provide transfer details due to new team structure and additional training requirements.
Category affected	Deferred members mainly but potentially some active members
Numbers affected	2017/18: 382 cases completed / 9% (33) were in breach. 2018/19: - Q1 - 119 cases completed / 10% (12) were in breach - Q2 - 94 case completed / 2% (2) were in breach - Q3 - 76 case completed / 3% (2) were in breach - Q4 - 103 cases completed / 6% (6) were in breach 2019/20: - Q1 - 86 cases completed / 0% (none) were in breach
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/new schemes. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with in a more timely manner.
Outstanding actions (if any)	- Completion of training of team members in transfer and aggregation processes.
Assessment of breach and brief summary of rationale	29/1/19 - Low number of cases impacted now. 14/8/19 Reassessed - No cases in breach. Breach closed.
Reported to tPR	No

Ref	A4	**Date entered in register**	19 Sep 2017
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of retirement benefits	**Owner**	SB

Party which caused the breach	CPF + various employers + AVC providers
Description and cause of breach	Requirement to provide notification of amount of retirement benefits within 1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age. Due to a combination of: - late notification by employer of leaver information - late completion of calculation by CPF - for members who have AVC funds, delays in receipt of AVC fund values from AVC provider.
Category affected	Active members mainly but potentially some deferred members
Numbers affected	2017/18: 960 cases completed / 39% (375) were in breach. 2018/19: - Q1 - 297 cases completed / 31% (91) were in breach - Q2 - 341 case completed / 26% (89) were in breach - Q3 - 357 case completed / 30% (108) were in breach - Q4 - 348 cases completed / 32% (112) were in breach 2019/20: - Q1 - 315 cases completed / 28% (87) were in breach
Possible effect and wider implications	- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from members/employers. - Potential for impact on CPF reputation.

Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of retirees (ongoing). - Set up of ELT to monitor and provide leaver details in a more timely manner. - Prioritising of task allocation. - Set up of new process with one AVC provider to access AVC fund information. - Increased staff resources. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Improvements have been made and more should be made as staff are settled in and trained. Business case approved.
Outstanding actions (if any)	- Further training of newly promoted team member to deal with volume of work. - Identifying which employers are causing delays.
Assessment of breach and brief summary of rationale	4/6/19 New resource put in place but may take a few months to see full impact.
Reported to tPR	No

Ref	A5		**Date entered in register**		20 Sep 2017
Status	Open		**Date breached closed (if relevant)**		
Title of Breach		Late estimate of benefits		**Owner**	SB
Party which caused the breach			CPF		
Description and cause of breach			Requirement to provide quotations on request for potential retirements as soon as is practicable, but no more than 2 months from date of request unless there is a previous request in the last year. Delays are due to: - late completion of calculation by CPF. - Increasing numbers of estimate requests being made by members.		
Category affected			Active members mainly but potentially some deferred members		
Numbers affected			2017/18: 487 cases completed / 37% (182) were in breach. 2018/19: - Q1 - 79 cases completed / 32% (25) were in breach - Q2 - 60 case completed / 22% (13) were in breach - Q3 - 123 case completed / 15% (18) were in breach - Q4 - 151 cases completed / 6% (4) were in breach 2019/20: - Q1 - 165 cases completed / 4% (6) were in breach		
Possible effect and wider implications			- Late notification of benefits/costs to member/employer. - Potential complaints from members/employers. - Potential for missed opportunities by members/employers. - Potential for impact on CPF reputation.		
Actions taken to rectify breach			- Introduction of MSS should alleviate the volume of requests received as member will be able to calculate own estimate through database. - Further training of team members also required. - Task allocation reviewed by team leader to ensure estimates are given a higher priority. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Additional staff training.		
Outstanding actions (if any)			-None		

Assessment of breach and brief summary of rationale	29/1/19 - Improvements have been made including from MSS and more should be made as staff are settled in and trained. Business case will also assist if approved. 3/6/19 Cases in breach now drastically reduced so moved from amber to green. But will review in next quarter. 14/8/19 Reassessed - Still minor breach but all reasonable actions have been taken.
Reported to tPR	No

Ref	A6	**Date entered in register**	20 Sep 2017
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notfication of death benefits	**Owner**	SB
Party which caused the breach	CPF		
Description and cause of breach	Requirement to calculate and notify dependant(s) of amount of death benefits as soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative). Due to late completion by CPF the legal requirements are not being met. Due to complexity of calculations, only 2 members of team are fully trained and experienced to complete the task.		
Category affected	Dependant members + other contacts of deceased (which could be active, deferred, pensioner or dependant).		
Numbers affected	2017/18: 153 cases completed / 58% (88) were in breach. 2018/19: - Q1 - 53 cases completed / 32% (17) were in breach - Q2 - 26 case completed / 35% (9) were in breach - Q3 - 41 case completed / 39% (16) were in breach - Q4 - 64 cases completed / 22% (14) were in breach 2019/20: - Q1 - 33 cases completed / 24% (8) were in breach		
Possible effect and wider implications	'- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from beneficaries, particular given sensitivity of cases. - Potential for impact on CPF reputation.		
Actions taken to rectify breach	- Further training of team - Review of process to improve outcome - Recruitment of additional, more experienced staff. 3/6/19 - Review of staff resources now complete and new posts filled.		
Outstanding actions (if any)	- Additional staff training.		
Assessment of breach and brief summary of rationale	29/1/19 - Improvements have been made and more should be made as staff are trained. Business case will also assist if approved. 4/6/19 New resource put in place but may take a few months to see full impact.		
Reported to tPR	No		

Ref	A9	**Date entered in register**	29 Aug 2018
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of leaver rights and options	**Owner**	SB/JT
Party which caused the breach	CPF + various employers		

Description and cause of breach	Requirement to inform members who leave the scheme of their leaver rights and options, as soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member). Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale.
Category affected	Active members
Numbers affected	2018/19: - Q1 - 437 cases completed / 40% (173) were in breach - Q2 - 1463 cases completed / 66% (963) were in breach - Q3 - 951 cases completed / 51% (481) were in breach - Q4 - 745 cases completed / 2% (17) were in breach 2019/20: - Q1 - 541 cases completed / 6% (34) were in breach
Possible effect and wider implications	- Late notification of benefits/costs to member/employer. - Potential complaints from members/employers. - Potential for missed opportunities by members/employers. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of leavers (ongoing). - Set up of Employer Liasion Team (ELT) to monitor and provide leaver details in a more timely manner. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Ongoing streamlining of aggregation cases with major employers. - Consider feasibility of whether tasks can be prioritsed by date of leaving (no action taken). - Carrying out backlogs of previous leavers (most of which are due to i-Connect roll out).
Outstanding actions (if any)	- Ongoing roll out of i-Connect. - Bedding in of new staff/ training. - Contacting employers which are causing delays. 28/1/19: - Introduce process to analyse specific employers causing problems.
Assessment of breach and brief summary of rationale	29/1/19 Large proportion of leaving members affected but business case has been put forward to increase resources. In the meantime, temporary resources are being requested to assist. 3/6/19 Reassessed - Cases in breach now drastically reduced so moved from amber to green. But will review in next quarter. 14/8/19 Reassessed - Still minor breach but all reasonable actions have been taken.
Reported to tPR	No

Ref	A11	Date entered in register	29 May 2019
Status	Open	Date breached closed (if relevant)	
Title of Breach	Scheme Changes Disclosure	Owner	KAM
Party which caused the breach	CPF		
Description and cause of breach	Amendment Regulations disclosure communication to members. This was sent in error to members who were categorised as "gone away" from last known address. This will have resulted in a data breach as names and addresses would have been visible to people now living at those addresses.		
Category affected	Active members, status 2 (undecided) members and deferred members who are shown as "gone away"		
Numbers affected	921 members impacted		
Possible effect and wider implications	- Personal Details available to view by incorrect recipients - May result in complaints - Potential that same issue could occur in other communications if "gone away" status is not checked.		
Actions taken to rectify breach	- Followed Data Breach procedure 14/8/19 - Increased staff awareness / training for future distribution - Process put in place to ensure future mail shots to all members exclude this Category or are automatically redirected back to CPF		
Outstanding actions (if any)	-Still being considered by FCC to ensure change in processes are adequate		
Assessment of breach and brief summary of rationale	Large number of members impacted but no personal information other than name included in communications so low impact.		
Reported to tPR	No		

Ref	A12	Date entered in register	29 May 2019
Status	Open	Date breached closed (if relevant)	
Title of Breach	APC calculation due to revised factors	Owner	SB/JT
Party which caused the breach	CPF		
Description and cause of breach	Recalculation of APC contracts due to GAD factor change not communicated within required timescales		
Category affected	Active members with APC contracts		
Numbers affected	<10 members		
Possible effect and wider implications	- Late notification to members of change to APC contracts / recalculation of benefits - May result in complaints		
Actions taken to rectify breach	- Re-calculation of APC contracts underway with explanation to those affected by the change.		
Outstanding actions (if any)	Re-calculation and notification to members required		
Assessment of breach and brief summary of rationale	Low number of cases impacted and remedial action likely to be complete by 30 June 2019 14/8/19 Reassessed - Low number of cases however remedial action delayed due to other workloads by 31 October 2019.		
Reported to tPR	No		

Ref	F4	Date entered in register	03 Jun 2019
Status	Closed	Date breached closed (if relevant)	18 Jul 2019
Title of Breach	No submission of contribution remittance advice	Owner	DF
Party which caused the breach	Chartwells		

Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to March 2019 were received on 18 April 2019 but no remittance advice has been received.
Category affected	Active members and employer
Numbers affected	Two active members
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.
Actions taken to rectify breach	- Contacted employer 3 times to chase submission of remittance advice. Chartwells use external payroll provider.
Outstanding actions (if any)	18/7/19 No oustanding actions. Remittance now received.
Assessment of breach and brief	18/7/19 Remittance received
Reported to tPR	No

Ref	F6	**Date entered in register**		19 Aug 2019
Status	Closed	**Date breached closed (if relevant)**		21 Aug 2019
Title of Breach	No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach	Acton Community Council			
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to April 2019 were received within the legal timescales but no remittance advice was received.			
Category affected	Active members and employer			
Numbers affected	1 active member			
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.			
Actions taken to rectify breach	- emailed employer to request			
Outstanding actions (if any)	21/8/19 No oustanding actions. Remittance now received.			
Assessment of breach and brief	24/7/19 Remittance received			
Reported to tPR	No			

Ref	F7	**Date entered in register**		19 Aug 2019
Status	Closed	**Date breached closed (if relevant)**		21 Aug 2019
Title of Breach	No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach	Argoed Community Council			
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to April 2019 were received within the legal timescales but no remittance advice was received.			
Category affected	Active members and employer			
Numbers affected	2 active members			
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.			
Actions taken to rectify breach	- emailed employer to request			
Outstanding actions (if any)	21/8/19 No oustanding actions. Remittance now received.			
Assessment of breach and brief	31/7/19 Remittance received			
Reported to tPR	No			

Ref	F8		**Date entered in register**	19 Aug 2019
Status	Closed		**Date breached closed (if relevant)**	21 Aug 2019
Title of Breach	Late payment of contributions		**Owner**	DF
Party which caused the breach	Argoed Community Council			
Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions in relation to April were not received within the deadline.			
Category affected	Active members and employer			
Numbers affected	2 active members			
Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.			
Actions taken to rectify breach	- emailed employer to request			
Outstanding actions (if any)	21/8/19 No outstanding actions. Payment now received			
Assessment of breach and brief	1/7/19 Payment received			
Reported to tPR	No			

Ref	F9		**Date entered in register**	19 Aug 2019
Status	Closed		**Date breached closed (if relevant)**	22 Aug 2019
Title of Breach	No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach	Connahs' Quay Town Council			
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to April 2019 were received within the legal timescales but no remittance advice was received.			
Category affected	Active members and employer			
Numbers affected	18 active members			
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.			
Actions taken to rectify breach	- new employer so working with them to ensure they understand requirements			
Outstanding actions (if any)	22/8/19 No oustanding actions. Remittance now received.			
Assessment of breach and brief summary of rationale	21/8/19 First time this employer has been late in sending this. Will continue to chase. 22/8/19 Reassessed - Remittance now received.			
Reported to tPR	No			

Ref	F10		**Date entered in register**	19 Aug 2019
Status	Closed		**Date breached closed (if relevant)**	21 Aug 2019
Title of Breach	Late payment of contributions		**Owner**	DF
Party which caused the breach	Churchills			
Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions in relation to April were not received within the deadline.			
Category affected	Active members and employer			
Numbers affected	8 active members			

Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.
Actions taken to rectify breach	- emailed employer to request
Outstanding actions (if any)	21/8/19 No outstanding actions. Payment now received
Assessment of breach and brief	19/6/19 Payment received
Reported to tPR	No

Ref	F11		**Date entered in register**	19 Aug 2019
Status	Closed		**Date breached closed (if relevant)**	21 Aug 2019
Title of Breach	No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach	Marchwiel Community Council			
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to April 2019 were received within the legal timescales but no remittance advice was received.			
Category affected	Active members and employer			
Numbers affected	1 active member			
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.			
Actions taken to rectify breach	- emailed employer to request			
Outstanding actions (if any)	21/8/19 No oustanding actions. Remittance now received.			
Assessment of breach and brief	18/7/19 Remittance received			
Reported to tPR	No			

Ref	F12		**Date entered in register**	19 Aug 2019
Status	Closed		**Date breached closed (if relevant)**	21 Aug 2019
Title of Breach	No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach	Acton Community Council			
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to May 2019 were received within the legal timescales but no remittance advice was received.			
Category affected	Active members and employer			
Numbers affected	1 active member			
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.			
Actions taken to rectify breach	- emailed employer to request			
Outstanding actions (if any)	21/8/19 No oustanding actions. Remittance now received.			
Assessment of breach and brief summary of rationale	24/7/19 Remittance received. However, need to continue monitor as also late for April 2019			
Reported to tPR	No			

Ref	F13		**Date entered in register**	19 Aug 2019
Status	Closed		**Date breached closed (if relevant)**	21 Aug 2019
Title of Breach	No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach	Argoed Community Council			

Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to May 2019 were received within the legal timescales but no remittance advice was received.
Category affected	Active members and employer
Numbers affected	1 active member
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.
Actions taken to rectify breach	- emailed employer to request
Outstanding actions (if any)	21/8/19 No oustanding actions. Remittance now received.
Assessment of breach and brief summary of rationale	31/7/19 Remittance received. However, need to continue monitor as also late for April 2019
Reported to tPR	No

Ref	F14	**Date entered in register**	19 Aug 2019
Status	Closed	**Date breached closed (if relevant)**	21 Aug 2019
Title of Breach	Late payment of contributions	**Owner**	DF
Party which caused the breach	Argoed Community Council		
Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions in relation to May 2019 were not received within the deadline.		
Category affected	Active members and employer		
Numbers affected	2 active members		
Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.		
Actions taken to rectify breach	- emailed employer to request		
Outstanding actions (if any)	21/8/19 No outstanding actions. Payment now received		
Assessment of breach and brief summary of rationale	1/7/19 Payment received but need to continue to monitor as also late for April 2019.		
Reported to tPR	No		

Ref	F15	**Date entered in register**	19 Aug 2019
Status	Closed	**Date breached closed (if relevant)**	22 Aug 2019
Title of Breach	No submission of contribution remittance advice	**Owner**	DF
Party which caused the breach	Connahs' Quay Town Council		
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to May 2019 were received within the legal timescales but no remittance advice was received.		
Category affected	Active members and employer		
Numbers affected	18 active members		
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.		
Actions taken to rectify breach	- emailed employer to request		
Outstanding actions (if any)	22/8/19 No oustanding actions. Remittance now received.		
Assessment of breach and brief summary of rationale	21/8/19 Remittance still oustanding. Second occurance but will continue to chase. 22/8/19 Reassessed - Remittance now received.		

Reported to tPR	No

Ref	F16	**Date entered in register**	19 Aug 2019
Status	Closed	**Date breached closed (if relevant)**	21 Aug 2019
Title of Breach	No submission of contribution remittance advice	**Owner**	DF
Party which caused the breach	Marchwiel Community Council		
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to May 2019 were received within the legal timescales but no remittance advice was received.		
Category affected	Active members and employer		
Numbers affected	1 active member		
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.		
Actions taken to rectify breach	- emailed employer to request		
Outstanding actions (if any)	21/8/19 No oustanding actions. Remittance now received.		
Assessment of breach and brief	18/7/19 Remittance received		
Reported to tPR	No		

Ref	F17	**Date entered in register**	19 Aug 2019
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	No submission of contribution remittance advice	**Owner**	DF
Party which caused the breach	Wrexham County Borough Council		
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to May 2019 were received within the legal timescales but no remittance advice was received.		
Category affected	Active members and employer		
Numbers affected	14355 active members		
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.		
Actions taken to rectify breach	- emailed employer to request - employer advised delay due to staffing issues and it will be looked at asap		
Outstanding actions (if any)	21/8/19 Will continue to chase employer to receive it.		
Assessment of breach and brief summary of rationale	21/8/19 Remittance still oustanding. First occurance and will continue to chase.		
Reported to tPR	No		

Ref	F18	**Date entered in register**	19 Aug 2019
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	No submission of contribution remittance advice	**Owner**	DF
Party which caused the breach	Wrexham Commercial Services		

Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to May 2019 were received within the legal timescales but no remittance advice was received.
Category affected	Active members and employer
Numbers affected	350 active members
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.
Actions taken to rectify breach	- emailed employer to request - employer advised delay due to staffing issues and it will be looked at asap (note payroll is Wrexham County Borough Council)
Outstanding actions (if any)	21/8/19 Will continue to chase employer to receive it.
Assessment of breach and brief summary of rationale	21/8/19 Remittance still oustanding. First occurance and will continue to chase.
Reported to tPR	No

Ref	F19	**Date entered in register**	19 Aug 2019
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	No submission of contribution remittance advice	**Owner**	DF

Party which caused the breach	Penley Maelor
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to June 2019 were received within the legal timescales but no remittance advice was received.
Category affected	Active members and employer
Numbers affected	10 active members
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.
Actions taken to rectify breach	- emailed employer to request - employer advised delay due to staffing issues and it will be looked at asap (note payroll is Wrexham County Borough Council)
Outstanding actions (if any)	21/8/19 Will continue to chase employer to receive it.
Assessment of breach and brief summary of rationale	21/8/19 Remittance still oustanding. First occurance and will continue to chase.
Reported to tPR	No

Ref	F20	**Date entered in register**	19 Aug 2019
Status	Closed	**Date breached closed (if relevant)**	22 Aug 2019
Title of Breach	No submission of contribution remittance advice	**Owner**	DF

Party which caused the breach	Connah's Quay Town Council
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to June 2019 were received within the legal timescales but no remittance advice was received.
Category affected	Active members and employer
Numbers affected	18 active members

Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.
Actions taken to rectify breach	- tried phoning, will continue to chase
Outstanding actions (if any)	22/8/19 No oustanding actions. Remittance now received.
Assessment of breach and brief summary of rationale	21/8/19 Remittance still oustanding. Third occurance but will continue to chase. 22/8/19 Reassessed - Remittance received.
Reported to tPR	No

Ref	F21		**Date entered in register**		19 Aug 2019
Status	Open		**Date breached closed (if relevant)**		
Title of Breach		No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach			Denbigh Youth Project		
Description and cause of breach			A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to June 2019 were received within the legal timescales but no remittance advice was received.		
Category affected			Active members and employer		
Numbers affected			1 active member		
Possible effect and wider implications			Unable to verify information being paid or reconcile with member year end information.		
Actions taken to rectify breach			- emailed to request		
Outstanding actions (if any)			21/8/19 Will continue to chase employer to receive it.		
Assessment of breach and brief summary of rationale			21/8/19 Remittance still oustanding but will continue to chase (first occurance).		
Reported to tPR			0		

Ref	F22		**Date entered in register**		19 Aug 2019
Status	Open		**Date breached closed (if relevant)**		
Title of Breach		No submission of contribution remittance advice		**Owner**	DF
Party which caused the breach			Wrexham County Borough Council		
Description and cause of breach			A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to June 2019 were received within the legal timescales but no remittance advice was received.		
Category affected			Active members and employer		
Numbers affected			14355 active members		
Possible effect and wider implications			Unable to verify information being paid or reconcile with member year end information.		
Actions taken to rectify breach			- employer advised delay due to staffing issues and it will be looked at asap		
Outstanding actions (if any)			21/8/19 Will continue to chase employer to receive it.		
Assessment of breach and brief summary of rationale			21/8/19 Remittance still oustanding. Second occurance but clearly all due to the same staffing issue. Will continue to chase.		
Reported to tPR			0		

Ref	F23	**Date entered in register**	19 Aug 2019
Status	Open	**Date breached closed (if relevant)**	

Title of Breach	No submission of contribution remittance advice	**Owner**	DF

Party which caused the breach	Wrexham Commercial Services
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to June 2019 were received within the legal timescales but no remittance advice was received.
Category affected	Active members and employer
Numbers affected	350 active members
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.
Actions taken to rectify breach	- employer advised delay due to staffing issues and it will be looked at asap (note payroll is Wrexham County Borough Council)
Outstanding actions (if any)	21/8/19 Will continue to chase employer to receive it.
Assessment of breach and brief summary of rationale	21/8/19 Remittance still oustanding. Second occurance but clearly all due to the same staffing issue. Will continue to chase.
Reported to tPR	0

Ref	F24	**Date entered in register**	19 Aug 2019
Status	Open	**Date breached closed (if relevant)**	

Title of Breach	No submission of contribution remittance advice	**Owner**	DF

Party which caused the breach	Penley Maelor
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to June 2019 were received within the legal timescales but no remittance advice was received.
Category affected	Active members and employer
Numbers affected	110 active members
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.
Actions taken to rectify breach	- employer advised delay due to staffing issues and it will be looked at asap (note payroll is Wrexham County Borough Council)
Outstanding actions (if any)	21/8/19 Will continue to chase employer to receive it.
Assessment of breach and brief summary of rationale	21/8/19 Remittance still oustanding. Second occurance but clearly all due to the same staffing issue. Will continue to chase.
Reported to tPR	0

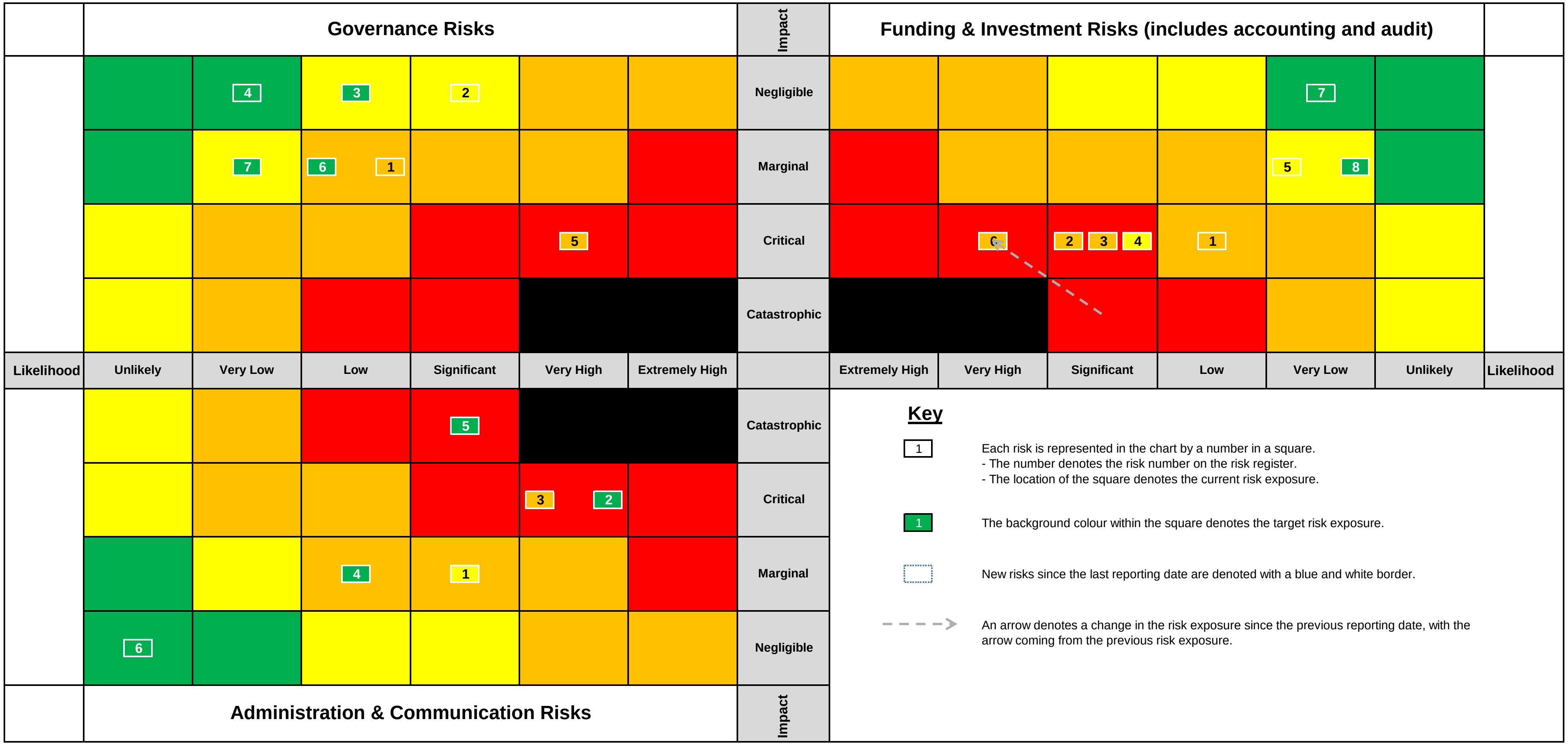
Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND - CALENDAR OF EVENTS APRIL 2019 ONWARDS

Month	Date	Day	Committee	Training	Pension Board	Location
2019						
May						
	13 - 15 May	Mon - Wed		PLSA Local Authority Conference		Gloucestershire
June						
	12-Jun	Wed	9.30am - 1pm			County Hall
	26-Jun	Wed		CIPFA PB Annual Event		London
July						
	02-Jul	Tue			9.30am - 12.30pm	County Hall
August						
September						
	04-Sep	Wed	9.30am - 1pm			County Hall
	4 - 6 Sept	Wed - Fri		LGC Investment Summit		Newport
October						
	03-Oct	Thu		CIPFA PB Autumn Event		Liverpool
	03-Oct	Thu		LGA Fundamentals Day 1 Legal Framework of the LGPS		London
	07-Oct	Mon	Special Committee 12pm	Investment Strategy Review		County Hall
	08-Oct	Tue			9.30am - 12.30pm	County Hall
	17-Oct	Thu		LGA Fundamentals Day 1 Legal Framework of the LGPS		Leeds
	31-Oct	Thu		LGA Fundamentals Day 1 Legal Framework of the LGPS		Cardiff
November						
	06-Nov	Wed		LGA Fundamentals Day 2 LGPS Investments		London
	14-Nov	Thu		LGA Fundamentals Day 2 LGPS Investments		Leeds
	21-Nov	Thu		LGA Fundamentals Day 2 LGPS Investments		Cardiff
	28-Nov	Thu	9.30am - 1pm			County Hall
December						
	4 -6 Dec	Wed - Fri		LAPFF		Bournemouth
	05-Dec	Thu		LGA Fundamentals Day 3 Duties and Responsibilities		Leeds
	12-Dec	Thu		LGA Fundamentals Day 3 Duties and Responsibilities		Cardiff
	18-Dec	Wed		LGA Fundamentals Day 3 Duties and Responsibilities		London

Month	Date	Day	Committee	Training	Pension Board	Location
2020						
January						
	23 - 24 Jan	Thur - Fri		LGA Annual Governance Conference		York
February						
	11-Feb	Tue	9.30am - 1pm			County Hall
	25-Feb	Tue			9.30am - 12.30pm	County Hall
	27 - 28 Feb	Thur - Fri		LGC Investment Seminar		Carden Park Chester
March						
	18-Mar	Wed	9.30am - 4.30pm			County Hall
June						
	10-Jun	Wed	9.30am - 1pm			County Hall
	30-Jun	Tue			9.30am - 12.30pm	County Hall

All Fund Risk Heat Map and Summary of Governance Risks



21 August 2019

Clwyd Pension Fund - Control Risk Register

Governance Risks

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

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

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Losses or other determintal impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognishing that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low		1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to each PFC 3 - Advisory panel meets at least quarterly discussing changing environment etc 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Marginal	Low		☺			None	CPFM	31/12/2019	13/04/2017
2	Inappropriate or no decisions are made	Governance (particularly at PFC) is poor including due to: - short appointments - poor knowledge and advice - poor engagement /preparation / commitment - poor oversight	G1 / G2 / G3 / G4 / G5 / G6 / G7	Negligible	Significant		1 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Annual check against TPR Code 4 - Training Policy, Plan and monitoring in place for PC and PB members 5 - Training Needs self assessment carried out (January 2018) and training programme reviewed based on results 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. 7 - Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed.	Negligible	Low		😐 Current likelihood 1 too high	03/06/2019	Dec 2019	1 - Training plan for new ccommittee members to be delivered	CPFM	31/10/2019	19/08/2019
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	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		😐 Current likelihood 1 too high	03/06/2019	Dec 2019	1 - New committee members to be trainined on fiduciary responsibility and the CPF Conflicts Policy	CPFM	31/10/2019	19/08/2019
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low		1- Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored	Negligible	Unlikely		😐 Current likelihood 1 too high	01/07/2016	Dec 2019	1- Ensure work relating to annual monitoring is completed and included in PFC papers (PL)	Dep. Head of CPF	31/10/2019	19/08/2019
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such scheme change, national reorganisation and asset pooling	G1 / G4 / G6 / G7	Critical	Very High		1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Involvement of CEO / links to WLGA and WG 3 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 4 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OWG 7 - Ongoing monitoring of cybercrime risk by AP	Marginal	Low		😐 Current impact 1 too high Current likelihood 2 too high	28/02/2017	Mar 2020	1 - Regular ongoing monitoring by AP to consider if any action is necessary around asset pooling, cost cap and McCloud judgement (PL) 2 - Ensure Board requests to JGC/OWG are responded to (PL)	CPFM	31/12/2019	19/08/2019
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	Marginal	Low		1 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restrcuture commenced (2017/18) 4 - Quarterly update reports consider resourcing matters 5 - Advisory Panel provide back up when required 6 - Additional resources, such as outsourcing, considered as part of business plan 7 - Staff reviews implemented and most vacant positions now recruited to (admin and finance)	Negligible	Very Low		😐 Current impact 1 too high Current likelihood 1 too high	01/07/2016	Dec 2019	1 - Recruit to vacant governance and business role (PL) 2 - Ongoing consideration of succession planning (PL)	CPFM	31/12/2019	19/08/2019
7	Legal requirements and/or guidance are not complied with	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches)	G3 / G6 / T1 / T2 / B1 / B2	Marginal	Very Low		1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliance areas (relevant individuals provided with a copy and training provided) 4 - Training policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures 7 - Strategies and policies often included statements or measures around legal requirements/guidance 8 - Wide range of advisers and AP in place 9 - Independent adviser in place including annual report which will highlight concerns	Negligible	Very Low		😐 Current impact 1 too high	01/07/2016	Mar 2020	1 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure (DF) 2 - Embed system of reviewing outstanding actions relating to TPR Code (KW/DF)	CPFM	31/03/2020	19/08/2019

CLWYD PENSION FUND COMMITTEE

Date of Meeting	4 September 2019
Report Subject	LGPS Current Issues
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the key issues affecting the LGPS. In particular:

- The general progress of the 2019 LGPS actuarial valuations
- The McCloud judgment including the associated accounting impact for employers
- The publication of Investment Consultancy and Fiduciary Management Market Investigation Order 2019 by the Competition and Market's Authority (CMA) and its potential impact on Funds and the LGPS pools.
- GAD's data collection requirements in relation to the Section 13 valuations and the Fund will receive the request from the GAD shortly
- An update on the recent consultations which affect the Fund including those discussed in detail at the June meeting
- The Pension Regulator (TPR) published its report on its fourth annual governance and administration survey
- The SAB recently published its good governance report examining the effectiveness of current LGPS governance models
- An update on the transfer of Equitable Life funds to Utmost Life and conversion of the With-Profits fund to unit linked multi-assets funds including the voting rights of the Fund as a policyholder
- A number of changes to operational aspects of the LGPS which affect the administration of the Fund

RECOMMENDATIONS	
1	All Committee members should note this report and make themselves aware of the various current issues affecting the LGPS and the Fund.

REPORT DETAILS

1.00	**LGPS Current Issues**
1.01	The purpose of this report is to provide a general update to Committee Members on various current issues affecting the LGPS. Appendix 1 sets out the Mercer current issues update on a number of issues affecting the LGPS and the Fund.
1.02	Key points to be aware of are: • On 27 June the Supreme Court denied the Government's request for an appeal in the McCloud and Sargeant age discrimination case ("McCloud") and the Government subsequently confirmed on 15 July that remedies relating to the McCloud judgment will need to be made in relation to all public service pension schemes. Whilst this is no surprise, the details of how the LGPS will need to be changed are yet to be confirmed (it will go back to the Employment Tribunial for remedy) and this will take time. Funds will need to consider their policy on how the effects of McCloud will be taken into account for the ongoing valuations. Further considerations relate to the treatment for accounting (FRS/IAS) figures and any employer exits that arise in the interim until the remedy is confirmed. Mercer has devised a tiered approach for undertaking the additional calculations for Employers, depending on the level of detail required. For employers who exit the Fund, in determining their policy on the allowance for McCloud, Funds will need to consider wider issues including the covenant of the Employer in question and whether the termination involves a refund to the Employer or a payment to the Fund. Our overarching view is that the impact of the potential McCloud liabilities should be reasonably allowed for in the final settlement of liabilities. • On 10th June the Competition and Market's Authority (CMA) published the Investment Consultancy and Fiduciary Management Market Investigation Order 2019. In summary, the Order defines Fiduciary Management (FM) services and obliges pension schemes to formally tender for such services. It also obliges pension schemes to set objectives for their Investment Consultancy (IC) providers as well as placing a variety of new obligations on FM and IC service providers. It potentially has consequences for LGPS pools, however on 29 July the DWP published a consultation on regulations to enact the provisions of the CMA Order which explicitly rules out the LGPS as falling under scope of the obligations in relation to FM service providers. The requirement to set objectives for IC providers remains, with a deadline for doing so of 10 December 2019. On 31 July 2019 TPR published guidance on the implementation of the CMA order which similarly seems to reflect the position that the LGPS is within scope only of the IC strategic objectives requirement. Administering Authorities should

take note of the DWP consultation and TPR's guide "Setting Objectives for the Providers of Investment Consultancy Services" and consider whether to respond.

- GAD's data collection requirements are now finalised and include some additional items from those requested 3 years ago. Administering Authorities should expect to receive confirmation shortly (if they haven't already done so) of the spreadsheet that needs to be completed and will be asked to request the information from their Actuary. The deadline for providing the information (including the funding position on the standardised Section 13 basis) is not until 30 April 2020. Membership data is also being requested by GAD directly.

- Updates will be provided at future meetings but a recap on recent consultations is set out below.

  - **£95K cap on exit payments**: the proposed limit to the value of settlement payments that are made to employees when they leave an employer. Payments are normally a lump sum cash payment, or shares/share options, but for employers participating in the LGPS, settlement payments will also include the value or "strain" of taking an unreduced pension for members over age 55.

  - **New fair deal**: Employees whose employment is outsourced from a "Fair Deal employer" will be guaranteed to be able to access the LGPS. The option of the new employer establishing a "broadly comparable" scheme as an alternative will, in effect, become redundant.

  - **4-year valuation cycle**: not just as it says on this tin, this consultation also includes proposals for interim valuations, more flexibility for dealing with termination payments and removing the requirement for further education corporations, sixth form college corporations and higher education corporations <u>in England</u> to offer membership of the LGPS to their non-teaching staff for new entrants.

