

# Pecyn Dogfen Gyhoeddus



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a Ralph Small

## **Aelodau Cyfetholedig**

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

Dydd Gwener, 22 Tachwedd 2019

Annwyl Gynghorydd

Fe'ch gwahoddir i fynychu cyfarfod Pwyllgor Cronfa Bensiwn Clwyd a gynhelir yn 9.30 am Dydd Iau, 28ain Tachwedd, 2019 yn Ystafell Bwyllgor Delyn, Neuadd y Sir, Yr Wyddgrug CH7 6NA i ystyried yr eitemau canlynol

**Mae'r rhaglen hon yn destun cyfyngiadau o ran cynnwys oherwydd Cyfnod yr Etholiad sy'n dechrau ar 7 Tachwedd ac yn dod i ben ar 13 Rhagfyr.**

## **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 5 - 14)**

Cadarnhau cofnodion y cyfarfod a gynhaliwyd ar 4 Medi 2019 fel cofnod cywir.

### **4 COFNODION (Tudalennau 15 - 18)**

Cadarnhau cofnodion y cyfarfod a gynhaliwyd ar 7 Hydref 2019 fel cofnod cywir.

## **ADRODDIADAU STRATEGAETH A PHOLISI**

### **5 ADOLYGIAD O'R STRATEGAETH FUDDSODDI, YN CYNNWYS POLISI BUDDSODDI CYFRIFOL (Tudalennau 19 - 36)**

Cyflwyno canlyniadau'r Adolygiad o'r Strategaeth fuddsoddi i Aelodau'r Pwyllgor a chytuno ar ddyraniad strategol yr asedau ac ymgynghori ar y Polisi Buddsoddi Cyfrifol.

## **ADRODDIADAU MONITRO**

### **6 CYFUNO BUDDSODDIADAU YNG NGHYMURU (YN CYNNWYS CYFLWYNIADAU GAN LINK FUND SOLUTIONS A RUSSELL INVESTMENTS) (Tudalennau 37 - 46)**

Rhoi diweddariad i Aelodau'r Pwyllgor ar weithrediad Cyfuno Buddsoddiadau yng Nghymru a derbyn cyflwyniadau gan Link Fund Solutions a Russell Investments.

### **7 DIWEDDARIAD AR Y PRISIAD ACTIWARAIDD (Tudalennau 47 - 72)**

Rhoi diweddariad i Aelodau'r Pwyllgor ar y cynnydd sy'n cael ei wneud gyda'r Prisiad Actiwaraid.

### **8 DIWEDDARIAD BLYNYDDOL AR GYFRANIADAU GWIRFODDOL YCHWANEGOL (CGY) (Tudalennau 73 - 86)**

Rhoi diweddariad i Aelodau'r Pwyllgor ar ganlyniadau'r Adolygiad o'r CYG.

### **9 DIWEDDARIAD LLYWODRAETHU (Tudalennau 87 - 152)**

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

### **10 DIWEDDARIAD CYNLLUN PENSIWN LLYWODRAETH LEOL (Tudalennau 153 - 164)**

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

### **11 DIWEDDARIAD GWEINYDDU/CYFATHREBU PENSIWN (Tudalennau 165 - 204)**

Darparu'r wybodaeth ddiweddaraf a'r argymhellion i Aelodau'r Pwyllgor mewn perthynas â materion gweinyddu a chyfathrebu Cronfa Bensiynau Clwyd

### **12 DIWEDDARIAD BUDDSODDI A CHYLLID (Tudalennau 205 - 222)**

Darparu'r wybodaeth ddiweddaraf i aelodau'r pwyllgor ar faterion buddsoddi ac ariannol Cronfa Bensiynau Clwyd

13 **DIWEDDARIAD AR YR ECONOMI A'R FARCHNAD A Y STRATEGAETH  
FUDDSODDI A CHRYNODEB GAN Y RHEOLWR** (Tudalennau 223 - 250)

Diweddariad ar yr Economi a'r Farchnad a y Strategaeth Fuddsoddi a Chrynodeb gan y Rheolwr.

14 **DIWEDDARIAD CYLLID A LLWYBR CYRRAEDD TARGED** (Tudalennau 251 - 266)

Darparu'r wybodaeth ddiweddaraf i Aelodau'r Pwyllgor ynghylch cynnydd y Strategaeth Rheoli Arian Parod a Risg.

Yn gywir



Robert Robins  
Rheolwr Gwasanaethau Democraidd

Mae'r dudalen hon yn wag yn bwrpasol

# Eitem ar gyfer y Rhaglen 3

## CLWYD PENSION FUND COMMITTEE

4 September 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, 4 September 2019.

### **PRESENT: Councillor Aaron Shotton (Chair)**

Councillors: Haydn Bateman, , Adele Davies-Cooke, Kevin Hughes.

**CO-OPTED MEMBERS:** Councillor Trevor Bates (Wrexham County Borough Council), Councillor Andrew Rutherford (Other Scheme Employer Representative), Mr Steve Hibbert (Scheme Member Representative).

### **ALSO PRESENT (AS OBSERVERS):**

**APOLOGIES:** Councillor Ralph Small (Flintshire County Council) Councillor Huw Jones (Denbighshire County Council), Councillor Nigel Williams (Wrexham County Borough Council).

### **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), Kieran Harkin (Fund Investment Consultant – Mercer), 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), Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Ieuan Hughes (Graduate Investment Trainee).

### 73. **DECLARATIONS OF INTEREST (including conflicts of interest)**

No declarations of interest

### 74. **MINUTES**

The minutes of the meeting of the Committee held on 12 June 2019 were submitted.

### **RESOLVED:**

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

### 75. **FUNDING STRATEGY STATEMENT**

Mr Middleman presented the key factors to consider when developing a funding strategy.

He emphasised the importance of the Funding Strategy Statement as part of the Actuarial Valuation as it balances out a number of key risks.

Mr Middleman explained that fundamentally it is the “plan” for the Fund to ensure it has sufficient monies to pay members' benefits when they retire for as long as they live. This is financed through employer and employee contributions, and investment returns, so the balance between the two elements is what the FSS determines. The other critical aspect is an employer’s covenant. The covenant of an employer is the ability and willingness that an employer can pay their contributions that we require from them. This also affects the level and timing of contributions you would request from different types of employer. For example, a Council would be expected to be able to fund its pension liabilities over a longer timeframe with more certainty than, say, an employer who is reliant on specific funding streams. Therefore, the funding strategy has to take into account these differences.

Mr Middleman noted key points about the proposed assumption changes on the Funding Strategy Statement which was contained in the separate presentation. The key changes where:

- A reduction in the discount rate/return outlook relative to CPI inflation.
- A change in the life expectancy assumption resulting in a reduction in life expectancy for the Fund.
- A change in the short term pay growth to a minimum of 2% p.a. for 4 years to 2023.
- An average reduction in the recovery period of 3 years to target the same period to full funding.

Mrs McWilliam queried why there are two different discount rate assumptions; one for past and future. Mr Middleman confirmed that there are two elements for how contributions are set. Past service is looking at the deficit relating to the benefits that have already been earned. Future service is based on members who are in the Fund continuing to earn benefits, and these have a much longer timeframe to earn returns than the liabilities already accrued as this includes pensions in payment already.

Secondly, Mrs McWilliam asked about the recent announcement of the merging of RPI and CPI. Mr Middleman said that the announcement would not affect the valuation position as this was determined prior to the announcement so assets and liabilities are consistently measured. Equally it is not absolutely certain that the change will happen (although likely) and how it will manifest itself. Mr Middleman therefore recommended no change in the parameters at this valuation but consideration of this issue will be needed going forward. However, there was a market reaction to the announcement which will need to be considered in the context of the flightpath and hedging strategy adopted. Any impact will be reported at future Committee meetings where appropriate.

Mr Everett said that even the Councils are in different places in terms of affordability so it has to cater for all circumstances and he felt it does that. Mr Middleman agreed Mr Everett’s important point and noted it is becoming more difficult to balance across all employers although it is easier when the position is improving.

Cllr Rutherford queried the impact of the pay growth from the 2016 to 2019 valuation. Mr Middleman noted that at 2016 a 1% p.a. increase (including increments) was assumed.

The data had shown the average increase on salary from the membership data shows c2.5%-3% p.a. over that period. This results in a bigger than expected increase in the final salary related liabilities (benefits earned up to 2014) hence a small increase in the deficit due to this factor. In terms of the forward looking short term pay assumption this is a reflection of the planned general pay increases in the sector (2% for 2019 and 2020) but employers will be asked to consider if a higher figure should be used as otherwise the impact of higher increases would come through at the next valuation (as in 2019). It is essentially a budget risk for employers to manage as they know better than the Actuary what the pay progression is likely to be in the next few years.

Mr Hibbert queried if the average deficit recovery period should be kept at 15 years. Mr Middleman noted that there is an expectation under the Section 13 valuation performed by the GAD that recovery periods would reduce over time and typically to maintain the same end point. Mr Middleman noted however that when the length becomes too short then it can cause contribution requirements to become too volatile. Depending on the final period adopted at this valuation it is possible that the average period would not reduce again or by less than three years.

Mr Middleman ran through the current policy issues highlighting the McCloud age discrimination case in relation to the benefit changes made in 2014 (and the protections given to certain members within 10 years of retirement) which means that there will be additional McCloud costs for all public sector schemes. Guidance has been issued from Government stating that the Fund policy in relation to the allowance for the potential McCloud remedy should be clear.

Mr Middleman explained that the remedy required in the LGPS will not be known before contribution rates are signed off. Whilst it cannot be costed with any certainty a cost can be assessed if the age criteria were removed in terms of the underpin. This provision will be communicated to employers based on their individual membership.

Mr Middleman proposed that employers should have the choice to make a provision for the potential costs in the valuation contribution rates for the McCloud judgment or to make provision in their budgets. If they make provisions in the contributions, then there would be no review of contributions before the next valuation to allow for the McCloud costs, whereas if a provision was made in the budget then if the remedy is known before the next valuation contribution requirements will be increased and backdated from 1 April 2020. Therefore, if an allowance is made in the contributions from 1 April 2020 to 31 March 2023 an employer will have budget certainty for this period.

Mr Middleman also added that this is the costing approach adopted for each employer in their annual accounts so is consistent.

Mr Middleman stated that on the basis of the proposed parameters the funding level at the 2019 valuation would be an increase to 91% resulting in a much lower deficit. However, the future service rate would increase to 17.3% of pay per annum. The McCloud provision across the Fund would be c0.5% of liabilities pay and 0.5% of pay per annum in relation to the future service rate.

He also confirmed the following key points regarding other policy issues;

- Cost management will not be allowed for at the 2019 Actuarial Valuation as it has been paused.
- The policy in relation to interim valuations and individual employer contribution rate reviews between valuations is being consulted on in terms of when the Fund would do that. However, it is looking increasingly possible that these provisions will not be brought in before the FSS is signed off. Even so it is his view the issues should be consulted on even if the policy was removed from this FSS and the FSS was updated again at a later date to introduce them again.
- Exit credits are where an employer can receive monies back on exit if the funding position shows a surplus (typically on an insurance basis). The policy was put in place in 2018 and Regulations are expected to be updated to close a loophole for some cases where another employer (e.g. a Council) guarantees the debt but does not receive the surplus back. These Regulations were expected before the end of the year and the FSS needs to reflect it, so employers are being consulted on whether the existing policy is sufficient.
- The policy in relation to when an employer would be allowed to become a “Deferred employer” e.g. where an employer to stay in the Fund with no active members. This would have limited application in the Fund given the employer base.

Mr Latham queried the timeline for taking the FSS for consultation. Mr Middleman said that the employer results and draft FSS will be issued before the AJCM in November. so they can be discussed directly with employers.

Cllr Bateman raised the issue of the protection of employer default. Mr Middleman highlighted the importance that the policy is as comprehensive as possible because if one employer defaults then the guarantor or all other employers have to pick up their obligations. There are separate processes around general employer risk management and in particular covenant data is gathered on employer’s ability to pay contributions to make an assessment on the likelihood of employer default and actions are taken to minimise it e.g. higher contributions and/or security.

Cllr Bateman queried the number of employers in the Fund. Mrs Fielder confirmed that there are 43 employers.

The Committee agreed the main parameter changes and draft policies discussed.

**RESOLVED:**

- (a) The Committee approved the draft Funding Strategy Statement.
- (b) The Committee delegated the refinement and finalisation of the draft Funding Strategy Statement to the officers before formal consultation with employers.

76. **RESPONSIBLE INVESTMENT POLICY**

Mr Buckland stated that the Fund had decided to review the current approaches in place relating to responsible investing to ensure they had the appropriate focus given recent developments. A survey was sent out to gather views from Committee members.



Mr Buckland emphasised that the fiduciary duty is to get the best possible return for investment, however he noted that there are considerations regarding ESG risks (Environmental, Social and Governance) that the Fund can and does take account of. There are already policies in place within the ISS (Investment Strategy Statement) such as responsible investment and sustainability policy. Mr Buckland explained the Fund is therefore starting from a well formed policy and is looking to enhance and develop it into something more effective.

He explained that the potential responsible investment approaches are ;

- Integration – ESG factors are integrated – broader perspective and risk/opportunity
- Stewardship – exercising active ownership (voting rights and engagement)
- Investment – the aim is for long term growth within areas of positive responsible impact
- Negative Screening – avoiding investment with a negative responsible impact i.e. tobacco/coal

Mr Everett argued that blunt screening may well not be necessary if you applied integration well. He believed it would be good to see the process of thinking and challenge. Mr Buckland agreed.

Mrs Fielder stated that the Fund already has a number of investments in renewable energy and she is looking to integrate this more across the WPP. Mr Everett said that they should welcome WPP's commitment to drive progress in this area and in particular would assure that the Fund's policy requirements could be delivered by WPP. Mr Latham responded that Russell and Link are at the next Committee therefore the Committee can ask them questions and get more clarity.

Mr Buckland explained that he attended the Scheme Advisory Board Investment, Engagement and Governance Sub-Committee meeting the previous week where responsible investment was on the agenda. The intention was that there will be Responsible Investment guidance issued to LGPS Funds. The DWP have issued regulations on 1 October outlining that corporate schemes need to have a responsible investment policy. It is also a requirement to have a policy on climate change however the current LGPS do not require this.

There was a debate around individual fund policies coming together as part of the WPP pool. It was highlighted that it is up to each individual administering authority to set its own Fund policy and the pool should be there to implement those policies. However, this can be difficult with eight different administering authorities around the table.

Mr Buckland confirmed that the results of the RI survey that was undertaken showed four Committee member responses. In respect of the ESG issues, 75% of the results reflected that the Committee had a fairly well developed understanding on investment risk/opportunity and the other 25% felt that they are not that developed in this area.

Cllr Hughes asked whether the key focus is to look at climate change and at investments in the aerospace industry and so potential damage to climate change. Mr Buckland confirmed that there is a methodology of looking at any impact e.g. Global Index

2000 stocks NISI who do a lot of work around each individual stock against ESG factors, one of those being climate change and carbon emissions.

Mr Latham wondered what the reaction of the Committee would be if the Fund could reduce the carbon footprint with a low tracking error. Mr Latham also queried how much the Committee believed in screening. Mr Hibbert said that the issue with screening is where do you stop e.g. do you not invest in retailers because they sell tobacco? Cllr Rutherford noted his agreement with Mr Hibbert that there should be an element of screening from the start. He also asked for the Fund's investment reporting to be enhanced to include more information on ESG factors.

Mr Hibbert expressed concern around passive investing given the investment manager achieves a market return without actively screening stocks. Mrs Fielder stated that she has now seen passive managers develop over time; if people wish to exclude something, some managers are now adapting their approach. Mr Buckland added that it depends on what index they are looking to track.

Mr Buckland concluded by commenting that he felt a lot of good views were discussed and that he will look to embed all of the views into the revised policies.

The Chair said that it would be helpful to understand the theory in practice. Mr Buckland confirmed that he would look to address this as part of the forthcoming training session in October.

Cllr Rutherford requested more detailed training on responsible investments aside from the usual agenda items so there can be in-depth discussions. Mr Harkin confirmed that this would be covered at the training day.

Cllr Rutherford wondered whether there had been any research on this topic i.e. gathering information regarding how the members in each Council feel. Mrs Fielder confirmed that she receives frequent queries from members asking for various information e.g. a member questioned how much the Fund invests in fossil fuels/arms etc.

The Committee considered the draft Wales Pension Partnership RI Policy and no further changes were requested in relation to it.

**RESOLVED:**

- (a) The Committee expressed views on the Fund's RI beliefs, to help develop the Fund's policies.
- (b) The Committee agreed the Wales Pension Partnership RI Policy.

**77. GOVERNANCE UPDATE**

Due to the length of the agenda, it was confirmed that the report in this item was noted and any questions taken.

Mr Latham confirmed that The Pension Regulator's survey results were released and one recommendation states that pension funds should have more freedom to pay salaries to attract and retain staff. Mrs McWilliam noted that local authority policies can result in difficulties in paying appropriate levels to pensions teams, which in turn can impact on retention. The Chairman asked where these thoughts and concerns of the Fund can be raised and heard nationally. Mrs McWilliam said that there are now workshops covering the issues and allowing debate.

**RESOLVED:**

- (a) The Committee considered the update and provided comments.

78. **LGPS UPDATE**

The report was noted and the Chair went straight to questions. Mr Hibbert queried an update on New Fair Deal. Mr Middleman confirmed that it is still being moved forward with a view to implementation in 2020 but it has been held back by other priorities. He noted that it could still be delayed and will keep the Committee updated.

**RESOLVED:**

- (a) The Committee members noted this report and made themselves aware of the various current issues affecting the LGPS and the Fund.

79. **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

Mrs Williams drew attention to The Pension Regulator Data Quality report 2019 results. The Common Data score decreased from 92.7% last year to 92.1%. This slight decrease was a result of 3,867 more members in scope for testing this year. The Scheme Specific Data score had increased from 68.2% to 81.7%. However, based on the new factors the Scheme Specific score that will be reported to the TPR is 92.7% and the Common Data score is 96.8%.

Mrs Williams also noted that an action on the business plan is to complete the member tracing exercise which is in progress.

Mr Everett emphasised that there needs to be a continued push by all stakeholders for members to use the Member Self Service. This will assist greatly in freeing up resource on the administration team.

**RESOLVED:**

- (a) That the Committee considered the update and provided any comments. In particular, the Committee noted the statistics highlighting the excellent progress with data cleansing (including the submission of valuation data) and the iConnect implementation.
- (b) That the Committee approved the change in timescales to the business plan as outlined in paragraph 1.01.

80. **FUNDING AND FLIGHTPATH UPDATE**

Mr Middleman noted that the critical part of the funding and investment is to control the risk which is done via the flightpath. He noted that the equity protection levels had been increased by 5% of the c£350m covered.

He noted that the opportunity was taken to increase the hedging protection on currency to c75% overall to lock in gains to date. This was on the basis that a No Deal Brexit was less likely.

Cllr Bateman queried whether the process of hedging is costly. Mr Middleman confirmed that there is a cost to hedging, varying from the cost of implementation and the ongoing cost of controlling that risk. The key is to consider the “value for money” of the hedging versus the cost and this is always done as part of the process of deciding whether to implement it. To date the overall benefit of the flightpath has far outweighed the cost.

Mr Harkin highlighted the cost on page 202, paragraph 1.07. He also noted that the depreciation of the pound resulted in a gain for the Fund because of the unhedged physical overseas equity exposure. He expressed that these gains needed to be banked so that if the pound strengthened, the Fund is able to keep the gains.

Mr Harkin said that there will be further details about this in the training session in October.

**RESOLVED:**

- (a) That 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 the equity protection structure has now been revised to increase the level of protection.
- (c) That the Committee noted 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.

81. **INVESTMENT AND FUNDING UPDATE**

The report was noted and the Chairman went straight to questions. Mrs Fielder highlighted the commitment previously made with Threadneedle which is a Low Carbon Workplace Fund aiming to make buildings sustainable. It has also been agreed to commit to their second Fund.

**RESOLVED:**

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

82. **POOLING INVESTMENTS IN WALES**

Mr Latham explained some key elements of this report.

On paragraph 1.09 on page 235, Mr Latham outlined that the pool had planned to create a European equity mandate, however the investors that had originally requested it will now invest into the Global mandate.

On paragraph 1.08 also on page 235, Mr Latham noted that the transition of fixed income assets is likely to be pushed to later than November 2019 (as originally stated in the report). It will now potentially be the first week of December 2019, however the closer to Christmas it is, will present some liquidity issues.

Mr Latham noted that after discussion it had been agreed that advisers will be able to attend Fund Manager engagement days.

Mr Hibbert noted again for the record the lack of member representatives at JGC and he wished for this to be formally raised at the agenda on the WPP. Mrs McWilliam highlighted that she was not aware that the ongoing meeting with Pension Board Chairs was intended to be instead of scheme member representation on the JGC. Mr Hibbert highlighted that Pension Board Chairs are often not scheme member representatives. The Chairman said that he would raise this at the next JGC. Mr Buckland noted that the scheme member representation within Pools' governance arrangements was being raised at a national level, and it had recently been covered at the SAB Investment, Engagement and Governance sub-committee meeting.

**RESOLVED:**

- (a) That the Committee noted the report.
- (b) That the Committee discussed and agreed any comments or questions for WPP.

**83. ECONOMIC UPDATE, INVESTMENT STRATEGY AND MANAGER SUMMARY**

The report was noted with Mr Harkin highlighting that all of the information on page 249 is dated to the end of June 2019 however things have moved on since. Since then there has been increase in volatility within growth assets such as equities and commodities.

Mr Harkin stated that it had been a strong quarter for investment returns resulting in over £90m appreciation of assets. He also confirmed that at 31 July 2019 the Fund tipped over £2bn in size.

**RESOLVED:**

- (a) The Committee discussed and commented 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.
- (b) The Committee discussed and commented on the Investment Strategy and Manager Performance summary for the quarter ended 30 June 2019.

The Chair thanked everyone for their attendance and updates at the Committee meeting. He noted that the special Committee meeting is on 7<sup>th</sup> October starting at 12pm to sign off the annual reports and accounts, followed by the training day.

The next formal Committee meeting is on 28<sup>th</sup> November. The meeting finished at 12:30pm.

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**Chair**

# Eitem ar gyfer y Rhaglen 4

## CLWYD PENSION FUND SPECIAL COMMITTEE

7 October 2019

Minutes of the meeting of the Clwyd Pension Fund Special Committee of Flintshire County Council, held at County Hall, Mold at 12.00 pm on Monday, 7 October 2019.

### **PRESENT: Councillor Aaron Shotton (Chair)**

Councillors: Haydn Bateman, Adele Davies-Cooke, Kevin Hughes

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

**ALSO PRESENT (AS OBSERVER):** Mr. Mark Owen (PB Employer representative)

**APOLOGIES:** Councillor Ralph Small, Councillor Huw Jones (Denbighshire County Council), Colin Everett (Chief Executive).

### **IN ATTENDANCE:**

Advisory Panel comprising: Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor – Aon Hewitt).

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Pension Fund), Nick Buckland (Fund Investment Consultant – Mercer), Iain Campbell (Fund Investment Consultant – Mercer), Paul Vaughan (Clwyd Pension Fund Accountant), Michelle Phoenix (Audit Manager, Welsh Audit Office), Kerry Robinson (Principal Pensions Officer), Ieuan Hughes (Graduate Investment Trainee).

### **DECLARATIONS OF INTEREST (including conflicts of interest)**

No declarations of interest.

### **ANNUAL REPORT AN ACCOUNTS 2018-19**

The Pension Fund Accountant presented this item on the Agenda, beginning by apologising that pages 109 and 110 of the report originally circulated to members of the Committee were incorrect, and that replacements had subsequently been distributed to members.

He explained that the numbers of pages on the Contents Page of the report would be added as soon as the Annual Report was approved by the Committee. He also explained that statutory policy and governance documents to be included in the Annual Report already approved by Committee had not been included in the version sent to the Committee, although they are available on the Fund's website. They would be added to the report when it was published on the website.

He reminded the Committee that the Annual Report now included the Statement of Accounts for Committee approval.

He thanked those members who had contacted officers with minor amendments prior to the meeting and confirmed that they would be included in the final published report.

He explained that the report is required under the Local Government Pension Scheme (LGPS) Regulations and that Chartered Institute of Public Finance and Accountancy (CIPFA) guidance had been followed in its production.

The structure of the report was that both the Independent Advisor to the Fund and the Pensions Board had produced annual reports and that key officers and advisors had also produced reports covering their areas of specialism. These reports formed individual sections of the report. The Pension Fund Accountant went on to explain what was covered in each of these sections.

In terms of key messages, in the 2017/18 Fund Annual Report, the big challenges facing the Fund in 2018/19 had been identified, and the 2018/19 report explained progress on each of these. In particular, the Fund continues to have a positive investment return and has protected some investment gains in the face of market challenges; has transferred some assets into the Wales Pension Partnership (WPP) and will continue to do so during 2019/20; has measured the social impact of the Fund and is planning to improve it; and has made further progress against targets in the Administration Strategy and the Communications Strategy, although increased activity and the increased complexity of the Fund means that there are still challenges to be met, which will be in part helped by the use of additional resources.

The report also identified the big challenges for 2019/20. These were to review the Fund's Funding Strategy in light of the 2019 valuation, and to review the Fund's Investment Strategy; to continue to transfer assets to the WPP; further develop the work of the Administration and Communication teams; implement any required scheme changes; and consider any improvements falling out of the LGPS consultation on Good Governance, due to report in 2019/20.

The three remaining sections of the report covered the financial activity during 2018/19. Section 7 was the Statement of Accounts, the draft version of which had been approved by the Fund Treasurer and presented to the Pension Fund Committee in June 2019. The only significant issue identified during the audit was the misclassification of fees between direct and underlying, caused by some misclassification by Investment Managers and some human error. Only direct fees are included in the accounts, whilst all fees are included in the annual report. The result of the error was to increase direct fees in the accounts by £1.5m, but this did not affect the bottom line of the Fund Account or Net Asset Statement. The Pension Fund Accountant highlighted changes to mitigate this happening in future, involving the use of additional resources, systems improvements and communication. He also expressed concern that a new national template which fund managers will be asked to complete in 2019/20 may cause some confusion, although every effort will be taken to avoid this.

Section 8 dealt with the 2018/19 cash flow and operational expenses budget. The main variances on cash had been caused by different than anticipated distributions and drawdowns, both of which are hard to estimate. There had been some rebalancing of the portfolio in 2018/19. The main variance against the operations budget was on management fees, as a result of the costs transparency initiative and also additional performance fees as investments become more mature and values move in line with performance.

Section 9 comprised the Annual Governance Statement, which had been presented at the June Committee and to which minor amendments had been made. This would require certification as would the Statement of Responsibilities also included in the Annual Report.

The Audit Manager from the Wales Audit Office introduced her report and explained that the audit was substantially complete. There were no uncorrected misstatements in the accounts and the auditors had received all information required to complete their work. She



drew attention to the corrected misstatement in relation to management fees discussed earlier. There were no other significant issues arising from the audit and there were no concerns about the Fund's accounting practices or financial reporting. She pointed out that a Letter of Representation would require certification.