- In July, the Pension Regulator (TPR) published its report on its fourth annual governance and administration survey. TPR has concluded that the survey findings support its assessment that the top risks in the public service pension schemes landscape are around governance, record keeping and member communications. Cyber security is also identified as a significant issue requiring attention. TPR further comments that the locally administered schemes appear to find it particularly hard meeting their governance and administration responsibilities. It suggests that pension boards, scheme managers and scheme advisory boards examine ways in which collaboration and sharing of resources can deliver better governance and administration. TPR has also released its 2019-2022 corporate plan. This includes further comment that administration is a particular issue among public service schemes,

	potentially driven by poor data, with the complexity of the Scheme and time and resources indicated as barriers to improvements. TPR will focus on administration and data management among public service schemes, aiming to strike the right balance of support and education, but notes it will use its powers where there is persistent failure to improve. • The SAB commissioned the governance report to examine the effectiveness of current LGPS governance models and alternatives or enhancements to existing models to strengthen LGPS governance. The key proposals from the report were for an approach which specifies minimum standards including robust conflict management; assurances on administration/other resources; explanation of policy on employer/scheme member engagement; and regular independent review of governance. Enhanced training requirements for S151s and S101 committee members, updated guidance and better signposting to requirements were also proposed. The project team are now working on a plan to implement the proposals which will be presented to the SAB in November. Scheme stakeholders will be given the opportunity to comment on the Board's recommended implementation plan before any formal approach is made to MHCLG Ministers for changes to the Schemes' regulations or guidance. • Funds should have by now received their voting packs on the transfer of Equitable Life policies to Utmost Life and conversion of the With-Profits fund to unit linked multi-assets funds. LGPS Funds with a large amount of Equitable Life With-Profits Fund investments will have a large voting representation. Administering Authorities, as the policyholder, will need to assess which way to vote based on their membership profile. Following the result, regulated investment advice will need to be taken to determine where members' funds should be invested (this may be Utmost but alternative providers should also be considered as part of this). Administering Authorities will also need to consider how changes will be communicated to members and the timing of the communications. • MHCLG has issued revised late retirement guidance and factors, effective from 1 September 2019. The new methodology removes the 'cliff edge' effect which reduced the value of LGPS benefits held by members who were over their Normal Pension Age (NPA) when the factors last changed in January 2017. • The LGPC have published a technical guide covering survivor benefits in the LGPS, reflecting changes in survivor benefits for civil partners and the spouses of same-sex marriages, brought about by the LGPS (Miscellaneous Amendment) Regulations 2018. MHCLG plans to introduce statutory guidance for administering authorities, in respect of past trivial commutation and transfer payments that are affected by the change in survivor benefits for civil partners and same sex spouses.

2.00	**RESOURCE IMPLICATIONS**
2.01	Some of the actions arising out of the issues identified could mean significant changes to operational matters for the Fund. In particular, any potential McCloud remedy and adjustments required to past pensions as a result. This could require significant additional administration resources to implement the changes.

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

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risks: G2 & G7. • Funding and Investment risks: F1, F5

5.00	**APPENDICES**
5.01	Appendix 1 – LGPS Current Issues – August 2019 edition

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

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.

(c) **The Committee – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund

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

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

(f) **SAB – Scheme Advisory Board** – national board established under Public Service Pensions Act 2013. Its purpose is to encourage best practice, increase transparency and co-ordinate technical and standards issues.

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

(h) **MHCLG – Ministry of Housing, Communities and Local Government** - Central Government department responsible for the LGPS

(i) **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.

(j) **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.

(k) **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.

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

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

	(n) **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. (o) **Scheme Pays** – the option for a member to ask the Fund to pay any tax associated with breaching the Annual Allowance. The Mandatory Scheme Pays option applied where a member exceeds the statutory Annual Allowance limit of £40,000. The Voluntary Scheme Pays option applies when a member falls into Tapered Annual Allowance or their tax charge is less then £2,000. Voluntary Scheme Pays can be used at the discretion of the Administering Authority. (p) **Section 114 Notice** – Refers to Section 114 of the Local Government Finance Act 1988. Once a council issues a notice under section 114 it is prohibited from entering into new agreements that incur expenditure and must strive to set a balanced budget. (q) **TPR** – The Pensions Regulator - the UK regulator of workplace pension schemes. TPR is focussed on ensuring that employers put their staff into a pension schemes and pay money into it, together with making sure that workplace pension schemes are run properly so that people can save safely for their later years. TPR has a specific remit in the context of Public Service Pension Schemes as defined by the Public Service Pensions Act 2013 (see its Code of Practice 14).

Mae'r dudalen hon yn wag yn bwrpasol

LGPS CURRENT ISSUES

NEWS IN BRIEF

IN THIS ISSUE

- News in Brief
- Dates to Remember
- Meet some of the Team
- Contacts

ACTUARIAL VALUATION - UPDATE

As you will be aware, work is now in full swing for the 31 March 2019 actuarial valuations. Membership data has been received and most Funds will now have received snapshot figures providing an indication of what lies ahead.

Generally, we are seeing improved funding levels, reflecting strong investment returns since the 2016 valuations and a slowdown in the rate of future improvements in life expectancy. However, the indications for lower expected investment returns going forwards, combined with the impact of the McCloud Judgment have tempered this and are likely to lead to a higher rate of primary (future benefit accrual) contributions, all else remaining equal. The actual position will depend on the specific circumstances of the Fund including any investment strategy changes and membership movements.

Whilst there have been further developments in relation to the McCloud Judgment (see article below), considerable uncertainty remains and a definitive conclusion on what this means for Scheme benefits and the impact on Cost Management is not expected ahead of the 2020 deadline for completing the 2019 valuations. The SAB's view remains that the current benefit design as set out under the existing LGPS Regulations should be used to set employer contribution rates, but that Funds and employers should be mindful of the potential extra liabilities when setting their contribution rates at the 2019 valuation. The full impact of McCloud/Cost Management would then be reflected in the next valuations (expected to be 2022). Funds will therefore need to consider their policy for dealing with the uncertainty and document this. In order to support Funds, your Mercer Actuary will be preparing figures showing the impact of a McCloud scenario in addition to providing results based on the current Scheme.

A key feature of the 2019 valuations will be one of uncertainty (particularly in light of Brexit and McCloud issues) and this serves to highlight the importance of considering overall risk as part of the valuation process. One area for consideration by Funds will be whether improved funding levels could provide an opportunity to reduce investment risk, leaving the Fund better protected going forwards. Any investment strategy changes would need to be fully integrated with the funding strategy and your Mercer Consultant would work with you to achieve this.

There is a busy period ahead as we work with Funds to complete the 2019 valuations. As a reminder, the key next steps will be to:

- arrange preliminary results meetings in September/October to discuss the preliminary valuation results and book meeting(s) for the Employer consultation exercise;
- draft updated Funding Strategy Statements (incorporating admission/termination/McCloud policies, etc.) and plan the forthcoming consultation exercise;
- review/develop the risk management framework, gather information and carry out additional analysis as needed, e.g. covenant assessments, asset/liability modelling, investment strategy reviews, etc.

MCCLOUD AND COST MANAGEMENT – FURTHER DEVELOPMENTS

On 27 June the Supreme Court denied the Government's request for an appeal in the McCloud and Sargeant age discrimination case ("McCloud") and the Government subsequently confirmed on 15 July that remedies relating to the McCloud judgment will need to be made in relation to all public service pension schemes. The SAB Q&A relating to the McCloud Judgment can be found here. Whilst this is no surprise, the details of how the LGPS will need to be changed are yet to be confirmed (it will go back to the Employment Tribunial for remedy) and this will take time.

As stated above, Fund's will need to consider their policy on how the effects of McCloud will be taken into account for the ongoing valuations. Further considerations relate to the treatment for accounting (FRS/IAS) figures and any employer exits that arise in the interim until the remedy is confirmed. With regards to accounting, audit firms are now requiring some allowance for the potential impact of McCloud for all but the minority of cases (where the impact can be argued to be immaterial). Mercer has devised a tiered approach for undertaking the additional calculations for Employers, depending on the level of detail required. Full details have been circulated to Funds, please ask your usual Mercer consultant if you require further information.

For Employer exits, in determining their policy on the allowance for McCloud, Funds will need to consider wider issues including the covenant of the Employer in question and whether the termination involves a refund to the Employer or a payment to the Fund. Your Mercer consultant will work with you to advise you on your options and areas of risk. Our overarching view is that the impact of the potential McCloud liabilities should be allowed for in some way that is appropriate.

CMA ORDER ON FIDUCIARY MANAGEMENT AND INVESTMENT CONSULTANTS

On 10 June the Competition and Market's Authority (CMA) published the Investment Consultancy and Fiduciary Management Market Investigation Order 2019. In summary, the Order defines Fiduciary Management (FM) services and obliges pension schemes to formally tender for such services. It also obliges pension schemes to set objectives for their Investment Consultancy (IC) providers as well as placing a variety of new obligations on FM and IC service providers.

It potentially has consequences for LGPS pools, however on 29 July the DWP published a consultation on regulations to enact the provisions of the CMA Order which explicitly rules out the LGPS as falling under scope of the obligations in relation to FM service providers. The requirement to set objectives for IC providers remains, with a deadline for doing so of 10 December 2019.

On 31 July 2019 TPR published guidance on the implementation of the CMA order which similarly seems to reflect the position that the LGPS is within scope only of the IC strategic objectives requirement. Administering Authorities should take note of the DWP consultation and TPR's guide "Setting Objectives for the Providers of Investment Consultancy Services" available here and consider whether to respond.

The SAB has published a briefing note providing further information regarding the order, available here.

DATA COLLECTION FOR GAD SECTION 13 REVIEW

GAD's data collection requirements are now finalised and include some additional items from those requested 3 years ago. Administering Authorities should expect to receive confirmation shortly (if they haven't already done so) of the spreadsheet that needs to be completed and will be asked to request the information from their Actuary. The deadline for providing the information (including the funding position on the standardised Section 13 basis) is not until 30 April 2020. Membership data is also being requested by GAD directly.

UPDATE ON MHCLG CONSULTATIONS

It's been a busy spring and summer so far with consultations on exit payments, New Fair Deal and valuation cycles. We will provide an update on developments in future Current Issues, for now a brief recap of the proposals is set out below (if you would like further information please contact your usual Mercer Consultant).

- **£95K cap on exit payments**: the proposed limit to the value of settlement payments that are made to employees when they leave an employer. Payments are normally a lump sum cash payment or shares/share options, but for employers participating in the LGPS, settlement payments will also include the value or "strain" of taking an unreduced pension for members over age 55.
- **New Fair Deal**: Employees whose employment is outsourced from a "Fair Deal employer" will be guaranteed to be able to access the LGPS. The option of the new employer establishing a "broadly comparable" scheme as an alternative will, in effect, become redundant.
- **4-year valuation cycle**: not just as it says on this tin, this consultation also includes proposals for interim valuations, more flexibility for dealing with termination payments, modifications to exit credits and removing the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff for new entrants.

FOCUS ON GOVERNANCE

TPR REPORT ON PUBLIC SERVICE PENSION SCHEMES

In July, the Pension Regulator (TPR) published its report on its fourth annual governance and administration survey, undertaken in November and December 2018. 195 of the 207 public service pension schemes completed the survey. This response rate of 94% covers 99% of total membership. TPR's detailed report is available here and commentary on results here.

TPR has concluded that the survey findings support its assessment that the top risks in the public service pension schemes landscape are around governance, record keeping and member communications. Cyber security is also identified as a significant issue requiring attention. TPR further comments that the locally administered schemes appear to find it particularly hard meeting their governance and administration responsibilities. It suggests that pension boards, scheme managers and scheme advisory boards examine ways in which collaboration and sharing of resources can deliver better governance and administration.

TPR has also released its 2019-2022 corporate plan. This includes further comment that administration is a particular issue among public service schemes, potentially driven by poor data, with the complexity of the Scheme and time and resources indicated as barriers to improvements. TPR will focus on administration and data management among public service schemes, aiming to strike the right balance of support and education, but notes it will use its powers where there is persistent failure to improve.

SAB PUBLISHES GOOD GOVERNANCE REPORT

The SAB commissioned the governance report to examine the effectiveness of current LGPS governance models and alternatives or enhancements to existing models to strengthen LGPS governance.

The key proposals from the report were for an approach which specifies minimum standards including robust conflict management, assurances on administration/other resources, explanation of policy on employer/scheme member engagement and regular independent review of governance. Enhanced training requirements for S151s and S101 committee members, updated guidance and better signposting to requirements were also proposed.

The project team are now working on a plan to implement the proposals which will be presented to the SAB in November. Scheme stakeholders will be given the opportunity to comment on the Board's recommended implementation plan before any formal approach is made to MHCLG Ministers for changes to the Schemes' regulations or guidance.

PASA LAUNCHES DB TRANSFER GUIDANCE

On 8 July 2019 the Pensions Administration Standards Agency (PASA) launched DB transfer guidance. The guidance includes templates for documents to use at different stages of the transfer process and aims to:

- improve member experience through quicker, safer transfers;
- improve efficiency for administrators; and
- improve communications and transparency in processing transfers.

Although compliance is voluntary, it is anticipated that the pensions ombudsman will reference it when reviewing complaint cases as a source of what 'good practice' looks like.

EQUITABLE LIFE UPDATE

In last time's Current Issues, we provided details of Equitable Life's intention to transfer all policies to Utmost Life and Pensions Limited (formerly Reliance Life), with the transfers taking place during the latter part of 2019. As part of the transfer deal, the Equitable Life With-Profits Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds.

Funds should have by now received their voting packs on the transfer to Utmost Life and conversion of the With-Profits fund to unit linked multi-assets funds. LGPS Funds with a large amount of Equitable Life With-Profits Fund investments will have a large voting representation. Administering Authorities, as the policyholders, will need to assess which way to vote based on their membership profile. Following the result, regulated investment advice will need to be taken to determine where members' funds should be invested (this may be Utmost but alternative providers should also be considered as part of this). Administering Authorities will also need to consider how changes will be communicated to members and the timing of the communications.

We would be happy to support LGPS Funds in making the necessary decisions in relation to the above, including the provision of regulated investment advice where appropriate.

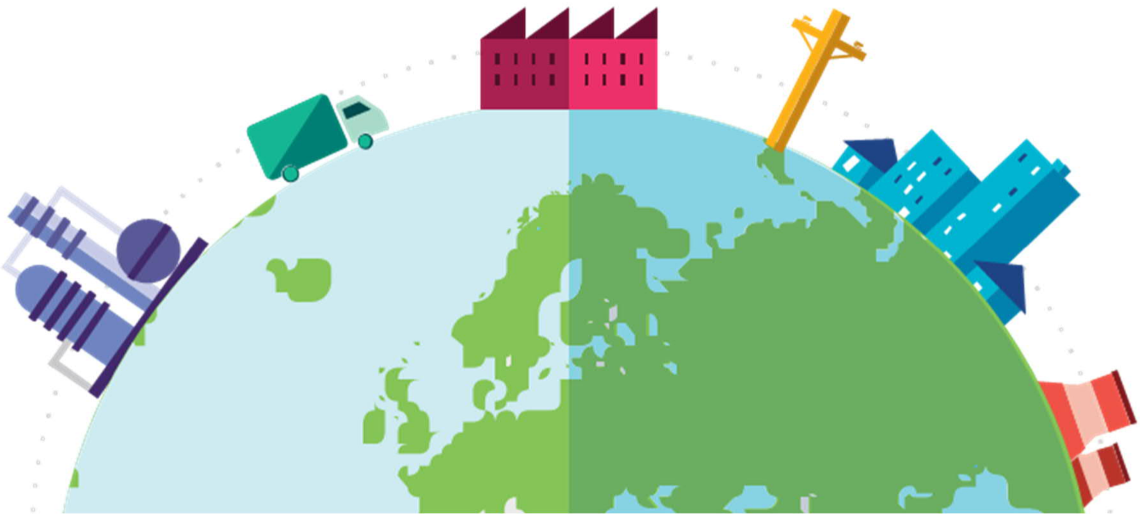
LATE RETIREMENT FACTORS

MHCLG has issued revised late retirement guidance and factors, effective from 1 September 2019. The new methodology removes the 'cliff edge' effect which reduced the value of LGPS benefits held by members who were over their Normal Pension Age (NPA) when the factors last changed in January 2017. The new guidance and updated factor spreadsheet that includes the new factors is set out on the actuarial guidance page of http://www.lgpsregs.org/.

SURVIVOR GUIDE PUBLISHED

The LGPC have published a technical guide covering survivor benefits in the LGPS, reflecting changes in survivor benefits for civil partners and the spouses of same-sex marriages, brought about by the LGPS (Miscellaneous Amendment) Regulations 2018. The guide can be found on the guides and sample documents page of http://www.lgpsregs.org/.

MHCLG plans to introduce statutory guidance for Administering Authorities, in respect of past trivial commutation and transfer payments that are affected by the change in survivor benefits for civil partners and same sex spouses.



DATES TO REMEMBER

DATE	ISSUE	THE LATEST
Summer 2019	UK Stewardship Code	Final version of the code expected to be published
31 August 2019	Benefit Statements	Deadline for Funds to issue annual benefits statements to members
6 October 2019	Pension Savings Statements	Deadline for issue to members
October 2019	Equitable Life	Voting on transfer decisions by eligible policyholders
October/November 2019	4 year valuation cycle consultation	Government response to consultation expected
2019	Pensions Dashboard	Expected to go live in 2019 (under review)
31 March 2020	2019 Actuarial Valuation	Deadline for formal reports and rates and adjustments certificate to be signed off by Fund Actuary
6 April 2020	Lifetime Allowance indexed in line with CPI	The LTA for 2020/21 to increase from £1,055,000 in line with CPI increases
30 April 2020	GAD data collection	Deadline for providing information to GAD for the Section 13 review
5 April 2021	Abolition of DB contracting out	End of the 5 year period during which an employer may use its overriding power to amend a scheme to reflect the abolition of contracting out.

MEET SOME OF THE TEAM

THINGS YOU MAYBE DIDN'T KNOW

Name: James Hunter
Role: Fund Actuary
Joined Mercer: 2006
Place of Birth: Nottingham
What do you enjoy most about your role? Working with clients and colleagues (although I am also partial to a spreadsheet).
Favourite film: Always used to be the Godfather, but my kids are gradually converting me into a Marvel movies fan.
What is your favourite holiday destination and why? Hmm… either a Greek island or a nice ski resort, depending on how energetic I'm feeling. Both provide a total contrast to the stresses of daily life!

Name: Karen Scott
Role: Market development manager
Joined Mercer: 2017
Place of Birth: Leeds
What do you enjoy most about the role? The diverse nature of it - no two days are the same. Also the broad spectrum of colleagues and clients that I work with.
Favourite film? Point Break
What is your favourite holiday destination and why? Lagos, Portugal. Authentic Portuguese town, incredibly welcoming people, gorgeous beaches, amazing food and wine – what's not to love!

Name: David Morrison
Role: Actuarial Analyst
Joined Mercer: 2014
Place of Birth: Liverpool
What do you enjoy most about your role? The challenge. I'm a problem solver at heart and there's always something to solve!
What is your favourite film? Shrek (the first one). Loved it since I was a kid. I can pretty much recite the whole film off by heart.
What is your favourite holiday destination and why? California – in 2016 I went on a road trip from San Diego up to San Francisco, onto Yosemite National Park and then finishing in Las Vegas. Some of the highlights included seeing Humpback whales breaching in Monterey, Sky Diving in Las Vegas and seeing the famous sunset over Santa Monica beach. Needless to say, I'd do it all again in a heartbeat!

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 4th September 2019
Report Subject	Administration and Communications Update
Report Author	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. The items for this quarter are:

(a) Business Plan 2019/20 update – this includes a GMP reconciliation project update and 2019 valuation progress update.

(b) Current Developments and News – this includes updates relating to CIPFA benchmarking, recent training sessions, amendments to internal processes in relation to Annual Allowance and results for The Pension Regulator (TPR) Data Quality report 2019.

(c) Communications – the date for this year's AJCM.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments. In particular the Committee should note the statistics highlighting the excellent progress with data cleansing (including the submission of valuation data) and the iConnect implementation.
2	That the Committee approve the change in timescales to the business plan as outlined in paragraph 1.01.

REPORT DETAILS

1.00	ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS
	Business Plan 2019/20 Update
1.01	Progress against the business plan items for quarter two of this year is generally on track as illustrated in appendix 1. Key items to note relating to this quarter's work are as follows: • A3 & A8 Under/Overpayments Policy & GMP Reconciliation project– A3 (the policy) had previously been delayed due to the requirement of more information in relation to the GMP reconciliation project. All outstanding GMP queries have now been responded to by HMRC. We are now able to progress this item although an extension to the timescales into Q3 is required to consider the impact of any potential under/over payments. The GMP reconciliation (A8) remains on track; a meeting will take place between the CPF and Equiniti this month to discuss the next phase of the project and the workload implications on the Administration Team. If any decisions need to be made before the next committee meeting regarding tolerances for the under/overpayments policy, the Fund's urgent decisions delegation process will be used. • A4 Review Administration & Communications Strategy Statements - The Administration and Communication Strategies were issued to employers for consultation following the Committee meeting in June. Only minor feedback was received. It has been considered and as agreed, under delegation, appropriate amendments have been made to the strategies. The final versions are available on the CPF website. • A5 Preparation of Member Data for Valuation and Funding Reviews – The valuation data extract has been successfully prepared and submitted to Mercer. Any anomalies have either been rectified or confirmed as correct. There was a noticeable reduction to the number of queries this year compared to the last valuation. This is a direct result of the on-going data cleansing utilising the Data Improvement Plan and the continued drive to move employers towards monthly submissions via i-Connect since the last valuation. The valuation work completed by Mercer, as authorised at the June Committee meeting cost £63,740. This work, along with internal data cleansing, assisted in much better data being submitted for the 2019 valuation. • A6 Implement Survivor Benefits Changes: Amendment LGPS Regulations & Elmes versus Essex High Court Ruling – Work is continuing to identify surviving partners that may be entitled to benefits under the new rulings. The timescales for this item have slipped due to the difficulties of identifying affected members and the sensitivity of this project. An extension into Q4 is required to communicate and calculate the benefit entitlements once confirmed. • A10 Data Improvement Plan Development / Implementation – The results from the Pension Regulator (TPR) questionnaire for 2019 have been received and initial observations are pleasing. A revised Data Improvement Plan will be developed to incorporate the new results as well as any outstanding existing actions.

	• A12 iConnect – Good progress is being made with data cleansing and member matching exercises as part of the on-boarding process in preparation for Wrexham CBC to start using iConnect. Appendix 2 shows the current employers, and the corresponding number of active scheme members, that are currently using iConnect. This shows that 66% of the Fund's active members are managed via iConnect. Once the successful on-boarding of Wrexham is complete the number of members that are reported to the CPF via iConnect will be 15,230 (92% of active scheme members). The remaining employers covering 1303 scheme members will on-boarded by the end of 2020/21 in line with the Fund's business plan.
1.02	The Committee is asked to agree the extension of timescales above relating to A3 and A6.
  1.03	**Current Developments and News** A separate LGPS update report has been provided by Mercer and is included with the Committee Papers. In general we are aware of the points highlighted in the report and a number of these are specifically referred to in the Business Plan for 2019/20. The following includes some of these points as well as other developments and news: • The CIPFA Benchmarking Questionnaire has been completed adhering to new CIPFA guidance. Comparison reports will be made available for the participating funds to view. It is hoped that a higher number of funds will have completed the questionnaire therefore adding value to the results. • Extensive work has been carried out to understand and streamline the Annual Allowance process. This relates to potential tax charges for scheme members who have high levels of growth in their pension benefits during a year, and the rules around how benefits are impacted by the Annual Allowance are extremely complex. The review has included more intensive internal training, additional quality checks of individual calculations by Mercer and the creation of enhanced procedural notes and documents. This is an area that can impact on a members' tax liability and will continue to affect more members each year due to changing thresholds. • We have recently received the results for the LGPS Scheme Specific and Common Data Quality Report 2019 as requested by The Pension Regulator (TPR). The factors that are used for data measurement changed this year but for continuity purposes we are still able to measure against the original factors to assess true improvements. Therefore, appendix 3 and 4 show both the results on the new factors and on last year's factors. Based on the original factors, the Scheme Specific score increased from 68.2 % to 81.7% and the Common Data score decreased from 92.7% to 92.1%. Although the Common data score shows a decrease there are 3,867 more members in scope for testing this year. The data improvement plan will focus on areas where the data quality reports have highlighted data recording as potentially incorrect or missing. Based on the new factors the Scheme Specific score that will be reported to TPR is 92.7% and the Common Data score is 96.8%.

	Policy and Strategy Implementation and Monitoring
1.05	*Administration Strategy* The latest monitoring information in relation to administration is outlined below: • Day to day tasks – Appendix 5 provides the analysis of the numbers of cases received and completed on a monthly basis to July 2019 since April 2016 as well as how this is split in relation to our three unitary authorities and all other employers. The number of tasks being completed by the team remained consistently high during the busy year end period and whilst providing training to the new members of staff. The statistics also show the ongoing high level of work being received. • Key performance indicators – Appendix 6 shows our performance against the key performance indicators that are measured on a monthly basis up to July 2019. The charts illustrate that improvements are being made within most of the Clwyd Pension Fund target areas. The appointment of new members of staff has had an immediate impact on some of these areas such as Joiners, with both a high number of cases and solid performance compared with the target KPI. The Committee is also asked to note the graphs in part 5 and 6 which show consistently high numbers of retirements and quotations, with strong performance against KPIs. The focus is now to improve the legal requirements where possible before implementing the new indicators as per CIPFA and TPR guidance. A workflow review project will be undertaken to ensure existing reporting methods remain fit for purpose. Any outcomes of this will be reported at the November Committee.
1.06	*Internal dispute resolution procedures* In relation to the cases outstanding for 2018/19: • there are two Stage One appeals which are currently ongoing against the employer. These are both in respect of the non-award of ill health benefits. • five Stage One appeals against the employer have been rejected. • three Stage One appeals against the employer have been upheld. • both Stage One appeals against the Administering Authority have been rejected. • of the Stage 2 appeals against the employer, two were upheld and one was rejected. • the Stage 2 appeal against the Administering Authority was rejected. In relation to the cases outstanding for 2019/20: • there are two Stage One appeals against the employer for non-award of ill health benefits and two Stage One appeals against the employer for the tier of ill health retirement that was awarded.

	2019/20			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	4			4
Stage 1 - Against Administering Authority	0			
Stage 2 - Against Employers	0			
Stage 2 - Against Administering Authority	0			

		2018/19			
		Received	Upheld	Rejected	Ongoing
	Stage 1 - Against Employers	10	3	5	2
	Stage 1 - Against Administering Authority	2		2	
	Stage 2 - Against Employers	3	2	1	
	Stage 2 - Against Administering Authority	1		1	

There are no CPF cases that are currently with the Pensions Ombudsman.

1.07 *Communications Strategy*

The Communications Team has provided the following communications since the last update:

- Twelve emails have been sent to all employers providing information in relation but not limited to the responses to the valuation and exit cap consultations, satisfaction survey results, CPF Communication and Administration Strategies for consultation and the updated LGA, HR and Payroll guides.
- Numerous presentations to employers and members have taken place, including retirement seminars, LGPS presentations and individual sessions explaining combining benefits for multiple employments.
- The Deferred and Active annual benefit statements have been issued to members including relevant guidance notes via their chosen method of communication.
- The Annual Report has also been prepared.

Regulations and Communications Team members have also attended website training sessions with Aquila Heywood.

1.08 Other key points in relation to communications include:

- The AJCM is being held on the 12th November this year. As such the Communications Team are working towards coordinating the agenda incorporating guest speakers and staff presentations. All Committee and Board members are encouraged to attend the AJCM.
- As a result of the satisfaction survey, improving engagement with employers and members is now a key objective for the Regulations and Communications Team. As such, additional 1-2-1s for members have been offered to facilitate discussions in relation to annual benefit statements and additional training sessions have also been offered to employers.
- An employer pack is being developed to explain the Alternative Delivery Model process.

1.09 Appendix 7 provides an updated summary of Member Self Service (MSS) registered users, which illustrates that enrolment to Member Self Service continues to grow. It has increased by over 500 members since the last meeting with just under 40% of active members now registered to use this on-line facility. It is pleasing to see this increase in a short period of time (two months) and particularly given annual benefit statements have just been issued via MSS for the majority of scheme members.

1.10	**Delegated Responsibilities** The following have been agreed using delegated responsibilities since the last committee meeting. • Approval of Hafan Deg as a new employer within the scheme – further details are contained within Appendix 8. • Updated Communication Strategy

2.00	**RESOURCE**
2.01	Following the successful recruitment to all of the vacant positions, all members of staff are now in place and training is underway. In addition, two Modern Apprentices are due to start with us this month whom in time will assist with the joiner process and other areas of administration. As part of the on-going staffing review, a full analysis of the Technical and Payroll team is required. This is to ensure that the current resource levels in that team are adequate taking into consideration the additional workload in relation to Pensioner Payroll, iConnect, MSS and website. Staffing levels will be continuously reviewed to measure the impact of the new team members on workloads.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	The Communications Strategy was consulted on with our Employers as outlined in the Business Plan update 1.01.

4.00	**RISK MANAGEMENT**
4.01	Appendix 9 provides the dashboard and the extract of administration and communications risks. The key risks continue to relate to: • Employers not understanding or meeting their responsibilities which could lead to us being unable to meet our legal or performance expectations, • Big changes in employer numbers, scheme members or unexplained work increases which could lead to us being unable to meet our legal or performance expectations. This is considered a high risk due the range of potential national changes and particularly the potential impact of the employer cost management process and McCloud judgement. • Systems are not kept up to date or not utilised appropriately, or other processes inefficient, which could lead to high administration costs and/or errors. This is currently high due to a major organisational change in the supplier of the CPF administration system.

4.02	Since the last update, the following risks have been updated, mainly to show where outstanding actions have now been completed: • Risk number 1 –unable to meet legal and performance expectations due to staff issues e.g. poorly trained or insufficient staff. The internal controls now include the establishment of the aggregation team and this has been removed as an outstanding action. • Risk number 2 – unable to meet legal and performance expectations due to employer issues e.g. not understanding their responsibilities, poor data transmission and insufficient resources. The internal controls have been updated to include the implementation of further APP checks to identify issues and updated Administration Strategy to include a compliance declaration. These have both been removed as outstanding actions. • Risk number 3 – unable to meet legal and performance expectations due to external factors e.g. big changes in employer or scheme member numbers or unexpected work. A new action has been added for ongoing consideration of likely national changes and impact on resources. This is as a result of recent court cases that may impact current LGPS processes, including McCloud. This will be monitored until the impact of the proposed changes is better understood. • Risk 5 – High administration costs and/or errors. The internal controls have been updated to include the implementation of other Altair modules including in-house lump sum payment facility. This has been removed as an outstanding action.

5.00	**APPENDICES**
5.01	Appendix 1 – Business Plan update 2019/20 Appendix 2 – I –Connect statistics Appendix 3 – Scheme Specific Data Results Appendix 4 – Common Data Results Appendix 5 – Analysis of cases received and completed Appendix 6 – Key Performance Indicators Appendix 7 – Member Self Service update Appendix 8 – Delegated Responsibilities Appendix 9 – Risk register update

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Business Plan 2019/20 to 2021/22 **Contact Officer:** Karen Williams, Pensions Administration Manager **Telephone:** 01352 702963 **E-mail:** karen.williams@flintshire.gov.uk

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

Business Plan 2019/20 to 2021/22 – Q2 Update
Administration and Communications

Key Tasks

Key:

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

Administration (including Communications) Tasks

Ref	Key Action -Task	2019/20 Period				Later Years	
		Q1	Q2	Q3	Q4	2020/21	2021/22
A1	Workforce Review	x					
A2	Project Apple	x					
A3	Develop Under/Over Payment Policies	~~x~~	~~xM~~	xM			
A4	Review Administration & Communications Strategy Statements	x			x		
A5	Preparation of Member Data for Valuation and Funding Reviews	x	x				
A6	Implement Survivor Benefits Changes	x	x	xM	xM		
A7	Member Tracing	x	x	x			
A8	GMP Reconciliation	x	x	x			
A9	Aggregation Project	x	x	x			
A10	Data Improvement Plan Development / Implementation	x	x	x	x		
A11	LGPS Legal Timescales Analysis	x	x	x	x		
A12	iConnect	x	x	x	x	x	

Administration and Communication Task Descriptions

A1 - Workforce Review

What is it?

The resource requirement relating to the Administration Team (including the Employer Liaison Team) were considered during 2019/20 resulting in an increase in posts. These posts are continuing to be filled and this, and the associated training, is likely to continue into 2019/20. The appropriate resources will continue to be monitored during 2019/20 to ensure existing backlogs are reduced whilst implementing ongoing changes to the scheme and striving to meet the Fund's agreed key performance indicators.

Timescales and Stages

Filling vacancies and ongoing training	2019/20 Q1

Resource and Budget Implications

All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget which will be amended accordingly from time to time, subject to agreement by the PFC.

A2 – Project Apple

What is it?

Due to incorrect Assumed Pensionable Pay figures being provided by an employer, the Employer Liaison and Operations Teams of CPF are recalculating a number of scheme members benefits. This is resulting in some changes to benefits which require rectification and communication with scheme members. The project is expected to be largely finished by 31 March 2019 but it is assumed there will be some final elements that will need completed during the beginning of 2019/20 including verifying the final financial impact on the employer and the Fund, and further testing of the fix to the payroll system.

Timescales and Stages

Completion of delivery of Project Apple	2019/20 Q1

Resource and Budget Implications

The work is being completed by ELT, Operations, Mercers and Aon. All expected costs are outlined in the budgets. The majority of the costs are subsequently being recharged to the affected employer through its employer pension contribution rate.

A3 – Develop Under/Over Payment Policies

What is it?

It is good practice for a pension fund to have clearly agreed policies and procedures relating to how to deal with benefits that have been under or over calculated and, where relevant, under or over paid. This could be for several reasons, including incorrect information being provided by an employer or a scheme member, late notification of a change of circumstances (such as a death of a pensioner) or CPF carrying out a benefit calculation incorrectly. CPF is currently undertaking the GMP reconciliation exercise which is likely to result in benefits being recalculated. It therefore is timely to produce a CPF policy which will consider how members will be dealt with because of the GMP reconciliation exercise, as well as other situations.

Timescales and Stages

Drafting, approval of and implementation of policy	2019/20 Q1

Resource and Budget Implications

The initial drafting work was carried out during 2018/19 by Aon. The majority of the final work will be completed internally and within the budgets shown.

A4 - Review Administration and Communication Strategies

What is it?

The CPF Administration Strategy and Communications Strategy were approved at the March 2016 PFC. The Communication Strategy was due to be formally reviewed in March 2019 but that was deferred due to team member changes. The Administration Strategy was updated in March 2017 and is therefore due for review in March 2020, but this may be carried out as the same time as the Communications Strategy for consistency purposes. They must be reviewed at least once every three years to ensure they remain relevant and up to date. Given the close relationship between the two strategies, it is advantageous to review them at the same point.

Timescales and Stages

Review of Communications Strategy	2019/20 Q1
Review of Administration Strategy (if not done before)	2019/20 Q4

Resource and Budget Implications

This will be led by the Pensions Administration Manager. All costs are being met from the existing budget.

A5 – Preparation of Member Data for Valuation and Funding Reviews

What is it?

The triennial actuarial valuation as at 31 March 2019 requires the pension administration team to provide data to the actuary. This involves additional year end cleansing exercise post 31 March 2019 to ensure the data is of sufficient quality for the valuation and to then rectify any anomalies discovered during the valuation process. The CPF data is expected to be more robust than in previous years due to ongoing work implementing iConnect, dealing with backlogs and carrying out data cleansing since the last valuation.

Timescales and Stages

Preparation of data for 31 March 2019 valuation	2019/20 Q1 & Q2

Resource and Budget Implications

Carried out by the Technical Team in the main with assistance from the rest of the Administration team depending on the requirement. All internal costs are being met from the existing budget.

A6 – Implement Survivor Benefit Change: Amendment LGPS Regulations & Elmes versus Essex High Court Ruling

What is it?

The LGPS (Miscellaneous Amendment) Regulations 2018 (SI2018/1366) came into force with effect from 10 January 2019. These included changes that impact on the calculation of and entitlement to surviving partner pensions in respect of Civil Partners or same sex marriages. The Local Government Association are reviewing the amendment regulations and will issue an impact analysis to LGPS Funds during Q4 of 2018/19 as to how this will affect the administration of survivor benefits in the future and clarifying where previous dependant pensions already in payment need to be re-visited or where a review is required for cases where no dependant pension was paid. Once this analysis has been received, we will be required to carry out a major review of affected cases.

In addition, LGPS Funds need to action the outcome of Elmes versus Essex case where it has been ruled in the High Court that any LGPS members leaving the scheme between 1 April 2008 and 31 March 2014, and who subsequently died leaving a Cohabiting Partner, that partner could have a survivors pension paid to them even without a completed nomination form in place so long as they still meet the eligibility criteria. Any potential cohabiting partners need to be contacted and surviving partner pensions put into payment if applicable.

Timescales and Stages

Tracing, contacting, verifying entitlement and recalculating affected surviving partners	2019/20 Q1 & Q2

Resource and Budget Implications

This project will be absorbed by the Operations Team within Pensions Administration to ensure all surviving partners prior to the regulation change have been reviewed and amended where applicable. Any new cases from the date of the amendment regulations will be dealt with as per the amended legislation and will be treated as business as usual.

A7 – Member Tracing

What is it?

To ensure data accuracy, we periodically carry out a member tracing exercise. This includes carrying out additional verification checks for pensioners living overseas as well as trying to trace members where they appear to have left the address held on our pension records. The ability to trace members has become more important as the 2014 LGPS introduced a requirement to pay unclaimed refunds of contributions at the point of 5 years since date of leaving to those members who are not entitled to a scheme pension. There are several companies who carry out tracing services for pension schemes and we will therefore carry out a procurement exercise to identify and appoint a suitable supplier.

If we find we are still unable to trace any members and the payments are not made within the required timescales, this could result in the Fund making payments that are not permitted by law or the payments could incur additional tax charges for both the Fund and the scheme member. Therefore another element of this project will be to set up an ESCROW account to facilitate these payments in the future.

Timescales and Stages

Identify members and initiate tender process	2019/20 Q1 & Q2
Establish an Escrow account	2019/20 Q1 & Q2
Carry out initial member tracing/verification exercise	2019/20 Q2 & Q3

Resource and Budget Implications

There will be external costs relating to the appointment of a supplier but these have not yet been identified. Internal costs will be met by existing budget. This is likely to impact internal resources in relation to the initial identification process and the resulting case work.

A8– GMP Reconciliation

What is it?

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

Initial work identified that there were significant discrepancies between the two sets of data (HMRC v CPF), and a significant amount of work is ongoing 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 dates determined by HMRC. Clwyd Pension Fund decided to outsource this exercise in 2017/18 to Equiniti and the project commenced during that year. The timescales below are subject to change depending on the magnitude of the work and changes to deadlines by HMRC.

Timescales and Stages

GMP data reconciliation and investigation	2019/20 Q1 & Q2
Reconciliation of national insurance information (Active Members)	2019/20 Q1 & Q2
Benefit correction and system updates	2019/20 Q2 & Q3

Resource and Budget Implications

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

A9 – Aggregation Project

What is it?

When members move/leave employments there are a number of options available to them and all of these options need to be conveyed to the members concerned. There are approximately 2,000 records where members need to either be informed that their records have been aggregated or be provided with their respective options. Software providers have developed calculations to accommodate these changes. The recent recruitment to the Aggregation Team has facilitated procedures to be put in place to address backlogs and maintain these cases as “business as usual” going forward. Some of the historical cases were outsourced to Mercer for the initial deferment with approximately 500 still outstanding to be returned to the Aggregation Team for completion.

Timescales and Stages

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

Clear cases and eliminate backlog	2019/20 Q1 – Q3

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Mercer who are carrying out some of the work. The rest of the work is to be carried out by the Pensions Administration Team.

A10 – Data Improvement Plan Development and Implementation

What is it?

From 2018/19, the Pension Regulator (TPR) expected all pension schemes to review their common and conditional (now called scheme-specific) and score the quality of that data. To assist customers in undertaking this practical assessment of their data, both common and /scheme specific Aquila Heywood provided a Data Quality service. This serviced was used during 2018/19 to identify potential issues with the Fund's data. The LGPS Scheme Advisory Board will also be providing guidance on what LGPS scheme specific data should be (to provide consistency in checks between administering authorities).

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

Timescales and Stages

Develop initial data improvement plan	2019/20 Q1
Research and correct any data anomalies	2019/20 Q1 – Q4
Review scheme specific data checks based on national LGPS requirements	2019/20 Q1 - Q4

Resource and Budget Implications

To be carried out by the Pensions Administration Team. This may also require input/information from the employers (subject to findings). The data reports are part of the system costs included within the budget.

A11 – LGPS Legal Timescales Analysis

What is it?

Following the implementation of monitoring performance against the seven key legal timescales (as part of the monthly Key Performance Indicators (KPIs) reporting), a full review is being undertaken of our workflow systems and data quality to enable monitoring against a wider range of legal deadlines such as those relating to refunds and divorce. This review will also coincide with the CIPFA Benchmarking KPI review.

Timescales and Stages

Develop further legal timescales reporting process	2019/20 Q1 - Q4

Resource and Budget Implications

All internal costs are to be met by existing budget. It may be effective to outsource some of the development work to Aquila Heywood but this is not expected to be a material cost, and it is not included in the budget.

A12 - iConnect

What is it?

iConnect is the on-line computer module that allows information to be submitted by employers more directly and efficiently into the pension administration system (Altair). This is being implemented on a phased basis by employer. We have currently on-boarded 25% of our employers including Denbighshire County Council and Flintshire County Council. Data cleansing work is currently being undertaken to prepare for Wrexham CBC to on-board.

Timescales and Stages

Onboard Wrexham CBC	2019/20 Q1- Q3
Onboard other employers	2019/20 & 2020/21

Resource and Budget Implications

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

Employer Liaison Team Tasks

Ref	Key Action -Task	2019/20 Period Q1	Q2	Q3	Q4	Later Years 2020/21	2021/22
E1	Review processes	x		x			
E2	Ongoing development of workflow reporting	x			x		
E3	Design financial reporting and recharge procedures	x	x				
E4	On-board Wrexham CBC to iConnect	x	x				
E5	Plan for ELT further business and review of resources	x	x				
E6	Review of Agreements	x	x			x	x

Employer Liaison Team Task Descriptions

E1 – Review processes

What is it?

Checking reports from employer payroll systems are comprehensive and accurate. Covering all requirements including Audit. Potentially extend current reporting and automate/streamline other processes.

Timescales and Stages

Review FCC processes following job transfer updates	2019/20 Q1
Review procedures following iConnect with Wrexham CBC	2019/20 Q3

E2 – Ongoing development of workflow reporting

What is it?

Making sure processes for recording completed work, are accurate and meet the legal requirements and service standards within the ELT Agreement and provide appropriate monthly and annual reporting for employers and internal workflow management purposes.

Measuring the outstanding cases and reviewing the progress, as follows:

- Proportion of outstanding cases completed per employer against service standards
- Volume of cases completed and any recording and/or reporting of breaches of the law

Timescales and Stages

Review and recommend updates	2019/20 Q1
Review updated procedures	2019/20 Q4

E3 – Design financial reporting and recharge procedures

What is it?

Consider the staff time spent and tasks completed in order to break down charges to be applied to each employer as part of 31 March 2019 actuarial valuation.

Timescales and Stages

Review timesheets to formulate reporting and recharge procedures	2019/20 Q1/2
Provide costs to employers and actuary	2019/20 Q2

E4 – On-board Wrexham CBC to iConnect

What is it?

Wrexham CBC, ELT and the Operations Team are all keen to onboard Wrexham CBC to iConnect. However this will be a major onboarding including the supply (manually) of significant volumes of missing data, in order to match records between the employer's payroll system and the iConnect software in preparation for automatic monthly uploads going forward.

ELT will:

- consider and estimate how many cases can be completed per month to show how historical cases will be cleared up in addition to maintaining business as usual.
- establish adjustments required to accommodate Wrexham CBC transfer to iConnect and data cleaning involved.

Timescales and Stages

Continue reviewing inconsistencies, working through spreadsheets	2019/20 Q1
Continuous refining of mismatches going forward	2019/20 Q2
Review cases completed and project according to staffing levels	2019/20 Q1/2

E5 – Plan for ELT further business and review of resources

What is it?

Consider capacity of the ELT and review the service standards being recorded against other Fund employers with a view to offering the ELT service to a wider range of employers.

Timescales and Stages

Consider current and potential staffing levels	2019/20 Q1
Review service standards and open contact with potential new ELT serviced employers	2019/20 Q2

E6 – Review of Agreements

What is it?

Periodic review of the scope of the agreements for each employer taking into account iConnect requirements and scope/success of ELT service to date.

Timescales and Stages

Fundamental review of agreement - FCC	2019/20 Q1
Whistle-stop review to address any issues/new requirements - FCC	2020/21 Q1
Fundamental review of agreement – Wrexham CBC	2019/20 Q2
Whistle-stop review to address any issues/new requirements – Wrexham CBC	2020/21 Q2

Mae'r dudalen hon yn wag yn bwrpasol

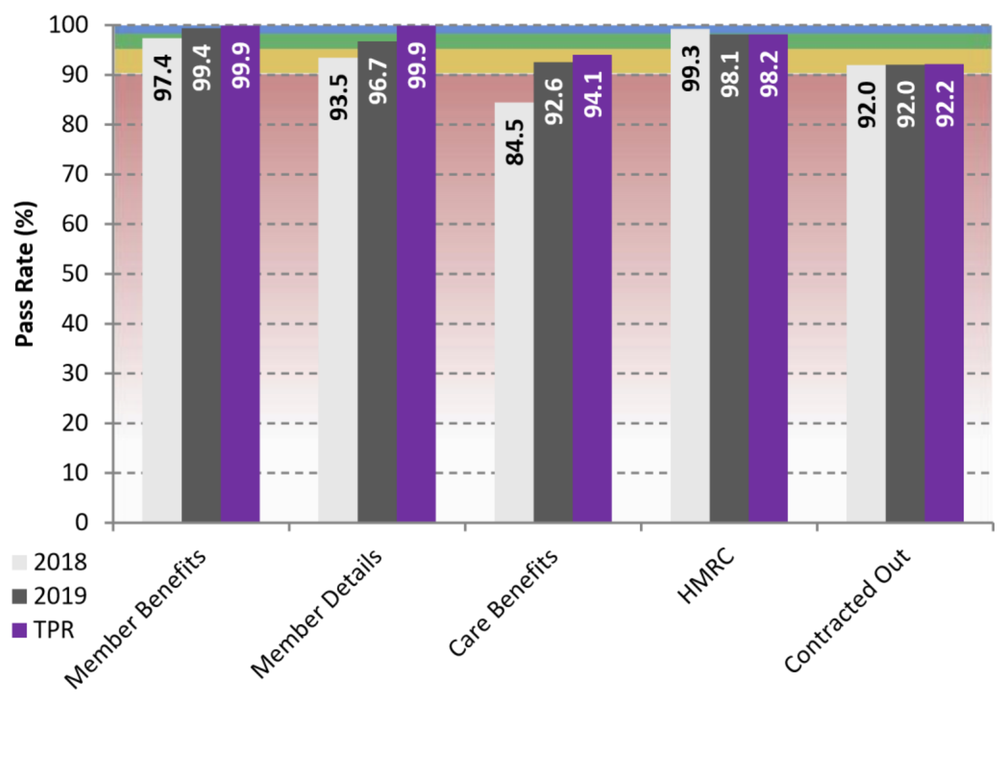
Employer	I-Connect - Yes (active membership)	I-connect - No (active membership)
Acton CC		1
Aramark		12
Argoed Community Council		1
Aura	215	
Bagillt CC		1
Bodelwyddan Castle Trust		16
Buckley Town Council		3
Caia Park Community Council		5
Careers Wales	55	
Cartref Dyffryn Ceiriog – Leonard Cheshire		4
Cartref Ni	4	
Cefn Mawr Community Council		2
Chartwells (Compass Group)		15
Civica		45
Coedpoeth Community Council		5
Coleg Cambria		671
Connahs Quay Town Council		7
DCC Councillors	19	
Denbigh Town Council		2
Denbigh Youth Group		1
Denbighshire CC	5086	
FCC Councillors	31	
Flintshire CC	5029	
Freedom Leisure		41
Glyndwr SU		8
Glyndwr University		240
Gwernymynydd CC		1
Hawarden Community Council		6
HFT	43	
Holywell Leisure	24	
Hope CC		1
Maelor School		37
Mold Town Council		3
N Wales Fire Service		179
NEWydd	439	
Offa Community Council		2
Penyfford Community Council		1
Prestatyn Town Council	6	
Rhos Community Council		4
Rhyl Town Council		4
Shotton Town Council		1
Valuation Tribunal for N Wales		3
WCBC Councillors		28
Wrexham CBC		4050
Wrexham Comm svcs		164
Ysgol Derwen		13
Churchills LTD		5
	10951	5582

Mae'r dudalen hon yn wag yn bwrpasol

Summary of Scheme-specific Data Results

The graph below indicates Clwyd's performance for each data category against the agreed scheme benchmarks together with the results from the 2018 tests. The total number of member records tested is 69,922, an increase of 3,867 records from the number tested in 2018. The results presented are generated from data extracted from CPF's Live Altair service on 4th July 2019 for all tests. The 2018 tests were generated from data extracted on 17th April 2018. The overall percentage of tests passed for CPF's scheme-specific data is **96.4%**, an improvement over the 2018 score of 93.8%. The percentage of member records without a single scheme specific data failure is **81.7%**. This represents an improvement of 13.5% over the 2018 score of 68.2%.

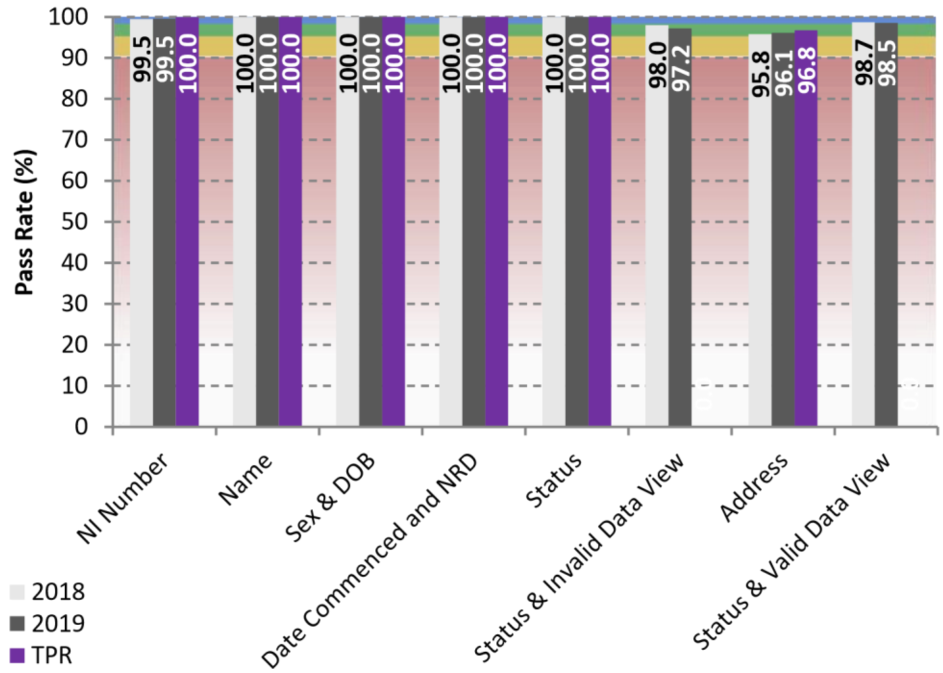
The percentage of member records that did not fail any of the tests deemed to be in the core list of TPR tests is **92.7%**. This is the figure to be quoted on the scheme return to TPR. The results for each qualifying category are shown below:



Mae'r dudalen hon yn wag yn bwrpasol

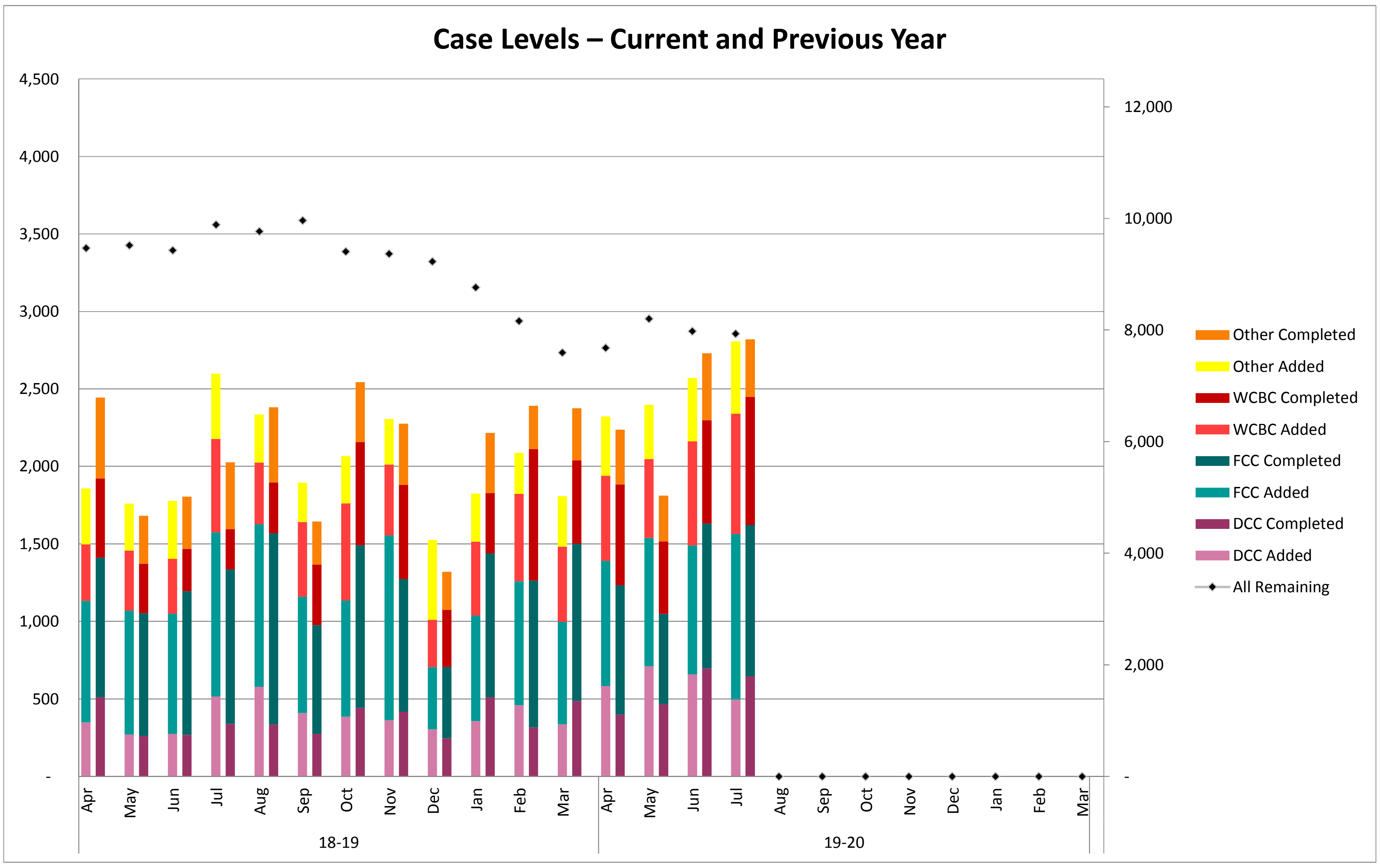
Summary of Common Data Results

The graph below indicates CPF's performance for each data category against the agreed scheme benchmarks together with the results from the 2018 tests. The results presented are generated from data extracted from CPF's Live Altair service on 4th July 2019 for all tests. The 2018 tests were generated from data extracted on 13th April 2018. The overall percentage of tests passed for Clwyd's common data is **98.9%** which is a slight reduction from the 2018 score of **99.0%**. The 2019 tests were conducted on 69,922 member records, an increase of 3,867 on 2018.

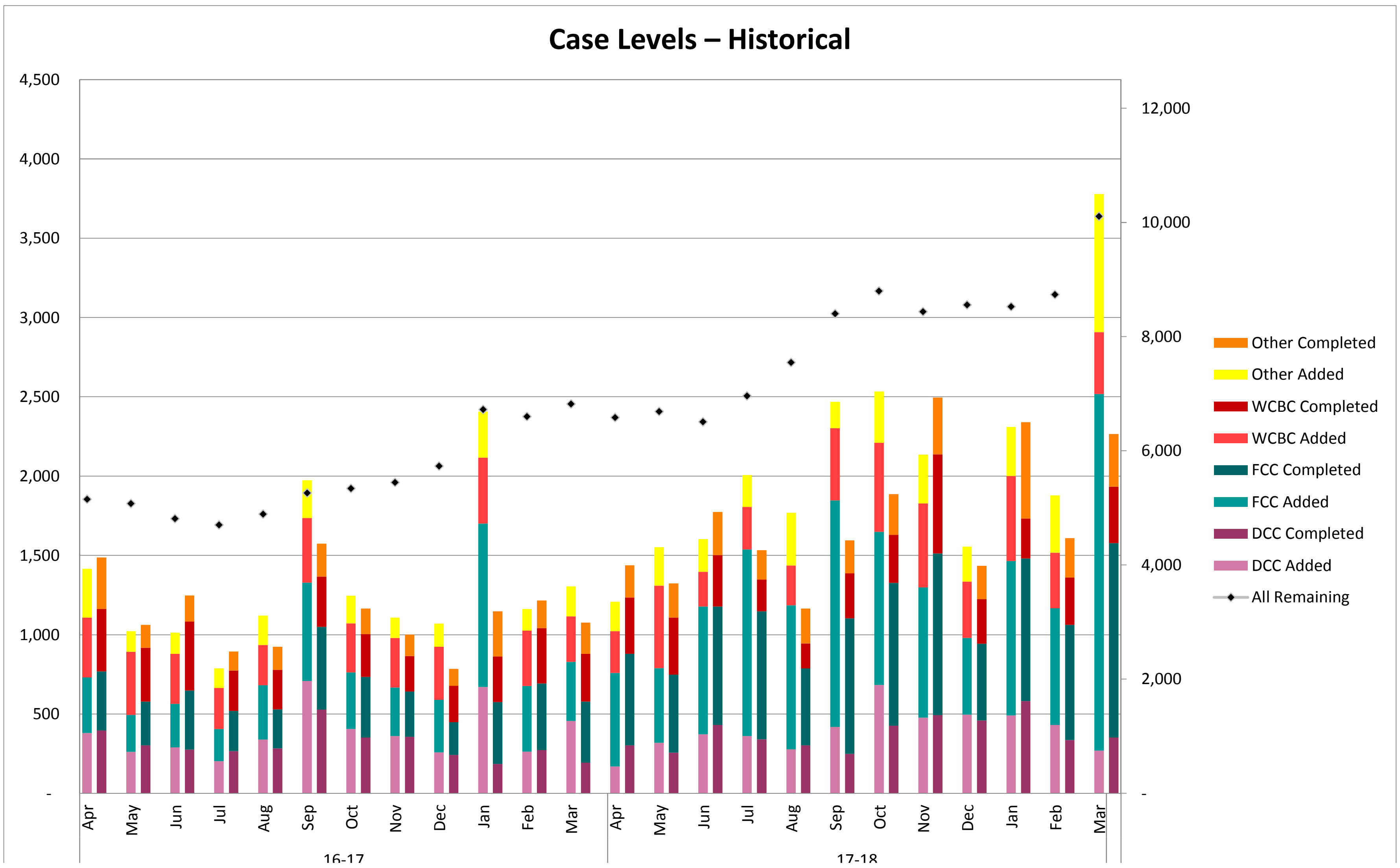


Six of the eight categories met the highest benchmark of greater than 98% with three categories not recording a single failure. A further category has been rounded to 100% with a score of over 99.95%. The lowest scoring category concerned member **Address** that achieved a score of **96.1%** which is an improvement on the 2018 score of 95.8%. The general quality of the common data tested at Clwyd is of a high standard. The percentage of member records without a single common data failure is **92.1%**. This represents a decrease of 0.6% on the 2018 score of 92.7%. The percentage of member records that did not fail any of the tests deemed to be in the core list of TPR tests is **96.8%**. This is the figure to be quoted on the scheme return to TPR. The core test scores for each category are shown below.

Mae'r dudalen hon yn wag yn bwrpasol



Case Levels – Current and Previous Year
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
10,000
8,000
6,000
4,000
2,000
-
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
18-19
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
19-20
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining



Case Levels – Historical
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
10,000
8,000
6,000
4,000
2,000
-
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
16-17
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
17-18
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining

Mae'r dudalen hon yn wag yn bwrpasol

Key Performance Indicators

The following pages show the performance against the key performance indicators (KPIs) which have been agreed within Clwyd Pension Fund's Administration Strategy. They cover seven areas of work, and for each there is a KPI for each of the following:

- The legal timescale that must be met
- The overall timescale for the process (including any time taken by employers and/or scheme members)
- The timescale relating to the Clwyd Pension Fund administration team only

The KPIs are specific to each process (as set out in the Administration Strategy) and illustrated by the graphs are as follows:

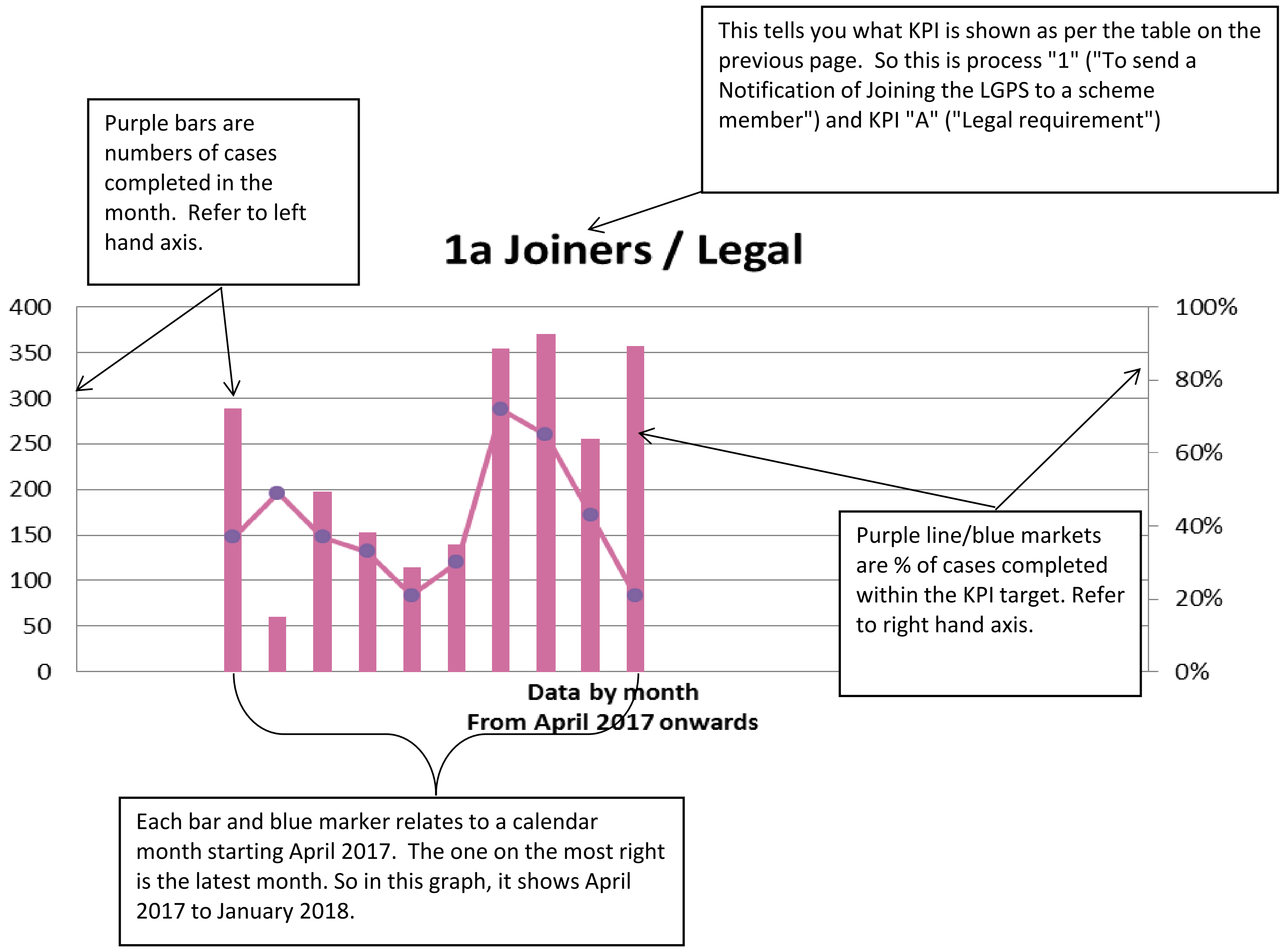
		A	B	C
	Process	**Legal Requirement**	**Overall**	**CPF Administration element target**
1	To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	46 working days from date of joining (ie 2 months)	15 working days from receipt of all information
2	To inform members who leave the scheme of their leaver rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	46 working days from date of leaving	15 working days from receipt of all information
3	Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	46 working days from date of request	20 working days from receipt of all information
4	Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	46 working days from date of request	20 working days from receipt of all information
5	Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age [4]	23 working days from date of retirement	10 working days from receipt of all information
6	Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	46 working days from date of request	15 working days from receipt of all information
7	Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative)	25 working days from date of death	10 working days from receipt of all information

Interpretation of graphs

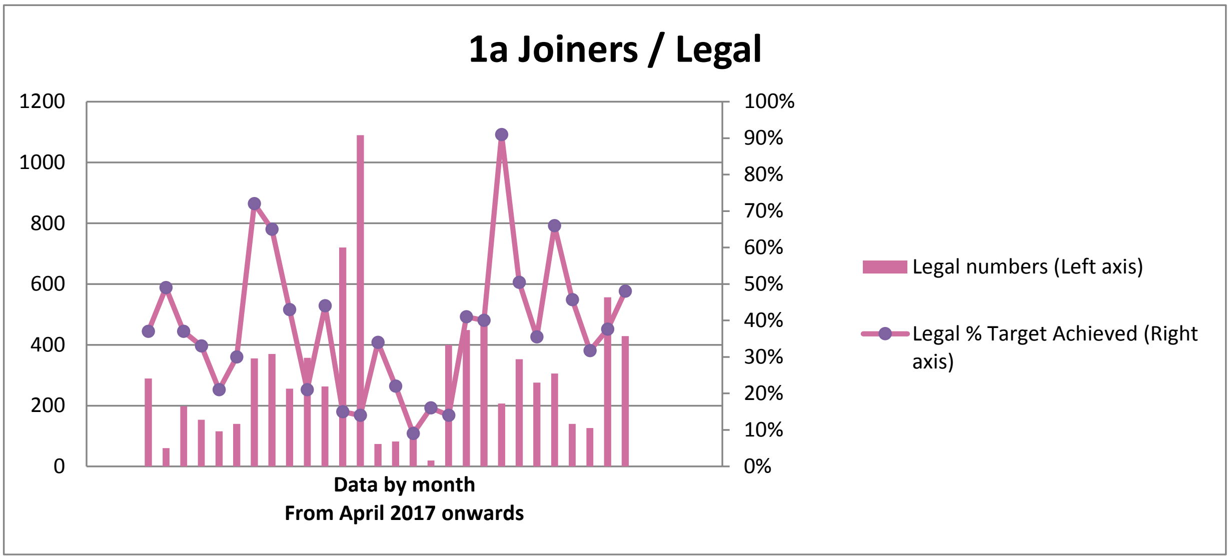
One graph has been provided for each KPI in the table above. Each graph shows month by month:

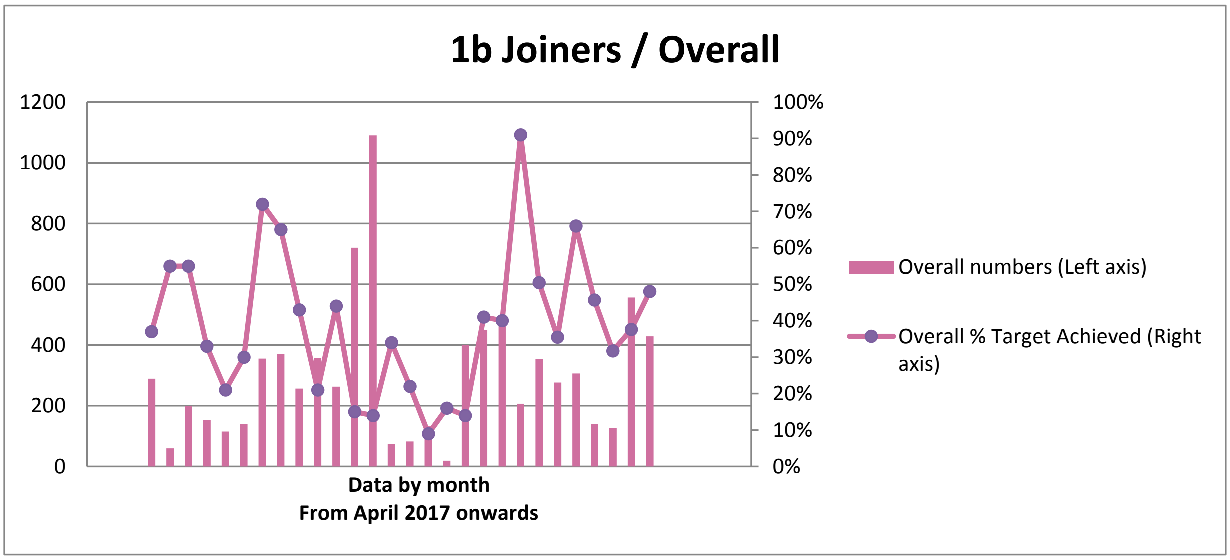
- The number of cases which have been completed each month
- The percentage of those cases completed that were completed within the KPI target

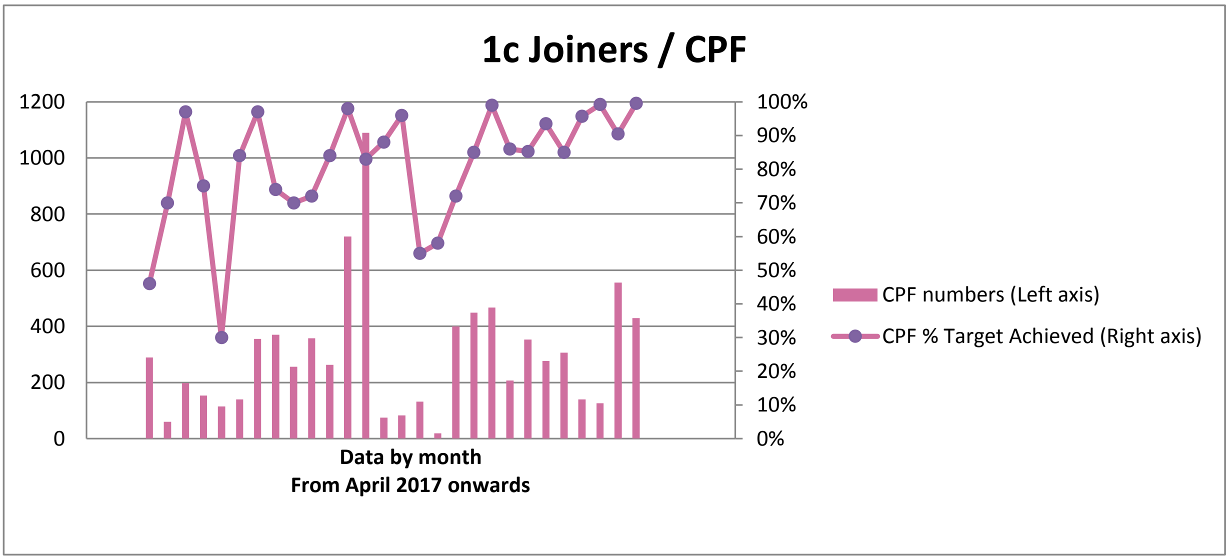
This is illustrated further below.