Cllr Bateman asked for further explanation on the Accounting Policy on currency in Note 3 of the Statement of Accounts. The Pension Fund Accountant explained that this was required as some of the Fund's assets were held in currencies other than sterling, and the policy established the methodology used to value these assets in sterling for inclusion in the Fund's Net Asset Statement.

Cllr Bateman asked for further information about the reference to IFRIC 23 in Note 2. The Pension Fund Accountant explained that this note required the Fund to disclose new accounting standards which would become effective during the following financial year, in this case 2019/20. Whilst he was not certain what the precise clarification in relation to Income Tax would be, he confirmed that it would be highly unlikely to have any material impact on the Fund's accounts.

Cllr Bateman asked for the reason for the variance in relation to the Pension Board spend when comparing the actual advisor fees to the budget. The Deputy Head of Clwyd Pension Fund explained that the amount of advice required to enable the Pension Board to successfully carry out its business had been more than anticipated. This had now been recognised by an increase in the Pension Board budget for 2019/20 also included in the Annual Report.

There being no further questions the Pension Committee approved the Annual Report 2018/19.

The Chair thanked everyone for their attendance and the meeting finished at 12.30 pm.

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**Chair**

Mae'r dudalen hon yn wag yn bwrpasol

# Eitem ar gyfer y Rhaglen 5



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	Review of Investment Strategy and Responsible Investment Policy
<b>Report Author</b>	Head of Clwyd Pension Fund

### EXECUTIVE SUMMARY

The Fund is in the process of completing the 31 March 2019 triennial Actuarial Valuation, and as a result it is appropriate to review the Strategic Asset Allocation, to ensure it remains suitable for the on-going requirements. It is also important to consider the current global economic environment when reviewing Investment Strategy.

The Fund's Investment Consultant has reviewed the Strategic Asset Allocation, and after a number of discussions with Officers the proposed Strategy is presented to the Committee for agreement. This report will be supplemented by a presentation at the meeting from the Fund's Investment Consultant which will consider, in more detail, the process followed and outcomes.

This report contains the proposed Strategic Asset Allocation at paragraph 3.02 and a summary of the key changes in paragraph 3.04.

In addition to reviewing the Strategic Asset Allocation, the Fund has been reviewing its Responsible Investment (RI) policy, which has been developed after considering the views of the Committee expressed through the survey and following discussions at the meeting in September 2019. The revised Policy is contained within the appendix and contains three key areas:

- RI Principles
- Climate Change
- Strategic RI Priorities.

The priorities section is particularly pertinent as it covers the key focus for the Fund's work on RI for the next three years.

## RECOMMENDATIONS

1.	To agree the proposed Strategic Asset Allocation (as shown in paragraph 3.02) of the Fund as a basis for consultation with the Fund's Employers.
2.	To consider and agree the Responsible Investment Policy as the basis for consultation with the Fund's Employers.

## REPORT DETAILS

<b>1.00</b>	<b>REVIEW OF STRATEGIC ASSET ALLOCATION</b>
1.01	<p><b>Background</b></p> <p>Every three years the Fund's Actuary calculates the Assets and Liabilities of the Fund to establish its Funding position, and perhaps more crucially to calculate the Employers' contribution rates for the coming period. In conjunction with this process the Fund's Strategic Asset Allocation is reviewed to ensure that it is appropriate and is likely to deliver the required level of return at an acceptable level of risk.</p> <p>When undertaking the Valuation the Fund, the Actuary makes a number of key assumptions which were presented to the Committee in September 2019. These assumptions include a required rate of investment return. For the 2019 Valuation the Actuary has assumed a rate of return of Inflation (measured by the Consumer Prices Index (CPI)) +1.75% for past service and Inflation or CPI +2.25% for future service. It is therefore crucial that the Investment Strategy achieves a return in excess of this future service rate of CPI +2.25%.</p>
1.02	<p>The Fund last refreshed its Investment strategy in 2016, was implemented over the following years. The last review was only a "light-touch" assessment given its closeness to the previous review undertaken in 2014. As three years have passed since this review it is now appropriate to review and refresh the Fund's Strategic Asset Allocation.</p>
1.03	<p>The Fund's Officers have been working closely with the Fund's Investment Consultant and have established a work programme to undertake the necessary assessment to enable a presentation to be made to the Committee today with a recommended strategy for the Fund. The timeline is contained as an Appendix to this report.</p>

2.00	PROCESS
2.01	As can be seen in the review timeline attached in the Appendix the process started with Officers in July, and has involved a number of meetings since to consider a number of factors involved in setting the long term Strategic Asset Allocation. In addition to this work with the Fund's Officers, a training day was held for the Committee on 7 October 2019 to provide the background to the Fund's current Strategy, its asset classes and the process for the review. The presentation that will support this report at the Committee meeting will take the Committee through the process in some detail.
2.02	As discussed at the training day with the Committee and throughout the discussions with Officers the desired outcomes of this process were to set a long term Strategic Asset Allocation for the Fund that will: deliver the level of returns required by the Fund's Actuary, and; <ul style="list-style-type: none"> <li>• do this at an acceptable level or risk, and;</li> <li>• where possible seek to reduce the overall level of Investment Management fees paid by the Fund.</li> </ul>
2.03	The additional consideration that was key to this review was the role of the Wales Pension Partnership in the implementation of the Fund's strategy. Whilst pooling should not and does not affect the Committee's responsibility to set the Strategic Asset Allocation, it does need to be a consideration when assessing the practical aspects of implementing the strategy.

3.00	OUTCOMES
3.01	After the analysis that was undertaken by the Fund's Investment Consultant with the Officers a revised strategy was discussed and agreed for presentation to the Committee today. The presentation from the Fund's Investment Consultant at the meeting will cover more detail of the recommended new strategy. The following paragraphs show the strategy and comment on the changes.
3.02	The table below shows the Strategic Asset Allocation being recommended to the Committee today, and highlights changes from the current position.

Asset Class	Current Strategic Allocation	Proposed Strategy	Change
Developed Global Equity	8.0%	10.0%	+2.0%
Emerging Market Equity	6.0%	10.0%	+4.0%
Diversified Growth	10.0%	-	-10.0%
Hedge Funds	9.0%	7.0%	-2.0%
TAA/Best Ideas	11.0%	11.0%	-
Multi Asset Credit	12.0%	12.0%	-
Property	4.0%	4.0%	-
Private Equity	10.0%	8.0%	-2.0%
Local/Impact	-	4.0%	+4.0%
Infrastructure	8.0%	8.0%	-
Private Credit	3.0%	3.0%	-
Cash & Risk Management Framework	19.0%	23.0%	+4.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

3.03 The Fund's Investment Consultant has estimated, based on long term market forecasts that the new strategy will deliver a long term (10 year) return of 5.6% per annum, compared to the existing strategy which delivers an estimated 5.4% per annum. This forecast return of 5.6% (or CPI +3.4%) is comfortably ahead of the Actuary's required rate of return of CPI +2.25%.

In addition to the potential for investment return the Fund's Investment Consultant also looks to assess the risk of the proposed strategy when compared to the current. Risk is assessed using a Value at Risk (VaR) approach: VaR is a measure of the risk of loss for investments. It estimates how much a set of investments might lose (with a given probability), given normal market conditions, in a set time period such as a day or a year.

In Clwyd's case the Fund's Investment Consultant has assessed that the Fund's current strategy has a 95% one year deficit VaR of £437.9m; meaning that there is a 95% chance that over any one year the Fund's deficit will not fall by more than £437.9m. The proposed strategy has a marginally higher one year deficit VaR of £444.6m. When compared to the current actual allocation, the proposed strategy has the potential to achieve +0.1% higher return at lower risk.

The result of this analysis is that the new strategy has a higher potential return than the current strategy at a marginally higher risk, albeit lower risk than the current actual position. The Fund's Investment Consultant will cover this in more detail in the presentation.

3.04 The key changes are detailed in the following paragraphs:

**Removal of allocation to Diversified Growth Funds (DGF).**  
DGF's seek to tactically deploy capital across a number of asset classes to enable investors to achieve equity like returns at lower levels of volatility.

However in recent years the Fund's experience has not been good, and the performance across the DGF universe has been poor. In addition the Fund has other ways to invest tactically, such as the Best Ideas portfolio. The overall diversification within the total Fund also leads to a less compelling case to invest in DGFs.

**Increase allocation to Global and Emerging Market Equities**

This change is linked to the decision to remove the DGF allocation, due to the DGF's having an underlying allocation to equity. The increased allocation is therefore, at least in part designed to replace this. In addition the Fund's consultant believes that in the longer term Emerging Market equities will offer the potential for higher returns than Developed Global Equity. The Fund will also switch its Smart Beta investment with BlackRock into a Low Carbon ESG portfolio to support the Fund's proposed Responsible Investment objectives (detailed later in this report).

**Reduce Strategic weight, and restructure Hedge Fund allocation**

The current allocation to Hedge Funds is around 7% of the total Fund compared to the existing strategic benchmark weight of 9%. Given the performance that the Fund has seen in recent years, plus the wider investment allocations that the Fund has, the new strategy has a reduced strategic weight of 7%. In addition, since the mandate was originally designed, the Fund's Risk Management Framework has evolved to cover a number of areas. It is appropriate therefore to consider restructuring the underlying arrangements to reflect the potential role for a Hedge Fund strategy in the context of the future uncertain market environment.

**Creation of an explicit Local/Impact portfolio**

The Committee will be aware of the allocations within the Fund's In-House Private Markets to investments that are seeking to make a positive contribution to the Environment or Society more widely whilst still making an appropriate level of investment return. This change to the strategy explicitly creates an allocation to this area, and will enable the Fund to continue to make these specific investments, and effectively support society with its investments. This allocation is funded in part by a reduction in the Strategic weight for Private Equity; however this includes a number of existing investments that have been identified to form the basis for the new portfolio.

**Increase allocation to Cash and Risk Management Framework**

This framework has been in place for a number of years and has evolved in a number of ways to help the Fund effectively manage its investment risks. Over time the valuation of the portfolio has increased and as such it has moved to an overweight position versus the Strategic weight. It is not appropriate to look to reduce this, in particular as it is now envisaged that this allocation will also be used to control the Fund's cash-flow requirements (both to meet benefits payments and fund private markets capital calls) so this move effectively brings the Strategic weight in line with the actual position.

3.05

The paragraphs above detail the potential to meet two of the objectives of the review, to increase the potential return whilst lowering the risk; the final objective was to seek to reduce overall investment management costs.

	Whilst this objective was not the main focus of the review it was rightly an important consideration given the objectives of the pooling agenda to also reduce overall fee levels.
3.06	The table below shows the potential for reduced fees both as a result of the changes to the strategy and the changes to implementation (either by investing through the WPP or restructuring the portfolio). Due to sensitivity around fee levels for specific mandates it is not possible to report exact number for each asset class, but the table shows where changes are expected to be achieved, and give an overall level of saving for the Fund. The table shows that it is estimated fee savings will be in the range £1.8 - £2.5m per year for the Fund. There are a number of factors that make it difficult to be more accurate than this, and these can be explained in the presentation on the day.

Asset Class	Proposed Strategy	Change in Investment Management Fees	
		Strategy	Implementation
Developed Global Equity	10.0%	✗	✓
Emerging Market Equity	10.0%	✗	✓
Diversified Growth	-	✓	-
Hedge Funds	7.0%	✓	✓
TAA/Best Ideas	11.0%	-	-
Multi Asset Credit	12.0%	-	✗
Property	4.0%	-	-
Private Equity	8.0%	✓	-
Local/Impact	4.0%	✗	-
Infrastructure	8.0%	-	-
Private Credit	3.0%	-	-
Cash & Risk Management Framework	23.0%	✗	-
<b>Potential fee savings</b>		<b>£1.8 - £2.5 Million per annum</b>	

<b>4.00</b>	<b>RESPONSIBLE INVESTMENT</b>
4.01	The Committee has had a number of training sessions in 2019 focussing on Responsible Investment (RI). This culminated in a session at the meeting in September to establish the Committee's beliefs to enable the Fund's policies to be revised. This process took place concurrently with the review of the Strategic Asset Allocation deliberately to allow the results to be reflected and implemented in the new Strategy.



4.02	As a result of the Committee survey and session in September the Fund's Investment Consultant has worked with Officers to develop a new RI policy. The proposed policy is attached as an Appendix to this report.
4.03	<p>The new RI Policy communicates the Fund's beliefs and approach to being a Responsible Investor. The Policy contains three distinct areas:</p> <ul style="list-style-type: none"> <li>• <b>RI Principles</b> – those beliefs which drive the Fund's thinking</li> <li>• <b>Climate Change</b> – specific beliefs relating to Climate Change</li> <li>• <b>Strategic RI Priorities</b> – the focus for the Fund's approach to RI over the next three years.</li> </ul> <p>Each of these areas is covered in more detail in the following paragraph.</p>
4.04	<p><b>RI Principles</b> This section of the Policy lists eight overarching principles which drive the Funds RI thinking. It includes such areas as the Fund's fiduciary duty, its beliefs around stewardship (voting and engagement) and its approach to Social/Impact investments.</p> <p><b>Climate Change</b> The engagement with the Committee highlighted that, of all of the specific focuses that being a responsible investment encompasses, Climate Change and environmental considerations were the most important. This section covers the Fund's approach to considering Climate Change and highlights some of the risks and opportunities that it presents to investors.</p> <p><b>Strategic RI Priorities</b> It is important, when considering an approach to RI not to try to achieve everything at once. Being a responsible investor can be quite daunting given the numerous things that can be considered, and it is important therefore to focus the Fund's approach to certain key areas. This section highlights the five areas that the Fund has identified as its key priorities over the three years 2020-2023.</p>

<b>5.00</b>	<b>CONSULTATION</b>
5.01	<p>The LGPS Investment regulations require that the Fund “consults with such persons as it considers appropriate as to the proposed contents of its investment strategy”. The Fund intends to seek the views of its employers This will include the Responsible Investment policy.</p> <p>The topic of Responsible Investment is very high profile at the moment, and the Fund's employers had a presentation on the subject at the recent Annual Joint Consultative Meeting.</p>

<b>6.00</b>	<b>INVESTMENT STRATEGY STATEMENT</b>
6.01	The final piece of work once the Strategy is agreed and consulted on is to revise the Fund's Investment Strategy Statement (ISS). The ISS contains,

	amongst other things, the revised Strategy and the RI policy. It is proposed therefore that once the Fund has the results of its consultation the ISS will be revised and presented to the next meeting of the Committee in February 2020 for approval.
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<b>7.00</b>	<b>RESOURCE IMPLICATIONS</b>
7.01	As a result of the revised Strategy and implementation the Fund has the potential to save between £1.8m and £2.5m per annum in Investment Management costs.

<b>8.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
8.01	The Fund will consult with the Employers and the Committee is asked to consider whether to widen this consultation to the Fund's members.

<b>9.00</b>	<b>RISK MANAGEMENT</b>
9.01	<p>The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk.</p> <p>Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.</p>

<b>10.00</b>	<b>APPENDICES</b>
10.01	Appendix 1 – Investment Strategy Review timeline Appendix 2 – Responsible Investment Policy

<b>11.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
11.01	<p>N/A</p> <p><b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> <a href="mailto:philip.latham@flintshire.gov.uk">philip.latham@flintshire.gov.uk</a></p>

## 12.00 GLOSSARY OF TERMS

12.01 A list of commonly used terms are as follows:

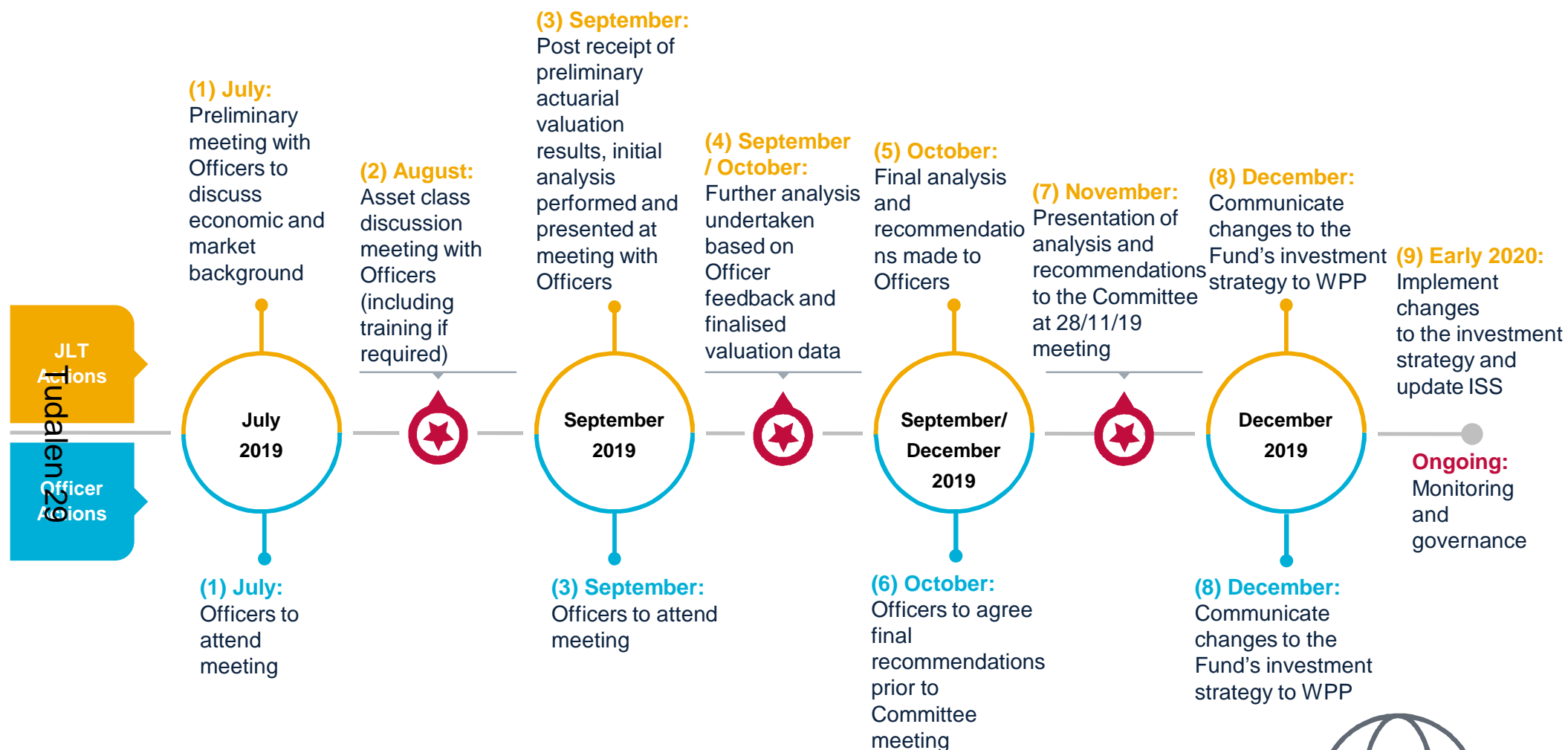
- (a) **Absolute Return** – The actual return, as opposed to the return relative to a benchmark.
- (b) **Annualised** – Figures expressed as applying to 1 year.
- (c) **Duration** – The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. 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 cash-flows.
- (j) **Value at Risk (VaR)** - a measure of the risk of loss for investments. It estimates how much a set of investments might lose (with a given probability), given normal market conditions, in a set time period such as a day.

**A comprehensive list of investment terms can be found via the following link:**

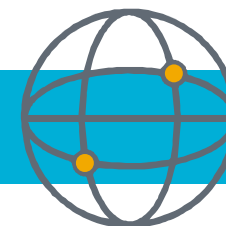
<https://www.schroders.com/en/uk/adviser/tools/glossary/>

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# INVESTMENT STRATEGY REVIEW PROPOSED TIMELINE



The timescales above are indicative and will depend on the amount of time taken to complete each step  
Numbers in brackets show stages of project plan; previous stages must be completed before subsequent stages can start



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## 5. Approach to Environmental, Social and Governance issues

And

## 6. Policy on exercising voting rights

### Regulatory Background

In preparing, developing and implementing this Policy, the Fund has paid due regard to the regulatory background. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (LGPS Investment Regulations) require administering authorities to demonstrate that it considers any factors that are financially material to the performance of the fund's investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

The LGPS Investment Regulations also require administering authorities to explain their policy on exercising rights (including voting rights) attaching to investments. The guidance refers to the Financial Reporting Council's UK Stewardship Code and requires that funds explain, where appropriate their policy on stewardship with reference to the Stewardship Code.

In addition to considering the LGPS Investment Regulations in developing the Responsible Investment Policy the Fund has taken professional advice. It has also had regard to the Well-being of Future Generations (Wales) Act 2015, guidance from the Scheme Advisory Board, the Ministry for Housing, Communities and Local Government and the Welsh Government. The Fund commits to keeping the policy reviewed in line with any future changes or updates in regulation or guidance.

The Fund has also considered researched and reviewed a number of other areas of best practice when preparing this Policy such as the United Nations Principles for Responsible Investment, the Sustainable Development Goals and the Task Force for Climate-related Financial Disclosures (TCFD).

### Responsible Investment Policy

In 2019 the Fund undertook a review of its Responsible Investment Policy in conjunction with the overall review of the Strategic Asset Allocation. The target for this review was to re-affirm the Fund's existing beliefs, supplement these with additional views if appropriate and consider ways in which these views could be implemented.

As a result of this review the Fund's long standing Responsible Investment (RI) and supporting Sustainability policies were updated to reflect current attitudes and thinking. In addition to help formally frame the policies the Fund has set a number of high level beliefs that will sit over the more detailed policies, and will convey the Fund's overarching attitude to being a Responsible Investor.

## Background

The revised Policy will support the Fund's specific RI aims with the Funding and Investments specific objectives:

- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability;
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

## Investment Pooling

As part of the Government's investment reform, the Clwyd Pension Fund has participated in the development of the Wales Pension Partnership (WPP) to pool the investments of the 8 Welsh LGPS funds. Whilst all strategic asset allocation and policy decisions remain with the Fund, implementation responsibilities in the future will be the responsibility of WPP.

The Fund is committed to pooling its investments with WPP, and acknowledge that this presents challenges, and also significant opportunities to enhance the Fund's approach to RI. The Fund has proactively engaged with WPP in setting the Pools RI objectives, and is confident that they will enable it to implement its own policies.

The Fund will work with the WPP to develop these policies in the future to ensure they remain relevant and appropriate for the Clwyd Fund.

## Stewardship and Engagement

The Financial Reporting Council (FRC) first published the UK Stewardship Code in 2010, and revised it in 2012. The Code aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Since December 2010 all UK-authorized Asset Managers are required by the Financial Conduct Authority to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model.

The Stewardship Code has seven principles, and the ISS guidance requires that administering authorities become signatories to the Code, and state how they implement the principles on a "comply or explain" basis.

The Fund applied and was approved as a Tier One signatory in March 2018, and can be seen on the [FRC website: https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements/asset-owners](https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements/asset-owners).

In practice the Fund has applied the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF). In the future as a member of the WPP, the Committee expects that both the Pool and the underlying fund managers to comply with the Stewardship Code.

In October 2019 the FRC issued an updated and increasingly demanding version of the Stewardship Code, and the Fund commits to reviewing this with an aim of remaining a signatory.



## Responsible Investment Beliefs

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Fund defines a **Responsible Investment (RI)** as:

- Incorporating sustainability considerations within the investment process, including environmental, social and governance (ESG) factors for a broader perspective on risk and return opportunities.

In developing its approach to RI, the Fund seeks to understand and manage the ESG and reputational risks to which it is exposed. This policy sets out the Fund's approach to this.

The foundations of the Fund's approach to RI are its Principles which are set out below:

## Responsible Investment Principles

- The Fund's fiduciary duty is to act in the best long-term interests of its members and employers, and recognises that ESG issues create risk and opportunity to its financial performance, and will contribute to the risk and return characteristics. The Fund believes, therefore that these factors should be taken into account in the Funding and Investment strategies and throughout the decision making process.
- The Fund is a long terms investor, with pension promises for many years, and because of this seeks to deliver long-term sustainable returns
- The Fund integrates ESG issues at all stages of the Fund's investment decision making process.
- The Fund seeks to apply an evidence based approach to the implementation of Responsible Investment.
- Transparency and accountability are important aspects of being a Responsible Investor and by publishing its policy and activity the Fund recognises this.
- The Fund has a duty to exercise its stewardship responsibilities (voting and engagement) effectively by using its influence as a long term investor to encourage corporate responsibility.
- The Fund recognises the significant long-term financial risk of **not** being a Responsible Investor, and seeks to ensure that this risk is mitigated through its Investment Policy and implementation.
- The Fund recognises the importance of Social/Impact investments which can make a positive social and environmental impact whilst meeting its financial objectives, and will make selective investments to support this aim.

Each of these overarching principles is covered in more detail within the supporting Sustainability Policy.

## Climate Change

The Fund recognises the importance in addressing the long term financial risk associated with climate change through its investment strategy, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers and all of the holdings in the portfolio.
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund, but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable for the long term to be in the best interests of all key stakeholders.
- Engagement is the best approach to enabling the change required to address the Climate Emergency, however selective risk-based disinvestment is appropriate to facilitate the move to a low carbon economy.
- As well creating risk, it also presents opportunities to make selective investments that achieve the required returns whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy.

## Strategic RI Priorities

The Fund recognises that as a Responsible Investor there are a multitude of potential areas on which to focus, however it is not possible to concentrate on everything together. Therefore, to enable the approach to be focused, the Fund has considered its strategic priorities for the next 3 years (2020-2023), which will support the overall aim of being a Responsible Investor.

These strategic priorities will be reviewed annually, and may be added to, but to maintain the desired focus the following have been identified from an RI perspective:

- **Evaluate and manage carbon exposure**
  - The Fund has identified climate change as a financial risk, and intends to measure and understand its carbon exposure within its investment portfolio.
  - Once this initial assessment has been made the Fund will look to set agreed Carbon reduction targets within 12 months to be delivered over the next five years.
- **Identify sustainable investments opportunities**
  - The Fund has for a number of years looked to make Social/Impact investments; whereby in addition to making the requisite financial return the investment has a positive social or environmental impact. The 2019 Investment Strategy Review has further supported this with the creation of a separately identified portfolio.
  - This portfolio has a strategic target weight of 4% of the Fund's assets and will be seeded from existing investments that meet pre-agreed criteria based on the [United Nations Sustainable Development Goals](#). Additional opportunities will be added with a view to achieving the target weight in three years.
- **Improve public disclosure and reporting**
  - The Fund recognises the importance of transparency and reporting with respect to ESG issues. The Fund intends to enhance its analysis, disclosure and reporting on its RI activities, including manager ESG ratings, voting and engagement and carbon emissions analysis.
- **Active Engagement on ESG risks**
  - As a member of the LAPFF the Fund has active engagement with its underlying investments. In the future, due to the pooling of investments this engagement will be supplemented by the work of the WPP. The Fund is committed to working proactively with WPP and its providers to improve the levels of engagement.

- **FRC Stewardship Code**

- The Fund has been a Tier One signatory to the Stewardship Code since March 2018. The new, more demanding version of the Code was launched in October 2019, and the Fund is committed to reviewing the requirements of the new Code, and aiming to remain a Tier One signatory if practical. If this is not achievable the Fund will encourage the WPP to do so.

### **Commitment**

The Fund has always sought to act with conscience when it comes to its investments, and recognises that its approach to RI will need to evolve continually, given the speed of change with regard to the impact and understanding of ESG issues, and the ever changing world in which we live. Due to the increased focus on RI within the investment industry there is continuous development of thinking and best practice and the Fund is committed to ensuring its approach remains relevant and appropriate. This RI Policy will be formally reviewed at least every three years as part of any strategic review of the Fund's asset allocation, or as required due to changing regulatory requirements or to address specific issues that may arise.

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# Eitem ar gyfer y Rhaglen 6



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	Pooling Investments in Wales
<b>Report Author</b>	Head of Clwyd Pension Fund

### 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. This report will be supplemented by a presentation from the Operator for the WPP, Link Fund Solutions who will present annually to each Administering Authority participating in WPP.

A Joint Governance Committee (JGC) meeting was held on 20<sup>th</sup> September 2019 and the agenda is attached. The WPP Responsible Investment Policy was approved along with a Fixed Income UK credit sub fund. The current work plan includes:

- developing governance and communication
- reporting and monitoring investment performance
- preparation for the transfer of other asset classes
- competitive tender for the role of WPP oversight adviser.

The Head of Clwyd Pension Fund and Deputy continue to assist the Host Authority (Carmarthenshire County Council) and the current 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 Carmarthenshire on Monday 9<sup>th</sup> December at 10 am and on this occasion the Clwyd Fund will not be represented.

### RECOMMENDATIONS

1	That the Committee: a) Note the report b) Receive a presentation from the WPP Operator c) Discuss and agree any comments or questions for WPP.
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## **REPORT DETAILS**

<b>1.00</b>	<b>Pooling Investment in Wales</b>
1.01	<p><b>Governance and Communication</b></p> <p>The Officer Working Group (OWG) and adviser have been developing, with the JGC, a number of governance related items which will be finalised at the next JGC:</p> <ul style="list-style-type: none"> <li>• Beliefs policy</li> <li>• Communications plan</li> <li>• Governance Matrix</li> <li>• Training Plan</li> <li>• Fund Manager Replacement protocol</li> </ul> <p>Further details will be provided at our next Committee but these will feature as background to next years' WPP Business Plan.</p>
1.02	It was agreed at the OWG on 8 <sup>th</sup> November 2019 to issue a press release on the responsible investment policy and move forward on the appointment of a voting and engagement agent for the WPP.
1.03	The second Pension Boards' Chairs' Engagement day has taken place. This is currently an alternative to scheme member representation on the JGC. In terms of member representation on the JGC, this was raised at the last JGC and at the Board Chairs' day and will be considered again in the new year. Phil Pumford attended on that meeting representing the Clwyd Pension Fund Board
1.04	The public report pack from the 20 <sup>th</sup> September JGC can be found here – <a href="http://democracy.carmarthenshire.gov.wales/ieListDocuments.aspx?CId=234&amp;Mid=2577">http://democracy.carmarthenshire.gov.wales/ieListDocuments.aspx?CId=234&amp;Mid=2577</a> and the agenda is attached as Appendix 1. The Chair of the Committee represented the Fund on the JGC and the Deputy Head of Clwyd Pension Fund was also in attendance.
1.04	The next OWG is 31 <sup>st</sup> January 2020 in Cardiff. The Fund will be represented by the Head and Deputy Head of Clwyd Pension Fund. The next JGC is in Carmarthenshire on Monday 9 <sup>th</sup> December 2019 and, due to timing, the Clwyd Pension Fund will not be represented. However, the Head and Deputy Head of the Clwyd Pension Fund will watch the web cast and will be joining by teleconference for an OWG discussion after the JGC.
1.05	<p><b>Reporting and monitoring of WPP investment performance</b></p> <p>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 WPP Operator, Link Fund Solutions, will provide more information as part of their presentation.</p>
1.06	<p><b>Preparation for the transfer of other asset classes</b></p> <p>The project plan for the transition of the fixed income mandates has been agreed by the OWG. In the case of the Clwyd Pension Fund, this relates to</p>

	12% of our assets which are held in multi asset credit and this transition was agreed at an earlier Committee. Both a transition adviser and transition manager have now been appointed. The actual transition of assets is planned for January 2020 and the transition manager is currently in direct discussion with our current fund manager.
1.07	The provision of on an emerging market equity sub fund through the WPP is in the early stages of development which is another positive development for the Clwyd Pension Fund.
1.08	A sub-group of the OWG had their second meeting to discuss the approach of pooling illiquid assets e.g. property, 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.
1.09	<p><b>Competitive tender for the role of WPP oversight adviser</b></p> <p>The current advisor Hymans Robertson was appointed as technical advisers and project managers in December 2015 to assist with the initial implementation of the WPP, hence it was now time to appoint an oversight adviser for on-going monitoring and further development. The Deputy Head of the Clwyd Pension Fund has been involved throughout the procurement process, from determining the specification to the final interviews. The appointment will be approved at the next JGC with the commencement of the new contract from 2nd January 2020. The appointment will enhance the governance arrangements of the WPP by providing:</p> <ol style="list-style-type: none"> <li>1) Oversight of the Operator and services provided by parties appointed by the Operator.</li> <li>2) WPP/JGC/OWG Governance support.</li> <li>3) Strategic Investment Adviser to the JGC/OWG, and</li> <li>4) Project management and ad hoc consultancy support.</li> </ol>

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
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 Head 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.

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

<b>4.00</b>	<b>RISK MANAGEMENT</b>
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. In addition, further guidance on pooling is expected from MHCLG in 2020 and the implications of that guidance are not yet none.
4.02	Given these points, this risk continues to be categorised as significant in the Fund's risk register.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – Agenda WPP JGC 20 <sup>th</sup> September 2019

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<ul style="list-style-type: none"> <li>• Earlier Committee reports on the progress of the WPP.</li> <li>• The Wales Pension Partnership Inter-Authority Agreement.</li> </ul> <p><b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> <a href="mailto:philip.latham@flintshire.gov.uk">philip.latham@flintshire.gov.uk</a></p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>The Fund – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>The Committee – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p>



- |  |
|--|
| <p><b>(e) Inter-Authority Agreement (IAA)</b> – the governance agreement between the eight Wales pension funds for purposes of pooling</p> <p><b>(f) Wales Pension Partnership (WPP)</b> – the name agreed by the eight Wales pension funds for the Wales Pool of investments</p> <p><b>(g) The Operator</b> – 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</p> <p><b>(h) Financial Conduct Authority (FCA)</b> – the regulator of the financial markets and financial services firms in the UK</p> |
|--|

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, 12 SEPTEMBER 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 **COUNCIL CHAMBER, TORFAEN COUNCIL, CIVIC CENTRE, HANBURY ROAD, PONTYPOOL, NP4 6YB. AT 10.00 AM, ON FRIDAY, 20TH SEPTEMBER, 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..***

<b>Democratic Officer:</b>	<b>Jessica Laimann</b>
<b>Telephone (direct line):</b>	<b>01267 224178</b>
<b>E-Mail:</b>	<b>JMLaimann@carmarthenshire.gov.uk</b>
<b>Webcast Link</b>	<b><a href="https://torfaen.public-i.tv/core/portal/home">https://torfaen.public-i.tv/core/portal/home</a></b>

**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**

# AGENDA

1. APOLOGIES FOR ABSENCE
2. DECLARATIONS OF INTEREST
3. TO SIGN AS A CORRECT RECORD THE MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON THE 28TH JUNE 2019 5 - 10
4. HOST AUTHORITY UPDATE 11 - 16
5. AUDITED ANNUAL RETURN AND AUDIT REPORT 2018/19 17 - 32
6. RESPONSIBLE INVESTMENT POLICY 33 - 44
7. PENSION BOARD CHAIRS ENGAGEMENT 45 - 48
8. LINK / RUSSELL UPDATE 49 - 60
9. PERFORMANCE REPORTS AS AT 30 JUNE 2019 61 - 90
10. EXCLUSION OF THE PUBLIC  
THE REPORTS RELATING TO THE FOLLOWING ITEM 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 THIS ITEM IN PRIVATE, THE PUBLIC WILL BE EXCLUDED FROM THE MEETING DURING SUCH CONSIDERATION.
11. FIXED INCOME UK CREDIT SUB-FUND 91 - 96

Mae'r dudalen hon yn wag yn bwrpasol

# Eitem ar gyfer y Rhaglen 7



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	2019 Actuarial Valuation
<b>Report Author</b>	Head of Clwyd Pension Fund

### EXECUTIVE SUMMARY

The main progress so far on the valuation project has been made in the following areas:

- The Actuary has completed the valuation calculations based on the actual data provided by the Fund. The emerging deficit has been assessed as £175m, representing a funding level of 91% and an average employer future service cost (or Primary contribution rate) of 17.3% of pay.
- All valuation result reports were provided to employers in October setting out their initial valuation results and also the potential impact that McCloud could have on their results. The results are subject to consideration of their covenant and that further meetings may take place once their covenant has been reviewed (where necessary). They must also notify the Fund if they intend to allow for McCloud within their contributions.
- A number of meetings have taken place to discuss the valuation results including the AJCM on 12<sup>th</sup> November. Feedback has been positive from employers.
- The draft Funding Strategy Statement (FSS) has been updated to reflect the discussions in some of the earlier meetings and the Committee on 4 September. The formal consultation with all interested parties commenced in October with all feedback requested by 15 November. The feedback will be collated and the final FSS will be agreed by the Committee at the February meeting taking account of this feedback.

### RECOMMENDATIONS

1	It is recommended that all Committee members note this report on the outcomes and the progress being made with the actuarial valuation project.
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## REPORT DETAILS

### 1.00 2019 Actuarial Valuation Update

1.01 The purpose of this report is to update PFC Members on the 2019 actuarial valuation project, including key milestones, communications with employers and other events.

This is the next report of the series of reports for the PFC meetings throughout 2019/20 until the conclusion of the valuation project.

The final actuarial outcome will be reported to Committee at the next meeting, however preliminary whole Fund results (based on the assumptions set out within the FSS) are set out below, alongside the final results emerging from the 2016 valuation for comparison purposes:

	2019	2016
<b>Assets</b>	£1,867m	£1,381m
<b>Liabilities</b>	£2,042m	£1,818m
<b>Deficit</b>	£175m	£437m
<b>Funding Level</b>	91%	76%
<b>Average employer future service contribution rate</b>	17.3%	15.3%

The Actuary has met with the Unitary Authority Chief Finance Officers, to communicate their results (including the UA associated employers). Dialogue will continue with them into December. The Actuary then met with the HE/FE employers to communicate their results. All remaining valuation result reports were provided to employers in October and the FSS consultation also commenced at this point.

The Annual Joint Consultative Meeting (AJCM) took place on 12 November and was a forum for further discussion and update on what the results mean in terms of affordability for each employer. The key funding strategy parameters were discussed as well as a reconciliation of the total Fund results above and the factors that have impacted on the outcomes as well as other factors which can affect individual employer results.

The attendance by employers was encouraging and feedback was positive.

Employers have been informed that the results are subject to consideration of their covenant and that meetings may take place once their covenant has been reviewed (where necessary). They must also notify the Fund if they intend to make a provision for estimated McCloud remedy costs within their contributions.

As part of the consultation on the FSS the Fund will continue dialogue with all employers over the coming months. Employers were asked to provide feedback on the FSS by 15 November although it was acknowledged that some employers may need more time given the detail set out within the FSS. Employers were also asked to feedback on their contribution requirements in the coming months following the AJCM.



The next steps are to gather feedback on the FSS following the consultation and finalise the FSS for agreement at the PFC meeting in February 2020. The final contributions for all employers will then be agreed and then implemented effect from 1 April 2020.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report. Significant resource requirements will continue to be required from the administration and investment teams to complete the process.

<b>3.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
3.01	The Fund is required to consult with employing bodies over the development of the FSS and overall framework of the actuarial valuation. Data is also required to be supplied to the GAD to complete their Section 13 actuarial valuation requirements for all LGPS valuations.

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): <ul style="list-style-type: none"> <li>• Governance risk: G2</li> <li>• Funding and Investment risks: F1 - F6</li> </ul>
4.02	The actuarial valuation is a key Governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements. 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.
4.03	The recent market volatility has increased the relative risk levels in relation to the Fund's solvency position and the required contribution rates from 1 April 2020.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – AJCM Valuation slides

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Report to Pension Fund Committee - 2019 Actuarial Valuation (12 June 2019), Current and Draft FSS and 2016 Actuarial Valuation report.</p> <p><b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>CPF – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>PFC – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>LPB or PB – Local Pension Board or Pension Board</b> – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.</p> <p>(e) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(f) <b>FSS – Funding Strategy Statement</b> – the main document that outlines how we will manage employers contributions to the Fund</p> <p>(g) <b>Actuarial Valuation</b> - 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.</p> <p>(h) <b>Actuary</b> - 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.</p> <p>(i) <b>GAD – Government Actuary’s Department</b> - The Government Actuary's Department is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.</p>

HEALTH WEALTH CAREER

# CLWYD PENSION FUND 2019 ACTUARIAL VALUATION

JCM  
Tudalen 51

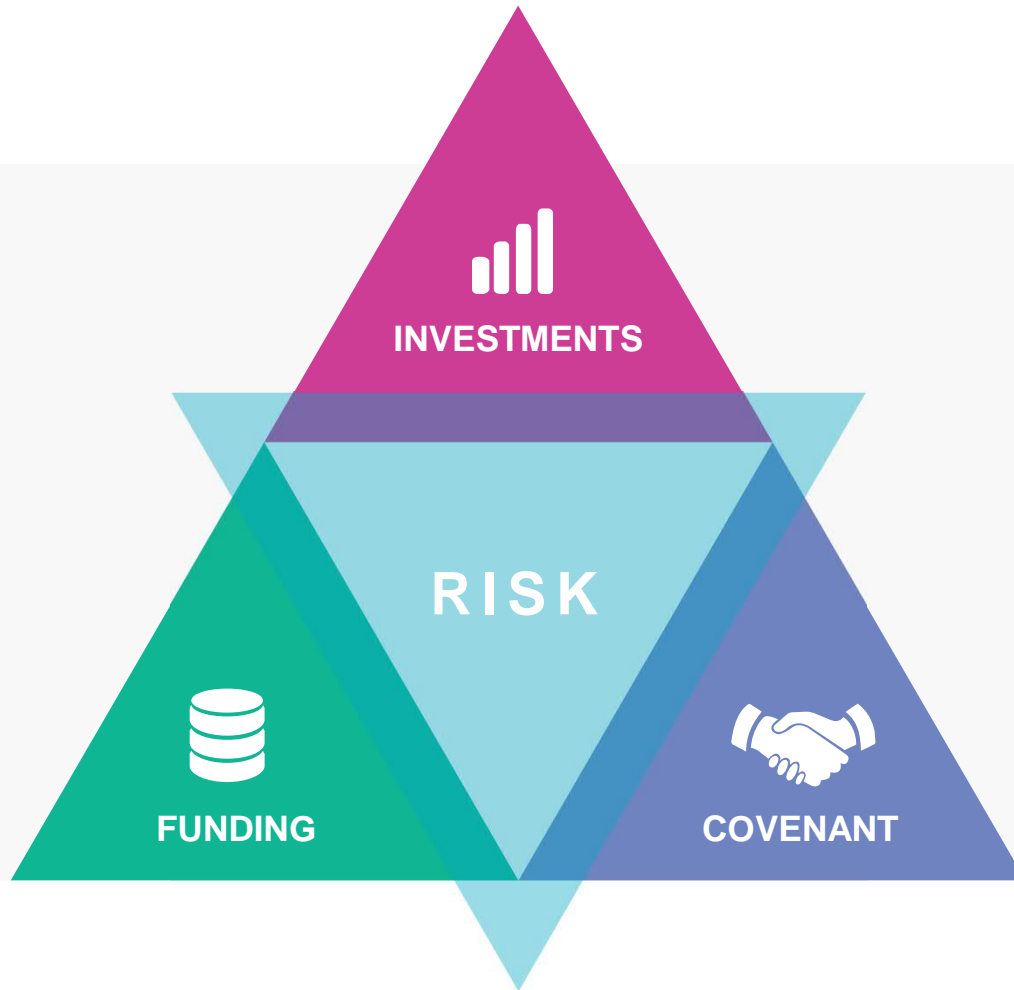
NOVEMBER 2019

MAKE TOMORROW, TODAY



# VALUATION PRINCIPLES

Tudalen 52



## KEY OBJECTIVES

- All employers must consider the balance of contributions versus risk (including in relation to employer covenant)
- The valuation assesses the position at 31 March 2019 and contributions effective from 1 April 2020
- This presentation takes us through the key parameter changes which are being consulted on
- A policy on the McCloud remedy is being proposed and is a key consideration at this valuation

# AGENDA

1

## KEY FUNDING STRATEGY PARAMETERS

- Existing funding strategy and proposed changes
- National issues

2

## PRELIMINARY WHOLE FUND RESULTS

- Whole Fund

3

## INDIVIDUAL EMPLOYER RESULTS

- Considerations for employers
- Employer results schedules

Tudalen 53

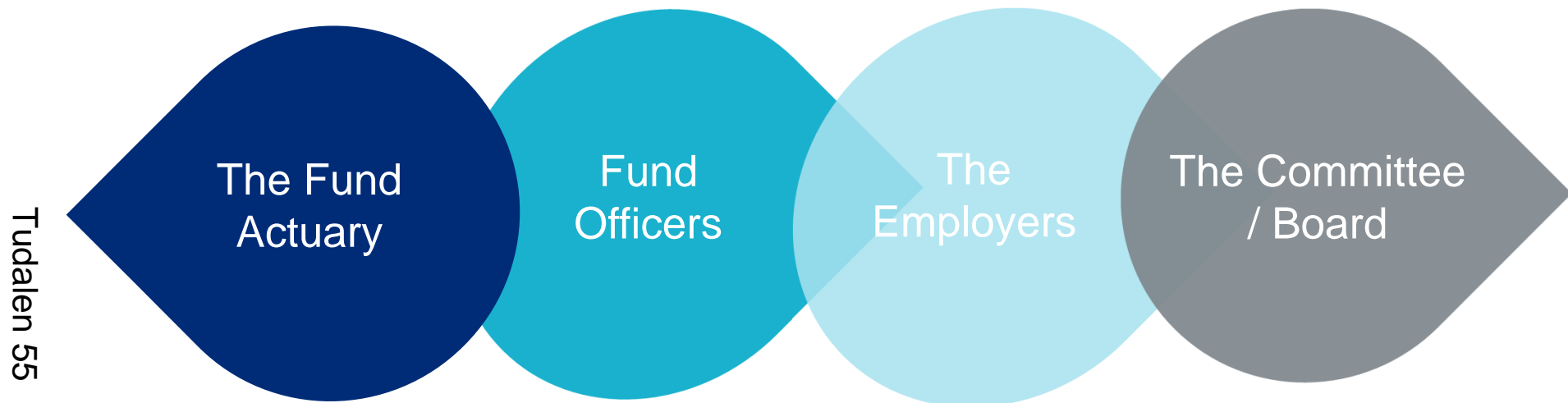
# KEY FUNDING STRATEGY CONSIDERATIONS

Tudalen 54



# FUNDING STRATEGY CONSULTATION

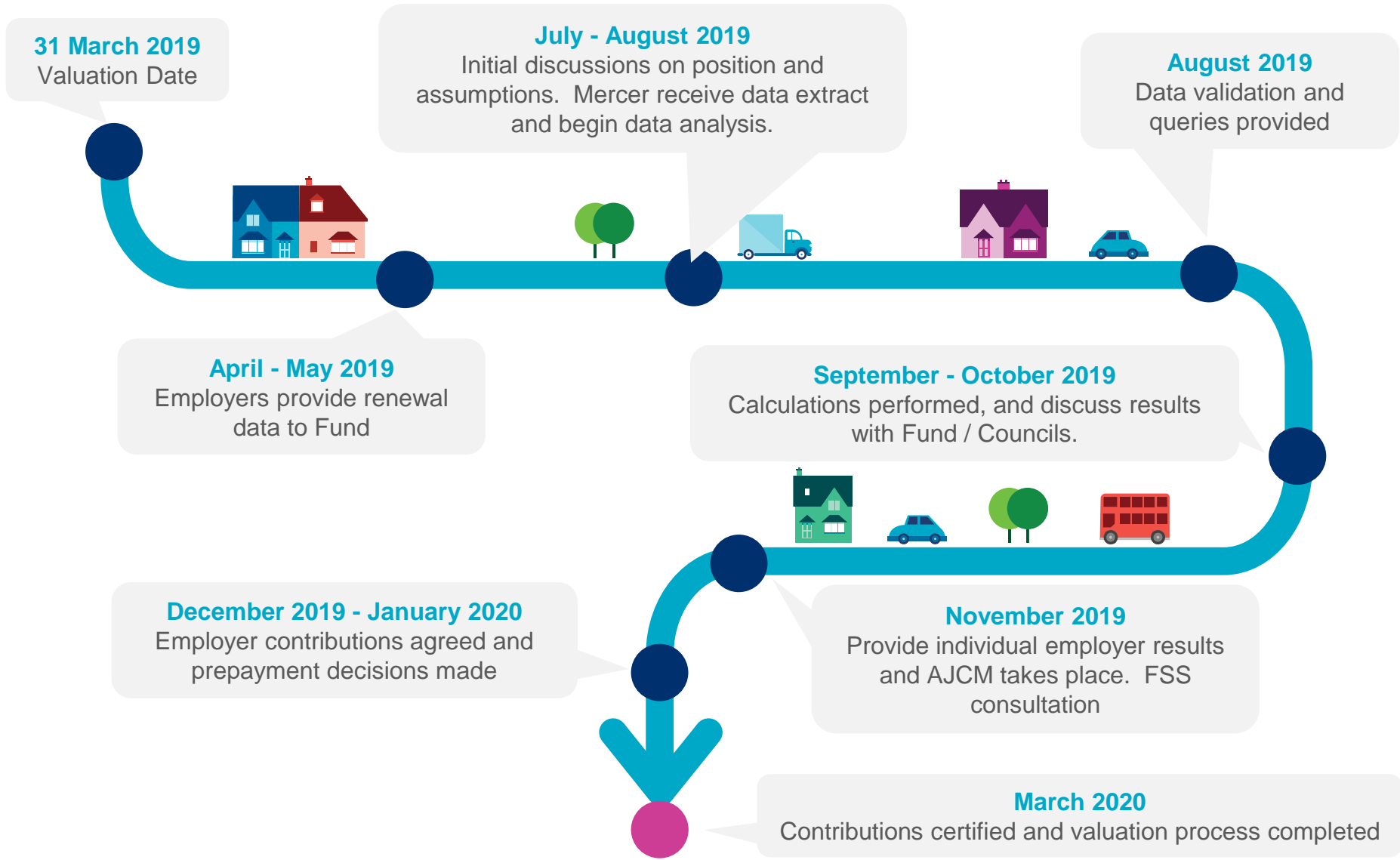
All employers must be consulted and their views considered



Process decided by the Administering Authority but the final decision rests with the Committee

# TIMELINE

Tudalen 56





# KEY FUNDING STRATEGY PARAMETERS

## PROPOSED KEY PARAMETER CHANGES FOR 2019

Parameter	2016	2019	Comment in relation to Fund
Discount rate	CPI+2.00% (past) CPI+2.75% (future)	CPI+1.75% (past) CPI+2.25% (future)	Reduction in return outlook since 2016. Offset by risk mitigations e.g. equity protection.
Life expectancy	LE for Male age 65 = 22.8 years	LE for Male age 65 = 22.4 years	Update to reflect results of the latest life expectancy analysis for the Fund.
Other demographics and long term pay growth	2016 assumptions	2016 assumptions	No material change in demographic trend so maintain assumptions. Maintain long term pay growth
Short term pay (if applicable)	1% p.a. for 4 years to 2020 (varies by employer)	2% p.a. for 4 years to 2023	Removal of Public Sector Pay cap needs to be allowed for. Will depend on employer views
Whole Fund Deficit Recovery period	15	12	Reduce by three years – varies by employer.

Tudalen 57

# FUNDING STRATEGY POLICY ISSUES

1



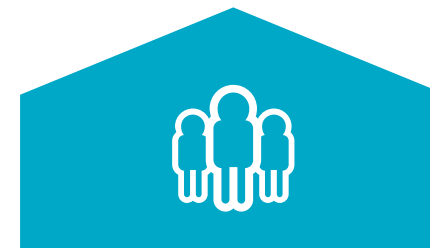
McCloud and Cost  
Management



4 year valuation  
cycle and interim  
reviews



Exit credits and  
deferred employer  
status



Review of employer  
rates

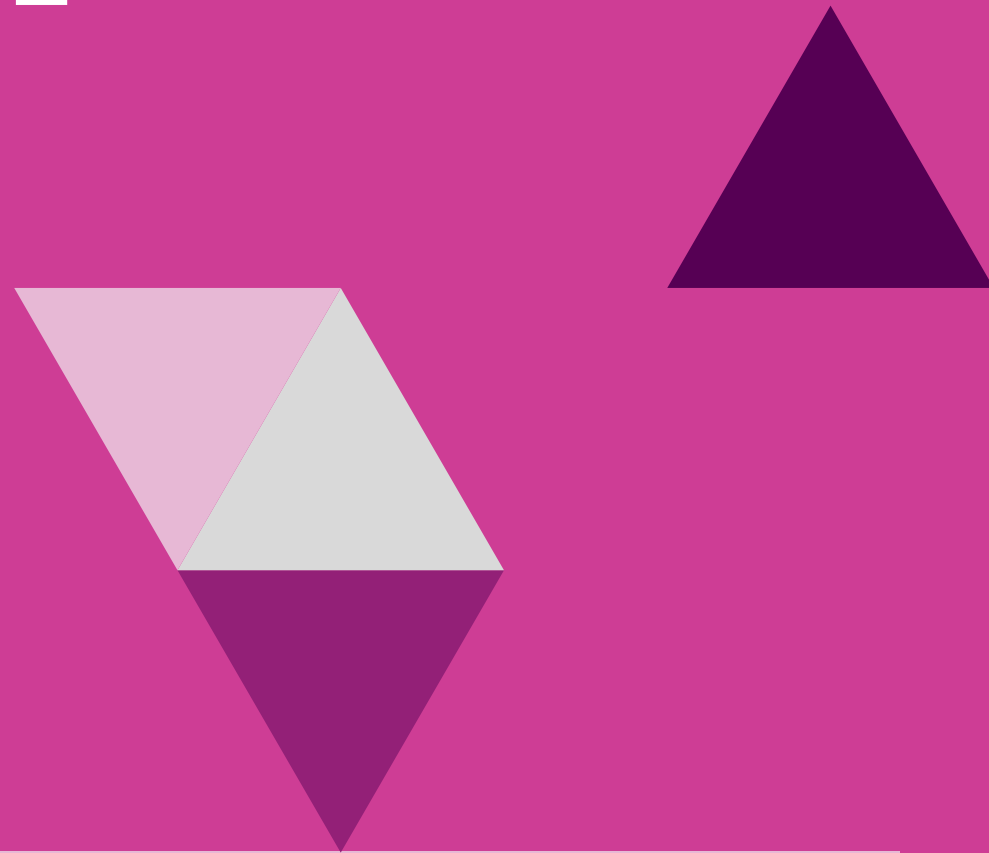
Tudalen 58

## KEY FSS CONSIDERATIONS

1. How do we allow for McCloud costs? Guidance from MHCLG is that policy on dealing with the risk needs to be clear for the employers and Fund. Assuming that current age criteria for underpin is removed, impact for total Fund would be an accrued liability increase of 0.5% (c£10m) plus a 0.5% of pay in relation to future service.
2. What would trigger an interim valuation or employer contribution rate review?
3. Under what circumstances would exit credits be paid?
4. Under what circumstances would an employer be allowed to become a “deferred employer”?