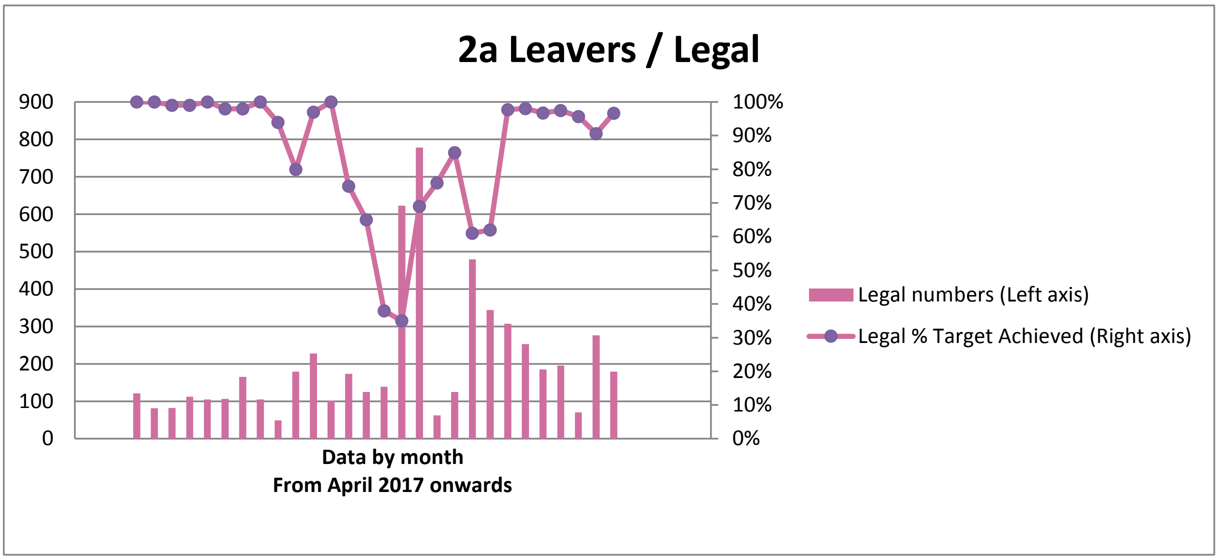
Key Performance Indicators - relating to 31 July 2019

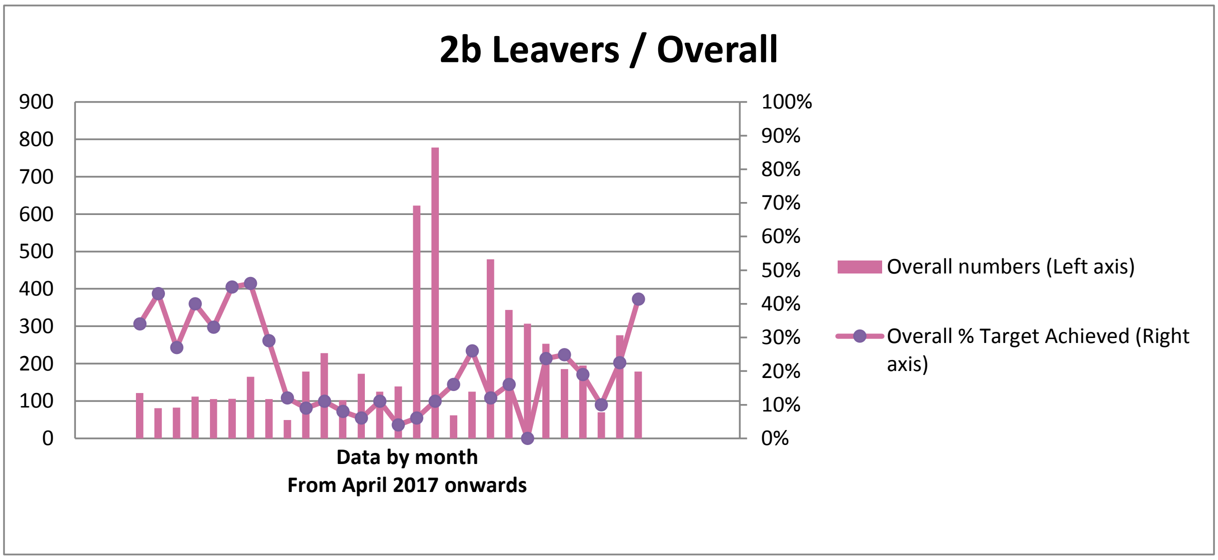


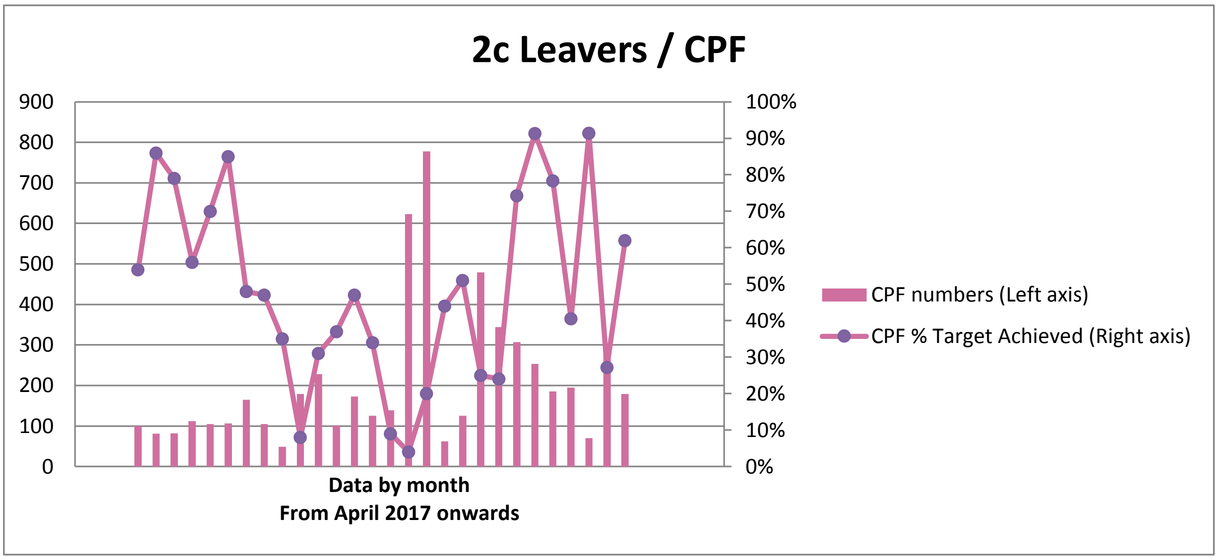




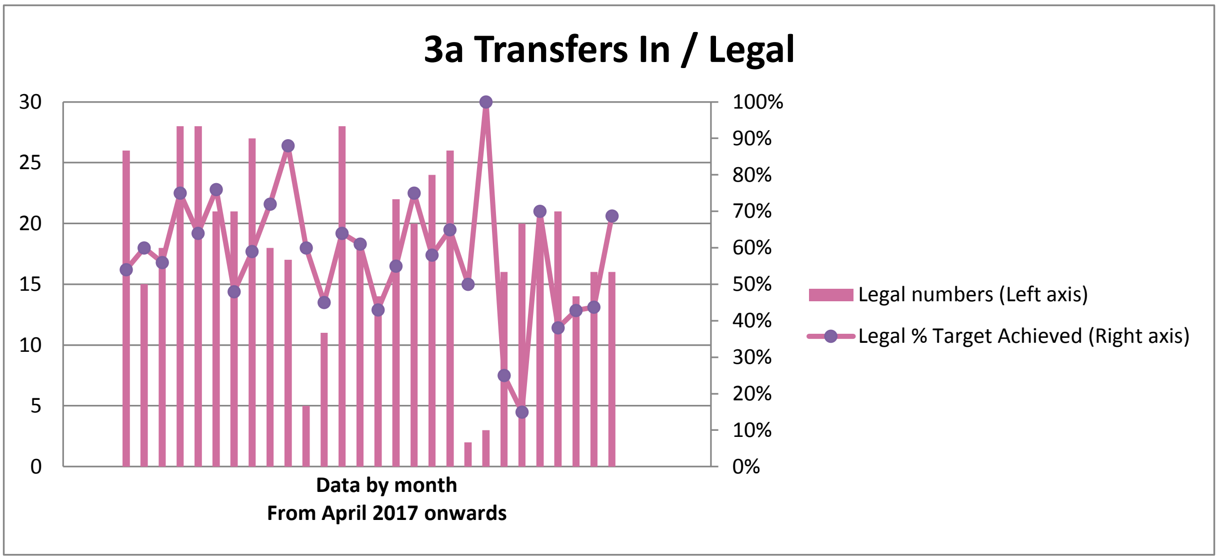
Key Performance Indicators - relating to 31 July 2019

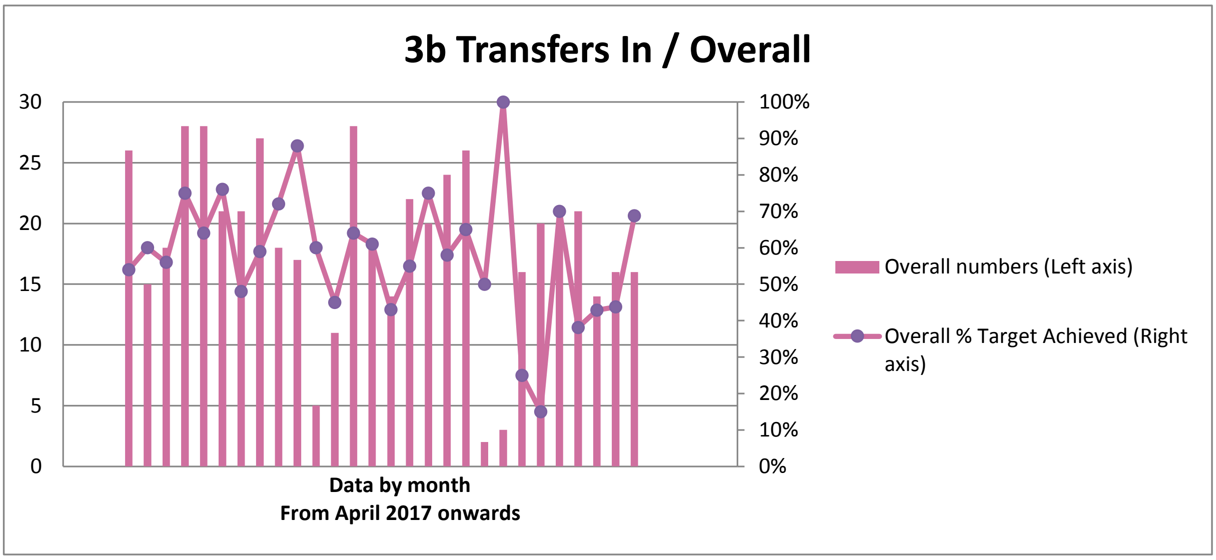


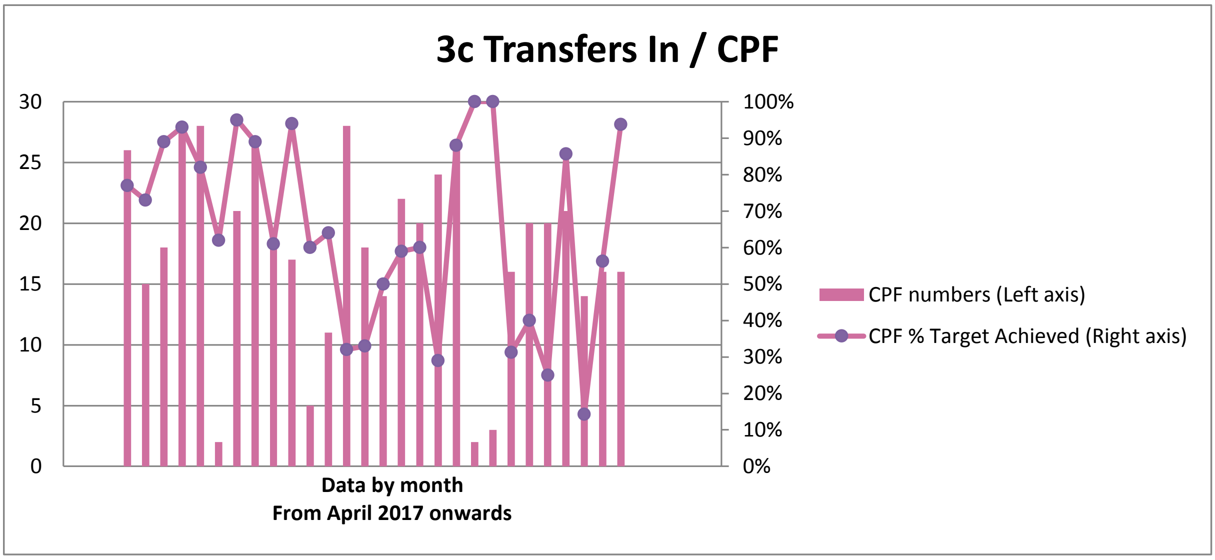




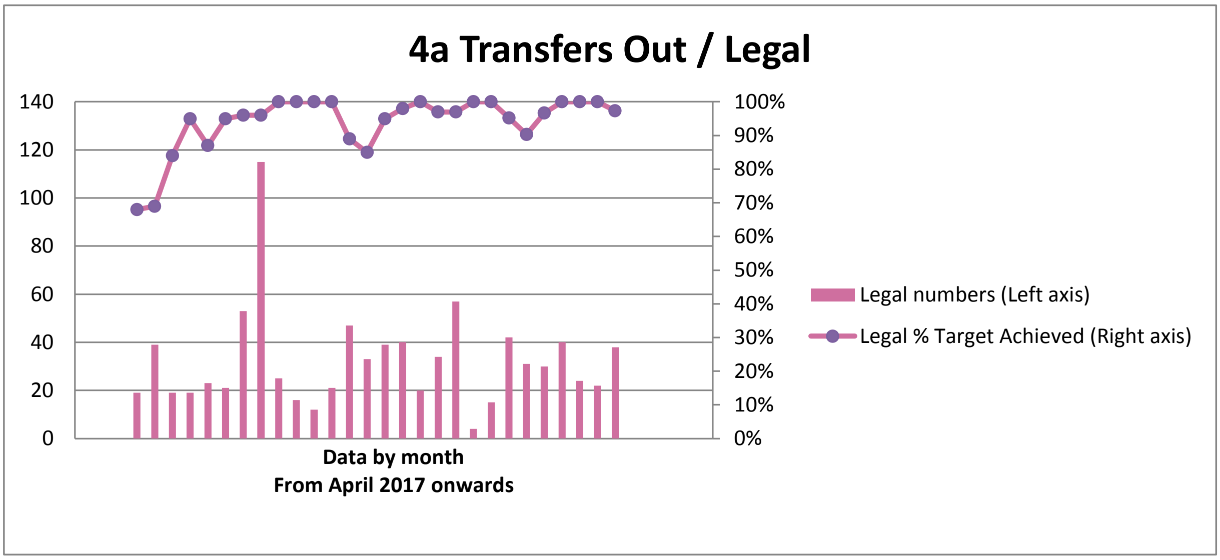
Key Performance Indicators - relating to 31 July 2019

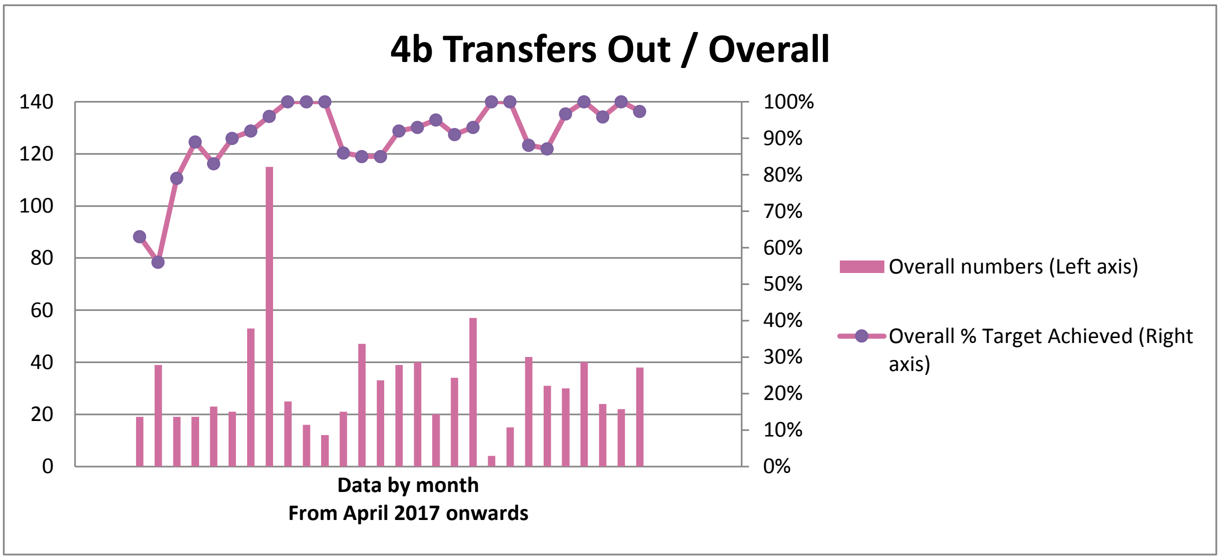


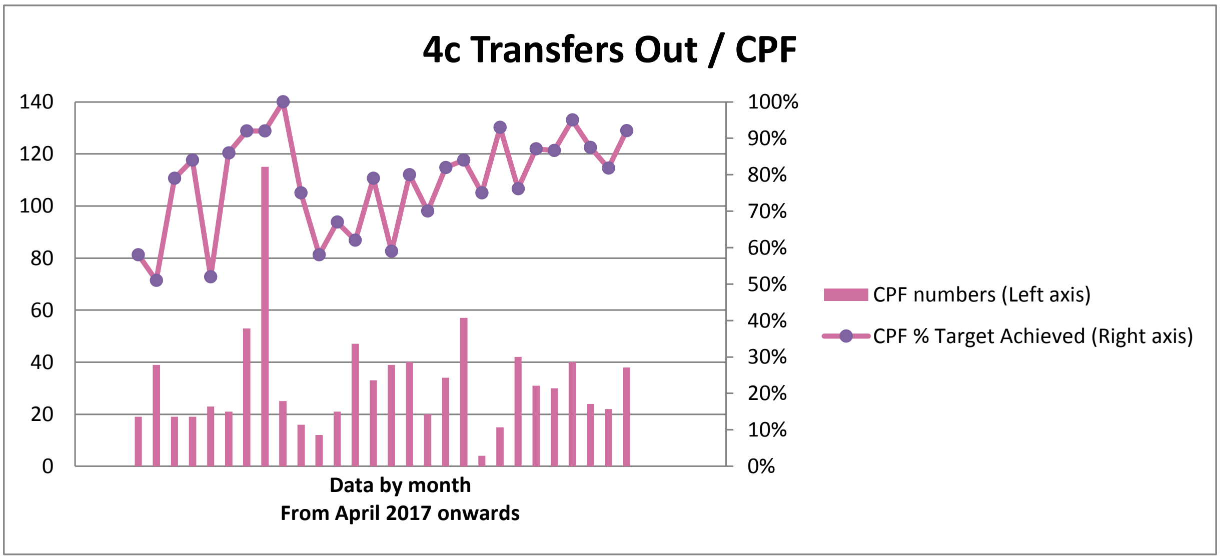




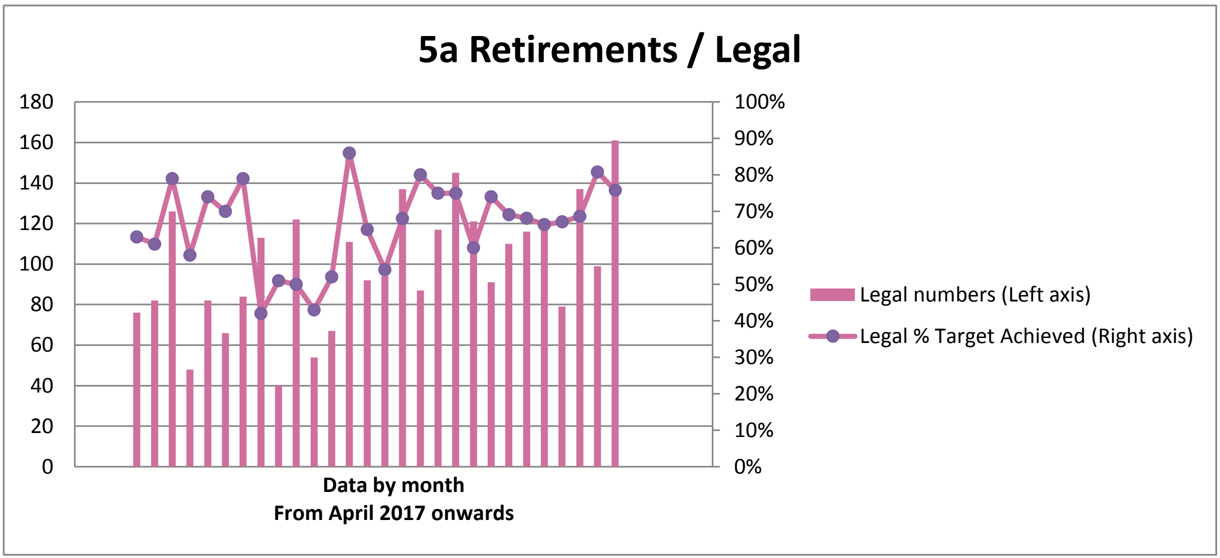
Key Performance Indicators - relating to 31 July 2019

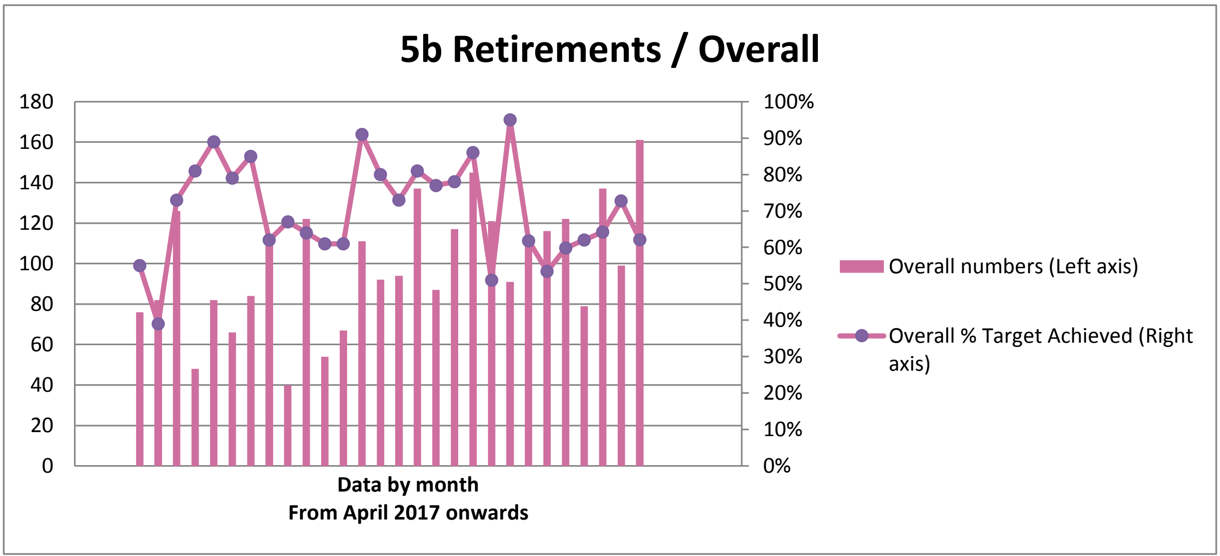


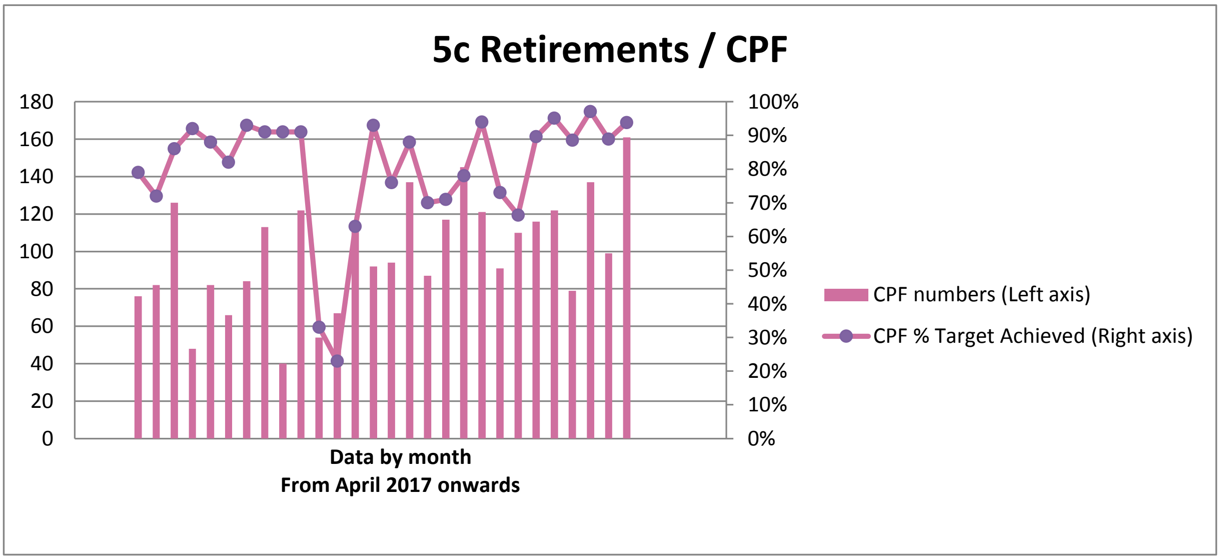




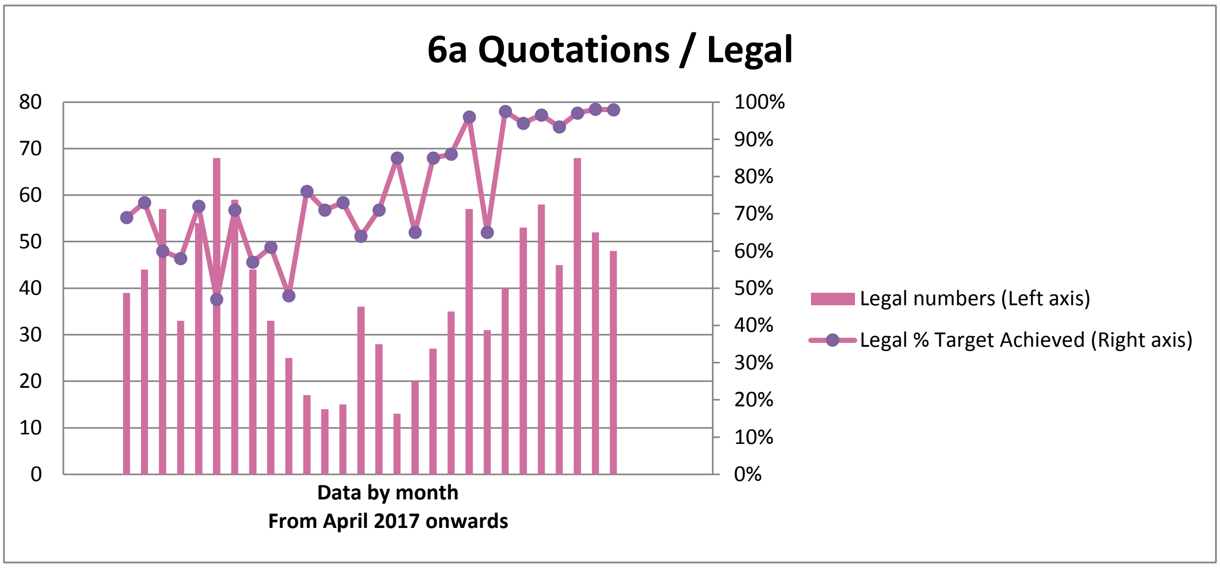
Key Performance Indicators - relating to 31 July 2019

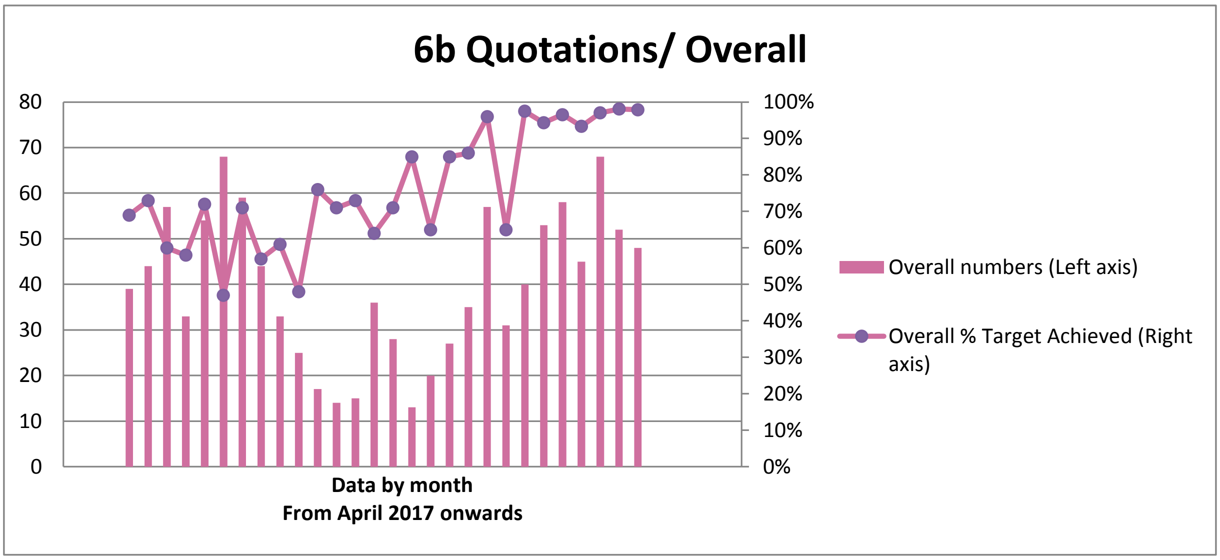


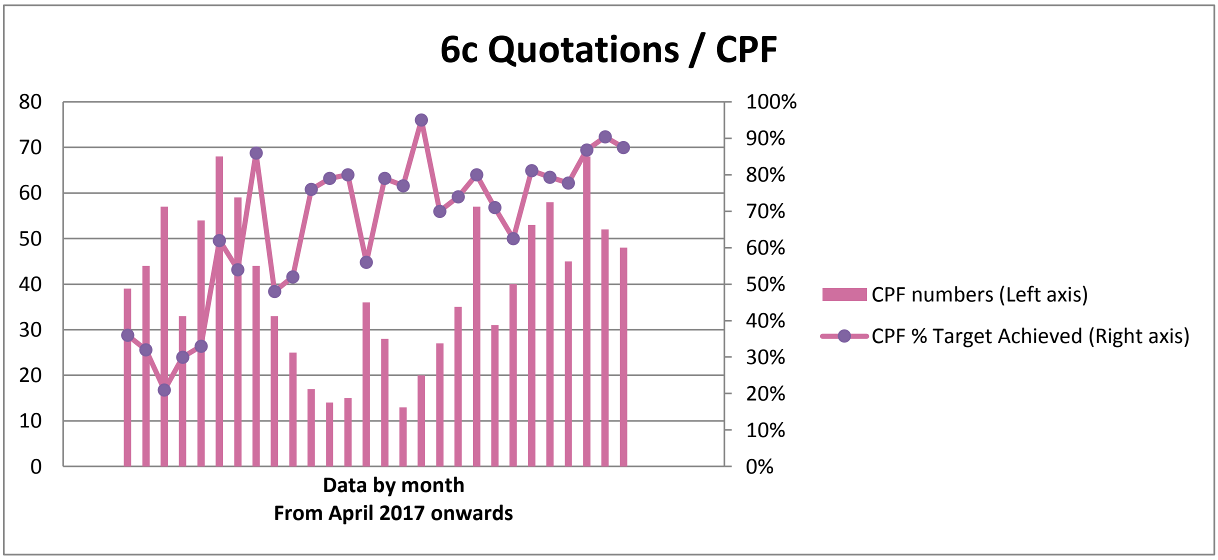




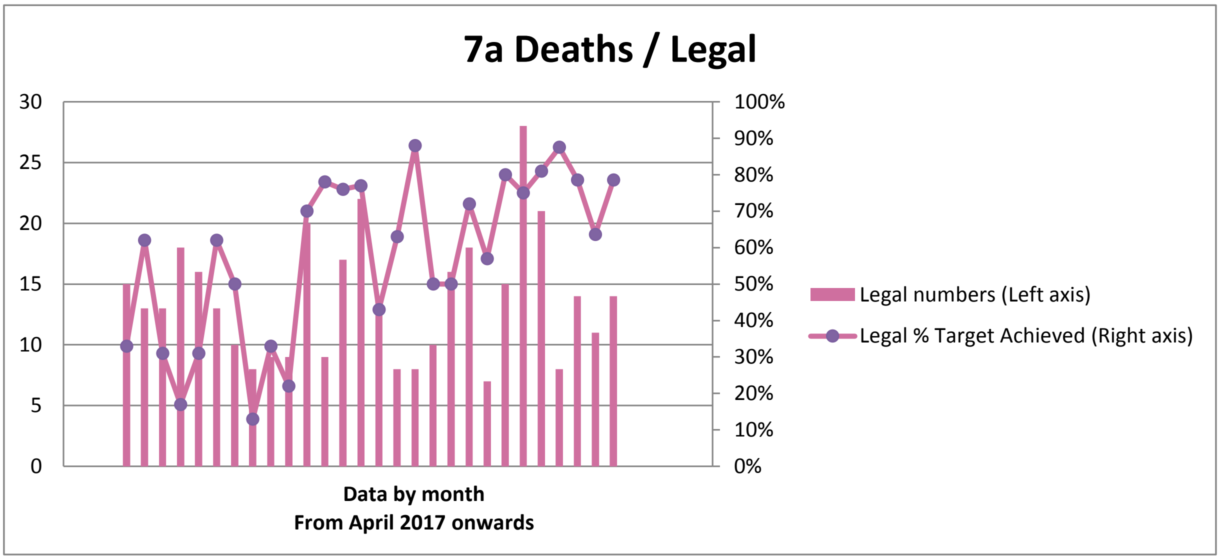
Key Performance Indicators - relating to 31 July 2019

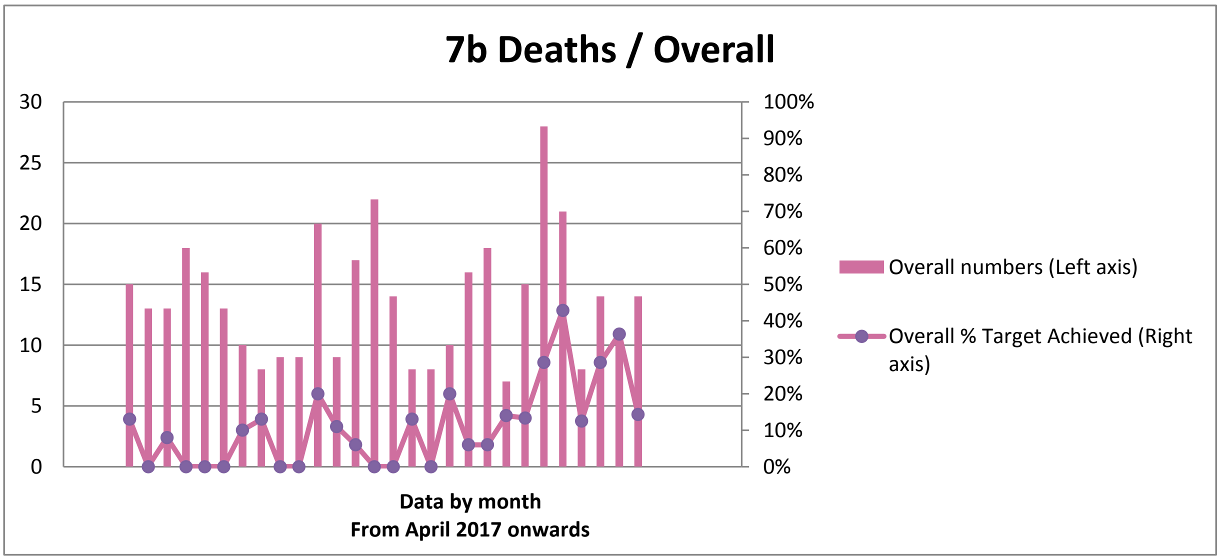


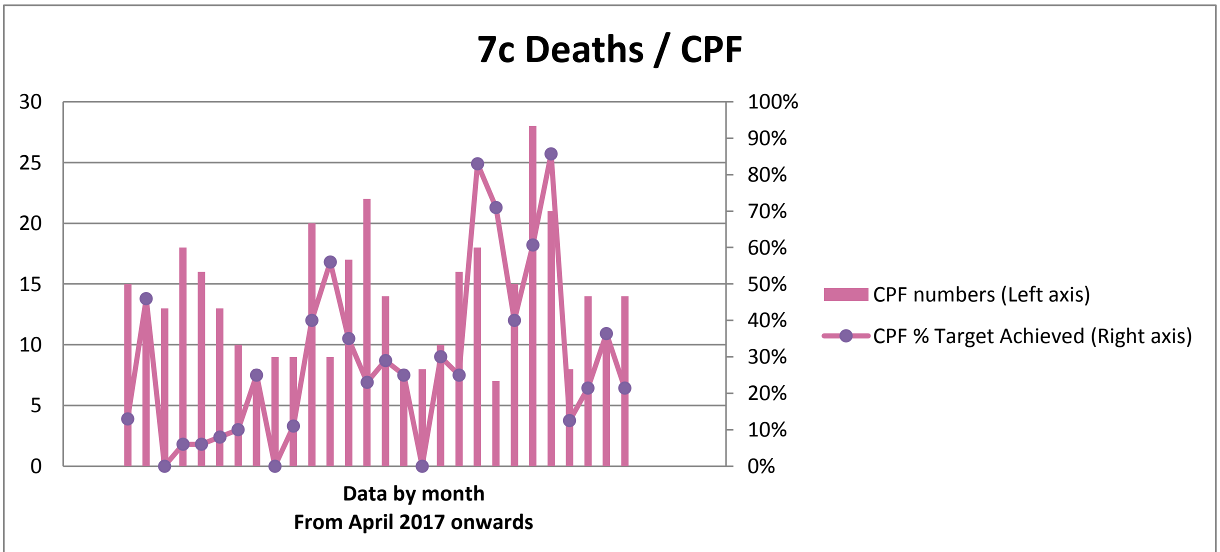




Key Performance Indicators - relating to 31 July 2019



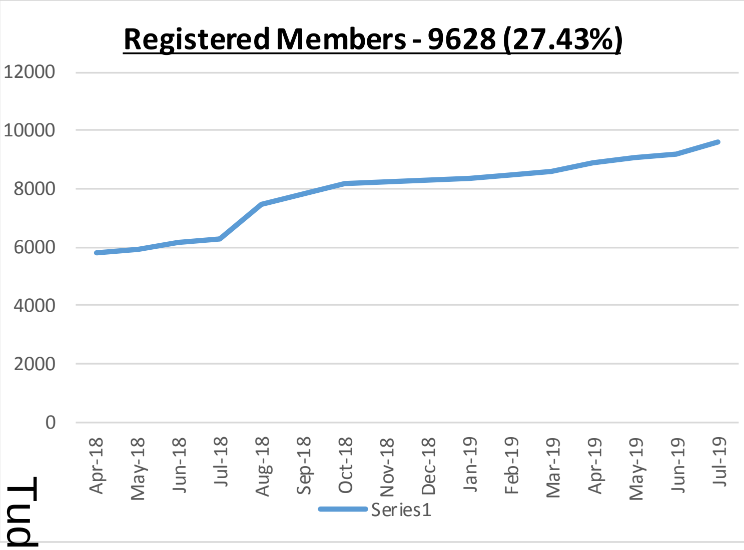


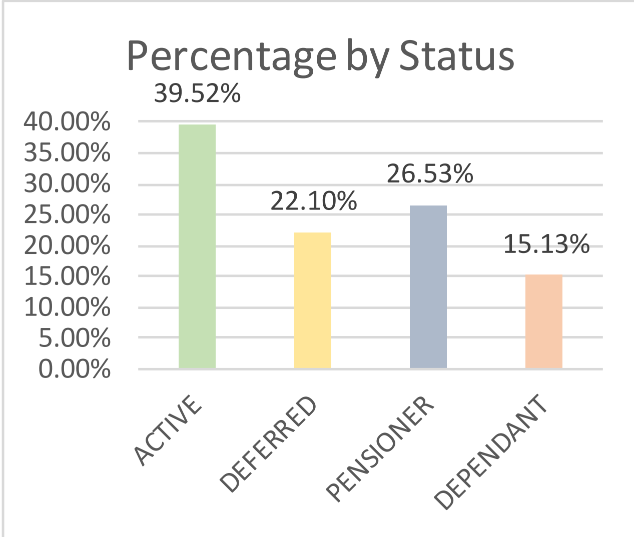


Mae'r dudalen hon yn wag yn bwrpasol

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

MEMBER SELF SERVICE – 13/08/2019

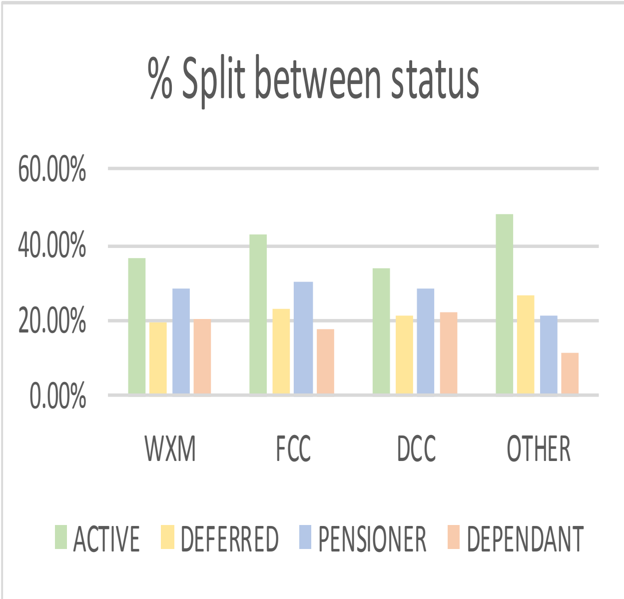




Update from June 2019 to August 2019

Member take-up on MSS has increased again since the last MSS statistics report. This is due to our PENPAL newsletter being issued to active members in July 2019. The newsletter promoted MSS and invited members to register to use it or to opt for paper correspondence so that they would at least be receiving some form of communication from the Clwyd Pension Fund. This means MSS opt out statistics have also increased. We currently have 2,014 members who have opted for paper correspondence.

*We had 532 activation key request tasks this period. This figure is higher than normal due to a project being undertaken to supply activation keys to members in an effort to promote the use of MSS.



Statistics between
13/06/2019 to 13/08/2019 (62 days)

CONTACT US TASKS

532*	MSSKEY	Key requests
50	MSSENQ	Enquiry tasks
15	MSSEST	Estimate tasks
28	MSSRET	Retirement tasks
13	MSSTVT	Transfer tasks
148	**Contact Us (2.39 p/day)**	
171	**MSSADD Address update (new)**	
5	**Bank details updated**	

BENEFIT PROJECTIONS

5,654 BENEFIT PROJECTIONS CALCULATED

Avg 91.19 per day

EXPRESSION OF WISH

281 CHANGES OF EXPRESSION OF WISH

4.53 per day

ELECTED FOR POSTAL CORRESPONDANCE

2,240 – 6.38% of overall members
218 have registered also

364	ACTIVE
122	DEFERRED
1467	PENSIONER
287	DEPENDANTS

Mae'r dudalen hon yn wag yn bwrpasol

DELEGATED RESPONSIBILITIES

Delegation:	Delegated Officer(s):	Communication and monitoring of Use of Delegation
Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	CPFM and either the CFM or CE after taking appropriate advice from the FA.	Ongoing reporting to PFC for noting

Action taken –

K L Care Ltd was admitted as an admission body to the Clwyd Pension Fund with effect from 1 September 2018.

Background

K L Care Ltd is a company providing care services for Denbighshire County Council (DCC) at Hafan Deg Day Centre. K L Care Ltd applied to become an admission body under the provision of Schedule 2 of the Local Government Pension Scheme Regulations 2013 (their specific circumstance is crossed below):

1. *The following bodies are admission bodies with whom an administering authority may make an admission agreement-*

(a) a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);

(b) a body, to the funds of which a Scheme employer contributes;

(c) a body representative of-

(i) any Scheme employers, or

(ii) local authorities or officers of local authorities;

(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of-

(i) the transfer of the service or assets by means of a contract or other arrangement, X

(ii) a direction made under section 15 of the Local Government Act 1999 ***(115)*** *(Secretary of State's powers),*

(iii) directions made under section 497A of the Education Act 1996 ***(116)*** *;*

(e) a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

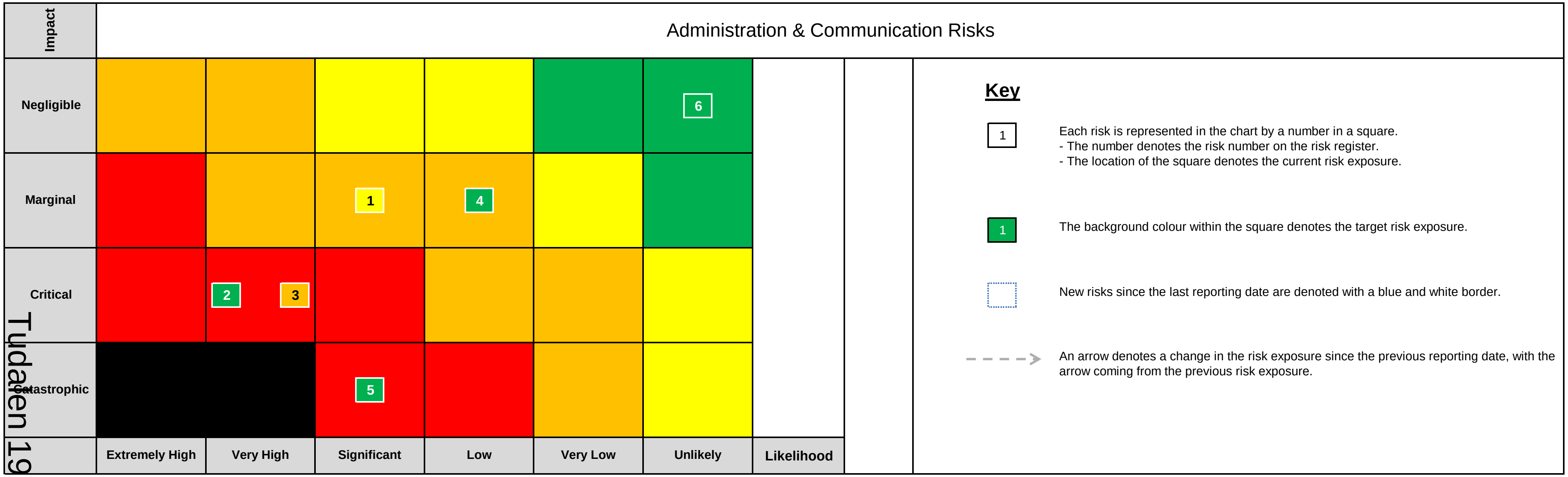
The effective date of the contract is 1 September 2018 and an admission agreement has been prepared and is with all parties for signature. As the body is providing a service for DCC, DCC will also be party to the admission agreement.

The agreement is a Closed agreement (i.e. restricted to just the transferring employees) with 6 existing Clwyd Pension Fund eligible employees transferring and therefore being covered by the agreement.

Advice has been taken from the Fund Actuary. The notional assets equal the liabilities being transferred (on an ongoing funding basis) and accordingly the initial funding level is 100%. This will be reviewed at future actuarial valuations. The initial employer contribution rate will be 23.9% of pensionable pay.

The level of risk to the Fund has also been assessed, and on the advice of the Fund Actuary, the body must provide a bond of £3,000 as a requirement of the admission (albeit this figure will be subject to review).

Administration and Communication Risks Heat Map and Summary



21 August 2019

Clwyd Pension Fund - Control Risk Register
Administration & Communication Risks

Objectives extracted from Administration Strategy (03/2017) and Communications Strategy (04/2016):

A1 Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
A2 Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
A3 Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
A4 Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
A5 Maintain accurate records and ensure data is protected and has authorised use only
C1 Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
C2 Communicate in a clear, concise manner
C3 Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
C4 Look for efficiencies in delivering communications through greater use of technology and partnership working
C5 Regularly evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?		Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	All	Marginal	Significant		1 - Training Policy, Plan and monitoring in place 2 - BP 2017/18 improvements assist with staff engagement 3 - Benefit consultants available to assist if required 4 - Ongoing task/SLA reporting to management/AP/PC/LPB to quickly identify issues 5 - Data protection training, policies and processes in place 6 - System security and independent review/sign off requirements 7 - ELT established 8 - Temporary staff changed to permanent, and further resource increase/recruitment to new posts 9 - Ongoing monitoring of ELT and Ops resource/workload for backlogs 10 - Estabishment of aggregation team	Negligible	Low		😐	Current impact 1 too high Current likelihood 1 too high	01/07/2016	Dec 2019	1 - Ongoing training (SB/JT) 2 - Ongoing consideration of resource levels post recruitment of new posts (KW) 3 - Review structure of Technical team (AH)	Pensions Administration Manager	31/12/2019	14/08/2019
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	Very High		1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT 6 - Increased data checks/analsyis (actuary and TPR) 7 - Implemented further APP data checks to identify issues 8 - Updated Admin Strategy to include a compliance declaration	Negligible	Very Low		☹	Current impact 2 too high Current likelihood 3 too high	01/07/2016	Mar 2021	1 - Ongoing roll out I-connect (AH) 2 - Ongoing monitoring of ELT resource/workload (KR) 3 - Develop and roll out APP training - in house and employers (KM) 4 - Identify other employer data issues and engage directly with employers on these (KM/AH)	Pensions Administration Manager	31/03/2020	14/08/2019
3	Unable to meet legal and performance expectations due to external factors	Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Very High		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required 3 - Recruitment to new posts	Marginal	Low		😐	Current impact 1 too high Current likelihood 2 too high	27/08/2018	Mar 2020	1 - Ongoing consideration of resource levels post recruitment of new posts (KW) 2 - Ongoing consideration of likely national changes and impact on resource (KW)	Pensions Administration Manager	31/12/2019	14/08/2019
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1/ C2 / C3	Marginal	Low		1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed 4 - Website reviewed and relaunched (2017) 5 - Member self service launched (2017) 6 - Comms Officer recruited	Negligible	Very Low		😐	Current impact 1 too high Current likelihood 1 too high	01/07/2016	Mar 2020	1 -Ongoing promotion of member self service (KM) 2 - Ongoing identification of data issues and data improvement plan (All) 3 - Review of effectiveness of new website/iConnect/member self-service planned for 2019/20 (KM)	Pensions Administration Manager	31/12/2019	14/08/2019
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	Catastrophic	Significant		1- Business plan has number of improvements (I-connect/MSS etc) 2 - Review of ad-hoc processes (e.g. deaths and aggregation) 3 - Participating as a founding authority on national framework for admin systems (if it proceeds) 4 - Procurement of Altair on business plan 5 - Joined latest Heywood Testing Party 6 - Implementation of other Altair modules including in-house lump sum payment facility	Negligible	Very Low		☹	Current impact 3 too high Current likelihood 2 too high	01/07/2016	Mar 2020	1 - Ongoing roll out of iConnect (AH) 2 - Ongoing identification of data issues and data improvement plan (All) 3- Review of effectiveness of new website/iConnect planned for 2019/20 (KM) 4- Increased engagement with Heywood about change in their business model (KW) 5 - Development of pension admin system national framework as a founder member (KW)	Pensions Administration Manager	31/03/2020	14/08/2019
6	Service provision is interupted	System failure or unavailability	A1 / A4 / C2	Negligible	Unlikely		1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented 3 - Implement lump sum payments via pensioner payroll facility	Negligible	Unlikely		☺				1 - Ongoing checks relating to interface of recovery plan with non-pensions functions (KW) 2 - Resolve other areas identified by last disaster recovery test (KW) 3 - Redo disaster recovery test (KW) 4 - Develop business continuity policy for CPF (KW)	Pensions Administration Manager	31/03/2020	30/05/2019

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 4 September 2019
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

This paper provides an update of the Funding and Risk Management framework and any actions taken during the quarter.

Members should note that:

- On consistent actuarial assumptions, the estimated funding position at the end of July is 94% which is around 13% ahead of the expected position from the 2016 actuarial valuation.

- The level of hedging remains at 20% for interest rate and 40% for inflation at 31 July 2019. No triggers have been breached since the interest rate triggers were re-structured in September 2017.

The following actions have been implemented since the last Committee.

- The equity protection levels of assets covered (c£350m) have been increased in order to reduce the likelihood of contribution increases in the future.

- The previously implemented currency hedging policy is being increased to revise the overall currency hedge to 75% (from the current 50%) until the outcome of Brexit is clearer.

RECOMMENDATIONS	
1	That the Committee note the updated funding position (on assumptions consistent with the 2016 valuation) and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.
2	The committee note that the equity protection structure has now been revised to increase the level of protection.
3	That the Committee note that any currency risk associated with the market value of the synthetic equity portfolio and the developed equity markets which have now been fully hedged.

REPORT DETAILS

1.00	**FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE**
1.01	***Update on funding and the flightpath framework*** The monthly summary report as at 31 July 2019 from Mercer on the funding position and an overview of the liability hedging mandate is attached in Appendix 1. It includes a "traffic light" of the key components of the Flightpath and hedging mandate with Insight. The report will be presented at the meeting including a reminder of the principle objectives of the framework.
1.02	The estimated funding level is 94% with a deficit of £127m at 31 July 2019 which is 13% ahead of the expected position when measured relative to the 2016 valuation expected funding plan. Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c. 4% to c. 90% with a corresponding increase in deficit of £93m to £220m. For the purposes of this report the funding position has been measured on consistent actuarial assumptions with the 2016 valuation. The actuarial assumptions are being reviewed as part of the 2019 valuation.
1.03	None of the interest rate triggers have been breached since they were re-structured in September 2017.
1.04	The level of hedging was around 20% for interest rates and 40% for inflation at 31 July 2019. The hedging implemented to date provides access to a lower risk investment strategy but maintaining a sufficiently high real yield expectation to achieve the funding targets.
1.05	Based on data from Insight, our analysis shows that the management of the Insight mandate is rated as "green" meaning it is operating in line within the tolerances set by our strategic risk advisors. The Cash Plus Fund is rated "green" and is performing as expected following the investment into Insight's Global ABS fund and the Secured Finance II fund. The collateral and counterparty position is rated "green"; collateral is within the agreed constraints and the efficiency of the collateral position has been improved following the implementation a collateral waterfall framework with Insight earlier in the year.
1.06	***Update on Risk Management framework*** (i) Dynamic equity protection implementation and progress It was previously approved by Committee that, subject to fair market pricing, protection against potential falls in the equity markets via the use

	of Equity Options should be implemented. This was to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality. It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets. Importantly over the longer-term the increased security allows the Actuary to include less prudence in the Actuarial Valuation assumptions; this would translate into lower deficit contributions at the 2019 valuation whilst maintaining equity exposure supports a lower cost of accrual that under traditional de-risking methods. As at 31 July 2019, the equity protection strategy had increased by c. £14m or 3.9% since inception of the strategy. Relative to investing in passive equities (and assuming no costs to do so), the strategy has underperformed by c. £14m or 4.4% since inception. The strategy provides protection from equity market falls of 21% or more from current market levels. If such a downside event occurred, then the protection structure should outperform passive equities. The protection was recently reviewed, and on 1 August 2019, the level of protection for the Fund was increased by 5%, the cost of which will be offset by the Fund's participation in losses beyond a fall of 35% from current market levels. Protecting for such extreme unlikely scenarios is proportionately expensive and not necessarily required by the Fund as it has the governance and implementation framework in place in order to act quickly and bank the returns from the protection in the event of an equity market drawdown. The committee papers have been updated as part of the reporting in Appendix 1. JP Morgan originally quoted a one off 0.03% of exposure to make the transition (c. £100k), however Mercer negotiated a reduction to this cost of £70k to £30k. There are no additional ongoing costs for implementing this refined structure and it was considered that the reduction in risk outweighed the costs.
1.07	(ii) Implementation of currency hedging A strategic currency hedging policy was implemented in March 2019. By currency hedging the market value of the synthetic equity portfolio, and leaving the physical equity portfolio unhedged from a currency perspective, this policy achieves a c.50% currency hedged position of the overall equity portfolio. The strategic hedge ratio was based on analysis that indicated such a level minimised risk over the long term. The uncertainty surrounding Brexit has resulted in a significant depreciation of the pound. Whilst this has resulted in gains for the Fund due to the unhedged physical overseas equity exposure, currency risk remains a major risk to the Fund and a strengthening pound would have a detrimental impact on the Fund's deficit. The implementation of a currency hedging policy on the Fund's physical equity holdings would lock-in gains from the recent sterling weakness and reduce the risk of a materially strengthening pound following the Brexit outcome on 31 October 2019.

	The Fund holds c. £270m in physical equities, of which c. £125m is developed overseas exposure and practical to hedge at low cost. As at 30 June 2019, if sterling appreciated by 15% say (back to pre EU referendum levels), the Fund would lose c. £16m on these developed equity holdings (ignoring any changes on the underlying equity valuations). Conversely, if sterling continued to depreciate following a no-deal Brexit for example, and fell to 10 year lows, this would only represent a further c. 5% fall in sterling, increasing the value of these developed overseas equities by a c. £5m. Mercer highlighted that there was more to be lost if sterling appreciates to pre EU referendum levels and, on balance, it was more likely for sterling to appreciate than depreciate following the outcome of Brexit. It was therefore decided to currency hedge 100% of the physical developed overseas equities until the outcome of Brexit was clearer, banking recent gains and removing currency volatility. This will result in the physical equity mandate being c.50% currency hedged, and the overall equity portfolio c. 75% currency hedged. This position can be achieved quickly and cheaply via an overlay implemented in the Insight QIAIF. Insight have estimated transaction costs of 0.006% p.a. on total exposure, (c. £7.5k p.a.) and 0.03% p.a. management fees (c. £37.5k p.a.). It was considered that the reduction in risk more than outweighed the costs to hedge. The Officers, working closely with Mercer and Insight, are aiming for the currency hedge to be in place before the end of August 2019.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None required

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only. The collateral waterfall framework is intended to increase the efficiency of the Fund's collateral, and generating additional yield in a low governance manner. Hedging the currency risk of the market value of the synthetic equity portfolio will protect the Fund against a

	strengthening pound which would be detrimental to the Fund's deficit. Hedging the currency risk of the developed market physical equity exposure will mitigate the risk of a strengthening point as a result of Brexit uncertainty.

5.00	**APPENDICES**
5.01	Appendix 1 - Monthly monitoring report – July 2019

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016.
6.02	Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (e) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (f) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by Pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is

	the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (g) **ISS – Investment Strategy Statement** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund Further terms are defined in the Glossary in the report in Appendix 1

HEALTH WEALTH CAREER

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT 31 JULY 2019

August 2019

Paul Middleman FIA

MAKE TOMORROW, TODAY MERCER

OVERRIDING OBJECTIVES

Stable and affordable contribution rate

versus

Achieve returns in excess of CPI required under funding arrangements

Objectives are two-fold but conflicting

- Risk needs to be taken in order to achieve returns, but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

- Do you need to take the same level of risk when 70% funded (say) as when 110% funded?

EXECUTIVE SUMMARY

= as per or above expectations = to be kept under review = action required

Overall funding position

- Ahead of existing recovery plan
- Funding level below the first soft trigger

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
- Outperformed the benchmark over the quarter and since inception
- Hedge ratios marginally below target levels

No action required.

Synthetic equity mandate

- Insight in compliance with investment guidelines
- Outperformed the benchmark over the quarter and since inception
- Maturity constraints as expected

A dynamic protection structure was implemented in Q2 2018. This is being monitored in terms of performance and protection levels. Refinements to the strategy are being implemented following the FRMG in July.

Cash Plus Fund

- Outperformed over Q1 2019
- Collateral waterfall performing as expected
- Management team stable and no change in manager rating
- Allocation of £56m remains appropriate

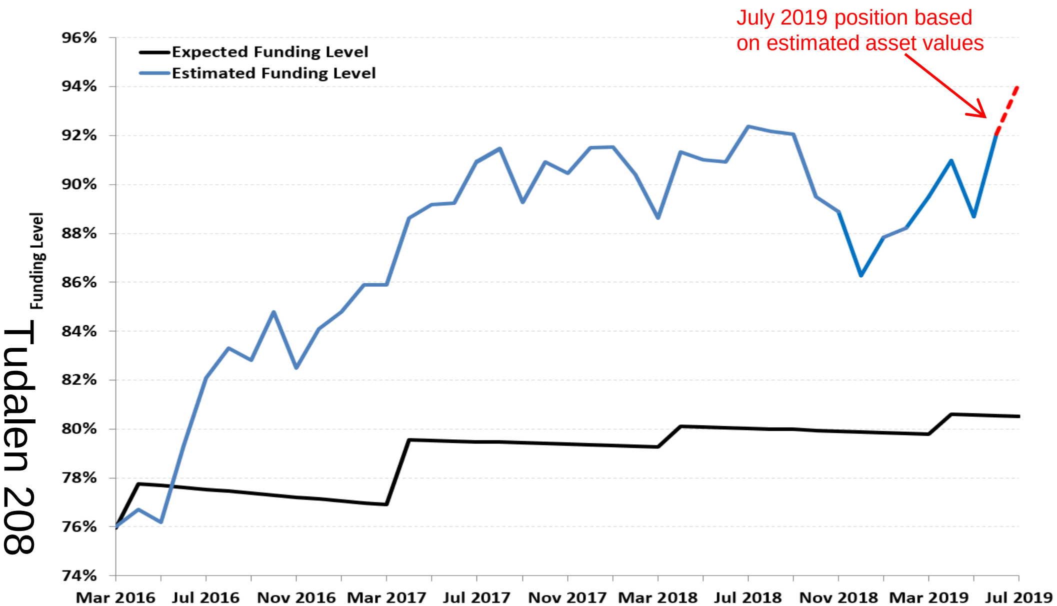
Collateral waterfall framework was implemented in Q1 2019. No action required.

Collateral and counterparty position

- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.0% rise in interest rates and fall in inflation, in combination with a 35% fall in equity markets without eliminating all collateral

No action required. A currency hedging overlay is due to be implemented within the QIF in August (subject to agreement); the Fund has sufficient collateral to withstand this.

Estimated funding position since 31 March 2016



The positions from April 2018 onwards have been adjusted to reflect the actual 2018 and 2019 revaluation/pension increase awarded.

Funding Level Triggers

It was concluded at the FRMG on 20 June 2017 that the funding level is not currently sufficiently high to warrant de-risking in a traditional sense via a change in long term strategy.

It was agreed that a “soft” trigger will be put in place to prompt FRMG discussions regarding potential actions as the funding level approaches 100% on the current funding basis. This funding level will be monitored approximately by Mercer on a daily basis.

Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2016 valuation based on the assumptions (and contributions) outlined in the 2016 actuarial valuation. The *expected* funding level at 31 July 2019 was around 81%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 30 June 2019. The **red line** shows the progression of the estimated funding level over July 2019. At 31 July 2019, we estimate the funding level and deficit to be:

94% (£127m*)

This shows that the Fund’s position was ahead of the expected funding level at 31 July 2019 by around 13% on the current funding basis.

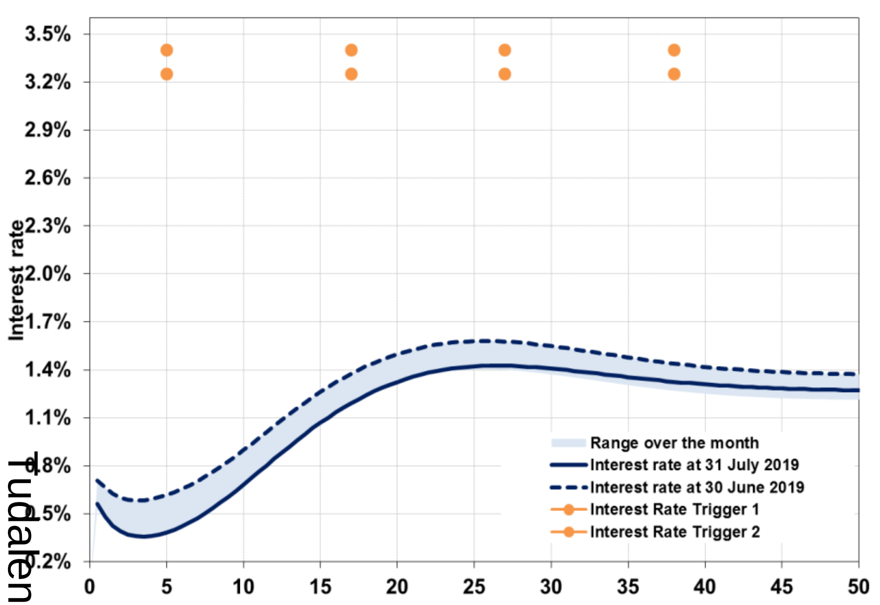
Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. This could mean that the likelihood of achieving the assumed real returns going forward has fallen. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c.4% to c.90% with a corresponding increase in deficit of £93m to £220m.

This will be kept under review in light of changing market conditions.

**Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 30 June 2019 to 31 July 2019. We will monitor this estimate over time against the actual position once final asset values are available, and update the asset values on a monthly basis.*

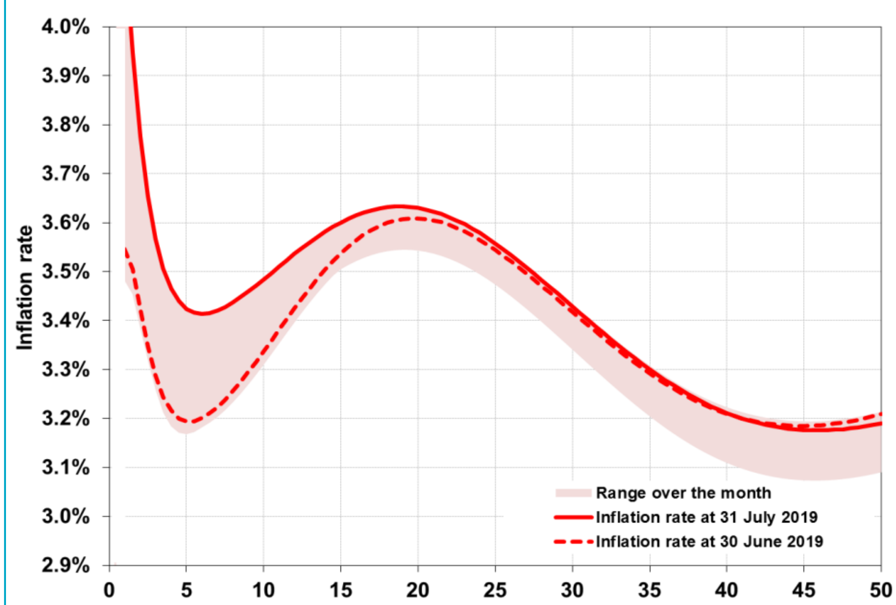
UPDATE ON MARKET CONDITIONS AND TRIGGERS

Change in interest rates



Date	Band 1	Band 2	Band 3	Band 4	Actual
31 March 2019	23.2%	19.4%	19.5%	20.8%	20.1%

Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4	Actual
31 March 2019	38.6%	43.0%	36.3%	43.5%	40.3%

Comments

Interest rates fell across the curve over July 2019; the average fall experienced was c. 0.2% p.a..

Based on market conditions as at 31 July 2019, yields would need to rise by c.1.8% p.a. before the Fund would hit any of the revised interest rate triggers implemented by Insight in Q3 2017.

Comments

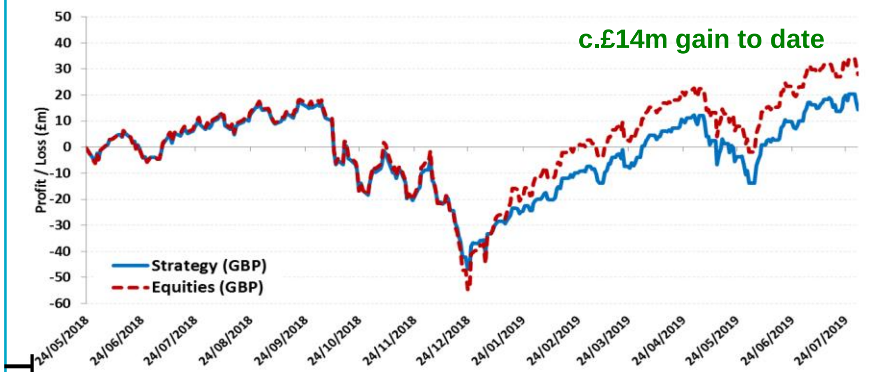
Inflation expectations rose at short term durations but remained relatively stable at longer durations.