# PRELIMINARY WHOLE FUND RESULTS

Tudalen 59



# PRELIMINARY RESULTS

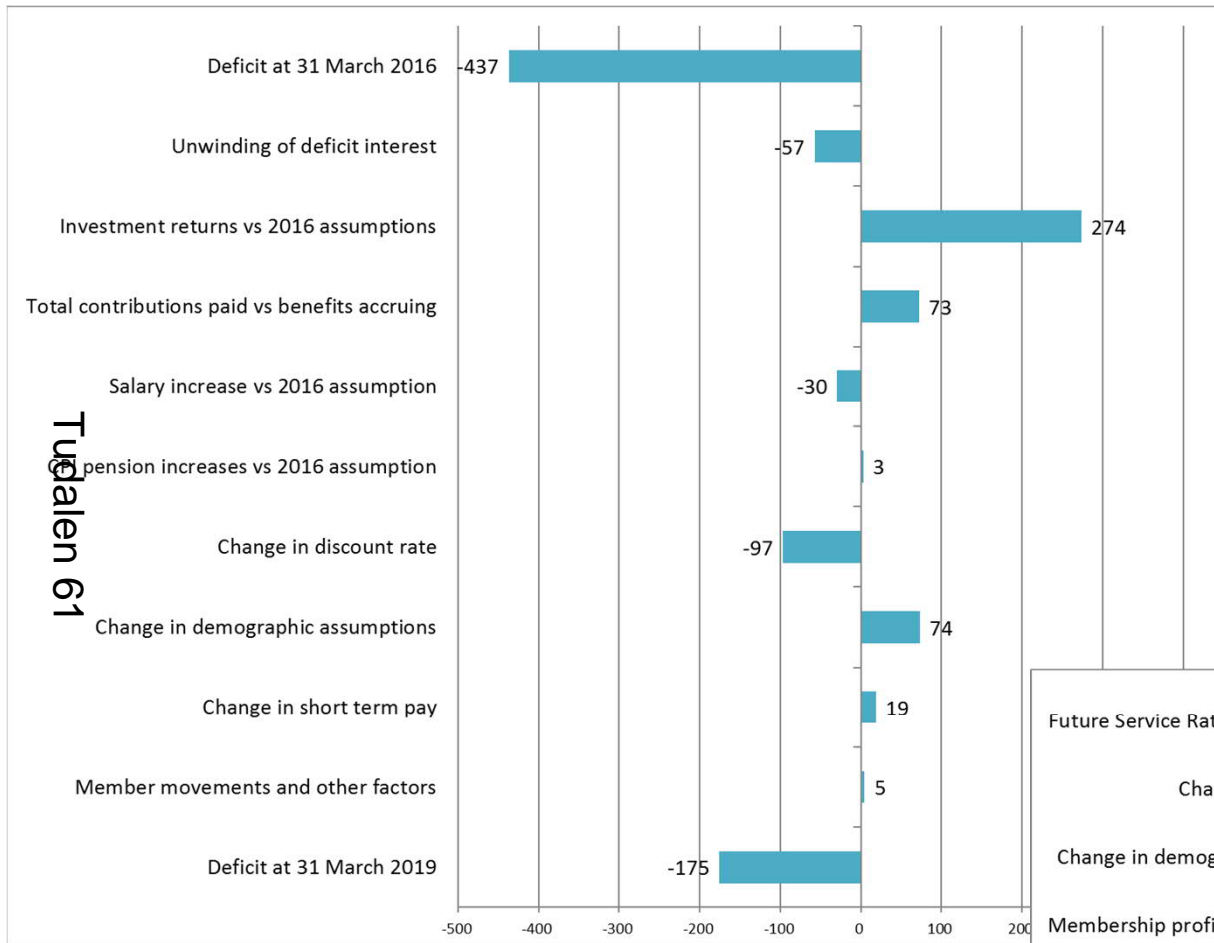
## 2019 WHOLE FUND RESULTS & SENSITIVITIES – CURRENT BENEFITS (EXCL MCCLOUD)

Tudalen 60

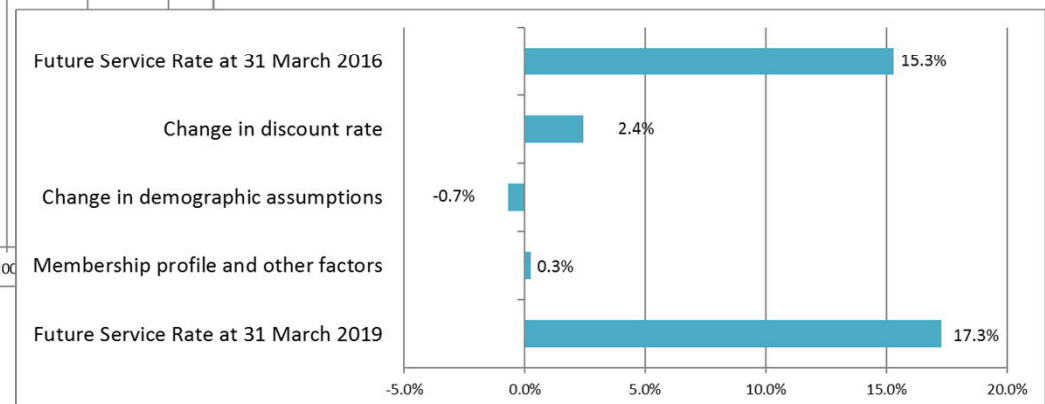
	2016 Valuation	31 March 2019	
		Base: (A) with CPI + 1.75% (Past) CPI + 2.25% (Future)	(A) with 0.25% lower discount rate on past and future service
Assets	£1,381m	£1,867m	£1,867m
Liabilities	£1,818m	£2,042m	£2,131m
Surplus / Deficit	-£437m	-£175m	-£264m
Funding Level	76%	91%	88%
Future Service Rate (% of pay)	15.3%	17.3%	18.7%
Deficit Recovery Period	15 years	12 years	12 years
Real Discount Rate (Past)	2.00% p.a.	1.75% p.a.	1.50% p.a.
Real Discount Rate (Future)	2.75% p.a.	2.25% p.a.	2.00% p.a.
Short Term Pay	2016 Valuation: 4 years of 1% p.a. with 1 year now remaining	2% p.a. for 4 years	2% p.a. for 4 years
Life Expectancy Assumption	CMI 2015 1.75% (males) 1.5% (females)	CMI 2018 1.75% (males) 1.75% (females)	CMI 2018 1.75% (males) 1.75% (females)

# PRELIMINARY RESULTS ANALYSIS OF CHANGE SINCE 2016

## PAST SERVICE (£m)



## FUTURE SERVICE (% of Pay)



# INDIVIDUAL EMPLOYER RESULTS

Fudalen 62



# INDIVIDUAL EMPLOYER RESULTS

## WHAT ELSE AFFECTS YOUR CONTRIBUTIONS?

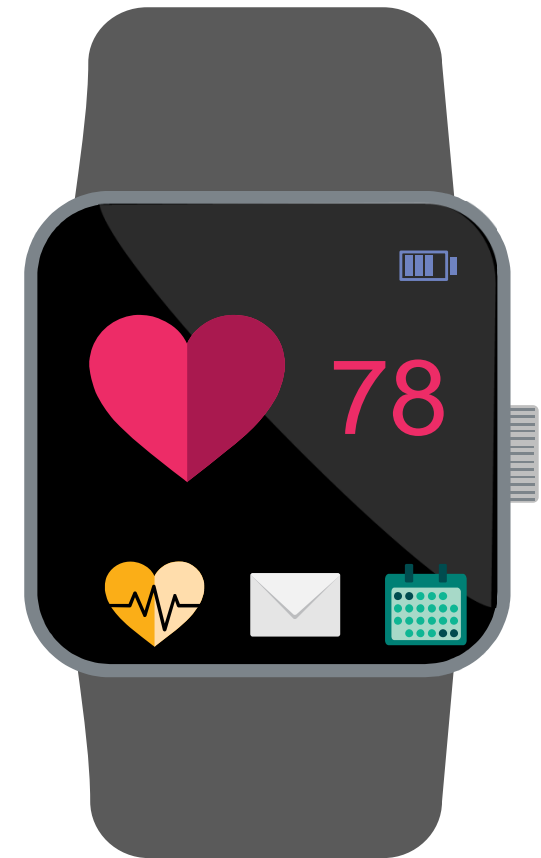
WHERE YOU STARTED FROM  
AND YOUR MEMBERSHIP PROFILE



WHAT YOU HAVE PAID IN



YOUR COVENANT ASSESSMENT



# INDIVIDUAL EMPLOYER RESULTS

## WHAT YOU NEED TO ALSO CONSIDER

### MC CLOUD

- Do you want to make a provision for McCloud in your contributions in order to provide budget certainty? **See your schedule for your options here.**

### SHORT-TERM PAY

- What is the appropriate adjustment to be made for short-term pay, if any, to your results? Evidence will be required (subject to the minimum of 2% p.a. to 2023). **See your schedule to see the assumption that is currently being applied in your figures.**

### ILL-HEALTH CAPTIVE

- Certain employers will remain in this arrangement as per the FSS. **See your schedule to see if you are in this arrangement.**

### PREPAYMENT OF DEFICIT CONTRIBUTIONS

- Where a deficit still exists, employers are able to prepay their required lump sums if they choose, either in full or on an annual basis. **See your schedule for your options here.**

### IMPACT OF COVENANT

- Before your contributions can be finalised, an assessment of your covenant will be made. This could result in a request for increased security (e.g. bond) or maintaining/increasing contributions. **Employer results do not currently allow for this. It will be discussed as part of consultation process.**



# FUNDING STRATEGY CONSULTATION SAMPLE RESULTS SCHEDULE

## 2019 ACTUARIAL VALUATION SUMMARY CLWYD PENSION FUND - ABC Association (600)



### EMPLOYER RESULTS SUMMARY

#### VALUATION BALANCE SHEET

Surplus / (Deficit)	(£100,000)
Funding Level	96.4%

#### TERMINATION POSITION

Surplus / (Deficit) including Estimated McCloud Cost	(£1,200,000)
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#### EMPLOYER FUTURE SERVICE COST

Employer Future Service Rate (% pay p.a.)	15.8%
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#### EMPLOYER CONTRIBUTION REQUIREMENTS

Contributions:	Future Service Rate	Surplus / Deficit Contributions
2020/21	15.8%	plus £15,000
2021/22	15.8%	plus £16,000
2022/23	15.8%	plus £17,000

#### SUPPORTING INFORMATION

Employer Information	
Employer Type	Scheme Employer
Open/Closed	Open
Ill Health Captive	Yes
Funding Basis	Ongoing

Guarantor in Fund	n/a
Deficit Contribution Prepayment Selected	None
Implied Recovery Period from 1 April 2020	6 years

#### McCloud Estimated Costs

Increase in Liabilities (% of liabilities)	1.4%
Increase in Liabilities	£40,000
Increase in Future Service Rate (% of pay)	0.6%

The figures above exclude the potential impact of the McCloud judgment. Further information of the impact is shown on the next page.

The figures above include an allowance for short term pay of 2% p.a. for the four years to 2023/24.

This schedule should be read in conjunction with the letter issued by Clwyd Pension Fund, the Funding Strategy Statement 2019 and any associated correspondence regarding the Actuarial Valuation as at 31 March 2019. The contributions will be reassessed as part of the 2022 Actuarial Valuation and new contributions will be payable from 1 April 2023.

Whilst reasonableness checks on the data provided by the Fund have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently, we do not accept any liability in respect of our advice where we have relied on data which is incomplete or inaccurate.



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# FUNDING STRATEGY CONSULTATION

## SAMPLE RESULTS SCHEDULE

### 2019 ACTUARIAL VALUATION CONTRIBUTION PROJECTIONS CLWYD PENSION FUND - ABC Association (600)



#### DETAILED RESULTS

	Final results at 31 March 2016		Actuarial Valuation Results at 31 March 2019 (excl McCloud Impact)			
Assets	£1,400,000		£2,700,000			
Liabilities	£1,600,000		£2,800,000			
Surplus / (Deficit)	(£200,000)		(£100,000)			
Funding Level	87.5%		96.4%			
Employer Future Service Rate (% of pay)	14.0%		15.8%			
2020/21 Projected Payroll	£980,000		£980,000			
Implied Recovery Period	9 years		6 years			
2019/20 Future Service Amount	14.0%	£130,000	14.0%	£130,000		
2019/20 Deficit Recovery Amount	£16,300		£16,300		McCloud Estimated Costs	
2020/21 Future Service Amount	14.0%	£137,000	15.8%	£155,000	16.4%	£161,000
2021/22 Future Service Amount	14.0%	£138,000	15.8%	£156,000	16.4%	£162,000
2022/23 Future Service Amount	14.0%	£139,000	15.8%	£157,000	16.4%	£163,000
2020/21 Deficit Recovery Amount	£31,000		£15,000		£22,000	
2021/22 Deficit Recovery Amount	£32,000		£16,000		£23,000	
2022/23 Deficit Recovery Amount	£33,000		£17,000		£24,000	
Total 2020/23 Projected Contributions	£490,000		£520,000		£560,000	
	Deficit Prepayment Options:		Each April	April 2020	Each April	April 2020
	2020/21 Deficit Recovery Amount		£14,500	£4,500	£21,000	£65,000
	2021/22 Deficit Recovery Amount		£15,500	£0	£22,000	£0
	2022/23 Deficit Recovery Amount		£16,500	£0	£23,000	£0
	Saving		£1,500	£3,000	£3,000	£4,000



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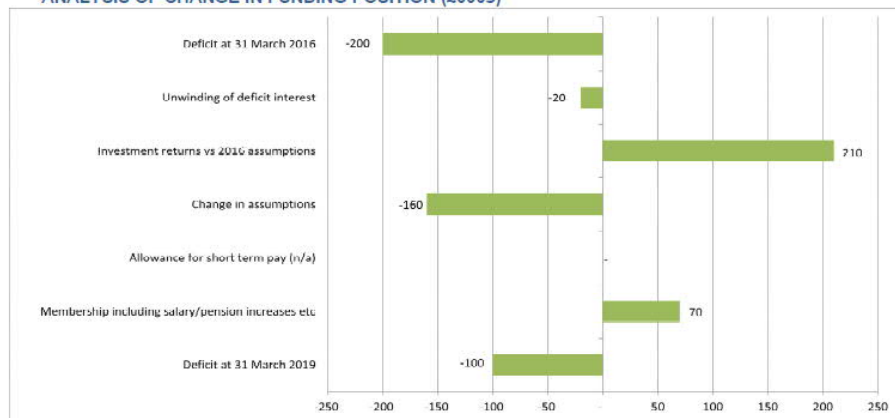
# FUNDING STRATEGY CONSULTATION

## SAMPLE RESULTS SCHEDULE

### 2019 ACTUARIAL VALUATION FURTHER INFORMATION CLWYD PENSION FUND - ABC Association (600)



#### ANALYSIS OF CHANGE IN FUNDING POSITION (£000s)



#### ANALYSIS OF CHANGE IN FUTURE SERVICE RATE

	% of Pay
2016 Future service rate	14.0%
Change in employee contribution rate / IH Premium	+0.1%
Change in profile of membership	+0.6%
Change in actuarial assumptions	+1.1%
2019 Future service rate	15.8%

#### KEY MEMBERSHIP EXPERIENCE - 2016 TO 2019

	Actual	Actual vs Expected
Pensioner Deaths	0	0%
Ill-health Retirements	0	0%
Implied Salary Growth (weighted by liability)	5%	
Implied Salary Growth (unweighted)	5%	

#### SUMMARY OF MEMBERSHIP DETAILS

	31 March 2016	31 March 2019
Number of Active members	8	22
Total Post 2014 Actual Salaries (£ p.a.)	200,000	900,000
Total Pre 2014 FTE Salaries (£ p.a.)	300,000	1,000,000
Total Pre 2014 FTE Salaries for those in both valuations (£ p.a.)	300,000	315,000
Total Liabilities (£)	500,000	1,600,000
Average Age (weighted by CARE pay)	48.0	50.0
Average Employee Rate (% of pensionable pay)	6.6%	6.5%
Number of Deferred Pensioners	14	15
Total Liabilities (£)	900,000	1,100,000
Total Deferred Pensions at the Valuation Date (£ p.a.)	55,000	600,000
Number of Current Pensioners and Dependents	1	1
Total Liabilities (£)	100,000	120,000
Total Pensions Payable (£ p.a.)	3,700	4,000



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# FUNDING STRATEGY CONSULTATION

## SAMPLE RESULTS SCHEDULE

### 2019 ACTUARIAL VALUATION EMPLOYER CONTRIBUTION PLAN CLWYD PENSION FUND - ABC Association (600)



Year	Future Service Rate (% of pay)	Deficit/(Surplus) Contributions (£ per annum)
2020/21	15.8%	£15,000
2021/22	15.8%	£16,000
2022/23	15.8%	£17,000
2023/24	15.8%	£18,000
2024/25	15.8%	£19,000
2025/26	15.8%	£20,000
2026/27	15.8%	
2027/28	15.8%	
2028/29	15.8%	
2029/30	15.8%	
2030/31	15.8%	
2031/32	15.8%	
2032/33	15.8%	
2033/34	15.8%	
2034/35	15.8%	
2035/36	15.8%	
2036/37	15.8%	
2037/38	15.8%	
2038/39	15.8%	
2039/40	15.8%	
2040/41	15.8%	
2041/42	15.8%	
2042/43	15.8%	
2043/44	15.8%	
2044/45	15.8%	
2045/46	15.8%	
2046/47	15.8%	
2047/48	15.8%	

The figures above exclude the potential impact of the McCloud judgment.

Please note that the future service contributions are payable for as long as your organisation has active members in the Fund. In addition, employer contributions are subject to a minimum of zero. Your contributions will be reassessed as part of the next actuarial valuation.



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# APPENDIX

Tudalen 69



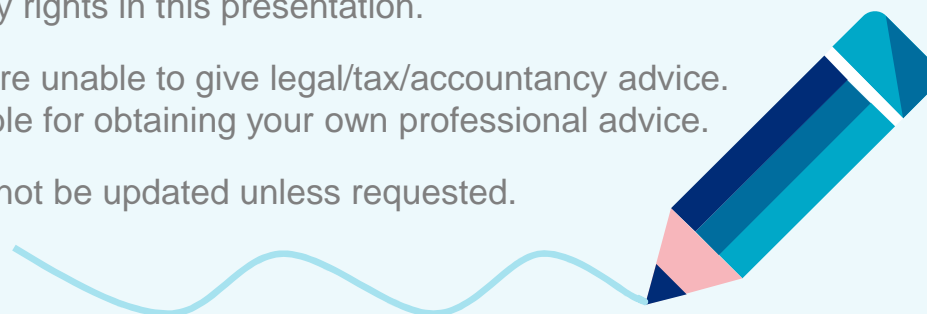
# NOMINAL FINANCIAL ASSUMPTIONS

Tudalen 70

Market yields	31 March 2016	31 March 2019
Fixed interest gilt yield	2.20% p.a.	1.50% p.a.
Index-linked gilt yield	-1.00% p.a.	-1.90% p.a.
Assumed CPI price inflation (derived by differencing yields on fixed-interest and index-linked gilts less 1% p.a.)	2.20% p.a.	2.40% p.a.
<b>Assumptions used for Liabilities</b>		
Derivation of Discount Rate/Expected Return	CPI plus 2.00% p.a. (past) CPI plus 2.75% p.a. (future)	CPI plus 1.75% p.a. (past) CPI plus 2.25% p.a. (future)
Discount rate:	4.20% p.a. (past) 4.95% p.a. (future)	4.15% p.a. (past) 4.65% p.a. (future)
Inflation: Consumer Prices Index (CPI)	2.20% p.a.	2.40% p.a.
Long term pay growth assumption	3.45% p.a.	3.65% p.a.
Pension increases	2.20% p.a.	2.40% p.a.
Short term pay growth assumption (for two years to 31 March 2020)	1% per annum	2% per annum
Fund investment return	A total return of c33% over the period from 1 April 2016 to 31 March 2019.	

# ACTUARIAL ADVICE

- We have prepared this document for the Administering Authority for the purpose of updating the funding position of the Fund
- “Technical Actuarial Standard 100: Principles for Technical Actuarial Work” issued by the Financial Reporting Council applies to this presentation and the associated work, and we confirm compliance with this standard. This presentation should be read in conjunction with our report on the actuarial valuation of the Fund as at 31 March 2016.
- Unless otherwise stated, we have relied on the information and data supplied to us in preparing the information, without independent verification. We will not be responsible for any inaccuracy in the advice that is a result of any incorrect information provided to us.
- Mercer does not accept any liability or responsibility to any third party in respect of this report.
- This presentation is confidential and may not be disclosed in whole or part to any third party without Mercer’s prior written consent, unless required by law or order of a court or regulatory body.
- Mercer retains all copyright and other intellectual property rights in this presentation.
- We are not lawyers, tax specialists or accountants. We are unable to give legal/tax/accountancy advice. If you think such advice is appropriate, you are responsible for obtaining your own professional advice.
- This presentation is correct as at November 2019. It will not be updated unless requested.





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## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	2019 AVC Review Update
<b>Report Author</b>	Deputy Head, Clwyd Pension Fund

### EXECUTIVE SUMMARY

The purpose of this report is to provide an annual update on the AVC arrangements following a review first carried out by Mercer in 2017, as proposed under the business plan.

In summary, the 2019 monitoring update found that:

- Unit-linked investments generally performed well over year to 30 June 2019.
- Prudential has fully removed its exit charge for investments withdrawn in the first three years, with effect from 1 December 2018.
- Underlying investment performance of the With-Profits funds has continued to be good compared to other With-Profits funds.
- Prudential has developed its digitally led service to replace its previous meeting service.

Mercer's report provided comment on the above aspects as well as further information on other current issues in the market. In addition to these reports, Prudential also presented at the Employer's Meeting on 12 November.

On the Fund's arrangements with Equitable Life, the EGM took place in London on 1 November, and policyholders voted overwhelmingly in favour of the Proposal – 94% by number, and 96% by value. The Clwyd Pension Fund also voted in favour of the proposal after having taken formal advice from Mercer in respect of how the Fund's members would be affected by the Proposal.

The next step is the High Court hearing starting on 22 November, where formal approval will be sought to implement the changes, assuming approval, effective 1 January 2020.