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 EQUITY PROTECTION MANDATE

Strategy versus equity index



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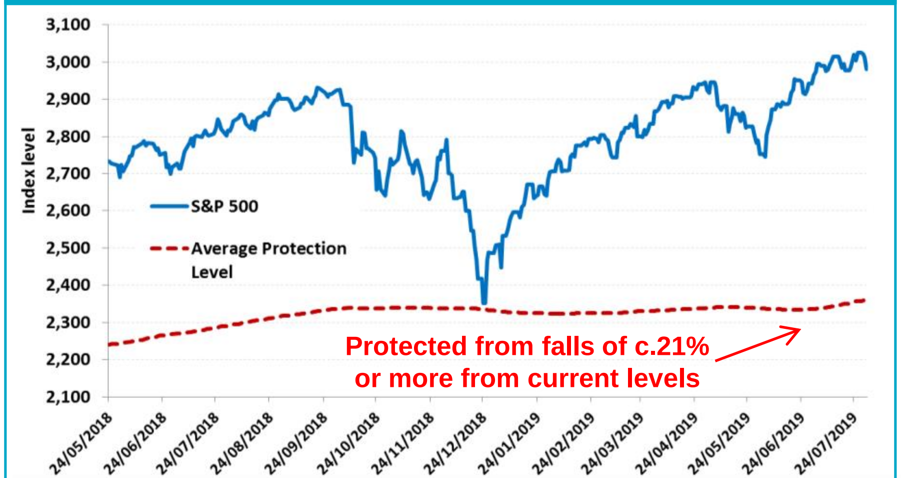
GBP returns	Equity return	Hedging return	Financing return	Costs	Overall return	Relative return
MTD	1.32%	(0.09%)	(0.03%)	(0.02%)	1.18%	(0.14%)
YTD	21.89%	(4.59%)	(1.73%)	(0.25%)	15.33%	(6.56%)
Since Inception	8.42%	(3.05%)	(0.88%)	(0.45%)	4.05%	(4.37%)

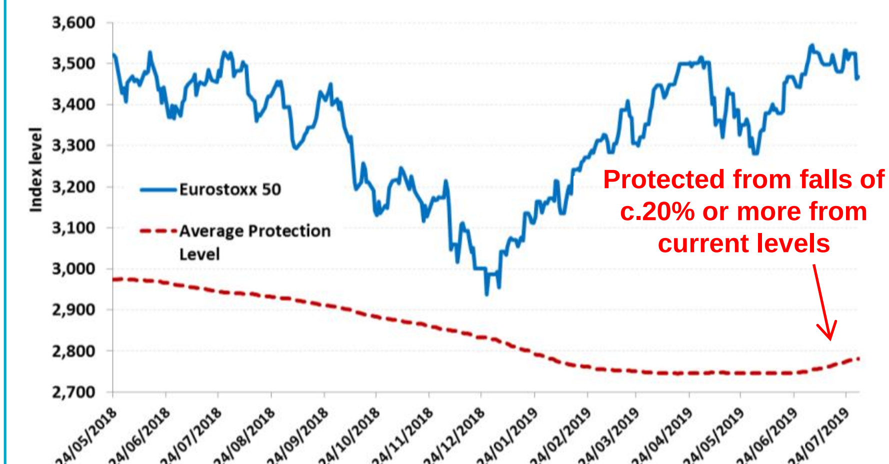
Comments

- The Fund implemented a dynamic equity protection strategy on 24 May 2018 with exposure of £362m. As at 31 July 2019, there was a gain incurred of c. £14m on the strategy since inception, relative to a c. £28m gain had the Fund invested in passive equities (with no frictional costs).
- Positive equity returns meant that the strategy exhibited a negative hedging return over July as a premium was paid for protection that was not needed. The Fund has also experienced an overall loss on the financing return over the month.
- From inception on 8 March 2019 to 31 July 2019 the currency hedging has contributed a £0.2m loss relative to an unhedged position. This is due to the continuing weakening of Sterling since inception.
- From 1 August 2019, the Fund implemented revisions to the equity protection mandate that increased the protection level by 5%. This will ensure that the Fund is better protected in the event of a downside as the protection will kick in sooner.

US equity exposure



European equity exposure



GLOSSARY

- Actuarial Valuation - The formal valuation assessment of the Fund detailing the solvency position and determining the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.

- Collateral – Liquid assets held by the Fund as security which may be used to offset the potential loss to a counterparty.

- Counterparty – Commonly an investment bank on the opposite side of a financial transaction (e.g. swaps).

- Deficit - The extent to which the value of the Fund’s liabilities exceeds the value of the Fund’s assets.

- Dynamic protection strategy – Strategy to provide downside protection from falls in equity markets where the protection levels vary depending on evolution of the market.

- Equity option – A financial contract in which the Fund can define the return it receives for movements in equity values.

- Flightpath - A framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when “triggers” are hit, whilst still expecting to achieve the overall funding target.

- Funding level - The difference between the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

- Funding & Risk Management Group (FRMG) - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.

- Hedging - A strategy aiming to invest in low risk assets when asset yields are deemed attractive. Achieved by investing in government backed assets (or equivalent) with similar characteristics to the Fund future CPI linked benefit payments.

- Hedge ratio – The level of hedging in place in the range from 0% to 100%.

- Insight QIAIF (Insight Qualifying Investor Alternative Investment 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.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 4th September 2019
Report Subject	Investment and Funding Update
Report Author	Deputy Head, Clwyd Pension Fund

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 2019/20 update on progress. All tasks are on target. Appendix 1.

(b) Current Developments and News – News and development continues to be dominated by the Pooling across the LGPS which is covered in agenda item 11.

(c) Delegated responsibilities (Appendix 2). This details the responsibilities which have been delegated to officers since the last Committee meeting. These can include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

RECOMMENDATIONS	
1	That the Committee consider and note the update for delegated responsibilities and provide any comments.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Business Plan Update** Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plans for 2019/20. All projects are ongoing and on target.
1.02	**Policy and Strategy Implementation and Monitoring** The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, Mercer, which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 12. The Advisory Panel also receive reports from the following groups: • Tactical Asset Allocation Group (TAAG) • Funding and Risk Management Group (FRMG) • Private Equity and Real Assets Group (PERAG) Any delegations arising from these meetings are detailed in Appendix 2.
1.03	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting. To summarise: • Cashflow forecasting continues to identify low short term liquidity which may require redeeming cash from the Insight LDI collateral pool. The Funds cashflow continues to be monitored closely and is being investigated in more detail with the Fund's Consultant and Actuary. • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG). • Within the "In House" portfolio, 2 commitments has been agreed in the Property portfolio which follows the strategy agreed by the Advisory Panel for this asset class.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

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

4.00	RISK MANAGEMENT
4.01	Appendix 4 provides the dashboard and risk register highlighting the current risks relating to Investments and Funding matters.
4.02	Three of the eight risks are currently at their overall target risk albeit F1, the individual current likelihood risk is slightly higher than target. Four of the risks are now significant, F2, F3, F4 and F6. All are investments and Funding and substantially different to the target risks. Risk F6 relates to matters related to Pooling and Brexit and whilst still different to the target risks has been moved from catastrophic and significant to critical and very high. Risks 2, 3 and 4 relate to the value of assets and liabilities not being as expected - The Likelihood score reflects the increased risks associated with Brexit given the uncertainty. This may well be a short term position and we have now included the implementation of the hedging of the currency risk to mitigate risks associated with the exit. F8 is low risk and only one step away from its target and relates to employer covenants which will be addressed as part of the Actuarial Valuation.

5.00	APPENDICES
5.01	Appendix 1 - 2019/20 Business plan update Appendix 2 – Delegated Responsibilities Appendix 3 – Risk dashboard and register – Investments and Funding

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

7.00	GLOSSARY OF TERMS
7.01	(a) **The Fund - Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the

region

(b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.

(c) **The Committee - Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund

(d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.

(e) **AP – Advisory Panel** – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor.

(f) **PERAG – Private Equity and Real Asset Group** – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund's Investment Consultant and monitored by AP.

(g) **In House Investments –** Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG.

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

(i) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.

(j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund

(k) **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.

(l) **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.

	(m) **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. (n) **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. (o) A full glossary of Investments terms can be accessed via the following link. http://www.fandc.com/uk/private-investors/tools/glossary/

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Business Plan 2019/20 to 2021/22 – Q2 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	2019/20 Period Q1	Q2	Q3	Q4	Later Years 2020/21	2021/ 22
F1	Review CPF's Responsible Investment Policy	x	x	x			
F2	Cash Flow and Liquidity Analysis	x	x	x	x		
F3	Triennial Actuarial Valuation and associated tasks	x	x	x	x		
F4	Review of Investment Strategy	x	x	x	x	x	
F5	Asset Pooling Implementation	x	x	x	x	x	
F6	Employer Risk Management Framework		x	x			

Funding and Investments (including accounting and audit) Task Descriptions

F1 – Review CPF's Responsible Investment Policy

What is it?

The Fund has had in place a Responsible Investment policy/Sustainability Policy for several years, and this is contained within the Investment Strategy Statement. Responsible Investing or investing in a sustainable way has moved into the mainstream in recent years. It is now generally accepted that, at the very least considering Environmental, Social and Governance (ESG) factors/risks within the investment process is entirely appropriate for institutional investors. As the market has moved significantly in recent years, it is appropriate for CPF to review its existing policies to ensure they remain appropriate, and relevant. As part of the review CPF will need to consider, and input into, the policies being created by the Wales Pension Partnership, as this will be the implementation vehicle.

Timescales and Stages

Responsible Investing Training session for CPF Committee	2018/19 Q4
Work with consultants/advisers to review existing policies	2019/2020 Q1/2
Present revised policies to CPF Committee	2019/2020 Q2/3

Resource and Budget Implications

Costs and resources for the review are contained within existing plans/budgets. Officers will review with support from Investment consultant.

F2 –Cash Flow and Liquidity Analysis

What is it?

The Fund has a significant number of factors to consider when looking at cash-flow requirements. These include contributions from employees and employers, payments to pensioners and transfer values in and out. On the investment side this includes income/dividends receivable from investments, commitments to Private Markets require regular draw-downs and repayments of investments, and transition of existing investments can also require cash.

As a result of all of these moving parts it is to ensure that the Fund has sufficient cash flow to meet all its commitments, but without maintaining a significant balance in cash which would, potentially be a drag on investment returns.

This assessment of cash flow and liquidity therefore has a number of elements, including input from the Actuary’s analysis of the Fund’s assets and liabilities as at 31 March 2019. This process will form the basis of information for the Funding and Risk Management Group which will be working to assess how the cash flow requirements of the Fund can be best met through a designated asset allocation structure within the risk management framework.

In addition to this, the CPF’s Investment Consultant, JLT is undertaking a review of the In-house Private Markets portfolio within the first few months of 2019, and this will include a significant focus on future cash flow requirements to meet existing and future commitments.

The final piece in the analysis will be incorporated into the review of the Fund’s Investment Strategy. As part of the work on reviewing the strategy the Fund’s Investment Consultant will review the liquidity of the asset portfolio versus the projected cash flow requirements.

All of these individual elements will ensure that CPF is well placed in terms of cash flow and will be able to design and implement an efficient mechanism to manage the demands/requirements going forward.

Timescales and Stages

Actuarial assessment of benefits cash flows (in conjunction with the 2019 valuation)	2019/20
Funding Risk Management Group	2019/20
Review of Private Markets cash flow requirements	Concluding Q2 2019/20
Review of Investment Strategy	2019/20

Resource and Budget Implications

The cost of this work is included within the Fund's budgets for 2019/20 and will include significant input from the Actuary and Investment Consultant.

F3 – Triennial Actuarial Valuation and associated tasks

What is it?

It is the formal actuarial valuation of the Fund detailing the solvency position and other financial metrics. It is a legal requirement of the LGPS Regulations. It determines 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. The exercise will include cash flow projections.

Timescales and Stages

Effective date	31 March 2019
Initial whole Fund results (expected)	2019/20 Q2
Individual Employer results (expected)	2019/20 Q2&3
Deadline for agreement of all contributions and sign-off	31 March 2020

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and it will determine contribution requirements for all participating employers from 1 April 2020. It is a major exercise for the Fund and will take a lot of input from the Administration and Finance teams. Employers will be formally consulted on the funding strategy as part of the process. The Fund Actuary's costs in relation to this exercise will be included in the 2019/20 budget.

F4 – Review of Investment Strategy

What is it?

This relates to the triennial review of the Investment Strategy once the Actuarial Valuation has been finalised and the Funding Strategy agreed. If required, there may be a need to undertake a light touch review (asset modelling scenarios) of the Fund's strategy and asset allocation position to feed into the actuarial valuation process.

Timescales and Stages

Triennial review	2019/20 Q1,2 & 3
Implement changes to Investment Strategy	2019/20 Q4 & 2020/21 Q1

Resource and Budget Implications

The majority of work will be carried out by JLT as Investment Adviser together with the CPF Manager and Deputy Head of Clwyd Pension Fund prior to final submission of proposals to Advisory Panel and Pension Fund Committee. Costs of the review are included within the budgets shown.

F5 –Asset Pooling Implementation

What is it?

To enable the Wales funds to pool assets an operator has been appointed to provide the investment infrastructure and advice for the Wales Pension Partnership ("WPP"). A plan will be developed in relation to what and when assets will transition. Then we will need to adapt internal processes and methods as assets transition, and ensure reporting received from the Operator and WPP. The timescales shown below are best estimates and subject to change when the WPP business plan and asset transition plan have been developed.

Timescales and Stages

Undertake and feed into discussions with the Operator regarding structure of underlying asset class options.	2019/20 & 2020/21
Ongoing development and approval of the asset transition plan (reserved matter)	2019/20 & 2020/21
Contribute to the development of the WPP RI Policy and ensure it enables implementation of the CPF RI Policy.	2019/20
Identify impact on and develop internal processes and resources	2019/20 & 2020/21
Approve the WPP's business plan (reserved matter)	2019/20 Q1 (to be confirmed)
Review and feed into suitability of reporting and performance monitoring templates (including meeting the Fund's Responsible Investment Policy and Cost Transparency requirements)	2019/20 Q1/2
Review of how accounts and finances relating to investments - recording, preparation and publishing	2019/20
Understand infrastructure opportunities	2019/20

Resource and Budget Implications

2019/20 and future budgets will include the cost of the Operator. For 2019/20 a provisional amount of £109k has been included for a proportion of the year. Along with budgeted WPP costs of £59k. The Consultant and Adviser budgets include an estimated amount of £42k for expected ongoing advice during the transitional period. The remaining costs will be covered within the internal resource budget.

F6 – Employer Risk Management Framework

What is it?

The Fund is subject to funding risks in respect of employers on an ongoing basis and in particular who cease to participate without being able to recover the full exit contributions due under the Regulations. The Fund is in the process of setting up a monitoring framework to capture any employers that pose a significant risk. The framework will categorise employers into different risk profiles based on their covenant and funding positions. This will allow officers to identify any potential risk of unrecoverable debt and affordability restraints on contribution requirements. Data requests will be sent to employers in advance of the 2019 valuation so that the latest covenant data can be considered alongside their funding results.

The framework will also consider the outcome of the tier 3 review performed by the Scheme Advisory Board which is expected during 2019 (tier 3 employers are those that do not have tax-payer backing; i.e. colleges, universities, housing associations, charities, admission bodies that do not have a guarantee from a Council, etc.). For the Fund, the potential impact is restricted to colleges and universities.

A dry run of the initial covenant data gathering phase of the framework has been completed as per previous business plans.

Timescales and Stages

Monitoring will be performed alongside the 2019 valuation	
Further development of risk framework (in conjunction with the 2019 valuation)	2019/20 Q2/3

Resource and Budget Implications

Managing employer risk will require support from the Fund Actuary. It will involve the officers gathering financial information from all employers regularly to monitor covenant strength and funding positions to inform on which employers pose the greatest risk to the Fund and the remedial actions necessary. The Fund Actuary costs in relation to this exercise have been included in the budget.

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DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.031	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 2019 there were no movements of assets.

Cash Management

Background

The Deputy Head of the Clwyd Pension Fund forecasts the Fund's 3 year cash flows in the Business Plan and this is monitored and revised quarterly. The bank account balance is monitored daily. The main payments are pension related, expenses and investment drawdowns. New monies come from employer and employee contributions and investment income or distributions. This cash flow management ensures the availability of funds to meet payments and investment drawdowns. The LGPS investment regulation only allow a very limited ability to borrow. There is no strategic asset allocation for cash, although there is a strategic range of +5% and a conditional range of +30% which could be used during times of major market stress.

Action Taken

The cash balance as at 30th June 2019 was £11.4m (£5.8m at 31st March 2019). As reported at previous committees, the cash flow forecasting identified the possibility that the Fund may experience a negative cash position due to some employers paying their 3 year deficit payments up front in 2017/18. This has proved to be the case and the Fund has been calling back cash from the Insight collateral pool as has been necessary. The cash balance as at 31st July 2019 was £4.3m which resulted in a further £10m being called in August. The cash flow is monitored to ensure there is sufficient monies to pay benefits and capital calls for investments. Work is ongoing with the Consultant and Actuary to monitor the situation and be aware of any unforeseen issues. Monthly cash flows for the financial year to 2019/20 are shown graphically at the end of the delegations appendix.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.032	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 only transactions agreed within the portfolio were:

- Partial redemption of LGIM Global REITS –£ 5.0m (crystallised +9.6%)
- Partial redemption of Listed Infrastructure - £5.0m (crystallised +8.2%)
- Partial redemption BlackRock European Equity – Unhedged -£2.5m (crystallised +5.7%)
- Partial redemption BlackRock Japanese Equity – Unhedged - £2.5m (crystallised +2.1%)
- Partial redemption LGIM US Equity – Unhedged - £2.5m (crystallised +6.5%)
- Partial redemption BlackRock US Opportunities - £2.5m (crystallised +6.8%)
- Full redemption Blackrock European Equity – Unhedged - £14.0m (crystallised+8.8%)
- Switch BlackRock Japanese Equity from hedged to unhedged –(crystallised +6.7%)
- Additional investment of £20.0m in LGIM Sterling Liquidity Fund
- Additional investment of £7m to BlackRock EM Equities
- Additional investment of £7m to Pimco EM Bonds

The current allocations within the portfolio following the transactions are:

- US Equities (1.7%)
- Emerging Market Equities (1.5%)
- Japanese Equities (0.8%)
- Commodities (1.0%)
- Real Estate (1.5%)
- Infrastructure (1.5%)
- Emerging Market Bonds (1.5%)
- Liquidity Fund (1.5%)

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

As at the end of June 2019, the Best Ideas portfolio 1 year performance was +7.6% against a target of +5.1% and the 3 year performance was +8.9% against a target of +5.4%.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.033	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Fund's investment strategy includes a 22% asset allocation to private equity (10%), property (4%), infrastructure (7%) and agriculture (1%). The last strategic investment review reduced the property allocation by 3% and increased the infrastructure allocation by 4%. Given the illiquid nature of these investments this transition will take a number of years to implement. These are higher risk investments, usually in limited partnerships, hence small commitments are made of £8m in each. Across these asset categories there are currently in excess of 50 investment managers, investing in 115 limited partnerships or other vehicles.

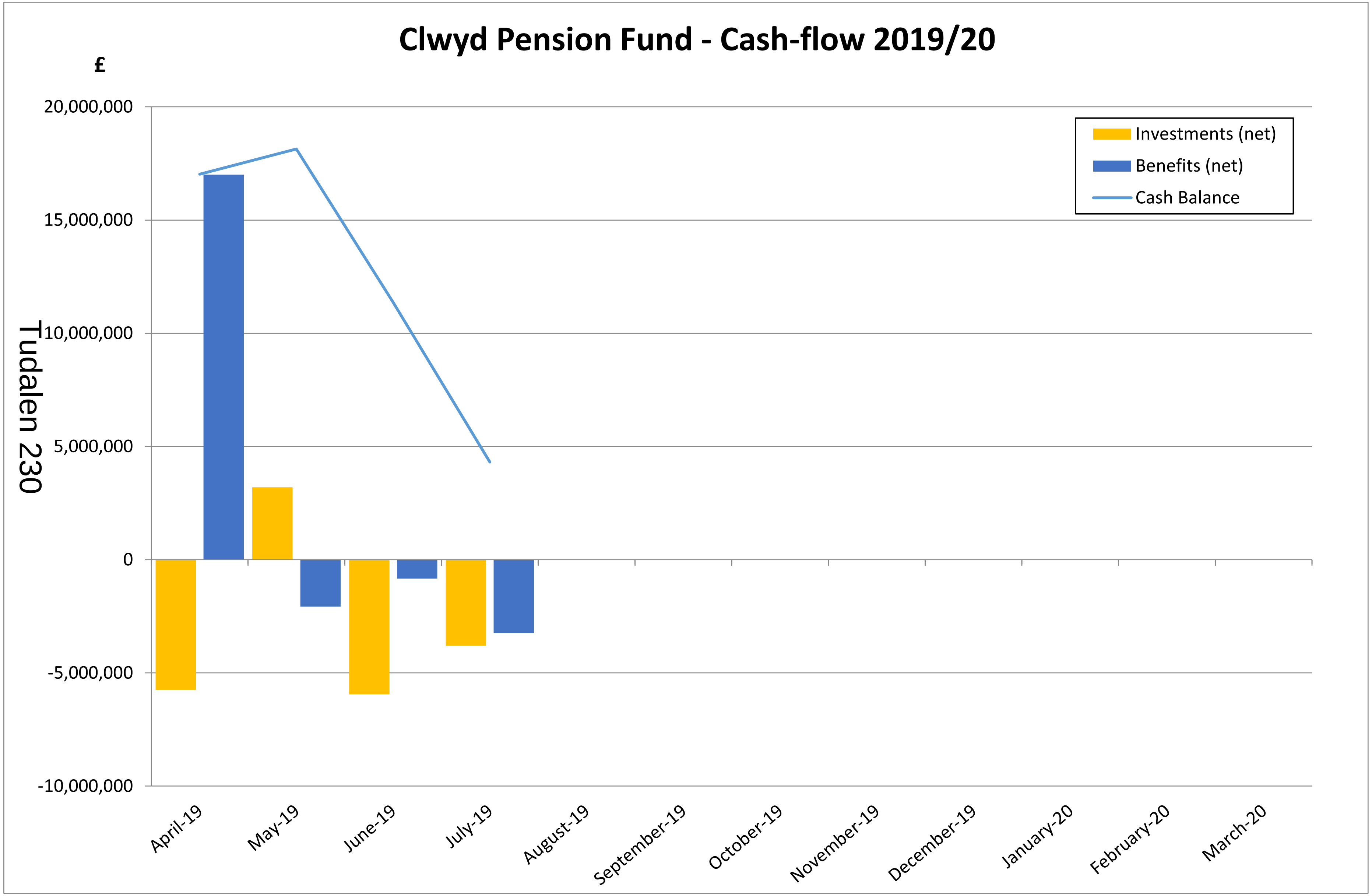
The Private Equity & Real Estate Group (PERAG) of officers and advisor meet quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular focus on Environmental, Social and Governance (ESG) aspects on the investments made.

A review was undertaken of the existing portfolio and future cash flows and the results were incorporated into the forward work plan. As a result, extensive work has been carried out to identify suitable Infrastructure investments. Several commitments have already been agreed and further due diligence is still being undertaken on other possible opportunities. It is anticipated that an allocation of 7% to Infrastructure will be achievable by 2020. Within the remaining In House portfolio, officers are continuing to look at any opportunities which fulfil their agreed strategy. The minutes of the PERAG Group are circulated to the Advisory Panel

Action Taken

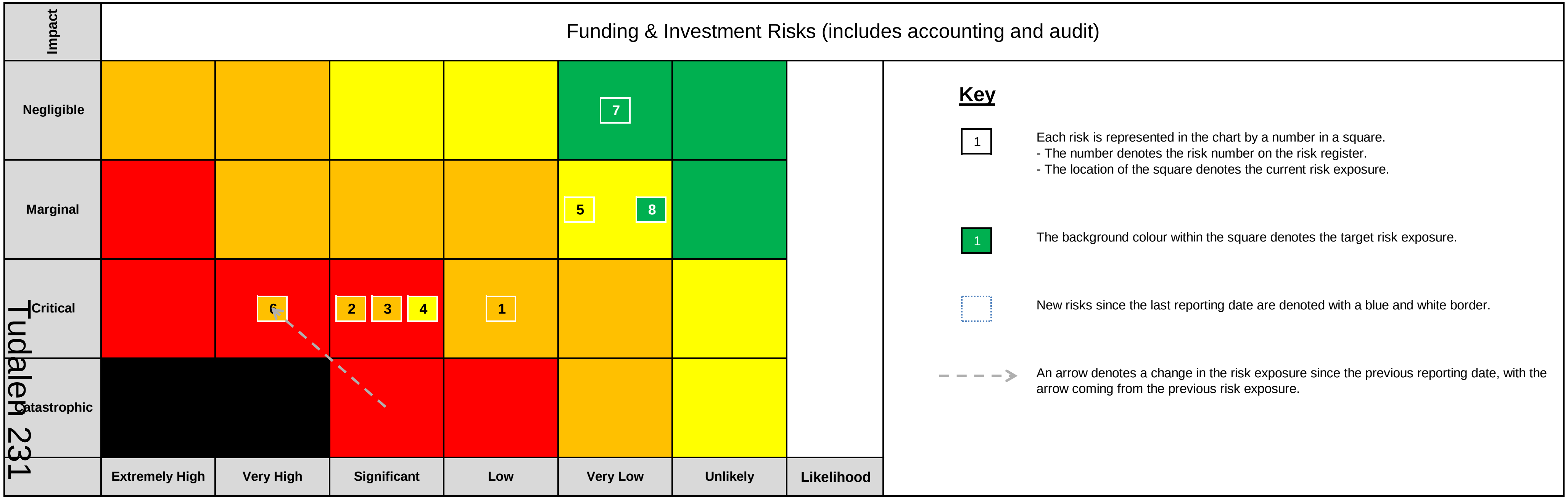
Due diligence has been undertaken on the following Infrastructure Fund, which is an existing managers included in our forward work program, coming back to the market with a follow on Fund The following commitment has been made under delegated authority since the last Committee:

- £8 million to Threadneedle Low Carbon Workplace Fund II (Property Fund targeting 10 – 12% Net IRR)
- £8 million to Darwin Leisure Development Fund (Property Fund targeting 10 – 14% Net IRR)



Clwyd Pension Fund - Cash-flow 2019/20
£
20,000,000
15,000,000
10,000,000
5,000,000
0
-5,000,000
-10,000,000
Investments (net)
Benefits (net)
Cash Balance
April-19
May-19
June-19
July-19
August-19
September-19
October-19
November-19
December-19
January-20
February-20
March-20

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



22 August 2019

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement (3/2017) and Statement of Investment Principles (3/2017):

F1 Achieve and maintain assets equal to 100% of liabilities within the 15 year average timeframe whilst remaining within resonable risk parameters
F2 Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
F6 Ensure net cash outgoings can be met as/when required
F7 Minimise unrecoverable debt on employer termination.
F8 Ensure that its future strategy, investment management actions, governance and reportin gprocedures take full account of longer-term risks and sustainability
F9 Promote acceptance of sustainability principles and work tougher with others to enhance the Fund's effectiveness in implementing these.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low		1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process	Critical	Very Low		Current likelihood 1 too high	31/03/2016	Dec 2019	1 - Finalise employer covenant monitoring and ill health captive (DF)	CPFM	31/12/2019	21/08/2019
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	Significant		See points within points 3,4 and 5	Marginal	Low		Current impact 1 too high Current likelihood 1 too high	31/03/2016	Sep 2019	1 - Equity Protection Strategy to be kept under review (PL) - See points within points 3,4 and 5	CPFM	30/09/2019	21/08/2019
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	Significant		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 7 - Consideration and understanding of potential Brexit implications. 8 - Equity Protection and Currency Hedging Strategy in place to protect equity gains and potentially reduce volatility of contributions.	Critical	Low		Current likelihood 1 too high	14/02/2019	Sep 2019	1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG) (DF)	Dep. Head of CPF	30/09/2019	22/08/2019
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	Significant		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. 5 - Consideration and understanding of potential Brexit implications.	Marginal	Very Low		Current impact 1 too high Current likelihood 2 too high	31/03/2016	Sep 2019	1 -The level of hedging will be monitored and reported regularly via FRMG (DF)	Dep. Head of CPF	30/09/2019	21/08/2019
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Very Low		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low					1 - Assumptions and experience are being reviewed as part of the 2019 valuation (DF)	Dep. Head of CPF	31/12/2019	21/08/2019
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 and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Critical	Very 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 - Particiaption in National consultations and lobbying	Marginal	Low		Current impact 1 too high Current likelihood 2 too high	31/03/2016	Mar 2020	1 - Ensure proactive responses to consultations etc. (PL)	Dep. Head of CPF	31/03/2020	21/08/2019
7	Insufficient assets to pay benefits	Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs. Further risk presented with the introduction of Exit Credits for exiting employers in the 2018 Regulations update.	F1 / F6	Negligible	Very Low		1 - Cashflow monitoring to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding liquid assets 4 - Monitor cashflow requirements 5 - Treasury management policy is documented	Negligible	Very Low					1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place). (DF) 2 – Remind major employers to highlight the change and ensure any potential contract end dates are notified to the Fund in sufficient time so that the risk of large payments can be reduced (i.e. through a contribution rate review in advance of the contract end date) (DF)	Dep. Head of CPF	31/12/2019	21/08/2019
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Very Low		1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely		Current likelihood 1 too high	31/03/2016	Dec 2019	1 - Employer risk management framework to be finalised (DF)	Dep. Head of CPF	31/12/2019	21/08/2019

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 4th September 2019
Report Subject	Pooling Investments in Wales
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the work undertaken on behalf of the Wales Pension Partnership (WPP) with pooling investments in Wales. There are no decisions required by the Clwyd Fund Committee this quarter, however comments on progress from this Committee can be raised with the WPP by our Chair or officers as appropriate. This update report follows a series of previous reports on the progress of the WPP.

A Joint Governance Committee (JGC) meeting was held on 28th June 2019 and the agenda and minutes are attached. The current work plan includes

- developing governance and communication
- reporting and monitoring of WPP investment performance
- preparation for the transfer of other asset classes
- developing a WPP Responsible Investment Policy
- providing updates to UK Government

The Clwyd Pension Fund Manager and Deputy continue to assist the Host Authority (Carmarthenshire County Council) and the WPP adviser Hymans Robertson with their respective roles, as well as representing the interests of the Clwyd Pension Fund on the Officer Working Group.

The next JGC is being held in Pontypool on 20th September 2019.

RECOMMENDATIONS	
1	That the Committee: a) Note the report b) Discuss and agree any comments or questions for WPP

REPORT DETAILS

1.00	**Pooling Investment in Wales**
1.01	**Governance and Communication** As stated in the WPP Inter Authority Agreement the position of Chair and Vice Chair of WPP are changed each year. At the June JGC Cllr Peter Lewis (Powys) was appointed as Chair and Cllr Glyn Caron (Torfaen) as Vice Chair.
1.02	The advisers to the WPP, Hymans Robertson, facilitated a workshop on communication for the JGC and OWG. This included how WPP manage communication with our stakeholders to ensure a positive perception of WPP. In connection with this the Host Authority will launch a web-site this month. Officers on the OWG have had an opportunity to input on the content.
1.03	After the September JGC, Hymans Robertson will facilitate a workshop for JGC and OWG on 'Beliefs and Policies' with the aim of clearly defining and documenting the objectives, priorities and decision making process of the WPP. OWG have been asked to comment on a draft questionnaire produced by Hymans which will be issued to members of the JGC to gather views on WPP's beliefs.
1.04	The next OWG is 28th August 2019 in Cardiff. The Fund will be represented by the Clwyd Pension Fund Manager. The next JGC is in Pontypool on 20th September 2019 where our Chair will be supported by the Deputy Head of Clwyd Pension Fund. The agenda and minutes from the 28th June JGC are attached and the public report pack from the meeting can be found here – http://democracy.carmarthenshire.gov.wales/ieListDocuments.aspx?CId=234&MId=2576&Ver=4.
1.05	**Reporting and monitoring of WPP investment performance** The investment performance of the Clwyd Pension Fund global equity mandate managed by the WPP is reported in the Investment Strategy and Manager Summary agenda item. The JGC and OWG are receiving more detailed attribution performance reports from Northern Trust and, in the case of the Global Equity Opportunities Fund, a commentary from Russell Investments as the fund manager. These reports are shared with Mercer, as the Clwyd Pension Fund advisors, who currently monitor our fund managers.
1.06	The approach to monitoring fund managers varies across the constituent authorities in WPP. Therefore an investment manager engagement day has been arranged on 19th September 2019 in Cardiff where any pension fund committee member from a constituent authority can attend. The Deputy Head of the Clwyd Pension Fund will represent the Fund.
1.07	As part of the WPP contract it was agreed that the Operator, Link Fund Solutions, would attend each committee annually to provide an update. This will be included on our 28th November 2019 committee agenda.
1.08	**Preparation for the transfer of other asset classes** The project plan for the transition of the fixed income mandates has been agreed by the OWG. In the case of the Clwyd Fund, this relates to 12% of our

	assets in multi asset credit which was agreed at the last Committee. The plan includes process for the approval of the prospectus by the Financial Conduct Authority (FCA), the appointment of a transition adviser and a transition manager. The actual transition of assets is planned for late November 2019.
1.09	Although not involving the Clwyd Pension Fund, the transition of assets for the regional UK and European equity mandates is planned for late September 2019.
1.10	A sub-group of the OWG has met for the first time to discuss the approach of pooling illiquid assets e.g. private equity and infrastructure. Further meetings will be required to reach a consensus. This will impact 25% of the Clwyd Pension Fund's current asset allocation hence the outcome is of particular importance.
1.11	**Developing a WPP Responsible Investment Policy** An update is provided on the progress of the WPP Responsible Investment Policy is included on another agenda item for this meeting.
1.12	**Providing updates to UK Government** Due to a new Secretary of State responsible for the LGPS Scheme and a new Local Government Minister a request has been sent to all LGPS pools to provide an update on the assets transitioned and those still held locally.
1.13	The Scheme Advisory Board (SAB) is asking each pool for details of whether or not the joint committee has adopted the SAB guidance on appointing a scheme member representative or representatives. Where a decision has been taken to exclude scheme member representatives from the JGC they are asking for confirmation that the local pension boards in the pool has been notified of this decision as advised in the SAB guidance. In the case of WPP, the Clwyd Pension Fund Manager believes the intention is that engagement with scheme member representatives is through six monthly meetings arranged with representatives from the eight Pension Boards.
1.14	Both the Clwyd Pension Fund and WPP responded to the informal consultation on Statutory Guidance for Pooling. There has been no further information on the next steps.

2.00	**RESOURCE IMPLICATIONS**
2.01	The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the 2019/20 budget. The estimated Operator costs are also included within that budget.
2.02	There has been considerable time allocated by the Clwyd Pension Fund Manager and Deputy Head of Clwyd Pension Fund on this project which has impacted on time available for other Fund matters. This is expected to continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

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

5.00	APPENDICES
5.01	Appendix 1 – Agenda WPP JGC 28th June 2019 Appendix 2 – Minutes WPP JGC 28th June 2019

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

7.00	GLOSSARY OF TERMS
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of

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

Mae'r dudalen hon yn wag yn bwrpasol

Wales Pension Partnership Joint
Governance Committee,
Democratic Services Unit,
Chief Executive's Department,
Carmarthenshire County Council,
County Hall,
Carmarthen SA31 1JP.

THURSDAY, 20 JUNE 2019

TO: ALL MEMBERS OF THE WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

I HEREBY SUMMON YOU TO ATTEND A MEETING OF THE **WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE** WHICH WILL BE HELD IN THE **COMMITTEE ROOM 4, COUNTY HALL, ATLANTIC WHARF, CARDIFF. CF10 4UW AT 10.00 AM, ON FRIDAY, 28TH JUNE, 2019** FOR THE TRANSACTION OF THE BUSINESS OUTLINED ON THE ATTACHED AGENDA.

Wendy Walters

CHIEF EXECUTIVE
CARMARTHENSHIRE COUNTY COUNCIL

PLEASE NOTE*: THIS MEETING WILL BE FILMED FOR LIVE OR SUBSEQUENT BROADCAST. THE IMAGES AND SOUND RECORDING MAY ALSO BE USED FOR TRAINING PURPOSES..*

Democratic Officer:	**Jessica Laimann**
Telephone (direct line):	**01267 224178**
E-Mail:	**JMLaimann@carmarthenshire.gov.uk**
Webcast Link	**https://cardiff.public-i.tv/core/portal/home**

WALES PENSION PARTNERSHIP
JOINT GOVERNANCE COMMITTEE
8 MEMBERS
(1 Member from each Constituent Authority)

CARMARTHENSHIRE COUNTY COUNCIL

COUNCILLOR ELWYN WILLIAMS

CITY & COUNTY OF SWANSEA

COUNCILLOR CLIVE LLOYD

CITY OF CARDIFF

COUNCILLOR CHRISTOPHER WEAVER

FLINTSHIRE COUNTY COUNCIL

COUNCILLOR AARON SHOTTON

GWYNEDD COUNTY COUNCIL

COUNCILLOR JOHN PUGHE ROBERTS

POWYS COUNTY COUNCIL

COUNCILLOR PETER LEWIS

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

COUNCILLOR MARK NORRIS

TORFAEN COUNTY BOROUGH COUNCIL

COUNCILLOR GLYN CARON

A G E N D A

1.	**APPOINTMENT OF CHAIR OF THE JOINT GOVERNANCE COMMITTEE FOR THE FORTHCOMING CALENDAR YEAR.**	
2.	**APPOINTMENT OF VICE-CHAIR OF THE JOINT GOVERNANCE COMMITTEE FOR THE FORTHCOMING CALENDAR YEAR.**	
3.	**APOLOGIES FOR ABSENCE**	
4.	**DECLARATIONS OF INTEREST**	
5.	**TO SIGN AS A CORRECT RECORD THE MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON THE 27TH MARCH 2019**	5 - 12
6.	**HOST AUTHORITY UPDATE**	13 - 22
7.	**ANNUAL RETURN/ AUDIT 2018/19**	23 - 36
8.	**LINK/RUSSELL UPDATE**	37 - 48
9.	**EXCLUSION OF THE PUBLIC** THE REPORTS RELATING TO THE FOLLOWING ITEMS ARE NOT FOR PUBLICATION AS THEY CONTAIN EXEMPT INFORMATION AS DEFINED IN PARAGRAPH 14 OF PART 4 OF SCHEDULE 12A TO THE LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) (WALES) ORDER 2007. IF, FOLLOWING THE APPLICATION OF THE PUBLIC INTEREST TEST, THE COMMITTEE RESOLVES PURSUANT TO THE ACT TO CONSIDER THESE ITEMS IN PRIVATE, THE PUBLIC WILL BE EXCLUDED FROM THE MEETING DURING SUCH CONSIDERATION.	
10.	**SECURITIES LENDING PROPOSAL**	49 - 62
11.	**FIXED INCOME SUB-FUNDS**	63 - 86
12.	**PERFORMANCE REPORTS AS AT 31 MARCH 2019**	87 - 102

Mae'r dudalen hon yn wag yn bwrpasol

WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

Friday, 28 June 2019

PRESENT: Councillor Cllr. P. Lewis (Chair)

Councillors:
Cllr. G. Caron, Cllr. C. Lloyd, Cllr. M. Norris, Cllr. J. Pughe Roberts, Cllr. C. Weaver and Cllr. D. E. Williams

The following Officers were in attendance:
C. Moore, Joint Committee Section 151 Officer (CCC)
L.R. Jones, Joint Committee Monitoring Officer (CCC)
N. Aurelius, Assistant Chief Executive - Resources (TCC)
B. Davies, Director of Financial Services (RCT)
J. Dong, Chief Treasury & Technical Officer (C&CS)
D. Edwards, Director of Finance (GCC)
C. Hurst, Pension Fund Manager (PCC)
P. Latham, Pension Fund Manager (FCC)
C. Lee, Corporate Director of Resources (CoC)
G. Watkins, Assistant Director of Financial Services (CoC)
A. Parnell, Treasury & Pension Investments Manager (CCC)
Y. Keitch, Principal Accountant (RCT)
T. Williams, Senior Financial Services Officer (CCC)
J. Laimann, Assistant Democratic Services Officer (CCC)

Also present:
Eamonn Gough, Link Asset Services
Duncan Lowman, Link Asset Services
Jim Leggate, Russell Investments
Sasha Mandich, Russell Investments
Aidan Quinn, Russell Investments
William Marshall, Hymans Robertson
Fraser Hope, Hymans Robertson

Committee Room 4, County Hall, Atlantic Wharf, Cardiff. 10.00 am - 11.15 am

1. APPOINTMENT OF CHAIR OF THE JOINT GOVERNANCE COMMITTEE FOR THE FORTHCOMING CALENDAR YEAR.

UNANIMOUSLY RESOLVED that Councillor Peter Lewis be appointed Chair of the Joint Governance Committee for the forthcoming calendar year.

The Chair, Members and Officers expressed their appreciation to Cllr. Mark Norris for his work during his year as Chair.

2. APPOINTMENT OF VICE-CHAIR OF THE JOINT GOVERNANCE COMMITTEE FOR THE FORTHCOMING CALENDAR YEAR.

UNANIMOUSLY RESOLVED that Councillor Glyn Caron be appointed Chair of the Joint Governance Committee for the forthcoming calendar year.

3. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr. Aaron Shotton (Flintshire County Council) and Cllr. Haydn Bateman (Flintshire County Council, Substitute Member).

4. DECLARATIONS OF INTEREST

G. Caron	Member of Greater Gwent Pension Fund; Wife is deferred member of the Greater Gwent Pension Fund; Son-in-law is member of Greater Gwent Pension Fund
P. Lewis	Member of the Powys Pension Fund;
C. Lloyd	Member of the City and County of Swansea Pension Fund; Father is member of the City and County of Swansea Pension Fund
M. Norris	Member of the Rhondda Cynon Taf Pension Fund;
J. Pugh Roberts	Member of the Gwynedd Pension Fund;
E. Williams	Member of the Dyfed Pension Fund.

5. TO SIGN AS A CORRECT RECORD THE MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON THE 27TH MARCH 2019

UNANIMOUSLY RESOLVED that the minutes of the Joint Governance Committee meeting held on the 27th March 2019 be signed as a correct record.

6. HOST AUTHORITY UPDATE

Mr Parnell provided the Committee with an update on the following key areas.

Responsible Investment (RI) policy – The draft RI policy should be approved by each pension committee at their next meetings. The policy had been drafted as an overarching policy which allows each Pension Committee to have their own local RI policy.

Governance – It had been suggested that a number of objectives within the governance section could be advanced through Beliefs, Policies and Governance workshops. Mr Parnell advised that these would be held in September 2019.

Website – A local company based in Llanelli had been awarded the contract for the creation and ongoing maintenance of the website. It was expected that the website would be live by early August 2019. The costs would be around £5k for the first year and significantly less in future years.

Communications & Training – In addition to the above mentioned Beliefs, Policies and Governance workshops a communications workshop would take place after this Committee meeting. The host authority had met with the Ministry of Housing, Communities and Local Government and provided an update on the progress of the Wales Pension Partnership (WPP).

UNANIMOUSLY RESOLVED that the host authority presentation be received.

7. ANNUAL RETURN/ AUDIT 2018/19

The Joint Committee Section 151 Officer presented the unaudited Annual Return for 2018/19, providing a high level explanation on the expenses captured within the report. He advised that due to the turnover value with the WPP still being in development stage, the WPP only had to provide an Annual Return for this financial year but would more than likely need to provide a full Statement of Accounts in the future. This Annual Return would be subject to audit by the Wales Audit Office.

The Joint Committee was further advised that it was normally required to provide final approval of the audited Annual Return and Audit Report. However, the deadline for this was the 15th September 2019 and it had not been possible to bring forward the next Joint Committee meeting scheduled for the 20th September 2019. It was therefore suggested that the final approval of the 2018/19 audited Annual Return and Audit Report be delegated to the host authority's Audit Committee for 2018/19 only. A copy of the audited Annual Return would be provided to the JGC at the next meeting in September. The Joint Committee was advised that its future dates would be scheduled to accommodate the audit timeline.

UNANIMOUSLY RESOLVED that

7.1. The unaudited Annual Return 2018/19 be approved;

7.2. The final approval of the audited Annual Return and Audit Report 2018/19 be delegated to the host authority's (Carmarthenshire County Council) Audit Committee for 2018/19 only;

7.3. A copy of the audited Annual Return be provided to the next JGC meeting after approval.

8. LINK/RUSSELL UPDATE

The Committee welcomed to the meeting Mr Duncan Lowman and Mr Eamonn Gough of Link, who provided a presentation on the progress of the WPP and the Link Engagement Protocol.

Mr Lowman advised that the Global Growth Equity and Global Opportunities funds had increased in value to £2.195bn and £2.111bn respectively. Mr Gough advised that the structure for Tranche 2 (UK and European Equities) had been approved by the FCA and is effectively ready to go once the transition approach is determined. A detailed proposal for the manager line-up and fees in relation to Tranche 3 (Fixed Income) would be presented later at today's meeting for approval. With regard to Tranche 4 (Private Markets), an update paper detailing next steps would be provided after the next OWG meeting.

Mr Lowman advised that the Link Engagement Protocol provided details on Link's interaction with the JGC, the OWG, the host authority and S.151 officers. He further advised that Link had reviewed its operator arrangements and Mr Gough would be fully dedicated to work for the WPP. He explained that Link will be holding an Annual Shareholder Day (date to be finalised) and will be attending individual Pension Fund Committees later in the year.

The Joint Committee S.151 Officer thanked Link for allocating Mr Gough to the WPP and advised that the workload warranted this arrangement.

In response to a query on S.151 officer attendance at the Strategic Relationship Review meetings, the Committee was advised that each meeting would be attended by two S.151 officers and that these would be allocated depending on availability.

In response to a query on the timeline for Tranche 4, the Committee was advised that the report's proposed June 2019 date for agreeing the fund structure was incorrect. It had transpired that private markets was a complex topic which required further discussion through an officer sub-group, therefore fund structure proposal would be presented later on in the year.

UNANIMOUSLY RESOLVED that the presentation be received.

9. EXCLUSION OF THE PUBLIC

UNANIMOUSLY RESOLVED, pursuant to the Local Government Act 1972, as amended by the Local Government (Access to Information)(Variation) (Wales) Order 2007, that the public be excluded from the meeting during consideration of the following items as the reports contained exempt information as defined in paragraph 14 of Part 4 of Schedule 12A to the Act.

10. SECURITIES LENDING PROPOSAL

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute 9 above, to consider this matter in private, with the public excluded from the meeting, as disclosure would be likely to cause financial harm to the Wales Pension Partnership by prejudicing ongoing and future negotiations.

The JGC received a Northern Trust proposal on Securities Lending. Mr Parnell advised that all eight funds within the WPP had agreed their own stock lending requirements at their respective committee meetings and that a small percentage of monies could be held back from lending to retain voting rights.

It was suggested that a passage stating there would be no specific lending or borrower restrictions could be removed from the proposal. In response to a query, the Joint Committee was advised that the list of borrowers would be reviewed in collaboration with the host authority.

UNANIMOUSLY RESOLVED that the Securities Lending proposal be agreed.

11. FIXED INCOME SUB-FUNDS

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute 9 above, to consider this matter in private, with the public excluded from the meeting, as disclosure would be likely to cause financial harm to the Wales Pension Partnership by prejudicing ongoing and future negotiations.

The JGC received a presentation from Link/Russell in relation to the final manager line-ups and fees for the following Fixed Income sub-funds:

- Global Credit Fund;
- Global Government Bond Fund;
- Absolute Return Bond Fund;
- Multi-Asset Credit Fund.

Mr Sasha Mandich advised that an addendum had been circulated to inform JGC Members that one proposed manager in one of the sub-funds had been replaced. He advised that decisions to replace managers were always made in the light of potential transition costs. It was suggested that a protocol facilitating swift action in relation to manager replacement could help minimise transition costs while ensuring appropriate communication.

In response to a query, Mr Lowman advised that a transition plan would be provided to the OWG in August and a launch date around September/October 2019 was achievable.

UNANIMOUSLY RESOLVED that

11.1 The final manager line-ups and fees for the following Fixed Income sub-funds be approved:

- **Global Credit Fund;**
- **Global Government Bond Fund;**
- **Absolute Return Bond Fund;**
- **Multi-Asset Credit Fund.**

11.2 A manager replacement protocol be developed and brought before the JGC for approval.

12. PERFORMANCE REPORTS AS AT 31 MARCH 2019

Following the application of the public interest test it was UNANIMOUSLY RESOLVED, pursuant to the Act referred to in Minute 9 above, to consider this matter in private, with the public excluded from the meeting, as disclosure would be likely to cause financial harm to the Wales Pension Partnership by prejudicing ongoing and future negotiations.

The Joint Committee received a presentation from Link/Russell in relation to the performance of the following sub-funds as at 31st March 2019:

- Global Growth Fund;
- Global Opportunities Equity Fund.

UNANIMOUSLY RESOLVED that the performance reports in relation to the Global Growth Fund and the Global Opportunities Equity Fund be noted.

CHAIR **DATE**

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 4 September 2019
Report Subject	Economic Update, Investment Strategy and Manager Summary
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the Economic Update, Investment Strategy and Manager Summary is to give Committee Members an economic and market update for the quarter, and to summarise the performance of the Fund's investment strategy and its investment managers.

The report covers the quarter ending 30 June 2019.

Key points to note:

Economy and Markets

- Strong returns across all markets in quarter. In the first six months of 2019, May was the only negative month for equities.
- US/China trade war still key driver for markets.
- Brexit and new Prime Minister are key issues for UK and Europe.

Clwyd Fund Strategy and Performance

- Over the three months to 30 June 2019, the Fund's total market value increased by £91.1m to £1,957.3m.
- Fund Performance over 3 months, 12 months and 3 years; +4.2%, +6.0% and +9.5% p.a. respectively.
- Best Ideas, Equities and LDI were the best performers over the quarter.

RECOMMENDATIONS	
1.	To discuss and comment on the Market and Economic update for the quarter ended 30 June 2019, which effectively sets the scene for the Investment Strategy and Manager Performance summary.
2.	To discuss and comment on the Investment Strategy and Manager Performance summary for the quarter ended 30 June 2019.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Economic and Market Update** The economic and market update for the quarter from the Fund's Investment Consultant is attached at Appendix 1. The report contains the following sections: • **Market Background** – contains key financial markets data for the period under review, including performance of selected markets including equities, bonds inflation and currencies. • **Economic Statistics** – contains key economic statistics during the period under review, including Gross Domestic Product (GDP) Growth, Inflation Employment and Manufacturing. • **Market Commentary** – provides detailed commentary on the economic and market performance of major global regions and financial markets.
1.02	The quarter saw strong returns across most markets, and when this is added to the market rally in the first quarter of 2019, it ensured that markets recovered from the lows reached in the final quarter of 2018. Whilst the trend has been a positive one over the three and six month periods there remains volatility within markets and the positive sentiment remains fragile. The US-China trade war is having far reaching ramifications, with global growth slowing and companies starting to revise earnings down. In the UK, despite avoiding a 'no-deal' Brexit on 12 April, there still appears no obvious resolution to the negotiations. The lack of progress ultimately led to the resignation of the Prime Minister. This continuing uncertainty led to falls in the value of Sterling against all currency majors.
1.03	The outlook for markets remains uncertain, as the fragile nature of the positive sentiment could mean that any number of factors could have an impact. The market is pricing in looser monetary policy in the coming months, with expectations of two rate cuts in the US before the end of 2019.
1.04	**Investment Strategy and Manager Summary 30 June 2019** Over the 3 months to 30 June 2019, the Fund's total market value increased by £91.1m to £1,957,295,075; combined with a rise of £82.1m in the first quarter, gives an overall increase of £173.2m since the start of the year. This has more than made up for the falls in value the portfolio saw in the final quarter on 2018. • Total Fund assets returned 4.2% over the quarter, outperforming the composite target which returned 3.0%.

	• Over the one year period, Total Fund assets returned 6.0%, compared with a composite target of 6.1%. • Over the last three years, Total Fund assets returned 9.5% p.a., ahead of the composite target of 8.4% p.a. The strongest absolute returns over the quarter came from the LDI portfolio and the Fund's Equity assets. LDI returned 7.6%, and the total equity portfolio returned 5.3%. In addition, there was strong absolute and relative performance from the Tactical Allocation Portfolio over the quarter, with a return of 4.0% compared to the benchmark return of 1.6%. This was due mainly to strong performance from the Best Ideas portfolio which returned 5.7% over the quarter. The Fund's asset portfolio is broadly within the strategic ranges set for the asset classes as agreed in the strategy review. As previously reported the Private Credit portfolio will take some time to get to the target weight due to the nature of the asset class. The largest overweight position is the LDI portfolio which is being reviewed as part of the wider assessment of the Fund's risk management strategy.
1.05	At this time, there are no immediate concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates. As reported at the last meeting, as part of the Funds Strategic Asset Allocation review scheduled for later in 2019, individual manager mandates will be reviewed. The Fund will need to be conscious of the plans of the Wales Pension Partnership when assessing its investment managers, as the costs of transitioning to new management arrangements ahead of any potential move to the Pool could be significant. This work will take place with the Fund's investment consultant in conjunction with the 2019 Actuarial Valuation.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report.

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

4.00	**RISK MANAGEMENT**
4.01	The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk.

	Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.

5.00	**APPENDICES**
5.01	Appendix 1 - Economic and Market Update - 30 June 2019 Appendix 2 - Investment Strategy and Manager Summary - 30 June 2019

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Economic and Market Update and Investment Strategy and Manager Summary 30 June 2019. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows.

	(i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf

Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE
PERIOD ENDING 30 JUNE 2019

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1 MARKET BACKGROUND
PERIOD ENDING 30 JUNE 2019

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	3.3	0.6	9.0
Overseas Developed	6.7	11.0	14.4
North America	6.8	14.1	15.9
Europe (ex UK)	8.8	8.0	12.8
Japan	2.9	-1.2	10.2
Asia Pacific (ex Japan)	5.9	6.4	12.9
Emerging Markets	3.8	8.3	12.5
Frontier Markets	8.6	4.3	8.0
Property	0.6	4.0	6.6
Hedge Funds[3]	2.3	2.5	4.3
Commodities[2]	-2.2	-13.7	-0.2
High Yield[2]	2.3	6.5	6.1
Emerging Market Debt	8.2	13.1	5.9
Senior Secured Loans[2]	1.1	2.1	3.4
Cash	0.2	0.7	0.4

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	2.0	7.2	3.1
Index-Linked Gilts (>5 yrs)	2.0	9.1	6.0
Corporate Bonds (>15 yrs AA)	2.6	10.7	5.2
Non-Gilts (>15 yrs)	3.1	9.6	5.6

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-2.33	-3.60	-1.62
Against Euro	-3.70	-1.16	-2.43
Against Yen	-4.93	-6.23	-0.01

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	1.6	2.9	3.3
Price Inflation – CPI	0.9	2.0	2.4
Earnings Inflation[1]	2.0	3.8	2.9

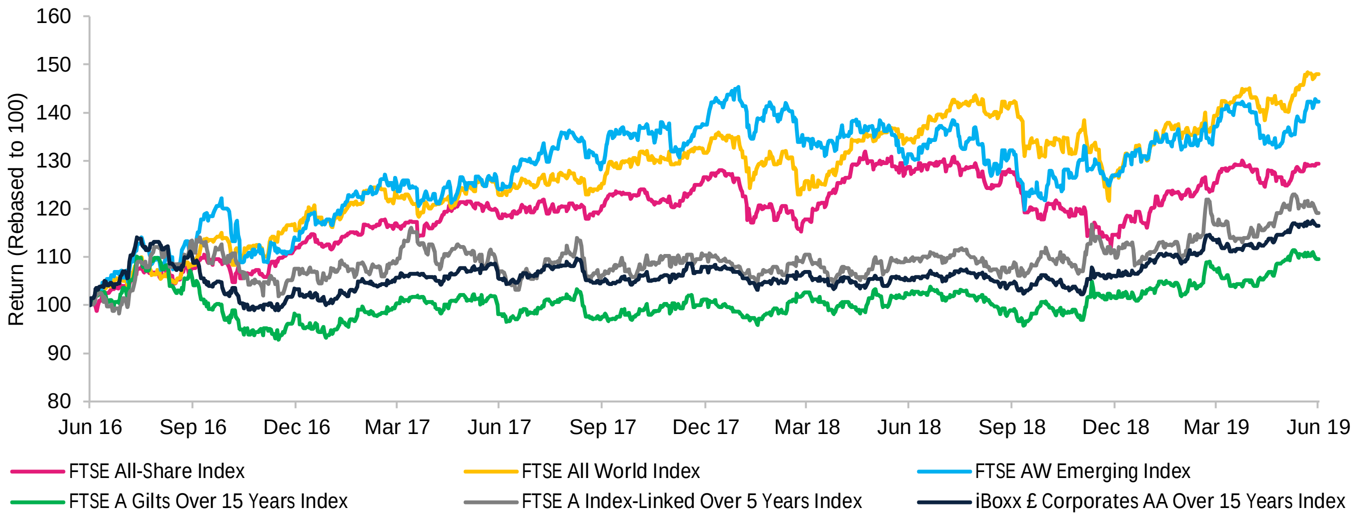
Yields	% p.a.
UK Equities	4.13
UK Gilts (>15 yrs)	1.40
Real Yield (>5 yrs ILG)	-1.90
Corporate Bonds (>15 yrs AA)	2.25
Non-Gilts (>15 yrs)	2.78

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.09	0.49	0.47
UK Gilts (>15 yrs)	-0.08	-0.27	-0.21
Real Yield (>5 yrs ILG)	-0.04	-0.31	-0.51
Corporate Bonds (>15 yrs AA)	-0.11	-0.47	-0.50
Non-Gilts (>15 yrs)	-0.14	-0.38	-0.41

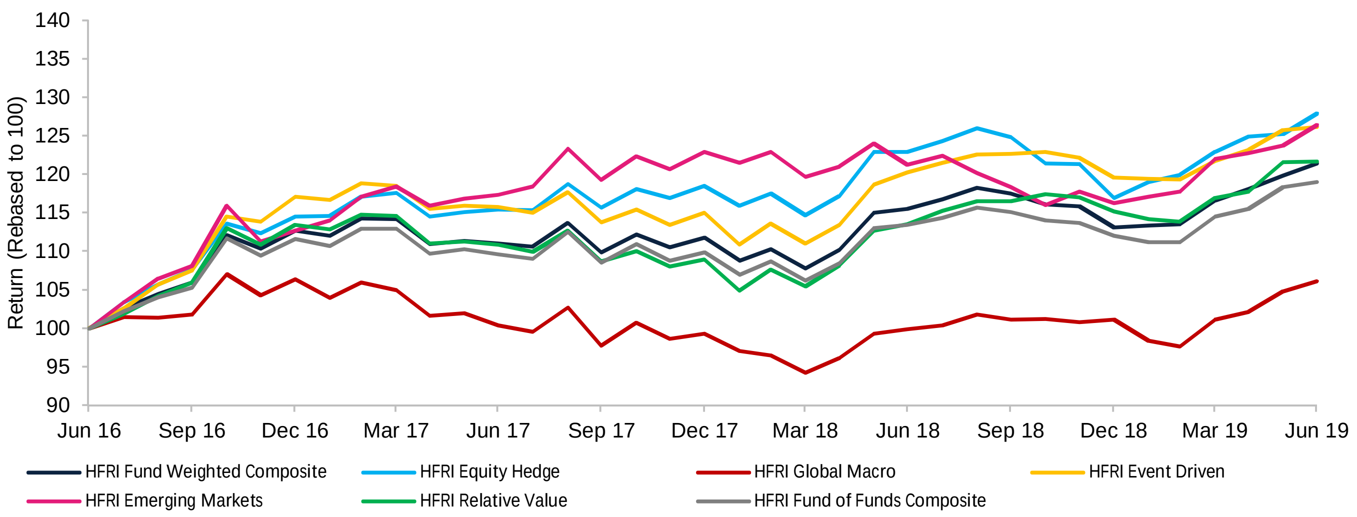
Source: Thomson Reuters.
Notes: [1] Subject to 1 month lag [2] GBP Hedged [3] Local Currency

MARKET SUMMARY CHARTS

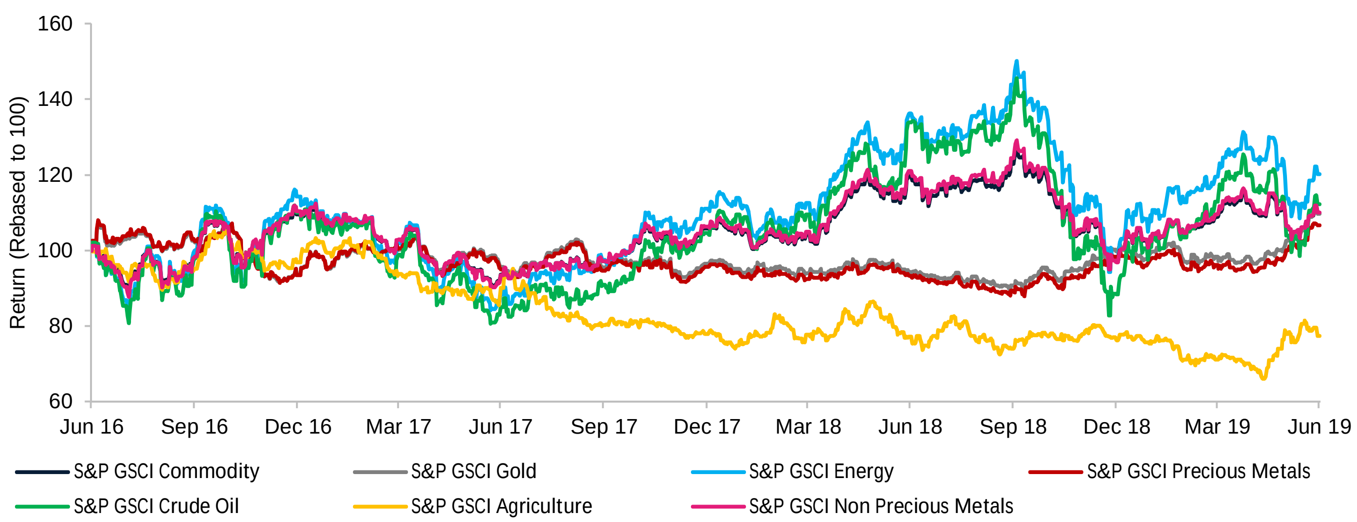
Market performance – 3 years to 30 June 2019



Hedge Funds: Sub-strategies performance – 3 years to 30 June 2019

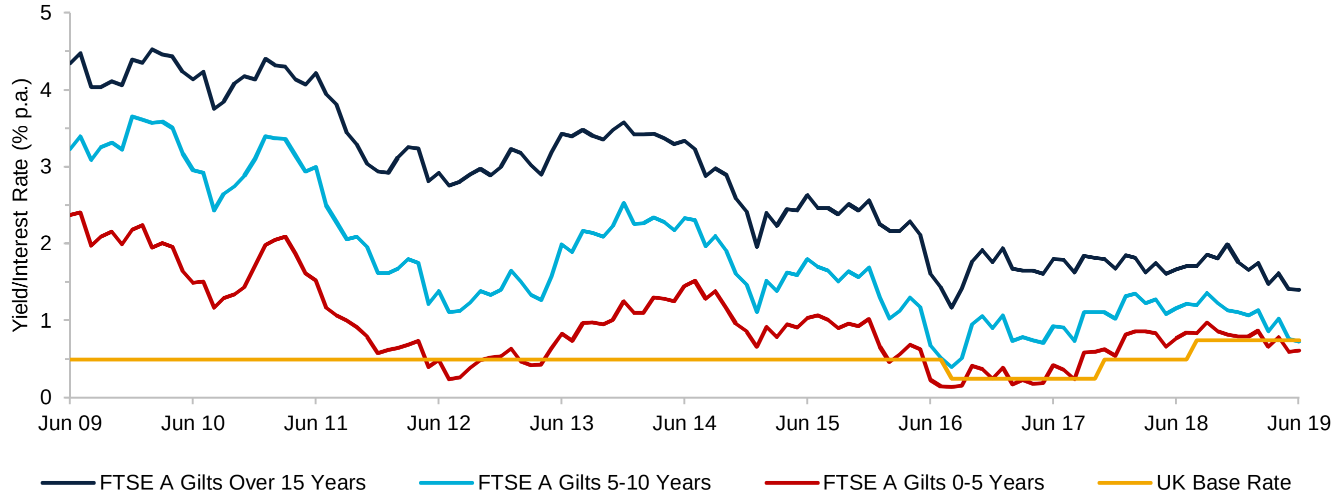


Commodities: Sector performance – 3 years to 30 June 2019

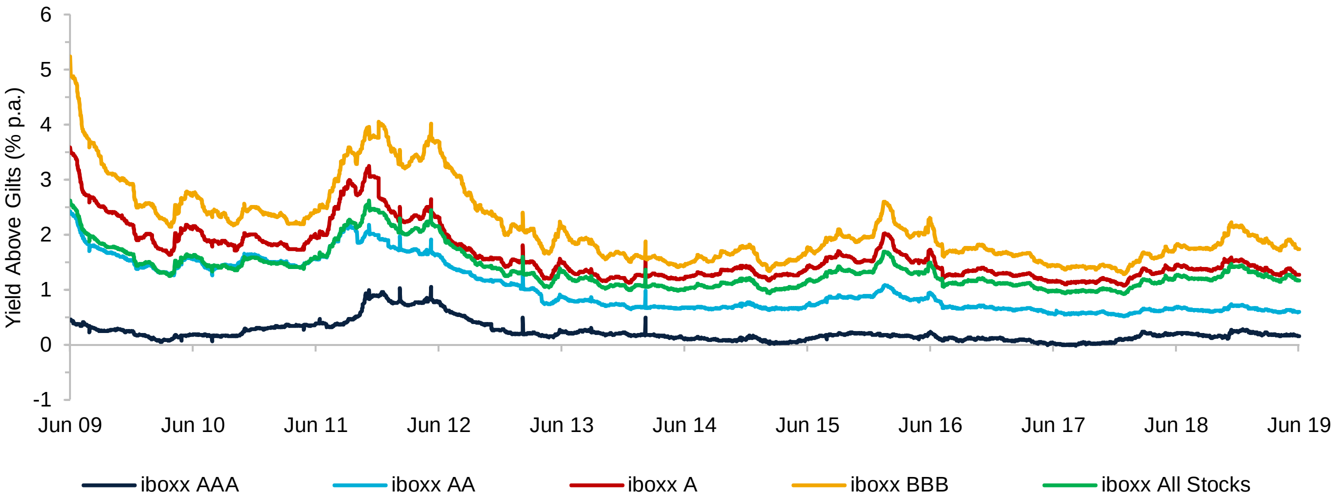


Source: Thomson Reuters

UK government bond yields – 10 years to 30 June 2019



Corporate bond spreads above government bonds – 10 years to 30 June 2019



Source: Thomson Reuters.

2 ECONOMIC STATISTICS

Economic Statistics as at:	30 June 2019			31 Mar 2019			30 June 2018		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	1.8%	2.8%	2.7%	1.4%	2.7%	2.5%	1.2%	3.9%	2.9%
Annual Inflation Rate[3]	2.0%	1.3%	1.6%	1.9%	1.4%	1.9%	2.4%	2.0%	2.9%
Unemployment Rate[4]	3.8%	7.6%	3.6%	3.9%	7.8%	3.9%	4.2%	8.3%	3.9%
Manufacturing PMI[5]	48.0	47.6	50.6	55.1	47.5	52.4	54.0	54.9	55.4

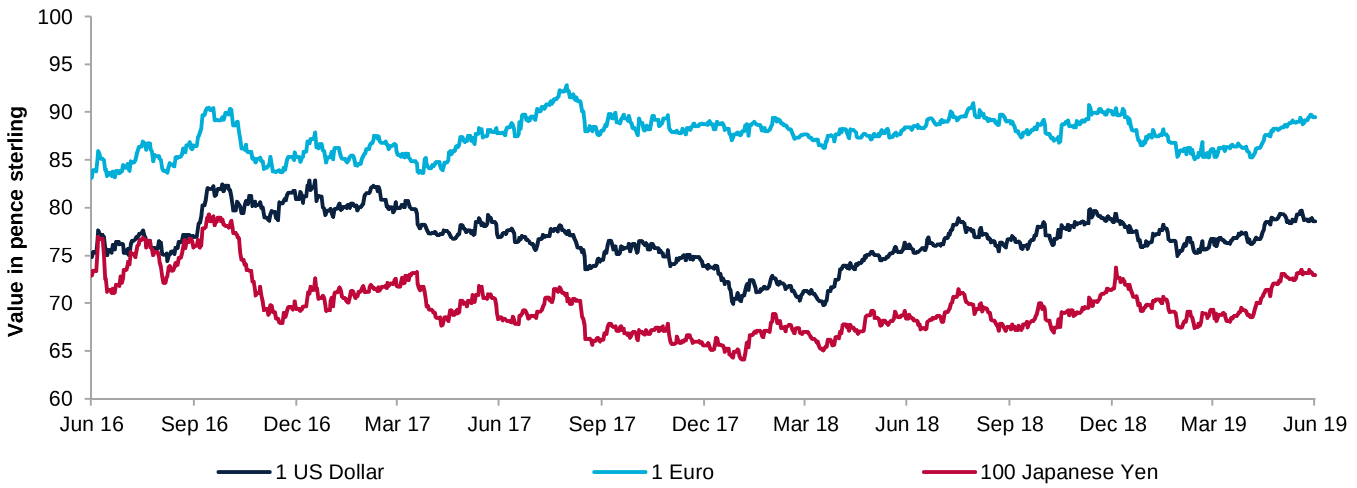
Change over periods ending:	3 months			12 months		
30 June 2019	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	0.4%	0.1%	0.2%	0.6%	-1.1%	-0.2%
Annual Inflation Rate[3]	0.1%	-0.1%	-0.3%	-0.4%	-0.7%	-1.3%
Unemployment Rate[4]	-0.1%	-0.2%	-0.3%	-0.4%	-0.7%	-0.3%
Manufacturing PMI[5]	-7.1	0.1	-1.8	-6.0	-7.3	-4.8

Notes: 1.Euro Area 19 Countries. 2. GDP is lagged by 3 months. 3. CPI inflation measure. 4. UK unemployment is lagged by 1 month. 5. Headline Purchasing Managers Index.

EXCHANGE RATES

Economic Statistics as at:	Value in Sterling (Pence)			Change in Sterling	
30 June 2019	30 Jun 19	31 Mar 19	30 Jun 18	3 months	12 months
1 US Dollar is worth	78.57	76.74	75.74	-2.3%	-3.6%
1 Euro is worth	89.48	86.17	88.44	-3.7%	-1.2%
100 Japanese Yen is worth	72.93	69.33	68.38	-4.9%	-6.2%

Exchange rate movements – 3 years to 30 June 2019



Source: Thomson Reuters, Markit, Institute for Supply Management, Eurostat, US Department of Labor and US Bureau of Economic Analysis.

3 MARKET COMMENTARY

INTRODUCTION

Strong returns in Q2, when added to the market rally during Q1, ensured that most global equity markets recovered from the lows reached in 2018. However, it’s been far from plain sailing. The risk on/off pendulum has certainly been in full swing, oscillating over the last three months. With global equity markets producing solid returns in the first four months of the year, it was unsurprising to see markets pull back in May - trade tariffs were once again on the agenda.

The ramifications of the US-China trade war are beginning to feed through as global growth is seen as slowing down and companies’ earnings are revised lower. These concerns are discounted by the market through lower share prices and investors seeking safety in assets less exposed to trade.

The G20 (Group of Twenty) summit provided an opportunity for President Trump and President Xi to hold a separate meeting. The meeting led to a thawing in relations between the two countries, allowing trade negotiations to resume and provided the market with some reassurance that a trade deal is potentially close.