### RECOMMENDATIONS

1	It is recommended that all Committee members note the contents of this report and the accompanying appendix.
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## **REPORT DETAILS**

<b>1.00</b>	<b>2019 AVC Review Update</b>
1.01	<p><b>Background</b></p> <p>Under the LGPS Regulations, all Administering Authorities are required to provide members access to an AVC provider, through which they can choose to save more for their retirement. By providing this, the Administering Authority has a fiduciary duty to ensure that the AVC arrangements it puts in place are in the best interests of its members (in terms of suitability of fund range, performance, governance and administration).</p> <p>Historically, the vast majority of LGPS funds, including the Clwyd Pension Fund, used the Equitable Life Assurance Society (ELAS) to provide members access to AVCs. After its well-publicised difficulties in the late 1990s and early 2000s, ELAS closed to new business and withdrew from the market. While the Clwyd Pension Fund appointed Prudential to provide access to AVCs after this point, many ELAS fund members remained with ELAS due to the type of funds they were invested in. The Administering Authority's fiduciary duties therefore continue for both the current and historic providers.</p> <p>In accordance with these requirements, the Fund has performed regular AVC reviews (firstly in 2017 and then 2018) in order to ensure that the AVC providers remain appropriate and serve the best interests of the members. This report comments on the 2019 review.</p> <p>Currently, there are 600 Clwyd Pension Fund members with access to £5.4m of investments with Prudential and 6 members with access to £0.4m of investments with Equitable Life.</p> <p>Appendix 1 sets out a summary update as provided by Mercer, and this includes details of the actions taken following the 2017 review, commentary on performance and also updates on other aspects within the market.</p>
1.02	<p>The main findings of this annual review are:</p> <ul style="list-style-type: none"><li>- Unit-linked investments generally performed well over the year to 30 June 2019, with upper quartile performance for many of them and only two funds performing below median.</li><li>- Historically, any LGPS investments withdrawn from a Prudential policy within three years of receipt of the first contribution could incur an exit charge. However, Prudential has advised that this exit charge has been fully removed with effect from 1<sup>st</sup> December 2018.</li><li>- The underlying investment performance of the With Profits fund has continued to be positive, comparing well against other With Profits funds held on the Mercer database (exceeding the median return over ten years by 10%).</li><li>- Following on from Mercer's full review in 2017, the Life-styling options offered by Prudential have been updated. The three</li></ul>

	<p>previous options are now closed to new members, and have been replaced by two of Prudential’s “Dynamic Growth” strategies; one targeting retirement options for those who are unsure how they will draw these funds on retirement, and the other for those targeting 100% cash.</p> <ul style="list-style-type: none"> <li>- Any affected members by these closures were invited by Prudential to make a decision as to which lifestyle arrangement they would like their funds to transfer to. In the absence of any positive decision, the Fund advised Prudential to default to a transfer to the “Targeting Cash” lifestyle arrangement in light of: <ul style="list-style-type: none"> <li>o the pension freedoms available to members upon retirement,</li> <li>o since 2017 the majority of members have opted to join the “Targeting Cash” arrangement and</li> <li>o following discussions with Mercer.</li> </ul> </li> <li>- Further to the previous report, and subsequent steps taken, there is no longer a default fund for future new contributors. This was adopted given that the Fund provides access to communication material (directly and via the AVC provider) designed to assist members with making investment decisions.</li> <li>- The Fund and Prudential have sought to contact AVC members in order to remind them of the options available across a range of investment strategies.</li> <li>- In May 2018, Prudential announced it would be ceasing to provide its member presentation and individual members meeting service for public sector AVC scheme clients, but focussing on a more digitally led service.</li> <li>- In October 2019, Prudential demerged from M&amp;G plc. This was to enable Prudential’s Asia operations to be more valued by the market, and allows M&amp;G more freedom to invest and grow its business. It is not expected to impact on the UK business, and Clwyd Pension Fund’s interests.</li> <li>- Prudential has announced that it will be closing a range of funds later in 2019 and further funds in 2020. The funds indicated are not currently in use by the Fund.</li> </ul> <p>In accordance with its responsibilities, the Administering Authority will continue to keep all AVC arrangements under review, and will revisit this again next year.</p>
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<b>2.00</b>	<b>EQUITABLE LIFE</b>
2.01	<p>Following Equitable Life’s Spring Announcement in 2018 regarding their intention to transfer all policies to Reliance Life (subsequently rebranded as Utmost Life and Pensions). The EGM to vote on the proposal took place in London on 1 November 2019.</p> <p>As part of the Proposal, the Equitable Life With Profits Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds. It was expected that the 35% Capital Distribution (the enhancement to disinvestments from the With Profits Fund that was in place previously for Equitable Life policyholders) would increase to 60%-100%.</p>

	<p>The Fund sought advice from Mercer as to whether or not it was appropriate to support the Proposal insofar as it applies to the Clwyd Pension Fund membership. Based on a critical yield analysis, Mercer advised it was reasonable to vote in favour of the Proposal.</p> <p>The Clwyd Pension Fund, as policyholder, voted in favour of the Proposal on 1 November, and was overwhelmingly supported – 94% by number, and 96% by value.</p> <p>The next step is the High Court hearing starting on 22 November, where formal approval will be sought to implement the changes, assuming approval, effective 1 January 2020.</p> <p>There are aspects of the Proposal that need further investigation in terms of default treatment of Funds for certain members, but this will be considered at the appropriate time.</p>
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<b>3.00</b>	<b>RESOURCE IMPLICATIONS</b>
3.01	<p>The AVC arrangement will continue to be kept under annual review (in terms of performance of funds), as per the original recommendations by Mercer.</p> <p>In addition to this, Fund Officers will continue to meet and have dialogue with the Prudential Client Managers in respect of the arrangements.</p> <p>There will also be additional work required should the High Court give approval for the Proposal to go ahead, as the default treatment for some members may not be appropriate.</p>

<b>4.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
4.01	<p>Further communications likely to be needed once the High Court has ruled on the Equitable Life transfer. This will include some targeted communications where the default proposals may not be appropriate for those members.</p> <p>Fund Officers to continue to receive regular feedback from members and employers on the AVC arrangements and service offered by Prudential.</p>

<b>5.00</b>	<b>RISK MANAGEMENT</b>
5.01	<p>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):</p> <ul style="list-style-type: none"> <li>• Governance risks: G2 &amp; G7</li> <li>• Administration risks: A4</li> </ul>

<b>6.00</b>	<b>APPENDICES</b>
6.01	Appendix 1 – Summary paper of the 2019 AVC Review Update

<b>7.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
7.01	<p>2017 AVC Summary paper, and 2018 monitoring update tabled at previous Committee meetings.</p> <p><b>Contact Officer:</b> Debbie Fielder, Deputy Head of Clwyd Pension Fund  <b>Telephone:</b> 01352 702259  <b>E-mail:</b> <a href="mailto:debbie.a.fielder@flintshire.gov.uk">debbie.a.fielder@flintshire.gov.uk</a></p>

<b>8.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<p>(a) <b>The Fund – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering Authority or Scheme Manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>Additional Voluntary Contribution (AVCs)</b> – additional contributions made by members to the Fund’s Money Purchase AVC provider.</p> <p>(d) <b>The Committee – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(e) <b>LPB or PB – Local Pension Board or Pension Board</b> – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.</p> <p>(f) <b>GAD</b> - The Government Actuary’s Department.</p> <p>(g) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(h) <b>DCLG - Department for Communities and Local Government</b> - Central Government department responsible for the LGPS</p>

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|  | <ul style="list-style-type: none"><li>(i) <b>LGA - The Local Government Association</b> - 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.</li><li>(j) <b>Actuarial Valuation</b> - 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.</li><li>(k) <b>TPR</b> – The Pensions Regulator - the UK regulator of workplace pension schemes. TPR is focussed on ensuring that employers put their staff into a pension schemes and pay money into it, together with making sure that workplace pension schemes are run properly so that people can save safely for their later years. TPR has a specific remit in the context of Public Service Pension Schemes as defined by the Public Service Pensions Act 2013 (see it's Code of Practice 14).</li></ul> |
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## CLWYD PENSION FUND 2019 AVC REVIEW UPDATE

This paper is addressed to Flintshire County Council as the Administering Authority of the Clwyd Pension Fund (the “Fund”). This paper should be read in conjunction with our 2017 report. This update, building on our previous recommendations, primarily reviews the past performance information of the Fund’s Additional Voluntary Contribution (“AVC”) arrangements and also includes an update on current AVC issues.

### EXECUTIVE SUMMARY

The main findings from the 2019 annual review are:

- Unit-linked investments generally performed well over the year to 30 June 2019, with upper quartile performance for many of them and only two funds performing below median.
- Historically, any Local Government Pension Schemes (“LGPS”) investments withdrawn from a Prudential policy within three years of receipt of the first contribution could incur an exit charge (other than on death or ill health early retirement). However, Prudential has advised that this exit charge has been fully removed with effect from 1st December 2018.
- The underlying investment performance of the With Profits Fund has continued to be positive, comparing well against other With Profits funds held on Mercer’s database (exceeding the median return over the decade to 31 December 2017 by 10%). Prudential reduced the equity content of the underlying assets of the With Profits Fund in the year to 31 December 2018 (by around 8%) but benchmarking against the rest of the with profits market will not be available until early 2020.
- Following on from our full review in 2017, the Lifestyling options offered by Prudential have been updated. The three previous options are now closed to new members, and have been replaced by two of Prudential’s “Dynamic Growth” strategies; one targeting retirement options for those who are unsure how they will draw these funds on retirement, and the other for those targeting 100% cash.
- Following on from our previous report, and subsequent steps taken, there is no longer a default fund for future new contributors. This was adopted given that the Fund provides access to communication material (directly and via the AVC provider) designed to assist members with making investment decisions.
- We understand that the Fund, together with Prudential, have sought to contact AVC members in order to remind them of the options available across a range of investment strategies.

- Prudential has announced that it will be closing a range of funds later in 2019 and further funds in 2020. The funds indicated are not currently in use by the Clwyd Fund.
- In May 2018, Prudential announced it would be ceasing to provide its member presentation and individual member meeting service for public sector AVC scheme clients, but focussing on a more digitally led service. There have been some developments in this area, as shown by Prudential's LGPS website.

## PAST PERFORMANCE SUMMARY

### Unit Linked Funds

The table below summarises the five year performance details of the investment fund range. We suggest that two consecutive years of "bottom" quartile performance, at least, is classified as necessitating a closer monitoring and potential review.

**ABI Sector quartile ranking** Bottom 3rd 2nd Top

#### Prudential

	Performance in year to:	30/06/2015	30/06/2016	30/06/2017	30/06/2018	30/06/2019
Pru UK Equity S3 Pn		4.20	-0.81	22.01	10.38	-0.87
	<i>FTSE All Share</i>	2.60	2.21	18.12	9.02	0.57
Pru Long Term Gilt Passive Pn S3		16.25	23.97	-1.75	4.14	7.34
	<i>FTSE Actuaries UK Conventional Gilts Over 15 Years</i>	16.25	24.09	-1.83	4.24	7.17
Pru Cash S3 Pn		0.46	0.46	0.13	0.33	0.72
	<i>LIBID 7 day</i>	0.36	0.36	0.14	0.27	0.56
Pru Dynamic Growth IV Pn S3		n/a*	8.85	17.94	4.99	6.79
	<i>Benchmark: Prudential internal composite</i>		3.20	15.70	4.00	5.80
Pru Dynamic Growth II Pn S3		n/a*	8.46	13.91	3.55	6.77
	<i>Benchmark: Prudential internal composite</i>		4.90	6.50	2.60	6.00
Pru Ethical Pn S3		4.66	0.68	17.86	7.70	4.90
	<i>FTSE4Good UK Equity Index</i>	3.53	1.66	17.61	9.34	3.67
Pru UK Equity S3 Pn		4.20	-0.81	22.01	10.38	-0.87
	<i>FTSE All Share</i>	2.60	2.21	18.12	9.02	0.57
Pru Global Equity S3 Pn		5.73	2.36	23.92	9.18	0.88
	<i>Benchmark: Prudential internal composite</i>	9.30	3.60	19.00	8.60	2.70
Pru International Equity S3 Pn		8.79	10.68	28.33	6.70	4.76
	<i>Benchmark: Prudential internal composite</i>	9.90	11.60	26.00	7.60	7.60
Pru Index Linked S3 Pn		15.90	18.41	7.43	2.66	8.95
	<i>FTSE Actuaries UK Index Linked Gilts Over 5 Years</i>	15.80	17.00	7.10	2.00	9.10
Pru Fixed Interest S3 Pn		9.36	13.73	-0.19	2.40	4.61
	<i>FTSE Actuaries UK Conventional Gilts All Stocks ..</i>	8.86	13.50	-0.86	1.93	4.90
Pru Discretionary S3 Pn		6.38	5.96	22.31	6.51	4.06
	<i>Benchmark: Prudential internal composite</i>	6.80	5.00	14.80	6.50	5.00
Pru UK Property S3 Pn		23.14	10.14	-3.98	10.74	3.04
All Balanced Property Fund component of the AREF / IPD UK Quarterly Property Fund Index		15.50	7.20	6.00	9.70	3.40

\* Annual data for 2015 is unavailable for this fund as the inception date was 27/02/2015.



The table shows that the funds being used by the members performed well over the year to 30 June 2019, with only two funds performing below median.

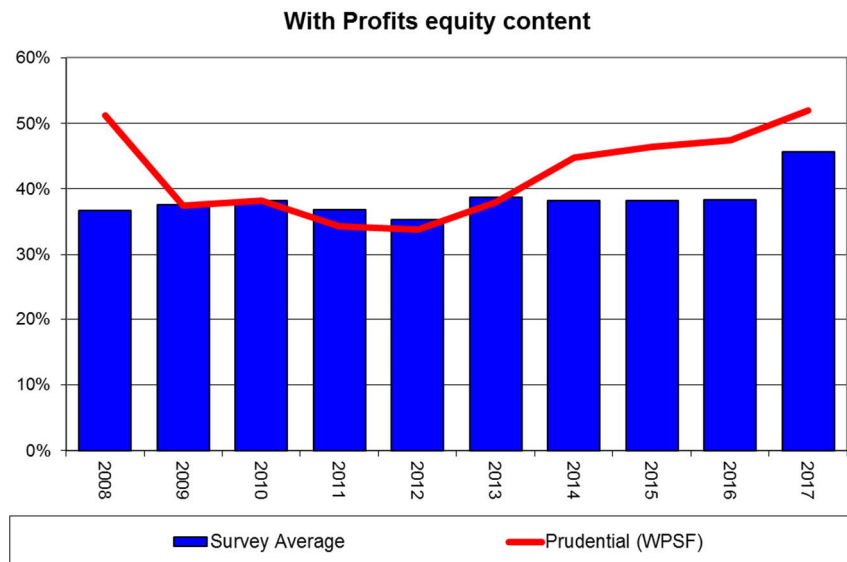
**Lifestyle strategy options** – During 2018, two Prudential Dynamic Growth IV Lifestyle strategies were introduced. They provide what Prudential describe as medium risk investment during the “growth phase” and, over the final ten year period before the anticipated retirement age, monies are gradually switched into the lower risk Prudential Dynamic Growth II Fund and the Prudential Cash Fund:

- One version (the lifestyle “targeting retirement options”) is designed for members who are unsure how they will draw these funds on retirement, and
- The other (“the lifestyle targeting 100% cash”) is entirely invested in the Prudential Cash Fund on retirement.

**Annual Management Charges (AMC)** – During 2018, Prudential confirmed that the AMC / total charges for their unit linked funds were reduced to 0.55% or 0.65% p.a. (a reduction of 0.10% in most cases). Additionally, later in 2018 they announced the removal of the 1% exit charge on contributions with effect from 1st December 2018.

### With Profits Funds

The updated chart from our report below shows the With Profits equity content continues to be below 50%, albeit higher than the survey average.



### Underlying investment performance

The underlying investment performance of the Prudential With Profits Fund has been good during the decade to 31 December 2017. This is shown by its quartile rankings relative to other With Profits Funds in the table below, and has exceeded the average return on the underlying assets of the With Profits funds in our database by 10%. The “index returns” row indicates the average return from the types of investment in which the With Profits Fund invests, allowing for the asset allocation at each year end. Effectively, this shows Prudential has been very successful at managing the underlying investments, as the Fund has exceeded these index returns by 16% over the decade to 31 December 2017.

To 31st December:	Quartile ranking										Performance over decade
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
<b>Prudential (WPSF)</b>	-19.7%	18.7%	12.7%	2.1%	10.5%	10.3%	8.3%	3.6%	14.5%	10.3%	89%
<i>Index returns</i>	-16.1%	12.0%	10.6%	3.4%	7.2%	8.3%	9.2%	3.1%	13.5%	8.6%	73%
<i>75th percentile</i>	-8.8%	15.2%	12.9%	5.5%	10.4%	10.5%	9.7%	4.2%	13.5%	9.4%	116%
<i>Median</i>	-13.2%	11.5%	12.2%	3.2%	8.9%	9.0%	8.3%	2.4%	12.1%	8.1%	79%
<i>25th percentile</i>	-16.3%	9.0%	9.8%	1.0%	7.2%	5.0%	7.1%	1.3%	10.5%	6.2%	45%

### Deposit Fund

The Prudential Deposit Fund was closed to new members on 31 May 2017. The unit-linked Prudential Cash Fund is still open to new members. However, whilst the performance results shown earlier indicated the marginally positive performance of the Cash Fund, this is gross of its (reduced) 0.55% annual management charge i.e. performance has been negative.

However, the Deposit Fund has no explicit charges:

Annualised performance over periods to: 31/08/2019	Quartile ranking			
	Top	2nd	3rd	Bottom
<b>Prudential</b>	0.75%	0.49%	0.49%	
<b>Providers in universe</b>	3	3	3	

*The above fund provides capital security. Most Money Market (unitised cash) funds could go negative (particularly after charges).*

The Bank of England increased the bank base rate to 0.75% in August 2018 and this was reflected in the rate of interest provided from the Prudential Deposit Fund.

## CURRENT ISSUES UPDATE

### “Freedom & Choice” Flexibilities

#### Tax Free Cash Implications

Members can:

- If they wait until they draw their main benefits from the Fund, receive the whole of their AVC fund tax free, or
- Utilise the “Freedom & Choice” flexibilities which, on or after age 55, enable them to draw their whole AVC fund as a lump sum. This payment would be subject to the member’s marginal rate of PAYE tax on the excess over 25% of their fund. Payment will also limit future tax relieved pension contributions (from the employer and employee combined) to £4,000 p.a. (the “Money Purchase Annual Allowance”) towards a defined contribution (“DC”) arrangement. Unless the Fund’s rules have been amended, this option would necessitate the member transferring their AVC fund (and any DC assets) outside of the Fund.

The legislation also gave members the right to transfer their AVCs outside of the Fund, regardless of the Fund’s rules, whilst leaving their defined benefit pension behind. However, if a member requesting this option has any other DC assets within the trust, this legislation necessitates all the DC assets being transferred, including any AVCs.

Hence, members have multiple options; cash, purchasing an annuity and / or using income drawdown. Each of these options should impact on members’ pre-retirement investment decisions.

#### Guidance Guarantee

Members with AVC and/or DC assets who are over age 50 are required to be “signposted” to the recently renamed Money and Pensions Advice Service (following the merger of the Money Advice Service, The Pensions Advisory Service and Pension Wise) the Government sponsored provider of the “Guidance Guarantee”.

#### Pension Scams

The Pensions Regulator is understandably concerned with the increase in pension scams. It is encouraging providing warnings regarding common scenarios, such as options to cash a fund in before age 55, transfers without obtaining regulated advice, cold callers and unsolicited emails and text messages: [www.thepensionsregulator.gov.uk/pension-scams](http://www.thepensionsregulator.gov.uk/pension-scams)

#### Prudential

On 9 May 2018, Prudential announced it would be ceasing to provide its member presentation and individual member meeting service for public sector AVC scheme clients. They will continue to provide pension products to their existing clients both in the public sector and private sector. The client management function will continue to support clients with governance reporting, investment performance and overall relationship management.

“Prudential is committed to the corporate pensions market and maintaining our leading presence in it, with a focus on providing a better experience for these existing clients. The changes we are making will allow us to concentrate our resources on areas where customer demand is much stronger”.

Prudential entered into a new partnership with Tata Consultancy Services (TCS) to streamline pensions administration. They said that the corporate pensions business will be developed and enhanced to deliver a focussed, digitally led, service. Some progress has been seen.

However, Prudential has recently announced that a number of funds will be closing in November 2019, and more are planned for 2020. They have indicated that these closures reflect their efforts to simplify the fund range by removing similar funds, and removing funds which have not achieved sufficient scale. The funds indicated are not currently in use by the Clwyd Fund.

In October 2019 Prudential demerged from M&G plc. This was described as being mainly to enable Prudential’s Asia operations to be more fully valued by the market, as well as giving M&G more freedom to invest and grow its business”. It is not expected to have a material impact on the UK operations.

### **Equitable Life**

Equitable Life’s closure Proposal is progressing and policyholders overwhelmingly voted in favour of the Proposal. Hence, the proposal now awaits High Court approval at the end of November and, assuming that is received, the transition to Utmost Life and Pensions Limited is expected to happen on 1<sup>st</sup> January 2020. As part of this deal, the Equitable Life With Profits Fund will close and be disinvested into unit linked funds. The current 35% Capital Distribution, the enhancement to disinvestments from the With Profits Fund, is expected to increase to 60%-70% for policies with a “just” a capital guarantee, and 60%-100% for those with a 3.5% guaranteed interest rate.

In our view there are a number of areas that Administering Authorities should consider following the announcement, which we set out below:

- The attraction of the closure to policyholders and to investors in the With Profits Fund is primarily dependent on:
  - The “Critical Yield”, the net interest rate that a new investment would need to achieve to match each investors “Guaranteed Value” that they are contractually entitled too. Equitable has distributed data showing the Critical Yield required for each investor, but only at the Normal retirement age shown on Equitable Life’s records.
  - What will the options for reinvestment be? Utmost’s Investment Choice Booklet describes a default which will apply where policyholders / investors do not select a new investment option. Whilst Utmost has said “we believe [this default] would be appropriate for the needs of most policyholders and pension scheme members”, we question this, at least for members who are close to retirement. How will Administering Authorities resolve this?
  - The LGA recently circulated Council’s Opinion regarding administering authorities’ “fiduciary duty” to vote on the Equitable proposal. The same logic applies to whether Utmost is the most suitable ongoing provider. For example, should members be reminded of their opportunity to transfer from Utmost to Prudential? Or even compulsorily transferred?

- A communication to members is obviously appropriate, as a general update as well as helping members to consider their future investment options, but a default position will still be needed in the event of no response.

**David R Barker FPMI FCII**

**Mercer Limited**

**November 2019**

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## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	Governance Update
<b>Report Author</b>	Head of Clwyd Pension Fund

### EXECUTIVE SUMMARY

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

- Setting objectives for investment consultants in line with CMA recommendations
- Scheme Advisory Board's (SAB) Good Governance project – the phase two recommendations
- The Pension Regulator's (TPR) Annual Survey 2019
- TPR published deep dive report
- The SF3 Report published by MHCLG
- Scheme member representation in asset pools.

The report incorporates updates on the implementation of governance strategy and policies for monitoring including:

- 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, particularly noting the SAB Good Governance phase two recommendations (paragraph 1.08). The Committee are also reminded to confirm whether they will be attending two future conferences as outlined in paragraph 1.12.
2	That the Committee approve the use of urgency delegations to carry out the appointment of the Investment Consultant and the Independent Adviser during March 2020 as outlined in paragraph 1.01.

3	That the Committee approve that the setting of objectives for CMA purposes is delegated to the Head of Clwyd Pension Fund and the Deputy Head of Clwyd Pension Fund in accordance with the updated schedule of delegations (as described in paragraph 1.06).
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## **REPORT DETAILS**

<b>1.00</b>	<b>GOVERNANCE RELATED MATTERS</b>
1.01	<p><b>Business Plan 2019/20 Update</b></p> <p>Appendix 1 shows progress with this quarter's work in the 2019/20 business plan which covers the following three actions:</p> <ul style="list-style-type: none"> <li>• The business continuity plan (G1) is still behind schedule and is currently expected to be completed in quarter 4 (rather than quarter 3) of 2019/20.</li> <li>• The review of the pension administration system contract (G2) is making good progress as part of the national framework.</li> <li>• Work has also commenced on the review of the Investment Consultant and Independent Adviser contracts (G3). These contracts are currently held by Mercer (the former JLT team led by Kieran Harkin) and Aon (led by Karen McWilliam) respectively and they are both due to terminate on 31 March 2020. A full tender process will be carried out for each contract using the national LGPS framework. The responsibility for appointing providers to the Fund sits with the Pension Fund Committee under the Council's Constitution. However, due to the date of the March PFC being mid-March it is not expected that the full tender process will be complete in time for the Committee to make a decision at that meeting. Given the strict process that must be followed for procurement exercises, which include clear criteria and scoring processes, the Committee is asked to agree that the appointments be decided using the Fund's urgency delegations (i.e. Head of Clwyd Pension Fund and either Corporate Finance Manager or Chief Executive, subject to agreement with Chair and Vice Chair (or either, if only one is available in timescale)). If this is agreed, the results of the procurement process will be emailed to the Committee members in early April.</li> </ul>
1.02	The Committee is asked to note the contents of the business plan update and approve the delegation of the appointment of the Investment Consultant and the Independent Adviser during March 2020.
1.03	<p><b>Current Developments and News</b></p> <p><i>Team restructure</i></p> <p>The Committee should note that the final elements of the review of the CPF staffing structure have now been completed and the role of Clwyd Pension Fund Manager, held by Philip Latham, has been changed to Head of Clwyd Pension Fund.</p>



1.04	<p><i>Annual Joint Consultative Meeting</i></p> <p>The AJCM took place on 12 November. All CPF employers are invited as well as scheme member representatives. The meeting was well attended with levels much higher than last year, and the feedback received from the event was positive. The attendees received updates from the CPF Management Team, as well as focussing on topics such as Assumed Pensionable Pay, Additional Voluntary Contributions, responsible investing, the initial results of the actuarial valuation and the performance of the Fund's assets.</p>
1.05	<p><i>Pension Board update</i></p> <p>The main update relating to the Pension Board is the confirmation of the new scheme member representative. After a very positive recruitment process involving several excellent candidates, Elaine Williams was appointed. Elaine currently works in the Social Services area at Denbighshire County Council. Elaine's experience of working with a diverse range of CPF members as well as her own personal experience as both an active and pensioner member of the CPF (through flexible retirement) will be invaluable in her work with the Pension Board. The larger number of potential candidates for this vacancy is thought to be because of the ability to now advertise directly via e-mail due to the Member Self Service (MSS) functionality.</p> <p>The Clwyd Pension Fund Board met on 8 October 2019. The minutes from the meeting will be circulated when they are finalised. The key points from the meeting are as follows:</p> <ul style="list-style-type: none"> <li>• SAB Good Governance Project – The Board received an update from the Head of Clwyd Pension Fund on the project, including the likely changes that will result from the review. The Chair of the Board noted that she expected the Fund to be in a positive position, but it was likely that there would be an increase in work to evidence compliance with good governance requirements such as management of conflicts of interest and maintaining appropriate levels of knowledge and skills including at Committee.</li> <li>• SAB Local Pension Board Survey/Pension Board Effectiveness – The Board discussed the key elements of their proposed response to the SAB survey when it is launched. They also carried out a review of the effectiveness of the Board by considering a range of questions posed by the Chair. Overall the Board found that they were satisfied with their effectiveness and concluded that they did add value. One key takeaway was in relation to the number of meetings that the Board have on an annual basis. The Pension Regulator has suggested that Boards should meet at least four times a year, but the CPF Board currently meets three times a year. They particularly highlighted the benefit of the strong relationship they have with the Committee and the officers of the Fund. The Board concluded that their meetings are longer than typical Boards but also recognises that sometimes the meetings still felt rushed. Therefore the Board concluded that they would retain the same number of meetings, but with the option for them to run for a longer time (9.30am to 2pm) where necessary.</li> </ul>

- The Pensions Regulator (TPR) Developments – The Head of Clwyd Pension Fund highlighted the key points in TPR's report titled "Governance and administration risks in public service pension schemes: an engagement report", noting that CPF address the majority of the points highlighted already. He noted that further work is to be done to provide greater assurance on cybercrime risk for the Fund. He also highlighted the move to a new Singular Modular Code of Practice by TPR. Officers also presented the latest position on the outstanding actions relating to the current TPR Code of Practice and the Board were pleased to see a number of these had evolved and were now fully compliant.
- Data Quality Scores and Data Improvement Plan – the Board were updated on the latest scores and progress against the CPF Data Improvement Plan. Both showed good improvement.
- Competition and Markets Authority (CMA) - Investment Consultancy and Fiduciary Management Market Investigation Order 2019 – The Board noted the new requirement to set objectives for the Investment Consultant by 12 December 2019.
- Brexit – the Head of Clwyd Pension Fund noted that the uncertainty is around the wider political landscape, and not just the impact of the Brexit discussions. He assured the Board that one of the key controls against the risk was the currency hedge that had been in place for some time.
- GMP Reconciliation Outsourced Project – the Board were pleased to receive the update that this project has now entered its final reconciliation phase.
- Pension Administration Update – The Board received an update on the latest performance statistics and particularly noted the excellent progress being made in reducing the overall number of outstanding cases. The improvement in the key performance indicators was also noted. The Board also noted the high number of compliments that had been received since the last meeting, with the only key complaint being one of the members who had been impacted as part of the Apple project (incorrect CARE pay figures that had to be rectified).
- McCloud/Cost Cap Process – The Board received updates on the latest developments.
- Asset Pooling –
  - Phil Pumford, one of the Board's scheme member representatives, updated the rest of the Board on his meeting in October with the Host Authority and the other Welsh Pension Board Chairs. This was the second of these meetings. A number of suggestions were made by the Board Chairs at the meeting around governance matters including improvements to the website and lack of clarity over progress on WPPs priorities. The matter of scheme member representation on the JGC was also discussed. The next meeting is in April which will also be attended by Phil Pumford.
  - The Head of Clwyd Pension Fund also updated the Board on other matters, including:
    - the matters considered at the last JGC. It was noted that the Chair of the CPF PFC was in attendance. The JGC agreed that the matter of scheme member

	<p>representation on the JGC would be considered further in the new year.</p> <ul style="list-style-type: none"> <li>▪ the FCA Woodford investigation – the Board requested that the Head of Clwyd Pension Fund ask for this to be considered at the next Officer Working Group, with a view to getting assurance from Link that the same issue could not be repeated in relation to WPP held assets.</li> <li>○ The Pension Board also raised their concern about the timing of JGCs and other WPP meetings which appeared to often be on Mondays or Fridays, resulting in travel during the weekend or at unreasonable hours. This was a bigger issue for funds such as CPF and was resulting in some meetings not having CPF representation. The Board asked for their concerns to be raised and for future meetings not to include Monday mornings or Friday afternoons</li> <li>● PFC meetings – The Board noted the excellent engagement of the Committee at the recent meeting where responsible investment matters had been discussed.</li> <li>● Change in PFC Membership - The Board has asked for an ongoing update in relation to the training of the new Committee members.</li> </ul>
1.06	<p><i>CMA Requirements – Objectives for Investment Related Contracts</i></p> <p>On 10 June the Competition and Market’s Authority (CMA) published the Investment Consultancy and Fiduciary Management Market Investigation Order 2019. As well as several other matters, the Order obliges pension schemes to set objectives for their Investment Consultancy providers by 12 December 2019. TPR published guidance on the implementation of the Order including on the setting of these objectives.</p> <p>The Head of Clwyd Pension Fund has been developing these objectives which will initially apply to the existing contract with the Fund's Investment Consultants (Mercer, formerly JLT). In addition, it is expected that objectives will also need to be set in relation to the existing contract with the Fund's Actuary in relation to some elements of the Risk Management Strategy work (the flight path). Objectives will also need to be included in all future tenders for these services. The objectives being developed include both qualitative and quantitative measures, both in relation to the expertise of the investment services as well as how the service is delivered (e.g. timeliness and clarity of communication).</p> <p>The selection, appointment and dismissal of advisers is a delegated power of the Pension Fund Committee. The Committee has further delegated some day to day matters to the officers of the Fund, such as the ongoing monitoring of Fund Managers. Given the setting of objectives for the Investment Consultancy contracts is a relatively detailed matter, it is recommended that this new responsibility is also delegated, and that the delegation is to the Head of Clwyd Pension Fund and the Deputy Head of Clwyd Pension Fund. An updated schedule of Delegation of Functions to Officers of the Clwyd Pension Fund is attached as Appendix 2 and the Committee are asked to approve the updates to this.</p>

1.07	<p><i>National LGPS Scheme Advisory Board (SAB) Update</i></p> <p>The LGPS SAB Board met on 6 November 2019. A summary of that meeting, provided by the Secretary to the SAB, is attached in Appendix 3. Further comment on some of the key areas discussed is included below and in other reports for this Committee.</p>
1.08	<p><i>SAB Good Governance Project – Phase 2 recommendations</i></p> <p>Two working groups were established by SAB for phase 2 of the Good Governance project to take forward the recommendations from the report<sup>1</sup> published in July 2019. One of the working groups (Standards and Outcomes Workstream) focused on defining good governance outcomes and the guidance needed to clearly set them out, and the other working group (Compliance and Improvement Workstream) focused on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes.</p> <p>A phase 2 report was published by the SAB on 15 November and is attached in Appendix 4. It sets out the detailed implementation proposals for both workstreams as summarised below:</p> <ul style="list-style-type: none"> <li>• Need for new statutory governance guidance from the Ministry for Housing Communities and Local Government (MHCLG) to effectively implement the proposals from this project. The current guidance in this area was published in 2008.</li> <li>• Each administering authority to: <ul style="list-style-type: none"> <li>○ have a single named officer responsible for the delivery of all LGPS related activity for that fund (i.e. an LGPS senior officer)</li> <li>○ publish an annual governance compliance statement that sets out how they comply with the governance requirements set out in MHCLG's new guidance. This would need to be co-signed by the LGPS senior officer and, where different, the S151 officer</li> <li>○ publish a conflicts of interest policy (CPF already publish such a policy) which includes details of how actual, potential and perceived conflicts are addressed</li> <li>○ refer to SAB guidance on statutory and fiduciary duty</li> <li>○ publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and to voting rights for each party.</li> </ul> </li> <li>• In the areas of knowledge and skills: <ul style="list-style-type: none"> <li>○ a requirement for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively (in effect this tries to bring requirements in line with those already in place for Local Pension Boards)</li> <li>○ a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding</li> </ul> </li> </ul>

<sup>1</sup> Good Governance Report published 31 July 2019:  
<http://www.lgpsboard.org/images/PDF/GoodGovernanceReport.pdf>

	<ul style="list-style-type: none"> <li>○ a requirement to have a policy setting out how training is delivered, assessed and recorded (CPF already has a Training Policy which sets out these areas)</li> <li>○ CIPFA and other professional bodies be asked to produce guidance and training modules (particularly for S151 officers).</li> <li>● In terms of the service delivery of the LGPS, each Administering Authority must: <ul style="list-style-type: none"> <li>○ document key roles and responsibilities relating to the fund and publish a roles and responsibilities matrix setting out how key decisions are reached</li> <li>○ publish an Administration Strategy (CPF already publishes such a document) and report the Fund's performance against agreed indicators</li> <li>○ ensure their committee is included in the business planning and budget setting processes (this is already the case at CPF)</li> <li>○ give proper consideration to pay and recruitment policies in order to meet the needs of the pension fund; not simply applying general council staffing policies such as recruitment freezes.</li> </ul> </li> <li>● From a compliance and improvement perspective the proposal is that each Administering Authority must undergo a biennial independent governance review and produce an improvement plan to address any issues identified, with those reviews and reports to be assessed by a SAB panel of experts. The Local Government Association (LGA) will also consider establishing a peer review process for LGPS funds.</li> </ul> <p>The Head of Clwyd Pension Fund and the Fund's Independent Advisor have carried out an assessment of the main findings and the Fund already carries out most of the areas highlighted for improvement. Any comments on the phase two report and its recommendations can be sent to SAB but at this stage it is not considered that there are any concerns to raise. There will be further stages to this project and we envisage providing comments once more detail emerges on the proposals. In the meantime, the Committee are asked to consider and note the proposals.</p> <p>The next phase of the project is to design the independent governance review report and some national key performance indicators. As these recommendations are progressed through the third phase of the project updates will be provided to the Committee.</p>
1.09	<p><i>The Pension Regulator's 2019 Annual Survey Issued</i></p> <p>Earlier this month the Pensions Regulator: Public Service Governance &amp; Administration Survey 2019 was issued to all LGPS funds including the CPF. This annual survey must be returned to TPR by 29 November 2019 and is designed to help TPR build a comprehensive picture of governance and administration standards across the LGPS. The survey should be completed by the Scheme Manager (i.e. the Administering Authority) working with the Pension Board chair. The Head of Clwyd Pension Fund and Karen McWilliam, Clwyd Pension Board Chair, are compiling a response for the Fund.</p>

1.10	<p><i>TPR Governance and administration risks in public service pension schemes: an engagement report</i></p> <p>In September TPR published its findings following engagement with ten LGPS funds between October 2018 and July 2019. TPR indicated that they saw evidence of good practice across the LGPS funds. They also outlined key areas for improvement across the scheme. Those key findings from their executive summary are reproduced here:</p> <ul style="list-style-type: none"> <li>• Key person risk: While most scheme managers demonstrated a good knowledge of what we expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored.</li> <li>• Pension boards: Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged.</li> <li>• Fraud / scams: We saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.</li> <li>• Employers: We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally this was connected to fund resourcing but also related to different philosophies related to taking security over assets.</li> </ul> <p>The full report can be found on TPR's website<sup>2</sup>. As mentioned in the Pension Board update, CPF already addresses the majority of the points highlighted in the report but more work is planned relating to cybercrime risk.</p>
1.11	<p><i>SF3 Report</i></p> <p>On 16 October, MHCLG published<sup>3</sup> its compilation of the data provided by 87 LGPS Administering Authorities in England and Wales on the SF3 (Pensions) form for 2018/19. The SF3 form collects data on income, expenditure, membership, retirements and other activities for each LGPS Fund. This data is interesting as it shows at a national level some of the trends seen in the Fund including a growth in scheme membership numbers.</p>

<sup>2</sup> <https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/governance-and-administration-risks-in-public-service-pension-schemes-an-engagement-report>

<sup>3</sup> <https://www.gov.uk/government/collections/local-government-pension-scheme>

	<b>Policy and Strategy Implementation and Monitoring</b>
1.12	<p><i>Training Policy</i></p> <p>The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to:</p> <ul style="list-style-type: none"> <li>• have training on the key elements identified in the CIPFA Knowledge and Skills Framework</li> <li>• attend training sessions relevant to forthcoming business and</li> <li>• attend at least one day each year of general awareness training or events.</li> </ul> <p>Appendix 5 includes training and various external events attended by Committee members and Pension Board members during 2019/20 as well as details of planned training events and forthcoming events considered suitable for general awareness training. Committee members are particularly invited to note:</p> <ul style="list-style-type: none"> <li>• LGA LGPS Annual Governance Conference at York in January and</li> <li>• the LGC Investment Seminar at Carden Park at the end of February.</li> </ul> <p>The programme for the LGA event is attached as Appendix 6. The programme for the LGC event is attached at Appendix 7. All Committee and Board members have already been invited to attend these events and should notify the Deputy Head of Clwyd Pension Fund (<a href="mailto:debbie.a.fielder@flintshire.gov.uk">debbie.a.fielder@flintshire.gov.uk</a>) at the Committee meeting if they wish to attend the LGC event, and by 13<sup>th</sup> December 2019 if they wish to attend the LGA event.</p> <p>As always, Committee members are encouraged to highlight any training requirements to the officers of the Fund. However, given most of the planned internal training has now been completed, it is an appropriate time to carry out an exercise to identify if there are any specific gaps in knowledge. As a result, a self-assessment of training requirements will be distributed to all Committee and Board members during the second half of December. Members will be asked to complete and return the assessment by mid-January so that a training plan can be included in the Fund's business plan which will be put to the February Pension Fund Committee meeting.</p>
1.13	<p><i>Recording and Reporting Breaches Procedure</i></p> <p>The Fund's procedure requires that the Head of Clwyd Pension Fund maintains a record of all breaches of the law identified in relation to the management of the Fund. Appendix 8 details the current breaches that have been identified. It is positive to note that there are no new breaches relating to contribution payments or late submission of remittance advice. Also, the breaches relating to missing administration legal timescales are reducing overall.</p>
1.14	<p><b>Delegated Responsibilities</b></p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to governance matters.</p>

	<b>Calendar of Future Events</b>
1.15	Appendix 9 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.

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

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

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Appendix 10 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 continues to relate 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 mainly 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	<p>There have been some changes to the risk register since it was last shared with the Committee as summarised below. This includes two risks which have now moved to being "on target" due to further internal controls having been successfully put in place.</p> <ul style="list-style-type: none"> <li>• Risk 2: Inappropriate or no decisions are made due to poor governance – a new action has been added to carry out a further self-assessment of training needs. The target date has also been moved to March 2020 (from Dec 2019) to allow for the next training day and the self-assessment to be completed.</li> <li>• Risk 3: Our legal fiduciary responsibilities are not met due to decisions being influenced by conflicts of interest – As the new committee members have now been trained on fiduciary responsibility and the CPF Conflicts Policy, this outstanding action has been moved to the internal controls in place column. This has resulted in a change in the current likelihood score for the risk, which has been changed from “low” to “very low” and which means this risk is now meeting its target.</li> <li>• Risk 4: Appropriate objectives are not agreed or monitored due to policies not being monitored – the outstanding action has still not been completed so the target date has been moved to March 2020.</li> <li>• Risk 5: The Fund's objectives/legal responsibilities are not being met or are compromised due to external factors – as mentioned previously this is currently considered the biggest governance risk for</li> </ul>



	<p>the Fund. In addition to McCloud, cost cap and asset pooling, it also encompasses the risk of cybercrime on the Fund. Given the complexity of this, an additional action has been added to identify what else can be done to manage cybercrime risk. Going forward it is intended to update the Committee and Board on the progress of this action and the risk to the Fund.</p> <ul style="list-style-type: none"> <li>• Risk 6: Services are not being delivered to meet legal and policy objectives due to insufficient staff numbers and other factors – Although much progress has been made on recruitment and filling vacant post, a new action has been added to note the need to continue training of new and newly promoted staff. As this is ongoing, the target date has also been changed to February 2020.</li> <li>• Risk 7: Legal requirements or guidance are not complied with due to those tasked with managing the Fund not having appropriate training or not understanding their responsibilities - good progress has been made with the ongoing actions relating to the TPR Code of Practice and therefore this has been moved from an outstanding action to an existing internal control. As a result, the risk score for impact has been changed from Marginal to Negligible, which also means this risk is now on target.</li> </ul>
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<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 – Business plan progress 2019/20  Appendix 2 – Delegation of Functions to Officers by Pension Fund Committee  Appendix 3 – LGPS SAB update  Appendix 4 – SAB Good Governance Project – Phase Two recommendations  Appendix 5 – Training plan  Appendix 6 – LGA LGPS Annual Governance Conference programme  Appendix 7 – LGC Investment Seminar programme  Appendix 8 – Breaches  Appendix 9 – Calendar of future events  Appendix 10 – Risk register</p>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>No relevant background documents.</p> <p><b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> philip.latham@flintshire.gov.uk</p>

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

# Business Plan 2019/20 to 2021/22 – Q3 Update

## Governance

Cashflow projections for 2019/20

	2017/18 £000s	2018/19 £000s	2019/20 £000s			
	Actual	Actual	Budget	Actual	Projected for full year	Final under/over
<b>Opening Cash</b>	(13,623)	(21,188)	(3,599)	(5,764)		
<b>Payments</b>						
Pensions	57,452	59,447	61,600	31,333	61,600	0
Lump Sums & Death Grants	13,500	14,708	15,000	7,803	15,000	0
Transfers Out	5,600	6,791	6,000	2,484	6,000	0
Expenses	3,935	4,263	4,600	2,018	4,600	0
Support Services	120	265	140	0	140	0
<b>Total Payments</b>	<b>80,607</b>	<b>85,474</b>	<b>87,340</b>	<b>43,638</b>	<b>87,340</b>	<b>0</b>
<b>Income</b>						
Employer Contributions	(34,617)	(39,554)	(40,000)	(22,645)	(40,000)	0
Employee Contributions	(15,259)	(14,794)	(14,400)	(5,910)	(14,400)	0
Employer Deficit Payments	(52,612)	(18,811)	(19,800)	(18,530)	(19,800)	0
Transfers In	(4,813)	(4,220)	(4,000)	(2,487)	(4,000)	0
Pension Strain	(1,057)	(1,644)	(1,200)	(151)	(1,200)	0
Income	(29)	(45)	(48)	(53)	(70)	(22)
<b>Total Income</b>	<b>(108,387)</b>	<b>(79,068)</b>	<b>(79,448)</b>	<b>(49,776)</b>	<b>(79,470)</b>	<b>(22)</b>
<b>Cashflow Net of Investment Income</b>	<b>(27,780)</b>	<b>6,406</b>	<b>7,892</b>	<b>(6,138)</b>	<b>7,870</b>	<b>(22)</b>
Investment Income	(3,540)	(7,990)	(6,000)	(4,196)	(6,000)	0
Investment Expenses	3,035	3,593	3,000	1,889	3,000	0
<b>Total Net of In House Investments</b>	<b>(28,285)</b>	<b>2,009</b>	<b>4,892</b>	<b>(8,445)</b>	<b>4,870</b>	<b>(22)</b>
<b>In House Investments</b>						
Draw downs	73,893	91,883	77,019	71,474	119,575	42,556
Distributions	(52,294)	(58,348)	(77,930)	(25,986)	(62,936)	14,994
Net Expenditure /(Income)	21,599	33,535	(911)	45,488	56,639	57,550
<b>Total Net Cash Flow</b>	<b>(6,686)</b>	<b>35,544</b>	<b>3,981</b>	<b>37,043</b>	<b>61,509</b>	<b>57,528</b>
Rebalancing Portfolio	(879)	(20,120)	(10,000)	(42,001)	(72,000)	(62,000)
<b>Total Cash Flow</b>	<b>(7,565)</b>	<b>15,424</b>	<b>(6,019)</b>	<b>(4,958)</b>	<b>(10,491)</b>	
<b>Closing Cash</b>	<b>(21,188)</b>	<b>(5,764)</b>	<b>(9,618)</b>	<b>(10,722)</b>	<b>(16,255)</b>	

## Operating Costs

	2017/18	2018/19	2019/20			
	Actual	Actual	Budget	Actual	Projected	Projected
	£000s	£000s	£000s	£000s	for full year £000s	under/ over £000s
<b>Governance Expenses</b>						
Employee Costs (Direct)	229	193	299	136	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	51	90	20
Audit Fees	39	39	40	(4)	40	0
Actuarial Fees	217	407	435	198	435	0
Consultant Fees	511	598	664	317	664	0
Advisor Fees	202	436	179	80	179	0
Legal Fees	37	57	40	0	40	0
Pension Board		58	69	33	69	0
Pooling (Consultants & Host Authority)	0	85	109	3	109	0
<b>Total Governance Expenses</b>	<b>1,332</b>	<b>1,960</b>	<b>1,932</b>	<b>814</b>	<b>1,952</b>	<b>20</b>
<b>Investment Management Expenses</b>						
Fund Manager Fees*	20,539	21,218	21,000	2,186	23,000	2,000
Custody Fees	31	31	31	14	31	0
Performance Monitoring Fees	67	60	66	36	66	0
Pooling (Operator / Manager)			186	0	186	0
<b>Total Investment Management Expenses</b>	<b>20,637</b>	<b>21,309</b>	<b>21,283</b>	<b>2,236</b>	<b>23,283</b>	<b>2,000</b>
<b>Administration Expenses</b>						
Employee Costs (Direct)	649	777	893	455	945	52
Support & Services Costs (Internal Recharges)	105	113	66	0	66	0
Outsourcing	227	394	900	182	500	(400)
IT (Support & Services)	286	364	424	394	424	0
Other Supplies & Services)	139	86	63	58	100	37
Miscellaneous Income	0	0	0	0	0	0
<b>Total Administration Expenses</b>	<b>1,406</b>	<b>1,734</b>	<b>2,346</b>	<b>1,089</b>	<b>2,035</b>	<b>(311)</b>
<b>Employer Liaison Team</b>						
Employee Costs (Direct)	163	205	213	112	213	0
<b>Total Costs</b>	<b>23,538</b>	<b>25,208</b>	<b>25,774</b>	<b>4,251</b>	<b>27,483</b>	<b>1,709</b>

## Key Tasks

Key:

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

## Governance Tasks

Ref	Key Action –Task	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	
G3	Review/Tender Investment Consultancy and Independent Adviser Contracts			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
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### **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.

## **G3 – Review/Tender Investment Consultancy and Independent Adviser Contracts**

### **What is it?**

The Fund's investment consultancy and independent Adviser contracts reached their initial break point on 31 March 2017 albeit, due to Government changes to investment regulations, asset pooling, the implications of MIFID II and other Fund priorities, they were extended for a total of 3 years (to 31 March 2020) to provide stability and consistency of approach. For these reasons the contracts will be reviewed during 2019/20. This will initially involve a review of whether the existing services should be retendered in their current format or whether there is a more appropriate consultancy contracts that could be put in place.

### **Timescales and Stages**

Review appropriateness/decide format of future contracts	2019/20 Q3
Conduct tender for services	2019/20 Q4

### **Resource and Budget Implications**

To be led by the Clwyd Pension Fund Manager and Deputy Head of Clwyd Pension Fund within existing budget.

## Delegation of Functions to Officers by Pension Fund Committee – November 2019

**Key:**

PFC – Pension Fund Committee

CFM – Corporate Finance Manager

FA – Fund Actuary

Fund

PAP - Pension Advisory Panel

CE - Chief Executive

IA – Independent Advisor

HCPF – Head of Clwyd Pension Fund

IC – Investment Consultant

DHCPF – Deputy Head of Clwyd Pension

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
<p>Investment strategy - approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.</p> <p>Monitoring the implementation of these policies and strategies on an ongoing basis.</p>	<p>Rebalancing and cash management</p> <p>Implementation of strategic allocation including use of both rebalancing and conditional ranges</p> <p>Short term tactical decisions relating to the 'best ideas' portfolio</p> <p>Risk Management Framework - Implementation of the agreed market Flightpath triggers and deciding action(s) to be taken when Flightpath funding triggers are reached within the existing constraints of the Investment Strategy.</p>	<p>HCPF (having regard to ongoing advice of the IC and PAP)</p>	<p>High level monitoring at PFC with more detailed monitoring by PAP</p>

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
	Investment into new mandates / emerging opportunities	HCPF and either the CFM or CE (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP
<p>In relation to Wales Pooling Collaboration arrangements:</p> <ul style="list-style-type: none"> <li>Nominating Flintshire County Council's officers to the Officer Working Group.</li> </ul>	Members of the Officer Working Group	HCPF and DHCPF	High level monitoring at PFC with more detailed monitoring by PAP
<p>In relation to Wales Pooling Collaboration arrangements:</p> <ul style="list-style-type: none"> <li>Delegating powers to Flintshire County Council's own officers and the Host Council where required.</li> </ul>	All matters included in the Inter Authority Agreement as being responsibilities of officers and the Host Council	<p>Officers – HCPF who may delegate to DHCPF subject to ongoing advice from CFM</p> <p>Host Council – Carmarthenshire County Council</p>	High level monitoring at PFC with more detailed monitoring by PAP
<p>Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.</p>	Ongoing monitoring of Fund Managers	HCPF, CFM and CE (having regard to ongoing advice of the IC) and subject to ratification by PFC	High level monitoring at PFC with more detailed monitoring by PAP
	Selection, appointment and dismissal of Fund Managers	HCPF, CFM and CE (having regard to ongoing advice of the IC) and subject to ratification by PFC	Notified to PFC via ratification process.

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Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
	<p><b>Setting of objectives for investment related consultancy contracts in line with CMA requirements<sup>1</sup>, and monitoring against those objectives.</b></p>	<p><b>HCPF and DHCPF</b></p>	<p><b>High level information provided to PFC following annual review.</b></p>
<p>Agreeing the terms and payment of bulk transfers into and out of the Fund.</p>	<p>Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Exceptions to this would be where there is a dispute over the transfer amount or it relates to significant assets transfers relating to one employer or the Fund as a whole</p>	<p>HCPF and either the CFM or CE after taking appropriate advice from the FA.</p>	<p>Ongoing reporting to PFC for noting</p>
<p>Making decisions relating to employers joining and leaving the Fund. 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.</p>	<p>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.</p>	<p>HCPF and either the CFM or CE after taking appropriate advice from the FA.</p>	<p>Ongoing reporting to PFC for noting</p>

<sup>1</sup> In accordance with Investment Consultancy and Fiduciary Management Market Investigation Order 2019

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Discretions – determining how the various administering authority discretions are operated for the Fund.	Approving administering authority discretions policy (including the Voluntary Scheme Pays Policy and Over/underpayments Policy) other than in relation to: <ul style="list-style-type: none"> <li>• any key strategy/policies and</li> <li>• matters relating to admission bodies and bulk transfers as included in the preceding two rows.</li> </ul>	CFM and CE (having regard to the advice of the rest of the PAP)	Copy of policies to be circulated to PFC members once approved.
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PFC.	HCPF and either the CFM or CE, subject to agreement with Chairman and Deputy Chairman (or either, if only one available in timescale)	PFC advised of consultation via e-mail (if not already raised previously at PFC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PFC for noting.
Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice <sup>2</sup>	CE	Regular reports provided to PFC and included in Annual Report and Accounts.

<sup>2</sup> CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund	Making minor changes to existing strategies, statutory compliance statements, policies and procedures. These will still be required to be considered by the PFC in line with the period stated in that document.	HCPF and either the CFM or CE	Ongoing reporting to PFC for noting
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pension Fund Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pension Fund Committee.	Other urgent matters as they arise	HCPF and either CFM or CE, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	PFC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PFC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PFC and subject to monitoring agreed at that time.

Updates since last version are shown in **highlighted bold and italics**.

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# Scheme Advisory Board

This note summarises the meeting of the Scheme Advisory Board on the 6th November 2019. Full details of the meeting and agenda papers can be found at [www.lgpsboard.org](http://www.lgpsboard.org).

The Chair opened the meeting by introducing a new member, Councillor John Beesley, Chair of the Dorest Pension Fund. The Chair also thanked the practitioners representative, Nicola Marks (Norfolk Pension Fund), for her help and support over many years in what will be her last Board meeting before her retirement in December.

The Chair reminded members that we were now in a pre-election period which was why MHCLG were not present at the meeting. Members were also advised that certain aspects of the Board's work and that of MHCLG may be affected in the run up to the election on the 12th December.

## **Actions and Agreements**

1. Jon Richards, Vice-Chair, asked the minutes of the July meeting to be amended to record that UNISON were disappointed with the outcomes of the Good Governance report published on the 31st July 2019. He also said that it was unfortunate that the working group meeting dates set to discuss the report meant that no member representatives were able to attend either meeting. He asked that in future any SAB working group meetings should be set to ensure that member and employer representatives are able to attend.
2. Jeff Houston, Board Secretary, updated members on the McCloud legal case. He explained that the Employment Tribunal has started to meet on the Judges and Firefighters' schemes but that government had yet to comment on how remedies will be applied to the other public service pension schemes. Discussions with GAD on potential costs will continue. Any resolution this financial year is unlikely.
3. Bob Holloway, Pensions Secretary, explained that the Local Pension Board is currently being prepared by an external provider and that online publication is expected before Christmas. The survey will run for two months.

## **Good Governance**

4. Bob Holloway explained that as agreed by the Board in July, two working groups had been established to develop proposals for new standards of governance and administration and how these can be measured and assessed independently. Catherine McFadyen (Hymans Robertson) thanked members of the working groups for their valuable input enabling the draft Phase II report to be published in time for it to be considered by the Board.
5. The Board considered the draft report into the findings of both working groups and agreed that it should be published on the 15th November with comments invited from scheme stakeholders. The Board also considered and approved the recommendation that the Secretariat should proceed with Phase III of the project including working up a set of key performance indicators and drafting instructions for Scheme Advisory Board Secretariat

# Scheme Advisory Board

revised statutory guidance on governance compliance statements. Proposals will be considered by the Board when it next meets on the 3rd February 2020.

## **Cost Management Committee Report**

6. George Georgiou (GMB), Committee Chair, updated Board members on the committee meeting held on the 7th October 2019.

7. **95k Cap** – The Board was advised that HMT still intend to bring forward regulations on the 95k Cap but there has been no confirmation when this will be. April 2020 is a possibility if the government publishes its response to the earlier consultation in the New Year.

8. **Cost Management** - Following Jeff Houston's update under "Actions and Agreements", the Board agreed the committee's recommendation that a small working group should be established to work with MHCLG, GAD and other scheme stakeholders to develop proposals and costing for the scheme's remedy arrangement.

9. **CMI Data Request** – The Board was advised that the committee had endorsed the request from Continuous Mortality Investigation (CMI) for GAD to release local mortality data in exchange for a benchmarking facility to administering authorities. In response to a question from Nicola Mark about the motive behind the request, Colin Wilson (GAD) confirmed that CMI is a chartered professional body, part of the Faculty of Actuaries, and is not a commercial company.