UNITED KINGDOM

- A weaker pound helped to boost UK stocks over the quarter as the blue-chip FTSE 100 added 3.3%, on a total return basis, over the quarter. The returns were encouraging, given Brexit and the uncertain political backdrop but equity markets continue to lag their counterparts in Europe, Asia and North America.
- Despite avoiding a hard ‘no-deal’ Brexit on the 12 April, the list of uncertain outcomes was only increased during the second quarter. The UK was granted a second, and to some extent flexible, extension to leaving the European Union as the Article 50 deadline was pushed out until 31 October 2019.
- The lack of progress on Brexit ultimately cost Prime Minster May her position as she was forced to resign following another revolt within her own party and another impasse in Parliament on her Brexit deal.
- Economic data from the UK has remained mixed. GDP growth for the first quarter reported that the UK economy expanded in line with market expectations at 0.50%. This caused the Bank of England to revise their annual growth estimates up to 1.5% p.a. from 1.2% for 2019.
- On the other hand, forward looking data, most notably on manufacturing, has recently suggested that activity has once again started to fade. Previously, readings had been heavily skewed to the upside on the run up to a potential disorderly Brexit scenario where businesses had been stockpiling inventory.
- The drop in Sterling has once again helped to insulate the performance of UK stocks that either report in US Dollars or are substantial exporters of goods or services.
- The US Dollar looks fully valued at present; this trend could be at risk of reversing - subject to a disorderly Brexit of course and with much uncertainty still remaining on both political and Brexit fronts.

NORTH AMERICA

- US stocks gained significant traction during Q2 with the S&P 500 closing in on the symbolic 3,000 level.
- Initially, risk appetite for US equities was supported after stronger than expected economic data. Q1 GDP data, released in April, came in at an annualised rate of 3.2% whilst, unemployment numbers got back on track with

the April and May non-farm payroll releases showing that the US economy added a further 196,000 and 263,000 jobs respectively.

- As the quarter developed, forward looking data started to show signs of deterioration, with a softer manufacturing purchasing managers index reading and new factory orders which edged into contractionary territory over the quarter as well.
- Political tensions resurfaced during May as President Trump clashed with both China and Mexico on several issues. Most notably the ‘trade wars’ intensified as the US hiked the rate of tariffs from 10% to 25% on $200bn worth of imports from China; meanwhile President Xi retaliated by imposing further tariffs on $60bn worth of US exports to China.
- Sino-American relations further soured when tech titan ‘Huawei’, the world’s largest telecom equipment maker, was blacklisted by Trump citing national security concerns.
- US administration tried tackling the flow of Mexican migrants by threatening a fresh 5% tariff on all Mexican imports. The tariffs were postponed at the last minute as Mexico agreed to step up their efforts to control illegal migration.
- The market rally during June was fuelled by the Fed’s dovishness and the expectation for the Central Bank to cut interest rates by up to 0.5% over the summer months.
- The fundamentals for US stocks remain resilient and support current portfolio weights towards this region. Analysts had been overly pessimistic with their earnings forecasts for corporates during 2019.
- Technology stocks in particular had a mostly positive reporting period as did financials during the first quarter.

EUROPE (EX UK)

- European equities registered strong returns during Q2. They remain amongst the top performers’ year-to-date across international equity markets after positive advances during Q1.
- The region has certainly not been for the fainthearted this year with swings from one month to the next, market timing has proven to be significant in recent months.
- As with other developed markets, European equities were boosted in April as investors’ appetite for risk increased. This was apparent with ‘risk on’ sectors such as technology and consumer discretionary outperforming the more defensive stocks in the utilities sector.
- Crucially the data landscape also improved over the period. Data released at the end of April reaffirmed expectations that Europe had avoided a recession by expanding 0.4% across the Eurozone block for Q1.
- Forward looking data remained somewhat soft and during May equity markets fell sharply.
- The other significant development in Europe came from the outgoing European Central Bank (ECB) President, Mario Draghi. During Europe’s annual symposium in June, Draghi signalled that the subdued outlook in Europe may warrant the Bank to launch a fresh round of stimulus in an attempt to boost inflation across the region.
- After Draghi’s, ‘whatever it takes’ speech in 2012, investors have been quick to react to such dovishness from the ECB and thus this news sent markets higher once more.
- Despite strong gains since the turn of the year, European equity valuations continue to trade at around their 10 year averages and are therefore far from overvalued on a historic valuation basis.

JAPAN

- Japanese stocks, much like in the UK - albeit for different reasons, have struggled to gain much momentum over the period.
- In Q2 Japanese equities returned 2.9%, however, they continue to lag behind several developed market counterparts. Part of this has been due to strengthening of the Japanese Yen versus other currencies as its export economy suffered as a result of its safe haven status.
- An example of this was during May when global markets moved to ‘risk off’ assets, including the Yen, and put significant downward pressures on Japanese stocks which fell.

- Trading volumes in Japanese stocks were fairly light during both April and early May, as the country's four day public holiday coincided with the abdication of their Emperor Akihito, and the beginning of a new era under Reiwa.
- This somewhat disrupted the flow of economic and earnings data over the period and left foreign investors somewhat reluctant to add to their Japanese equity positions over the period.
- The Bank of Japan left policy unchanged in Q2; however, they did reiterate that their accommodative policy is likely to remain in place for an extended period.

ASIA PACIFIC (EX JAPAN) / EMERGING MARKETS

- Asia Pacific stocks as a whole produced a robust return of 5.9% in Sterling terms during Q2, as improving market sentiment towards risk on assets delivered a nice tailwind for the region. However, with such a large region, there is significant disparity between countries.
- Emerging Markets which include some exposure to regions such as South Africa and South America also provided a reasonable return with a slight improvement to the global outlook.
- Much like the wider trend, Chinese stocks initially benefited from an improving economic outlook. The effects of government led policy support were evident during April when China's GDP growth came in higher than expected at 6.4% year-on-year. Furthermore, strong readings of factory output and retail sales all painted a healthier picture of the Chinese economy at the start of the quarter.
- Momentum was abruptly halted as President Trump reopened the 'trade war' by implementing higher tariffs on a selected number of Chinese exports. This was enough to spook investors and sent markets into retreat throughout May.
- Fortunately with the G20 meeting in Japan on the horizon in June, China's equity markets picked up towards the end of the quarter on the hopes of some sort of improvement to trading relations.
- Indian markets somewhat bucked the wider market pattern this quarter. However, shares rallied strongly at the end of May when Prime Minister Narendra Modi completed a landslide victory to be re-elected.
- A further boost to markets was received when the Indian Central Bank cut rates at the beginning of June to their lowest levels since 2010.
- Looking ahead, domestic business will be eager for Prime Minister Modi to implement both bolder and more dramatic economic reform to ensure that India's vast resources are utilised and their potential maximised.

FIXED INCOME

- The sovereign bond market in Q2 has seen appetite move in both directions. In April, markets reacted positively to marginally better than expected economic data and sent yields higher and prices lower in government bonds.
- With the unexpected return of trade tariffs to the agenda in May, markets went into defensive mode. As a result bond yields moved lower across the board and have largely remained at lower levels since, despite the more recent 'risk on' sentiment in June.
- Government bonds have been boosted by a change in the tone of comments from the central banks, particularly the Fed and the European Central Bank. The Fed is now widely expected to deliver a rate cut in the US over the summer.
- In the UK, Gilt yields have been particularly volatile during Q2 and at times marched to their own tune as the uncertainty around Brexit rumbled on.
- The announcement of Prime Minister May's resignation and with the lack of visibility on the wider political landscape volatility is likely to remain elevated for some time to come.
- Elsewhere in the corporate bond arena, high yield bonds continued to outperform investment grade debt in Q2. This was largely due to a general 'risk on' sentiment rather than a dramatic improvement in corporate fundamentals.

ALTERNATIVES

- Hedge Funds had a positive second quarter, as all strategies posted gains in both Sterling and US dollar terms. Overall, Hedge Funds returned 4.1% in Sterling terms and 1.7% in US dollar terms. Global Macro strategies were the best performing strategies, returning 5.0% (Sterling) and 2.5% (US dollar). Emerging Market strategies, albeit positive over the period, were the worst performing strategies, returning 3.6% (Sterling) and 1.2% (US dollar).
- Commodities had a relatively slow quarter, returning 0.9% in Sterling terms (-1.4 % in US dollar terms). Gold and Precious Metals were the best performing commodities returning 11.6% and 10.8% respectively in Sterling terms (9.0% and 8.3% in US dollar terms). Agriculture sector was positive in Q2, reversing the trend over the last 18 months. Energy and non-precious metals declined in US dollar terms, with Crude Oil returning -0.5% in Sterling terms (-2.9% in US dollar terms).
- Property returned 0.6% over quarter, as the market continues to operate under the uncertainty of Brexit as the outcome is still to be decided. The impact on office and industrial property has been limited so far. Investment banks have been quiet in the last two quarters, but media and technology companies have continued to take up office spaces in regional cities including London and Edinburgh. Demand for retail remains fragile both in and out of town centres.

OUTLOOK

The market is incorporating significantly looser monetary policy ahead. In the US, the market now expects up to two rate cuts this year. Furthermore, whilst recent talks at the G20 summit in Japan went some way to dispelling market concerns on global trade and tariffs, they stopped short of a permanent solution.

Since the quarter, end Boris Johnson has been elected by the Conservative Party to become the next serving Prime Minister, beating Jeremy Hunt with a 66.4% majority vote. Brexit is still to go ahead on the 31 October 2019, and with the appointment of a 'Brexiter' as Prime Minister it will now be up to Boris Johnson to try and make a deal with the EU in time, otherwise the UK is set to leave with a 'no deal' Brexit.

4 MARKET STATISTICS INDICES USED

Asset	Index
Growth Assets	
UK	FTSE All-Share Index
Overseas Developed	FTSE World (ex UK) Index
North America	FTSE North America Index
Europe (ex UK)	FTSE AW Developed Europe (ex UK) Index
Japan	FTSE Japan Index
Asia Pacific (ex Japan)	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets	FTSE All Emerging Index
Frontier Markets	FTSE Frontier 50 Index
Property	IPD UK Monthly Property Index
Hedge Funds	Credit Suisse Hedge Fund Index
Commodities	S&P GSCI TR Index (GBP Hedged)
High Yield	ICE BoAML Global High Yield Index (GBP Hedged)
Emerging Markets Debt	JPM GBI-EM Global Diversified Composite Index
Senior Secured Loans	S&P Leveraged Loan Index (GBP Hedged)
Cash	IBA GBP LIBOR 7 Day Index
Bond Assets	
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (>5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index
Yields	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (>5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
Inflation	
Price Inflation – RPI	UK Retail Price Index (All Items NADJ)
Price Inflation – CPI	UK Consumer Price Index (All Items NADJ)
Earnings Inflation	UK Average Weekly Earnings Index (Whole Economy excluding Bonuses NADJ)
Exchange Rates	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Note: All indices above are denominated in Sterling unless stated otherwise.

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CLWYD PENSION FUND

INVESTMENT STRATEGY AND MANAGER SUMMARY PERIOD ENDING 30 JUNE 2019

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2 Strategic Asset Allocation 6

3 Valuation and Asset Allocation 7

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1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

This report is produced by JLT Employee Benefits ("JLT") to assess the performance and risks of the investment managers of the Clwyd Pension Fund (the “Fund”), and of the Fund as a whole. The report does not comment on the Fund’s Liability Driven Investment (“LDI”) portfolio, as information in respect of this allocation is produced separately by another team in Mercer.

OVERALL

Over the 3 months to 30 June 2019, the Fund’s total market value increased by £91.1m to £1,957,295,075.

Over the quarter, total Fund assets returned 4.2%, ahead of its target of 3.0%. Total Fund (ex LDI) returned 3.2%, also ahead of its target of 2.0%.

All sections within the portfolio posted positive returns and outperformed their targets; Total Equities rose by 5.3% followed by the Tactical Allocation Portfolio which increased by 4.0%. In-House assets gained by 2.9%, whilst the Managed Account Platform and Total Credit Portfolio rose by 1.7% and 1.2%, respectively.

In relative terms, Total Fund assets were ahead of their target by 1.2%, mainly attributable to the Best Ideas Portfolio which outperformed its target by 4.1%, adding 0.5% to total relative performance.

Total Equities returned 5.3% outperforming its target by 0.3%, making a neutral contribution to total relative returns.

Total Credit outperformed its target by 0.6%, returning 1.2% against a target of 0.6%. Overall, this added 0.1% to total relative performance. The outperformance was driven by the Multi-Asset Credit sub-portfolio which returned 1.1% against its target of 0.4%. The Private Credit sub-portfolio returned 1.7% against a target of 1.6%.

Managed Futures and Hedge Funds increased by 1.7%, outperforming its target by 0.6%. This made a positive contribution (+0.1%) to the overall relative performance.

In-House assets returned 2.9% against a target of 1.3% and added 0.3% to total relative performance. All the sub-portfolios generated positive returns, with the exception of the Opportunistic assets which declined marginally.

Insight’s LDI portfolio increased by 7.6% over the quarter, due to a combination of falling yields and rising equity markets. Overall, the overweight allocation to the LDI portfolio added 0.2% to relative performance.

EQUITIES

Overall markets were positive over the quarter, despite the fall in May resulting from the ongoing trade war between the US and China. The ramifications of this trade war are starting to show, as global growth is seen to be slowing down and companies’ earnings are revised lower.

In Developed Markets, Europe (ex UK) led regional equity performance (+8.8%) followed by North America (+6.8%). Asia Pacific (ex Japan) posted gains of 5.9% whilst UK equities rose by 3.3%. Japan continued to lag the other developed markets, increasing by 2.9%.

Over the last 12 months, all Developed Equity markets grew with the exception of Japan which fell by 1.2%. North America achieved the largest returns, increasing by 14.1% over the period.

Emerging Markets delivered returns of 3.8% whilst Frontier Markets had a much stronger quarter, returning 8.6%. Over the last 12 months, Emerging Markets returned 8.3% whilst Frontier Markets rose by 4.3%.

Total Equity assets returned 5.3% compared to a composite target of 5.0%. Wellington Emerging Market (Core) performed in line with its target returning 3.4% over the quarter, whilst all other funds exceeded their targets.

Russell WPP Global Opportunities Fund and Wellington Emerging Market (Local) both outperformed their targets by 0.6%, whilst BlackRock World Multifactor marginally outperformed its target by 0.1%.

In the Emerging Markets portfolio, stock selection in Argentina and Brazil added to performance whilst India and South Africa detracted. Stock selection in Consumer Discretionary and Consumer Services proved to be beneficial and partially offset the poor stock selection and asset allocation in Industrials and Healthcare.

Both Wellington Emerging Market equity funds were behind their 3 year performance objectives at quarter end.

CREDIT

Global credit markets rose over the quarter, driven by increasing tensions between the US and China and fears of a global growth slowdown. The trade talks between the two countries broke down as the US increased tariffs on $200bn of Chinese goods and China retaliated. These actions exacerbated the flight-to quality, as markets braced for a trade war and contemplated on the potential adverse impact on global growth.

Global monetary policies were mainly dovish during the quarter in response to below target inflation and a slowdown in growth; the US Federal Reserve's Open Market Committee (FOMC) voted unanimously to keep US interest rates unchanged, however, it indicated that there would be potential rate cuts later in the year. Since the end of the quarter, the US Federal Reserve has cut interest rates by 0.25%. The ECB left rates unchanged over the quarter, and signalled the potential to rate cuts later in the year alongside a new round of quantitative easing. The Bank of England kept interest rates at 0.75% throughout the quarter.

Over the quarter, Long Dated Conventional Gilts and Index-Linked Gilts both increased by 2.0% whilst UK Corporate Bonds gained by 2.6%. Emerging Market Local Currency Debt and Emerging Market Hard Currency Debt returned 8.2% and 4.1%, respectively. Global High Yield increased by 2.3% over the period.

Total Credit returned 1.2% over the quarter, 0.6% ahead of its target. This added 0.1% to total relative returns. The Private Credit sub-portfolio (which is currently in its commitment phase) delivered 1.7% against a target of 1.6%.

Permira Credit Solutions III (European mandate) and BlackRock Middle Market Senior (North American mandate) were c.87% and c.29% funded respectively at the end of June as capital deployment continues for both funds.

In Investment Grade Credit, The best performing sectors were Wirelines, Food/Beverage and Life Insurance, whilst the worst performing sectors were Utility (Other), Oil Field Services and Refining.

US High Yield rallied behind a more dovish Federal Reserve and lower US Treasury yields. Over the quarter, 30 out of the 40 industry sectors outperformed the benchmark.

In Emerging Market Debt, the main drivers of performance at country level were Brazil, Mexico and Russia. Brazilian markets reacted positively to progress on pension fund reform legislation and expectations of interest rate cuts, whilst Mexico benefitted from the reversal of Donald Trump's threat to impose sanctions on the country following issues around immigration. A dovish statement from Russia's central bank and the decision of a rate cut in June provided a positive signal for further easing and a boost to Russian bonds.

HEDGE FUNDS

Hedge Funds had a positive second quarter, as all strategies posted gains in both Sterling and US dollar terms. Overall, Hedge Funds returned 4.1% in Sterling terms and 1.7% in US dollar terms. Global Macro strategies were the best performing strategies, returning 5.0% (Sterling) and 2.5% (US dollar). Emerging Market strategies, albeit positive over the quarter, were the worst performing strategies, returning 3.6% (Sterling) and 1.2% (US dollar).

Over the last 12 months, all strategies advanced in both US dollar and Sterling terms. Relative Value strategies were the best performing strategies over 12 months, posting 7.2% in Sterling terms and 3.3% in US dollar terms.

ManFRM's Managed Futures & Hedge Funds strategy grew by 1.7%, ahead of its target by 0.6%. ManFRM Hedge Funds (Legacy) assets which only consists of Liongate returned 2.7% over the quarter.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets increased by 2.0% over the quarter, behind the target of 2.4%.

Pyrford returned 1.1%, underperforming its target by 1.6%. Performance was mainly driven by its overseas equity holdings with the main contributors being Asian equities. Fixed income securities added to returns, as holdings in overseas bonds rose due to Sterling depreciation. However, this did not have any effect on the portfolio due to the currency hedging that is in place.

Investec returned 3.0%, outperforming its target by 1.0%, as the ‘Growth’, ‘Defensive’ and ‘Uncorrelated’ strategies all contributed positively to performance. Exposures to emerging market debt overseas equities, US Treasuries and the portfolio’s long currency position were all particularly beneficial to the fund’s performance over the quarter. Additionally, the fund’s exposure to gold generated strong returns as global equity markets turned volatile.

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio returned 5.7% over the quarter, ahead of its target by 4.1%. 12 month and 3 year portfolio returns were above the target by 1.5% and 3.5% p.a., respectively.

All the sub-funds within the portfolio posted positive returns, BlackRock US Opportunities and BlackRock European Equities (Unhedged) led performance as both returned 9.6%. BlackRock Japanese Equities and LGIM Global Real Estate Equities were the worst performers in the portfolio, returning 3.4% and 2.8%, respectively.

In April, £10m was transferred from the BlackRock US Opportunities Fund and into the LGIM Sterling Liquidity Fund. In June, £5m was disinvested from both the LGIM Global REITS Fund and LGIM Listed Infrastructure Fund, with the proceeds of £10m being transferred into the LGIM Sterling Liquidity Fund. Later in the month, £2.5m was disinvested from each of the following funds: BlackRock European Equities (Unhedged), BlackRock Japanese Equities (Unhedged), LGIM North American Equities and BlackRock US Opportunities Funds, with the proceeds totalling £10m being subsequently invested into the LGIM Sterling Liquidity Fund.

IN-HOUSE ASSETS

Total In-House assets returned 2.9%, ahead of its target by 1.3%. Overall this contributed 0.3% towards total relative performance. The two sub-sections of the In-House assets; the Real Assets Portfolio and the Private Markets Portfolio returned 2.0% and 3.9%, respectively.

Within the Private Markets Portfolio, Private Equity increased over the quarter returning 5.1%, against its target of 1.4%, whereas Opportunistic assets declined by 0.1% and underperformed its target by 1.6%.

All assets within the Real Assets Portfolio rose over the quarter; Timber/ Agriculture led performance returning 2.8% outperforming its target by 1.4%. Property assets followed by generating 2.4% against its target of 0.6%, therefore outperforming by 1.7%. Infrastructure assets rose by 1.0%, but did not exceed its target of 1.4%.

2 STRATEGIC ASSET ALLOCATION
30 JUNE 2019

Allocation by underlying asset class

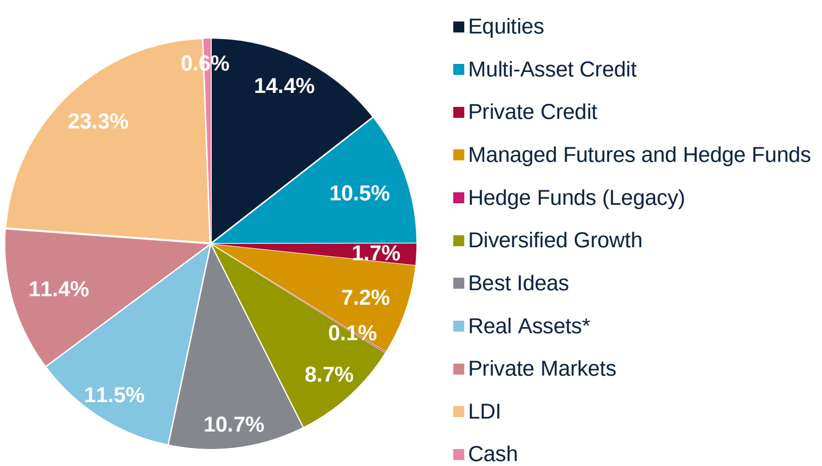
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	159,413,075	8.1	8.0	+0.1	5.0 – 10.0
Emerging Market Equities	123,316,078	6.3	6.0	+0.3	5.0 – 7.5
Multi-Asset Credit	205,977,178	10.5	12.0	-1.5	10.0 – 15.0
Private Credit[2]	33,207,039	1.7	3.0	-1.3	2.0 – 5.0
Managed Futures and Hedge Funds	140,171,560	7.2	9.0	-1.8	7.0 – 11.0
Hedge Funds (Legacy)[1]	1,161,253	0.1	0.0	+0.1	–
Diversified Growth	170,266,801	8.7	10.0	-1.3	8.0 – 12.0
Best Ideas	210,106,332	10.7	11.0	-0.3	9.0 – 13.0
Property	124,990,658	6.4	4.0	+2.4	2.0 – 6.0
Infrastructure / Timber / Agriculture	99,686,208	5.1	8.0	-2.9	5.0 – 10.0
Private Equity / Opportunistic	222,440,450	11.4	10.0	+1.4	8.0 – 12.0
LDI & Synthetic Equities	455,200,300	23.3	19.0	+4.3	10.0 – 30.0
Cash	11,358,141	0.6	0.0	+0.6	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**1,957,295,075**	**100.0**	**100.0**	**0.0**	

Notes: [1] Hedge Funds (Legacy) includes the Liongate portfolios and is provided by ManFRM. [2] The Private Credit allocations are not yet fully funded.
Totals may not sum due to rounding.

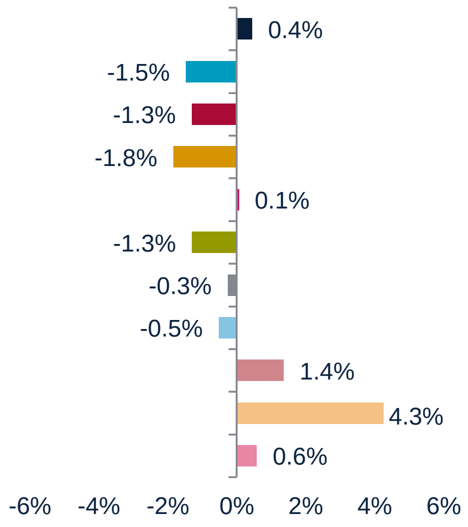
Points to note

- Permira Credit Solutions III Fund (European mandate) and BlackRock Middle Market Senior Fund (North American mandate) were c.87% and c.29% funded at the end of June 2019.
- Total allocation to LDI remains overweight by 4.3% relative to its strategic allocation.

Strategic Asset Allocation as at 30 June 2019



Deviation from Strategic Allocation



Note: Totals may not sum due to rounding.
* In-House Property, Infrastructure and Timber/Agriculture portfolios.

3 VALUATION AND ASSET ALLOCATION
AS AT 30 JUNE 2019

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Russell	WPP Global Opportunities	84,233,075	4.3	4.0	5.0 – 10.0
BlackRock	ACS World Multifactor Equity	75,180,000	3.8	4.0	
Wellington	Emerging Markets (Core)#	59,284,572	3.0	3.0	5.0 – 7.5
Wellington	Emerging Markets (Local)#	64,031,506	3.3	3.0	
Total Equity		**282,729,154**	**14.4**	**14.0**	
Stone Harbor	LIBOR Multi-Strategy	132,434,327	6.8	12.0	10.0 – 15.0
Stone Harbor	Multi-Asset Credit	73,542,852	3.8		
Multi-Asset Credit Portfolio		**205,977,178**	**10.5**	**12.0**	**10.0 – 15.0**
Permira	Credit Solutions III	27,038,538	1.4	1.8	2.0 – 5.0
BlackRock	Middle Market Senior	6,168,501	0.3	1.2	
Private Credit Portfolio		**33,207,039**	**1.7**	**3.0**	**2.0 – 5.0[(1)]**
Total Credit		**239,184,218**	**12.2**	**15.0**	**10.0 – 20.0**
ManFRM	Managed Futures & Hedge Funds	140,171,560	7.2	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	1,161,253	0.1	0.0	–
Managed Account Platform		**141,332,813**	**7.2**	**9.0**	**7.0 – 11.0**
Pyrford	Global Total Return	84,438,256	4.3	5.0	8.0 – 12.0
Investec	Diversified Growth	85,828,545	4.4	5.0	
Diversified Growth Portfolio		**170,266,801**	**8.7**	**10.0**	**8.0 – 12.0**
BlackRock	US Opportunities	18,277,096	0.9	11.0	9.0 – 13.0
BlackRock	Japanese Equities	14,333,070	0.7		
BlackRock	Emerging Markets Equities	20,725,888	1.1		
Investec	Global Natural Resources	20,908,860	1.1		
LGIM	Infrastructure Equities MFG (Hedged)	29,210,612	1.5		
LGIM	Global Real Estate Equities	28,363,733	1.4		
LGIM	Sterling Liquidity	30,032,969	1.5		
LGIM	North American Equities (Unhedged)	13,384,231	0.7		
BlackRock	European Equities (Unhedged)	14,214,253	0.7		
PIMCO	Emerging Market Debt Local	20,655,621	1.1		
Best Ideas Portfolio		**210,106,332**	**10.7**	**11.0**	**9.0 – 13.0**
Tactical Allocation Portfolio		**380,373,133**	**19.4**	**21.0**	**15.0 – 25.0**
In-House	Property	124,990,658	6.4	4.0	2.0 – 6.0
In-House	Infrastructure	75,935,565	3.9	8.0	5.0 – 10.0
In-House	Timber / Agriculture	23,750,643	1.2		
Real Assets Portfolio		**224,676,866**	**11.5**	**12.0**	**10.0 – 15.0**
In-House	Private Equity	171,840,967	8.8	10.0	8.0 – 12.0
In-House	Opportunistic	50,599,483	2.6		
Private Markets Portfolio		**222,440,450**	**11.4**	**10.0**	**8.0 – 12.0**
Total In-House Assets		**447,117,316**	**22.8**	**22.0**	
Insight	LDI Portfolio	455,200,300	23.3	19.0	10.0 – 30.0
Total Liability Hedging		**455,200,300**	**23.3**	**19.0**	**10.0 – 30.0**
Trustees	Cash	11,358,141	0.6	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**1,957,295,075**	**100.0**	**100.0**	

Notes: * ManFRM Hedge Funds (Legacy) valuation includes the Liongate portfolios and is provided by ManFRM.
Valuations for the BlackRock Middle Market Senior, Wellington Emerging Markets Core and Wellington Emerging Markets Local funds have been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates.
[1] The Private Credit allocation is not yet fully funded.

4 PERFORMANCE SUMMARY
PERIODS ENDING 30 JUNE 2019

	Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance
			Fund	Target	Fund	Target	Fund	Target	vs Objective
n/a	Russell	WPP Global Opportunities	7.1	6.5	n/a	n/a	n/a	n/a	n/a
n/a	BlackRock	World Multifactor Equity Tracker	5.8	5.7	4.2	3.6	n/a	n/a	n/a
●	Wellington	Emerging Markets (Core)#	3.4	3.4	2.9	6.4	12.6	14.0	Target not met
●	Wellington	Emerging Markets (Local)#	4.2	3.6	5.0	7.5	12.8	15.2	Target not met
Total Equity			**5.3**	**5.0**	**4.1**	**7.7**	**14.3**	**14.9**	
●	Stone Harbor	LIBOR Multi-Strategy	0.6	0.4	1.7	1.7	3.1	1.5	Target met
n/a	Stone Harbor	Multi-Asset Credit	2.0	0.4	4.8	1.7	n/a	n/a	n/a
Multi-Asset Credit Portfolio			**1.1**	**0.4**	**2.8**	**1.7**	**2.9**	**1.5**	
n/a	Permira	Credit Solutions III	2.2	1.5	5.9	6.0	n/a	n/a	n/a
n/a	BlackRock	Middle Market Senior	-0.5	2.2	n/a	n/a	n/a	n/a	n/a
Private Credit Portfolio			**1.7**	**1.6**	**5.1**	**6.3**	**n/a**	**n/a**	
Total Credit			**1.2**	**0.6**	**3.1**	**2.2**	**3.3**	**1.7**	
●	ManFRM	Managed Futures & Hedge Funds	1.7	1.1	-2.8	4.3	-1.5	4.1	Target not met
n/a	ManFRM	Hedge Funds (Legacy)*	2.7	1.1	-79.3	4.3	-42.9	4.1	n/a
Managed Account Platform			**1.7**	**1.1**	**-5.7**	**4.3**	**-3.4**	**4.1**	
●	Pyrford	Global Total Return	1.1	2.7	2.5	7.5	2.3	8.0	Target not met
●	Investec	Diversified Growth	3.0	2.0	2.8	6.7	3.2	7.1	Target not met
Total Diversified Growth			**2.0**	**2.4**	**2.6**	**7.1**	**2.7**	**7.6**	
●	**Best Ideas Portfolio**		**5.7**	**1.6**	**7.6**	**5.1**	**8.9**	**5.4**	**Target met**
Tactical Allocation Portfolio			**4.0**	**1.6**	**5.3**	**5.1**	**5.9**	**5.5**	
●	In-House	Property	2.4	0.6	8.9	4.0	7.4	6.6	Target met
●	In-House	Infrastructure	1.0	1.4	9.6	5.8	12.7	5.6	Target met
●	In-House	Timber / Agriculture	2.8	1.4	1.9	5.8	3.3	5.6	Target not met
Real Assets			**2.0**	**1.2**	**8.2**	**5.2**	**7.9**	**5.8**	
●	In-House	Private Equity	5.1	1.4	15.4	5.8	13.8	5.6	Target met
●	In-House	Opportunistic	-0.1	1.4	5.1	5.8	9.5	5.6	Target met
Private Markets Portfolio			**3.9**	**1.4**	**13.1**	**5.8**	**13.1**	**5.6**	
Total In-House Assets			**2.9**	**1.3**	**10.6**	**5.5**	**10.5**	**5.6**	
n/a	Insight	LDI Portfolio	7.6	7.6	9.0	9.0	17.8	17.8	n/a
Total (ex LDI)			**3.2**	**2.0**	**5.0**	**5.4**	**7.2**	**6.5**	
TOTAL CLWYD PENSION FUND			**4.2**	**3.0**	**6.0**	**6.1**	**9.5**	**8.4**	
Strategic Target (CPI +4.1%)			**1.6**		**6.3**		**6.3**		
Actuarial Target (CPI +2.0%)			**1.1**		**4.2**		**4.2**		

Notes: 'n/a' against objective is for funds that have been in place for less than three years. * ManFRM Hedge Funds (Legacy) currently includes the Liongate portfolios.
Valuations for the BlackRock Middle Market Senior, Wellington Emerging Markets Core and Wellington Emerging Markets Local funds have been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates.
Strategic and Actuarial targets derived from the latest JLT Market Forecast Group assumptions (Q2 2019 forecasts based on conditions at 31 March 2019). Current long term 10 year CPI assumption is 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 2019

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**5.3**	**4.1**	**14.3**
Composite Objective	5.0	7.7	14.9
Composite Benchmark	4.9	6.6	13.2
Total Credit	**1.2**	**3.1**	**3.3**
Objective	0.6	2.2	1.7
Benchmark	0.4	1.3	0.8
Managed Account Platform	**1.7**	**-5.7**	**-3.4**
Objective	1.1	4.3	4.1
Benchmark	1.1	4.3	4.1
Total Hedge Funds (Legacy)	**2.7**	**-79.3**	**-42.9**
Composite Objective	1.1	4.3	4.1
Composite Benchmark	1.1	4.3	4.1
Total Diversified Growth	**2.0**	**2.6**	**2.7**
Composite Objective	2.4	7.1	7.6
Composite Benchmark	2.4	7.1	7.6
Best Ideas Portfolio	**5.7**	**7.6**	**8.9**
Objective	1.6	5.1	5.4
Benchmark	1.6	5.1	5.4
Total In-House Assets	**2.9**	**10.6**	**10.5**
Composite Objective	1.3	5.5	5.6
Composite Benchmark	1.3	5.5	5.6
Total LDI Portfolio	**7.6**	**9.0**	**17.8**
Composite Objective	7.6	9.0	17.8
Composite Benchmark	7.6	9.0	17.8
Total (ex LDI)	**3.2**	**5.0**	**7.2**
Composite Objective	2.0	5.4	6.5
Composite Benchmark	1.9	5.0	6.1
Total Clwyd Pension Fund	**4.2**	**6.0**	**9.5**
Composite Objective	3.0	6.1	8.4
Composite Benchmark	3.0	5.8	8.0

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
Russell	WPP Global Opportunities	Global Developed Equities	MSCI World Index NDR	4.0%
BlackRock	World Multifactor Equity Tracker	Global Developed Equities	MSCI World Diversified Multiple-factor Index Midday Net	4.0%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.0%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.0%
Total Equity			**Composite Weighted Index**	**14.0%**
Stone Harbor	LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.[(1)]	12.0%
Stone Harbor	Multi-Asset Credit	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.	
Permira	Credit Solutions III	Private Credit	Absolute Return 6.0% p.a.	1.8%
BlackRock	Middle Market Senior	Private Credit	Absolute Return 9.0% p.a.	1.2%
Total Credit Portfolio			**Composite Weighted Index**	**15.0%**[(4)]
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0%[(3)]
Managed Account Platform			**3 Month LIBOR Index +3.5% p.a.**	**9.0%**
Pyrford	Global Total Return	Diversified Growth	UK Retail Price Index +4.5% p.a.[(2)]	5.0%
Investec	Diversified Growth	Diversified Growth	UK Consumer Price Index +4.6% p.a.	5.0%
Best Ideas	Best Ideas	Best Ideas Portfolio	UK Consumer Price Index +3.0% p.a.	11.0%
Tactical Allocation Portfolio			**UK Consumer Price Index +3.0% p.a.**	**21.0%**
In-House	Private Equity	Private Markets	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Markets	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	MSCI UK Monthly Property Index	4.0%
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% p.a.	6.0%
In-House	Timber / Agriculture	Infrastructure	3 Month LIBOR Index +5.0% p.a.	2.0%
Total In-House			**Composite Weighted Index**	**22.0%**
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%
Total Liability Hedging			**Composite Liabilities & Synthetic Equity**	**19.0%**

Notes: [1] FTSE A Gilts All Stocks Index until 31 March 2014. [2] UK Retail Price Index +4.4% p.a. until 31 March 2015. [3] Strategic Allocation represents the composite benchmark for the Managed Account Platform. [4] Committed but uninvested element of the Private Credit strategic allocation is represented by 1 Month LIBOR Index +1.0% p.a.

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