## **Investment, Governance & Engagement Committee report**

10. Councillor Yvonne Johnson, (Chair of Ealing Pension Fund), Committee Chair, updated Board members on the committee meeting held on the 14th October 2019.

11. **Responsible Investment Guidance** – The Board was advised that the committee had considered and approved the draft of Part I of the responsible investment guidance that aims to set out the parameters within which investment decision makers in the LGPS can operate under scheme regulations, statutory guidance, the general public law and their fiduciary duty. The Board approved the committee's recommendation and agreed that the draft guidance should be published for consultation until the end of the year.

12. The Board also approved the committee's recommendation that the Secretariat should commence work on Part II of the guidance the aim of which is to offer practical help to investment decision makers who want to increase the integration of ESG policies in their investment strategies.

13. **UK Stewardship Code** – The Board was advised that the Financial Reporting Council has published the new stewardship code that will come into effect in the New Year. Bob Holloway explained that the FRC will be taking a more proactive approach in checking activity under the new code. Existing signatories to the Code will need to re-apply under the new code.

Scheme Advisory Board Secretariat

# Scheme Advisory Board

14. **CMA Order** – The Board was advised that new advice has been posted on the Board's web site at [www.lgpsboard.org](http://www.lgpsboard.org). In summary, the scheme would not be affected by remedy 1 of the Order (procurement of fiduciary managers) but will need to comply with remedy 7, setting strategic objectives for external consultants. This will need to be in place by the 10th December 2019 but the Board was advised that MHCLG will not be in a position to make necessary amendments to scheme provisions until after that date. Administering authorities are therefore being advised to anticipate the new requirement and have their strategic objectives in place before the deadline of the 10th December.

15. **Committee membership** – The Board accepted the committee's recommendation that Councillor Robert Chapman (Chair of Hackney Pension Fund) should become a member of the committee.

16. **Cost Transparency** – The Board was advised that Byhiras had been successful in the exercise to procure an entity to ensure compliance with the Code by asset managers. The system being developed would enable asset owners to compare their own data against the average at asset class and cost type level.

17. A programme of meetings with stakeholders in conjunction with initial testing has begun, with further engagement planned over the coming months.

## AOB

18. **Asset Pool Governance** – The Chair reported that a meeting had been held with the Chairs of the pool companies and that a further meeting with the Chairs of the various joint committees were planned. Board members discussed engagement with LGPS pools and agreed that this was an important area of work considering the differing roles, relationships and transition oversight. The Board also agreed that the Chair should write to the three asset pools asking for their reasons why membership of their governance arrangement has not been extended to include scheme member representatives.

19. **Pension Regulator's Codes of Practice** – Joe Dabrowski (PLSA) informed the Board that TPR was planning a single, modular Code as an online tool for pension schemes. The Board agreed to invite TPR to the next Board meeting in February.

## Date of next meeting

20. The Board was advised that the next meeting was scheduled for the 3rd February 2020.

**Bob Holloway**  
**Pensions Secretary**  
11<sup>th</sup> November 2019

Scheme Advisory Board Secretariat

Mae'r dudalen hon yn wag yn bwrpasol





# Good governance in the LGPS

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**Phase II report from Working Groups to SAB**

November 2019

## Process

Following on from the presentation of the Good Governance Report to the SAB on 8 July 2019, the Board agreed to constitute two working groups to take forward the proposals included in the report. Hymans Robertson were appointed to assist the working groups in this next phase of the good governance project.

The first working group (Standards and Outcomes Workstream) was asked to focus on specifying clearly the outcomes and standards that the SAB wishes to see achieved by funds under the proposed approach, and how these outcomes should be evidenced.

The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework.

This report has been prepared for the SAB by both working groups and includes detailed implementation proposals for their workstream including a list of the changes required to guidance to implement this framework.

## Thanks to contributors

Thank you to the following who contributed to the working groups and this report.

**Euan Miller** Assistant Director of Pensions (Funding and Business Development), Greater Manchester Pension Fund

**Peter Moore** Chair of CIPFA's Pensions Panel

**Mark Wynn** Director of Corporate Services at Cheshire West and Chester Council, SCT

**Nick Gannon** TPR

**Con Hargrave** MHCLG

**Jenny Poole** Head of Finance & Audit/GO Shared Services at Cotswold District Council

**John Raisin** Independent Advisor

**Joe Dabrowski** Head of DB, LGPS and Standards, PLSA

**Karen McWilliam** Consultant, Aon

**Jeffrey Dong** Chief Treasury Officer at City & County of Swansea, SWT

**Caroline Holland** Director of Corporate Services at London Borough of Merton, SLT

**Nicola Mark** Head of the Norfolk Pension Fund, Practitioner representative to SAB

**Annemarie Allen** Consultant, Barnet Waddingham

**Chris Moore** Director of Corporate Services and Section 151 Officer, Carmarthenshire County Council

**Rachel Brothwood** Director of Pensions, West Midlands Pension Fund

**Robert Holloway** SAB secretariat, LGA

**Jeff Houston** SAB secretariat, LGA

**Jon Richards** Unison

**David Aldous** National Audit Office

**Yvonne Johnson** Chair of the Pension Fund Panel, London Borough of Ealing, Scheme Employer Representative, SAB.

### Hymans Robertson facilitators:

Catherine McFadyen, John Wright, Ian Colvin, Steven Law

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# Terminology

## Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

## Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended:

**Administering authority** refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example “Each administering authority must publish an annual report.”

**Committee.** A committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example “The pensions committee should have a role in developing the business plan.”

**Host authority** refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example “Delivery of the LGPS function must be constant with the constitution of the host authority.”

**The fund** carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example “Taking this course of action will improve the fund's administration”.

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years.”

# Workstream 1: Standards and outcomes

## Proposals and background

### A. General

1. It is envisaged that all the proposals made in this document will be enacted via the introduction of new statutory governance guidance which will supersede current and previous guidance, although it will contain elements of existing legislation and guidance where appropriate. This guidance would be issued on behalf of MHCLG, although MHCLG may seek assistance on drafting the guidance.
2. In order to improve the accountability for fund governance, it is proposed that each administering authority must have a single named officer who is responsible for the delivery of the pension function. (“the LGPS senior officer”). This may be the S151 officer, assuming they have the capacity, LGPS knowledge and internal assurance framework to assume that role. Alternatively, the LGPS senior officer role may be undertaken by another officer who has the remit of delivering the LGPS function in its entirety and who is likewise suitably qualified and experienced and has the capacity to assume this role. This should be a person close enough to the running of the fund that they have sight of all aspects of the fund’s business. The role of the responsible person should be assigned through the host authority’s scheme of delegation and constitution. If the person who undertakes this key role within the host authority changes it may be necessary for the role of the responsible person to be reviewed.
3. In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority’s s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.



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**A.1** MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).

---

**A.2** Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).

---

**A.3** Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.

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## B. Conflicts of interest

1. Administering authorities must evidence that conflicts, and in particular, potential and perceived conflicts, as well as actual conflicts are being identified, monitored and managed. Some administering authorities currently only follow the conflicts of interest requirements of the host authority which are typically focused on the elected member register of interest and code of conduct. The Guidance should require all administering authorities to publish a specific LGPS conflicts of interest policy and should stipulate the areas that the policy should address. In addition to registering interests, this will include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS as listed:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations.
- Contribution setting for the AA and other employers.
- Cross charging for services or shared resourcing between the AA and the fund
- Dual role of the AA as an owner and client of a pool
- Local investment decisions
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or finance cabinet should be disclosed.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining clear records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded.
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.
- In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

Each fund should be required to make public its conflicts of interest policy.

2. During the Phase I survey a number of respondents said that it would be very helpful to define the extent of fiduciary duties in respect of the individuals, committees and boards involved in LGPS governance. The SAB working group came to the conclusion that that while clarification on the fiduciary question is desirable, the complex legal considerations mean that this is beyond the scope of this project. The Group is aware that the SAB has separately undertaken to collate various references to fiduciary duties and public law principles and provide a guide which illustrates how these might be applied to the LGPS. It would be helpful for The Guidance to make reference to the SAB's findings in this area.

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**B.1** Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.

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**B.2** The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.

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## C. Representation

1. The initial phase of the Good Governance review highlighted that many pension committees now have non-administering authority employer and scheme member representatives although local practice varies as to whether these members have a vote. Primary legislation in the form of the Local Government Act 1972 allows local authorities wide discretion over committee appointments and delegations and this issue ultimately remains one of local democracy.

The Guidance should require that all administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

Best practice would suggest that scheme member representation in some form is a desirable goal for administering authorities. In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

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**C.1** Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.

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## D. Skills and training

1. The Good Governance Review noted the need for enhanced levels of training for key LGPS individuals. While there exists a statutory duty on members of local pension boards to maintain an appropriate level of knowledge and understanding to carry out their role effectively, no such statutory duty applies to those sitting on s101 committees.

The Guidance should mandate a similar knowledge and understanding requirement for those carrying out a delegated decision-making role on s101 committees as well as officers involved in the fund. At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

Training should be delivered as part of a supportive environment and committee and board members will not be required to undertake tests, although it is recognised that best practice would include assessments or other means to identify gaps in knowledge.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to Committee and senior officers within the context of an appropriate LGPS specific framework, for example the CIPFA knowledge and skills Code of Practice and Framework (currently being updated). As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

Training records must be maintained.

2. There should be an LGPS training requirement for s151 officers (or those aspiring to the role) as part of their CPD. An appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority. This should be specified and administered by an appropriate professional body.

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**D.1** Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

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**D.2** Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.

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**D.3** Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.

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**D.4** CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

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## E. Service delivery for the LGPS function

The Good Governance Review proposed that LGPS funds should be able to evidence that their administration and other resource (quantity and competency) is sufficient to meet regulatory requirements and that their budget is appropriate to deliver this. In this context administration refers to all of the tasks and processes required to deliver the Scheme and is not limited to the calculation and payment of benefits. This definition encompasses a funds accountancy function, investment support, employer liaison, systems, communications etc.

1. Clarity around roles, responsibilities and decision making are central to good delivery of the LGPS function. The Guidance should require funds to document roles and responsibilities and develop, maintain and publish a “roles and responsibilities matrix” which sets out who within the organisation is responsible for final sign off, implementation, oversight and recommending the key decisions that the fund is required to make.

The “roles and responsibilities matrix” should reflect the host authority’s scheme of delegation and constitution and be supported by a clearly documented management structure.

2. The Guidance should require that each administering authority must develop, maintain and publish an administration strategy which sets out its approach to the matters mentioned in regulation 59 (2) of the LGPS Regulations 2013 and the Guidance. We recommend that the Board ask that this proposal to be implemented by MHCLG within the LGPS Regulations at their earliest opportunity.
3. A series of some 10 to 15 key indicators or measures of standards of LGPS service delivery to members and employers should be agreed. These indicators should be drawn wherever possible from current reporting structures. All administering authorities must be required to report against these as part of their governance compliance statement.

It is acknowledged that there are inherent difficulties in drawing conclusions when comparisons are not always on a true like for like basis but it is preferable to introduce measures now and seek to improve the measurement approach over time.

4. Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund’s budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund’s officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund’s business plan and deliverables for the forthcoming year. The practice should not simply be to update last year’s budget by an inflationary measure or specify an “available” budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund’s business plan but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority’s scheme of delegation and constitution.





## E. Service delivery for the LGPS function (continued)

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard. If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.

5. Each Administering Authority has a duty to ensure that its pensions function is staffed such as to enable it to deliver an effective pensions service to the all fund employers and members. It is therefore important that the recruitment and retention practices applied to the pensions function facilitate this. For example, the use of market supplements may be necessary to recruit/retain both investment and pensions administration staff. Further, given that the pension fund budget is set and managed separately from the expenditure of the host authority, the impact of general council staffing policies such as recruitment freezes should not be applied to the pension fund by default.

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**E.1** Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.

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**E.2** Each administering authority must publish an administration strategy.

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**E.3** Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.

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**E.4** Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.

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**E.5** Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.

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# Workstream 2: Compliance and improvement

## F. Compliance and improvement

One of the key features of the original Good Governance Review was the view that in order to ensure required standards are adhered to consistently there needs to be regular independent review of administering authorities governance arrangements.

1. The new MHCLG guidance should set out a process for an Independent Governance Review, to include the features set out below.
  - a. It will be mandatory for each Fund to commission an Independent Governance Review (“IGR”) which will audit the fund’s Governance Compliance Statement and review compliance with the requirement of the new statutory guidance.
  - b. There should be a standardised framework and process for IGRs which covers all areas set out in new MHCLG guidance.
  - c. It is critical that the IGR should be conducted by appropriate persons who:
    - properly understand the LGPS;
    - are sufficiently at arm’s length from the administering authority’s pensions function, that is, they do not have an existing contractual relationship with the administering authority which conflicts with their ability to carry out a properly independent and objective assessment of governance standards and compliance with new statutory requirements; and
    - are in some way “accredited” to ensure consistent standards of review.
  - d. To ensure consistent standards from those conducting IGRs, a procurement framework should be put in place which sets out the standard requirements, standard reporting and standard fee for an LGPS IGR. Ideally this should be in place for 2020/21.
  - e. Suppliers who can demonstrate they are suitably qualified and knowledgeable may be appointed to the framework, from which any LGPS Funds may appoint an external supplier.
  - f. Alternatively, administering authorities may choose to have their IGR review carried out by their own internal audit or another appropriate party to the same standards as the framework.
  - g. Each administering authority should have an IGR completed biennially, by a date which will be notified by the SAB.
  - h. The SAB may direct, as a result of concerns about the governance of a fund (or for another reason), that an administering authority must have an IGR completed outside of the two-year cycle.
  - i. The IGR will report findings to the body and/or individual with delegated responsibility for delivery of the LGPS as set out in the roles and responsibilities matrix and to the local pension board.
  - j. The administering authority must develop an improvement plan to address any issues raised in the IGR.
  - k. The report from the IGR and improvement plan must be published and also be submitted to SAB and relevant SAB sub-committees.
  - l. SAB will put in place a panel of independent experts to scrutinise the IGR reports, looking for outliers and areas of concern. The panel of experts will be drawn from LGPS stakeholders to include the s151 community and other parties as appropriate.
  - m. The SAB panel may enter into discussions with funds where the panel find the IGR report or agreed improvement plan or progress against a previous improvement plan are considered to be unsatisfactory. Additionally, they may refer the unsatisfactory IGR to TPR or further escalate to MHCLG.
  - n. Failure to submit an IGR report by the required date will result in automatic referral.
  - o. A dry run is recommended in parallel with the timeline for drafting the required Guidance.
  - p. Nothing in this process overrides an individual’s responsibility to report breaches of the law under the Pensions Act 2004 or any other professional or legal whistleblowing obligations.





## F. Compliance and improvement (continued)

2. LGA run a peer challenge process for some areas of local government. It is a process commissioned by a council and involves a small team of local government officers and councillors spending time at the council as peers to provide challenge and share learning. It is suggested that a similar peer challenge process is established for the LGPS.

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**F.1** Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

IGR reports to be assessed by a SAB panel of experts.

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**F.2** LGA to consider establishing a peer review process for LGPS Funds.

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### Summary of the compliance and improvement process

Annually, each administering authority to produce a governance compliance statement signed by the senior LGPS officer and S151 which demonstrates compliance with LGPS requirements.

Biennially, each administering authority to commission an Independent Governance Review (IGR).

IGR reports to senior LGPS officer, pensions committee and pensions board.

IGR report goes to a SAB panel of experts for assessment. Panel could request further details of improvement plans, make recommendations or report to TPR & MHCLG

# Next steps

The Working Group recommends that SAB and MHCLG accept the recommendations in this report and initiate phase III of the project.

Phase III should contain the following elements:

1. MHCLG to draft the required changes to the Guidance.
2. SAB to ask the National Framework to begin work on establishing Independent Governance Review provider framework.
3. SAB to establish the 10-15 KPIs referred to within proposal E.3.
4. It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund's position on all areas of governance and compliance. Where a fund is non-compliant in a certain area the statement should provide information within and accompanying improvement plan about the steps being taken in order to address non-compliance. SAB to consider drawing up a complete list of the topics that should be included within the governance compliance statement.



Appendix A

# Summary of recommendations

Area	Proposal
<b>A. General</b>	<b>A.1</b> MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).
	<b>A.2</b> Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).
	<b>A.3</b> Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.
<b>B. Conflicts of interest</b>	<b>B.1</b> Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.
	<b>B.2</b> The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.
<b>C. Representation</b>	<b>C.1</b> Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.
<b>D. Knowledge and understanding</b>	<b>D.1</b> Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	<b>D.2</b> Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.
	<b>D.3</b> Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	<b>D.4</b> CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.
<b>E. Service delivery for the LGPS function</b>	<b>E.1</b> Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority’s scheme of delegation and constitution and be consistent with role descriptions and business processes.
	<b>E.2</b> Each administering authority must publish an administration strategy.
	<b>E.3</b> Each administering authority must report the fund’s performance against an agreed set of indicators designed to measure standards of service.
	<b>E.4</b> Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
	<b>E.5</b> Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.
<b>F. Compliance and improvement</b>	<b>F.1</b> Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	<b>F.2</b> LGA to consider establishing a peer review process for LGPS Funds.

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## Clwyd Pension Fund

### Training Plan 2019/ 20 - as at 31 October 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 Funding	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
Day 3 - Induction / Refresher Training Administration / Governance	New Member Induction and additional identified from individual TNA.	05/11/2019	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	
Responsible Investing	To frame the Fund Responsible Investment Policy	04/09/2019	During Committee	Committee, Pensions Board and Officers	Y
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	Y
LGA Fundamentals Training	Day 1 Legal Framework	17/10/19 Leeds 03/10/19 London 31/10/19 Cardiff	1 day	Committee, Pensions Board	Y
Governance / Admin	Basics of Governance and Administration of the LGPS	05/11/19 Mold	1 day	New Committee/Pensions Board	Y
LGA Fundamentals Training	Day 2 Investments	14/11/19 Leeds 06/11/19 London 21/11/19 Cardiff	1 day	Committee, Pensions Board	Y
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, Bournemouth	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	
Training Day	To be Determined	18/03/2020	1 day	Committee, Pensions Board and Officers	
PLSA Local Authority Conference, Gloucestershire	Various	18-20/05/2020	3 days	Committee, Pensions Board and Officers	Y

Mae'r dudalen hon yn wag yn bwrpasol

# LGPS Governance Conference 2020



“Public Service Pension Reform  
Life after Hutton”

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2020

12:30 pm

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Tudalen 131

Day one – Thursday 23 January	
12:30	<b>Registration and buffet lunch</b>
13:50	<b>Chair's Welcome - Cllr Roger Phillips</b>
14:00	<b>Keynote address</b> <b>Anthony Arter,</b> <b>The Pensions Ombudsman</b>
14:30	<b>How the SAB levy is spent</b> <b>Cllr Roger Phillips, Scheme Advisory Board Chair</b> A look at the work being undertaken by the Scheme Advisory Board including a review of its achievements
15:00	<b>Refreshments and networking</b>
15:20	<b>Checking Compliance</b> <b>Gerard Moore, Local Pension Board Chair - Northumberland, Powys and Bedfordshire</b> An expert evaluation of the role of local pension boards from the coal face
15:50	<b>The Scheme member's perspective</b> <b>Jon Richards, UNISON</b> A summary of the impact of the Hutton reforms from the member's viewpoint
16:20	<b>Panel – Is the cost cap fit for purpose?</b> <b>Chair Jeff Houston, LGA Head of Pensions</b> <b>Melanie Durrant, Barnett Waddingham</b> <b>Alison Murray, Aon</b> <b>Rob Bilton, Hymans Robertson</b> <b>Paul Middleman, Mercer</b> An opportunity to question an expert panel about the cost cap process introduced as part of scheme reform in the light of the 2016 result and the impact of McCloud
17:00	<b>Closing remarks from the Chair</b>
20:00	<b>Conference dinner followed by after dinner speaker Shelagh Fogarty – award winning radio presenter, television broadcaster and journalist</b>

Day two – Friday 24 January	
09:25	<b>Chair's Welcome - Cllr Roger Phillips</b>
09:30	<b>Keynote address</b> <b>Lord John Hutton of Furness</b>
10:00	<b>Regulating the reforms</b> <b>Nick Gannon, The Pension Regulator</b> How is the LGPS measuring up against the Pension Regulator's standards on governance and administration?
10:30	<b>Legal Update</b> <b>Kirsty Bartlett, Squire Patton Boggs</b> All you need to know to keep the lawyers at bay!
11:00	<b>Refreshments and networking</b>
11:20	<b>A view from the Responsible Authority</b> <b>Jeremy Hughes, MHCLG</b> MHCLG's stewardship role with particular emphasis on managing and regulating the reform agenda
11:50	<b>Investment spotlight</b> <b>Deirdre Cooper, Investec Asset Management</b> A look at topical investment issues
12:20	<b>Closing remarks from the Chair</b>
12:30	<b>Buffet lunch and networking</b>

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Converting 2020 vision into a successful investment strategy

Carden Park Hotel, near Chester: 27-28 February 2020

Draft programme as at 14 November 2019

Thursday 27 February

Session	Title	Presenters
09:15 – 09:45	Coffee and registration	
09:45-09:55	Chairman's welcome	Chris Bilsland, Non-Executive Director, London CIV
09:55-10:40 Plenary 1	<p><b>In conversation with .....</b></p> <p>A fireside chat making sense of the latest geopolitical and economic landscape from an outside perspective. Providing clarification on the latest political and economic developments</p>	Speaker to be confirmed
10:40 – 11:30 Plenary 2	<p><b>The outcome of the 2019 valuation and its impact on investment strategies</b></p> <ul style="list-style-type: none"> <li>• Providing analysis of the overall picture for the LGPS funds.</li> <li>• What has been different in the valuation process this time round.</li> <li>• How funds should be reviewing their investment strategy depending on their funding position.</li> <li>• What the impact will be on contribution rates and cashflow.</li> <li>• How the fund can get their strategy implemented with pooling.</li> <li>• How the Pool can assist at this time</li> </ul>	<p><b>Graeme Muir</b>, Partner and Head of LGPS, Barnett Waddingham</p> <p><b>Jo Ray</b>, Head of Pensions, Lincolnshire County Council</p> <p><b>Phil Triggs</b>, Tri-Borough Director of Pensions, Westminster City Council</p>

11:30 – 12:00	<b>Refreshments</b>	
12:00 – 13:00 <b>Workshops</b>	Choose to attend 1 out of 4 investment focused workshops led by our fund manager sponsors	
13:00 – 14:15	<b>Lunch</b>	
14:15 – 15:15 <b>Plenary 3</b>	<p><b>World café round table discussion session led by LGPS moderators on hot topics.</b></p> <ul style="list-style-type: none"> <li>• SAB responsible investment guidance: implications on ESG and climate risk</li> <li>• LGPS challenges in terms of benefits and costs (including GMP reconciliation and equalisation and 95k)</li> <li>• Is the LGPS performing better and looking more sustainable?</li> <li>• TPR survey and cohort findings – what is the impact on LGPS?</li> <li>• Forthcoming pensions legislation (depending on where we are with the EU) and how could LGPS collaborate more to manage change and to deal with risks</li> </ul>	<p>Moderators include:</p> <p><b>Euan Miller</b>, Assistant Executive Director, Greater Manchester Pension Fund</p> <p><b>Rachel Brothwood</b>, Director of Pensions, West Midlands Pension Scheme</p> <p><b>Thomas Skeen</b>, Head of Pensions, Treasury and Chief Accountant, London Borough of Haringey</p> <p><b>Doug Heron</b>, Chief Executive, Lothian Pension Fund</p>
15:15 – 15:45	<b>Refreshments</b>	
15:45 – 16:45 <b>Workshops</b>	Choose to attend 1 out of 4 investment focused workshops led by our fund manager sponsors	
16:45 – 17:30 <b>Plenary 4</b>	<p><b>Investing for the climate emergency</b></p> <p>With climate change gaining increasing prominence for councils, this session will explore the implications for the funds and pools.</p> <p>Providing practical case studies of different climate scenarios and how to compare them</p> <p>How your pension scheme’s policy towards climate change aligns with what the council is doing and does it matter if there are discrepancies between the two.</p>	<p>Live from Oslo: <b>Henrik Wold Nilsen</b>, Senior Portfolio Manager, Storebrand Global ESG Plus</p> <p><b>Michael Marshall</b>, Director of Responsible Investment and Engagement, LGPS Central</p>

	<p>The impact of climate scenarios, and how one manager creates an index based fund for climate aware investors to replace their passive portfolios.</p> <p>How are one of the pools responding where each of the underlying funds may well be in a different position</p> <p>How funds handle the situation where there is pressure from council to divest.</p>	
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<b>19:00</b>	<b>Networking reception and canapes</b>	
<b>19:30</b>	<b>2 course networking dinner (main course and dessert)</b>	

## Friday 28 February

<b>08:30 - 09:00</b>	<b>Refreshments</b>	
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<b>09:00</b>	Chairman's welcome	
<b>09:10 – 10:00</b> <b>Plenary 5</b>	<p><b>What is keeping the fund managers awake at night?</b></p> <p>Topical debate on the latest developments which are on the fund managers' radar and which the LGPS should be focusing on next.</p> <p>Identifying the challenges and opportunities from the contrasting perspective of 2 fund managers.</p>	Speakers to be confirmed from LGIM and BlackRock

<b>10:00 – 10:45</b> <b>Plenary 6</b>	<p><b>How funds should be analysing and measuring global markets across different styles, classes and strategies</b></p> <p>With the recent move in investment away from the UK, LGPS funds are investing more in emerging markets.</p> <p>This session will look at the role of the index in this – especially in India, China and hard to reach emerging markets where the measurement process is less clear cut.</p> <p>Should investment in emerging markets be active or passive?</p> <p>Practical insight from one of the pools on how they are tackling this issue</p> <p>Digging down into regional splits and what they mean</p> <p>Outlining the growth prospects for India and China</p>	Speakers to be confirmed
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<b>10:45 – 11:15</b>	<b>Refreshments</b>	
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<b>11.15 – 12.00</b> <b>Plenary 6</b>	<b>The Governance challenge ahead</b>	
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	<p>How to prepare for closer monitoring, reporting and measurement of performance</p> <p>What the key governance requirements are for LGPS pools and funds</p> <p>Meeting the TPR's requirement for better governed schemes</p> <p>Possible options for restructuring and how to go about it</p>	Speakers to be confirmed
<p><b>12:00 – 12:45</b></p> <p><b>Plenary 7</b></p>	<p><b>LGPS and CIPFA update</b></p> <ul style="list-style-type: none"> <li>• ESG and climate change guidance from the SAB</li> <li>• Latest update on liability shocks: McCloud, Walker, GMP equalisation</li> <li>• Deficits, employer contributions and the impact on cashflow</li> <li>• Resourcing gap and collaboration</li> <li>• How CIPFA can support the LGPS funds</li> <li>• Insight into CIPFA's future areas of focus.</li> <li>• Standardised accounts – are they fit for purpose?</li> <li>• Cost transparency initiative</li> </ul>	<p><b>Jeff Houston,</b> Secretary, Local Government Pensions Scheme Advisory Board</p> <p><b>Andrew Burns,</b> Associate Director, CIPFA</p>
<b>12:45</b>	<b>Closing remarks</b>	<b>Chris Bilsland</b>
<b>12:50</b>	<b>Lunch</b>	

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<b>Ref</b>	A1	<b>Date entered in register</b>	19 Sep 2017
<b>Status</b>	Open	<b>Date breached closed (if relevant)</b>	
<b>Title of Breach</b>	Late notification of joining	<b>Owner</b>	SB/JT
<b>Party which caused the breach</b>	CPF + various employers		
<b>Description and cause of breach</b>	<p>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.</p> <p>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.</p>		
<b>Category affected</b>	Active members		
<b>Numbers affected</b>	<p>2017/18: 2676 cases completed / 76% (2046) were in breach.</p> <p>2018/19:</p> <ul style="list-style-type: none"> <li>- Q1 - 1246 cases completed / 84%(1050) were in breach</li> <li>- Q2 - 551 cases completed / 87% (480) were in breach</li> <li>- Q3 - 1123 cases completed / 50% (563) were in breach</li> <li>- Q4 - 935 cases completed / 49% (458) were in breach</li> </ul> <p>2019/20:</p> <ul style="list-style-type: none"> <li>- Q1 - 822 cases completed / 62% (507) were in breach</li> <li>- Q2 - 750 cases completed / 46% (380) were in breach</li> </ul>		
<b>Possible effect and wider implications</b>	<ul style="list-style-type: none"> <li>- Late scheme information sent to member which may result in lack of understanding.</li> <li>- Potential complaints from members.</li> <li>- Potential for impact on CPF reputation.</li> </ul>		

<b>Actions taken to rectify breach</b>	<ul style="list-style-type: none"> <li>- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of new joiners (ongoing).</li> <li>- Set up of Employer Liasion Team (ELT) to monitor and provide joiner details more timelessly.</li> <li>- Training of new team members to raise awareness of importance of time restraint.</li> <li>- Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task.</li> <li>- 6/6/18 - Updating KPI monitoring to understand employers not sending information in time.</li> <li>3/6/19 - Review of staff resources now complete and new posts filled.</li> <li>14/8/19</li> <li>-Streamlining of aggregation cases with major employers.</li> <li>- Consider feasibility and implications of removing reminders for joining pack (agreed not to change).</li> <li>- Consider feasibility of whether tasks can be prioritised by date of joining (agreed not to change).</li> <li>14/11/19 - Utilising FCC trainees to assist with this procedure. Joined early September.</li> </ul>
<b>Outstanding actions (if any)</b>	<ul style="list-style-type: none"> <li>- Ongoing roll out of i-Connect.</li> <li>- Bedding in of new staff/ training.</li> <li>- Carrying out backlogs of previous joiners (most of which are due to i-Connect roll out).</li> <li>- Contacting employers which are causing delays.</li> <li>28/1/19:</li> <li>- Introduce process to analyse specific employers causing problems.</li> </ul>
<b>Assessment of breach and brief summary of rationale</b>	<p>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.</p> <p>4/6/19 Reassessed - New resource put in place but may take a few months to see full impact.</p> <p>14/11/19 status reassessed and remains amber whilst training of new staff continues</p>
<b>Reported to tPR</b>	No

<b>Ref</b>	A2	<b>Date entered in register</b>	19 Sep 2017
<b>Status</b>	Open	<b>Date breached closed (if relevant)</b>	
<b>Title of Breach</b>	Late transfer in estimate	<b>Owner</b>	JT
<b>Party which caused the breach</b>	CPF + various previous schemes		
<b>Description and cause of breach</b>	<p>Requirement to obtain transfer details for transfer in, and calculate and provide quotation to member 2 months from the date of request.</p> <p>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.</p>		

<b>Category affected</b>	Active members
<b>Numbers affected</b>	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 <del>- Q2 - 56 cases completed / 29% (16) were in breach</del>
<b>Possible effect and wider implications</b>	- Potential financial implications on some scheme members. - Potential complaints from members/previous schemes. - Potential for impact on CPF reputation.
<b>Actions taken to rectify breach</b>	- Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with in a more timely manner.
<b>Outstanding actions (if any)</b>	- 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.
<b>Assessment of breach and brief summary of rationale</b>	29/1/19 Stockpiling will likely make KPIs worse in short term but then longer term additional training will result in improvements. 14/11/19 whilst improvements have been made - this needs to be consistent and numbers reducing further prior to changing to green
<b>Reported to tPR</b>	No

<b>Ref</b>	A4	<b>Date entered in register</b>	19 Sep 2017
<b>Status</b>	Open	<b>Date breached closed (if relevant)</b>	
<b>Title of Breach</b>	Late notification of retirement benefits	<b>Owner</b>	SB
<b>Party which caused the breach</b>	CPF + various employers + AVC providers		
<b>Description and cause of breach</b>	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		
<b>Category affected</b>	Active members mainly but potentially some deferred members		
<b>Numbers affected</b>	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 <del>- Q2 - 411 cases completed / 24% (99) were in breach</del>		

<b>Possible effect and wider implications</b>	<ul style="list-style-type: none"> <li>- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF).</li> <li>- Potential complaints from members/employers.</li> <li>- Potential for impact on CPF reputation.</li> </ul>
<b>Actions taken to rectify breach</b>	<ul style="list-style-type: none"> <li>- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of retirees (ongoing).</li> <li>- Set up of ELT to monitor and provide leaver details in a more timely manner.</li> <li>- Prioritising of task allocation.</li> <li>- Set up of new process with one AVC provider to access AVC fund information.</li> <li>- Increased staff resources.</li> </ul> <p>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.</p>
<b>Outstanding actions (if any)</b>	<ul style="list-style-type: none"> <li>- Further training of newly promoted team member to deal with volume of work.</li> <li>- Identifying which employers are causing delays.</li> </ul> <p>14/11/19 Continuation of training.</p>
<b>Assessment of breach and brief summary of rationale</b>	<p>4/6/19 New resource put in place but may take a few months to see full impact. 14/11/19 Number of retirements increased and those in breach reduced so improvements continue to be made, but remain as amber for now.</p>
<b>Reported to tPR</b>	No

<b>Ref</b>	A5	<b>Date entered in register</b>	20 Sep 2017
<b>Status</b>	Open	<b>Date breached closed (if relevant)</b>	
<b>Title of Breach</b>	Late estimate of benefits	<b>Owner</b>	SB
<b>Party which caused the breach</b>	CPF		
<b>Description and cause of breach</b>	<p>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.</p> <p>Delays are due to:</p> <ul style="list-style-type: none"> <li>- late completion of calculation by CPF.</li> <li>- Increasing numbers of estimate requests being made by members.</li> </ul>		
<b>Category affected</b>	Active members mainly but potentially some deferred members		
<b>Numbers affected</b>	<p>2017/18: 487 cases completed / 37% (182) were in breach. 2018/19:</p> <ul style="list-style-type: none"> <li>- Q1 - 79 cases completed / 32% (25) were in breach</li> <li>- Q2 - 60 case completed / 22% (13) were in breach</li> <li>- Q3 - 123 case completed / 15% (18) were in breach</li> <li>- Q4 - 151 cases completed / 6% (4) were in breach</li> </ul> <p>2019/20:</p> <ul style="list-style-type: none"> <li>- Q1 - 165 cases completed / 4% (6) were in breach</li> <li>- Q2 - 244 cases completed / 2% (4) were in breach</li> </ul>		

<b>Possible effect and wider implications</b>	<ul style="list-style-type: none"> <li>- Late notification of benefits/costs to member/employer.</li> <li>- Potential complaints from members/employers.</li> <li>- Potential for missed opportunities by members/employers.</li> <li>- Potential for impact on CPF reputation.</li> </ul>
<b>Actions taken to rectify breach</b>	<ul style="list-style-type: none"> <li>- Introduction of MSS should alleviate the volume of requests received as member will be able to calculate own estimate through database.</li> <li>- Further training of team members also required.</li> <li>- Task allocation reviewed by team leader to ensure estimates are given a higher priority.</li> </ul> <p>3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Additional staff training.</p>
<b>Outstanding actions (if any)</b>	-None
<b>Assessment of breach and brief summary of rationale</b>	<p>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.</p> <p>3/6/19 Cases in breach now drastically reduced so moved from amber to green. But will review in next quarter.</p> <p>14/8/19 Reassessed - Still minor breach but all reasonable actions have been taken.</p> <p>14/11/19 Reassessed - Still minor breach but all reasonable actions have been taken and progress has been maintained.</p>
<b>Reported to tPR</b>	No

<b>Ref</b>	A6	<b>Date entered in register</b>	20 Sep 2017
<b>Status</b>	Open	<b>Date breached closed (if relevant)</b>	
<b>Title of Breach</b>	Late notification of death benefits	<b>Owner</b>	SB
<b>Party which caused the breach</b>	CPF		
<b>Description and cause of breach</b>	<p>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).</p> <p>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.</p>		
<b>Category affected</b>	Dependant members + other contacts of deceased (which could be active, deferred, pensioner or dependant).		
<b>Numbers affected</b>	<p>2017/18: 153 cases completed / 58% (88) were in breach.</p> <p>2018/19:</p> <ul style="list-style-type: none"> <li>- Q1 - 53 cases completed / 32% (17) were in breach</li> <li>- Q2 - 26 case completed / 35% (9) were in breach</li> <li>- Q3 - 41 case completed / 39% (16) were in breach</li> <li>- Q4 - 64 cases completed / 22% (14) were in breach</li> </ul> <p>2019/20:</p> <ul style="list-style-type: none"> <li>- Q1 - 33 cases completed / 24% (8) were in breach</li> <li>- Q2 - 41 cases completed / 34% (14) were in breach</li> </ul>		
<b>Possible effect and wider implications</b>	<ul style="list-style-type: none"> <li>- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF).</li> <li>- Potential complaints from beneficiaries, particular given sensitivity of cases.</li> <li>- Potential for impact on CPF reputation.</li> </ul>		

<b>Actions taken to rectify breach</b>	- 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.
<b>Outstanding actions (if any)</b>	- Additional staff training.
<b>Assessment of breach and brief summary of rationale</b>	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. 14/11/19 Continuation of training to other Pension officers will hopefully reduce this further so retain as amber.
<b>Reported to tPR</b>	No

<b>Ref</b>	A9	<b>Date entered in register</b>	29 Aug 2018
<b>Status</b>	Open	<b>Date breached closed (if relevant)</b>	
<b>Title of Breach</b>	Late notification of leaver rights and options	<b>Owner</b>	SB/JT
<b>Party which caused the breach</b>	CPF + various employers		
<b>Description and cause of breach</b>	<p>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).</p> <p>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.</p>		
<b>Category affected</b>	Active members		
<b>Numbers affected</b>	<p>2018/19:</p> <ul style="list-style-type: none"> <li>- Q1 - 437 cases completed / 40% (173) were in breach</li> <li>- Q2 - 1463 cases completed / 66% (963) were in breach</li> <li>- Q3 - 951 cases completed / 51% (481) were in breach</li> <li>- Q4 - 745 cases completed / 2% (17) were in breach</li> </ul> <p>2019/20:</p> <ul style="list-style-type: none"> <li>- Q1 - 541 cases completed / 6% (34) were in breach</li> <li>- Q2 - 391 cases completed / 6% (23) were in breach</li> </ul>		
<b>Possible effect and wider implications</b>	<ul style="list-style-type: none"> <li>- Late notification of benefits/costs to member/employer.</li> <li>- Potential complaints from members/employers.</li> <li>- Potential for missed opportunities by members/employers.</li> <li>- Potential for impact on CPF reputation.</li> </ul>		

<b>Actions taken to rectify breach</b>	<ul style="list-style-type: none"> <li>- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of leavers (ongoing).</li> <li>- Set up of Employer Liaison Team (ELT) to monitor and provide leaver details in a more timely manner.</li> <li>- Training of new team members to raise awareness of importance of time restraint.</li> <li>- Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task.</li> <li>- 6/6/18 - Updating KPI monitoring to understand employers not sending information in time.</li> <li>3/6/19 - Review of staff resources now complete and new posts filled.</li> <li>14/8/19</li> <li>- Ongoing streamlining of aggregation cases with major employers.</li> <li>- Consider feasibility of whether tasks can be prioritised by date of leaving (no action taken).</li> <li>- Carrying out backlogs of previous leavers (most of which are due to i-Connect roll out).</li> </ul>
<b>Outstanding actions (if any)</b>	<ul style="list-style-type: none"> <li>- Ongoing roll out of i-Connect.</li> <li>- Bedding in of new staff/ training.</li> <li>- Contacting employers which are causing delays.</li> <li>28/1/19:</li> <li>- Introduce process to analyse specific employers causing problems.</li> </ul>
<b>Assessment of breach and brief summary of rationale</b>	<p>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.</p> <p>3/6/19 Reassessed - Cases in breach now drastically reduced so moved from amber to green. But will review in next quarter.</p> <p>14/8/19 Reassessed - Still minor breach but all reasonable actions have been taken.</p> <p>15/11/19 Reassessed - Still green whilst progress is maintained.</p>
<b>Reported to tPR</b>	No

<b>Ref</b>	A11	<b>Date entered in register</b>	29 May 2019
<b>Status</b>	Open	<b>Date breached closed (if relevant)</b>	
<b>Title of Breach</b>	Scheme Changes Disclosure	<b>Owner</b>	KAM
<b>Party which caused the breach</b>	CPF		
<b>Description and cause of breach</b>	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.		
<b>Category affected</b>	Active members, status 2 (undecided) members and deferred members who are shown as "gone away"		
<b>Numbers affected</b>	921 members impacted		
<b>Possible effect and wider implications</b>	<ul style="list-style-type: none"> <li>- Personal Details available to view by incorrect recipients</li> <li>- May result in complaints</li> <li>- Potential that same issue could occur in other communications if "gone away" status is not checked.</li> </ul>		

<b>Actions taken to rectify breach</b>	- 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
<b>Outstanding actions (if any)</b>	-Still being considered by FCC to ensure change in processes are adequate 14/11/19 Contact FCC to find out if any further actions are required.
<b>Assessment of breach and brief summary of rationale</b>	Large number of members impacted but no personal information other than name included in communications so low impact. 14/11/19 Maintain as green as no further action notified by FCC
<b>Reported to tPR</b>	No

<b>Ref</b>	A12	<b>Date entered in register</b>	29 May 2019
<b>Status</b>	Open	<b>Date breached closed (if relevant)</b>	
<b>Title of Breach</b>	APC calculation due to revised factors	<b>Owner</b>	SB/JT
<b>Party which caused the breach</b>	CPF		
<b>Description and cause of breach</b>	Recalculation of APC contracts due to GAD factor change not communicated within required timescales		
<b>Category affected</b>	Active members with APC contracts		
<b>Numbers affected</b>	<10 members 14/11/19 Now confirmed as only 1 member affected.		
<b>Possible effect and wider implications</b>	- Late notification to members of change to APC contracts / recalculation of benefits - May result in complaints		
<b>Actions taken to rectify breach</b>	- Re-calculation of APC contracts underway with explanation to those affected by the change. 14/11/19 Initial work completed and determined only 1 member requires a recalculation.		
<b>Outstanding actions (if any)</b>	Re-calculation and notification to members required		
<b>Assessment of breach and brief summary of rationale</b>	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. 14/11/19 Reassessed - remain green as only 1 member is affected.		
<b>Reported to tPR</b>	No		

<b>Ref</b>	A13	<b>Date entered in register</b>	14 Nov 2019
<b>Status</b>	Open	<b>Date breached closed (if relevant)</b>	
<b>Title of Breach</b>	Late transfer out estimate	<b>Owner</b>	JT/KCW
<b>Party which caused the breach</b>	CPF		
<b>Description and cause of breach</b>	Requirement to provide details of transfer value for transfer out on request within 3 months from date of request (CETV estimate). Note this is the same as breach A3 which was closed previously.  Late completion of calculation and notification by CPF due to higher number of cases, plus additional pressure to complete aggregation project by end of Q3 and incorporation of tasks from data improvement plan.		



<b>Category affected</b>	Active and deferred members
<b>Numbers affected</b>	2019/20 - Q2 - 3 members in breach
<b>Possible effect and wider implications</b>	- Potential financial implications on some scheme members. - Potential complaints from members/new schemes. - Potential for impact on CPF reputation.
<b>Actions taken to rectify breach</b>	14/11/19 - Better prioritisation of workload and any additional tasks that are not KPI driven
<b>Outstanding actions (if any)</b>	None
<b>Assessment of breach and brief summary of rationale</b>	14/11/19 As only a small number of members were affected the risk is considered minimal
<b>Reported to tPR</b>	No

<b>Ref</b>	F17	<b>Date entered in register</b>	19 Aug 2019
<b>Status</b>	Closed	<b>Date breached closed (if relevant)</b>	09 Sep 2019
<b>Title of Breach</b>	No submission of contribution remittance advice	<b>Owner</b>	DF
<b>Party which caused the breach</b>	Wrexham County Borough Council		
<b>Description and cause of breach</b>	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.		
<b>Category affected</b>	Active members and employer		
<b>Numbers affected</b>	14355 active members		
<b>Possible effect and wider implications</b>	Unable to verify information being paid or reconcile with member year end information.		
<b>Actions taken to rectify breach</b>	- emailed employer to request - employer advised delay due to staffing issues and it will be looked at asap		
<b>Outstanding actions (if any)</b>	9/9/19 No outstanding actions. Remittance now received.		
<b>Assessment of breach and brief summary of rationale</b>	21/8/19 Remittance still outstanding. First occurrence and will continue to chase. 9/9/19 Reassessed - remittance now received.		
<b>Reported to tPR</b>	No		

<b>Ref</b>	F18	<b>Date entered in register</b>	19 Aug 2019
<b>Status</b>	Closed	<b>Date breached closed (if relevant)</b>	04 Sep 2019
<b>Title of Breach</b>	No submission of contribution remittance advice	<b>Owner</b>	DF
<b>Party which caused the breach</b>	Wrexham Commercial Services		
<b>Description and cause of breach</b>	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.		
<b>Category affected</b>	Active members and employer		
<b>Numbers affected</b>	350 active members		
<b>Possible effect and wider implications</b>	Unable to verify information being paid or reconcile with member year end information.		

<b>Actions taken to rectify breach</b>	- 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)
<b>Outstanding actions (if any)</b>	4/9/19 No outstanding actions. Remittance now received.
<b>Assessment of breach and brief summary of rationale</b>	21/8/19 Remittance still outstanding. First occurrence and will continue to chase. 4/9/19 Reassessed - remittance now received.
<b>Reported to tPR</b>	No

<b>Ref</b>	F19	<b>Date entered in register</b>	19 Aug 2019
<b>Status</b>	Closed	<b>Date breached closed (if relevant)</b>	04 Sep 2019
<b>Title of Breach</b>	No submission of contribution remittance advice	<b>Owner</b>	DF
<b>Party which caused the breach</b>	Penley Maelor		
<b>Description and cause of breach</b>	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.		
<b>Category affected</b>	Active members and employer		
<b>Numbers affected</b>	10 active members		
<b>Possible effect and wider implications</b>	Unable to verify information being paid or reconcile with member year end information.		
<b>Actions taken to rectify breach</b>	- 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)		
<b>Outstanding actions (if any)</b>	4/9/19 No outstanding actions. Remittance now received.		
<b>Assessment of breach and brief summary of rationale</b>	21/8/19 Remittance still outstanding. First occurrence and will continue to chase. 4/9/19 Reassessed - remittance now received.		
<b>Reported to tPR</b>	No		

<b>Ref</b>	F21	<b>Date entered in register</b>	19 Aug 2019
<b>Status</b>	Closed	<b>Date breached closed (if relevant)</b>	24 Sep 2019
<b>Title of Breach</b>	No submission of contribution remittance advice	<b>Owner</b>	DF
<b>Party which caused the breach</b>	Denbigh Youth Project		
<b>Description and cause of breach</b>	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.		
<b>Category affected</b>	Active members and employer		
<b>Numbers affected</b>	1 active member		
<b>Possible effect and wider implications</b>	Unable to verify information being paid or reconcile with member year end information.		
<b>Actions taken to rectify breach</b>	- emailed to request		

<b>Outstanding actions (if any)</b>	24/9/19 No outstanding actions. Remittance now received.
<b>Assessment of breach and brief summary of rationale</b>	21/8/19 Remittance still outstanding but will continue to chase (first occurrence). 24/9/19 Reassessed - remittance received.
<b>Reported to tPR</b>	0

<b>Ref</b>	F22	<b>Date entered in register</b>	19 Aug 2019
<b>Status</b>	Closed	<b>Date breached closed (if relevant)</b>	09 Sep 2019
<b>Title of Breach</b>	No submission of contribution remittance advice	<b>Owner</b>	DF
<b>Party which caused the breach</b>	Wrexham County Borough Council		
<b>Description and cause of breach</b>	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.		
<b>Category affected</b>	Active members and employer		
<b>Numbers affected</b>	14355 active members		
<b>Possible effect and wider implications</b>	Unable to verify information being paid or reconcile with member year end information.		
<b>Actions taken to rectify breach</b>	- employer advised delay due to staffing issues and it will be looked at asap		
<b>Outstanding actions (if any)</b>	9/9/19 No outstanding actions. Remittance now received.		
<b>Assessment of breach and brief summary of rationale</b>	21/8/19 Remittance still outstanding. Second occurrence but clearly all due to the same staffing issue. Will continue to chase. 9/9/19 Reassessed - remittance received.		
<b>Reported to tPR</b>	0		

<b>Ref</b>	F23	<b>Date entered in register</b>	19 Aug 2019
<b>Status</b>	Closed	<b>Date breached closed (if relevant)</b>	04 Sep 2019
<b>Title of Breach</b>	No submission of contribution remittance advice	<b>Owner</b>	DF
<b>Party which caused the breach</b>	Wrexham Commercial Services		
<b>Description and cause of breach</b>	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.		
<b>Category affected</b>	Active members and employer		
<b>Numbers affected</b>	350 active members		
<b>Possible effect and wider implications</b>	Unable to verify information being paid or reconcile with member year end information.		
<b>Actions taken to rectify breach</b>	- employer advised delay due to staffing issues and it will be looked at asap (note payroll is Wrexham County Borough Council)		
<b>Outstanding actions (if any)</b>	4/9/19 No outstanding actions. Remittance now received.		
<b>Assessment of breach and brief summary of rationale</b>	21/8/19 Remittance still outstanding. Second occurrence but clearly all due to the same staffing issue. Will continue to chase. 4/9/19 Reassessed - remittance received.		
<b>Reported to tPR</b>	0		

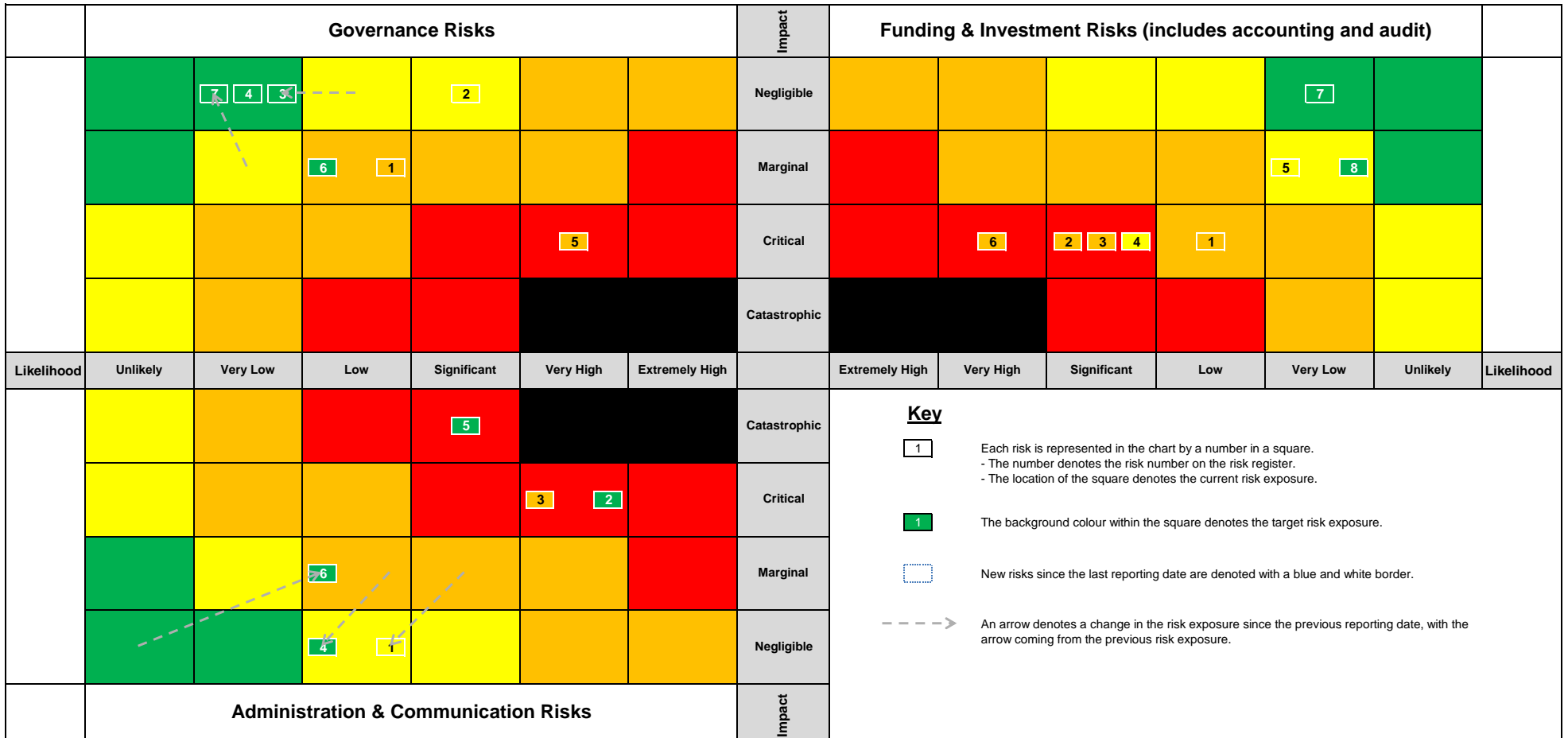
<b>Ref</b>	F24	<b>Date entered in register</b>	19 Aug 2019
<b>Status</b>	Closed	<b>Date breached closed (if relevant)</b>	04 Sep 2019
<b>Title of Breach</b>	No submission of contribution remittance advice	<b>Owner</b>	DF
<b>Party which caused the breach</b>	Penley Maelor		
<b>Description and cause of breach</b>	<p>A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made.</p> <p>Contributions relating to June 2019 were received within the legal timescales but no remittance advice was received.</p>		
<b>Category affected</b>	Active members and employer		
<b>Numbers affected</b>	110 active members		
<b>Possible effect and wider implications</b>	Unable to verify information being paid or reconcile with member year end information.		
<b>Actions taken to rectify breach</b>	- employer advised delay due to staffing issues and it will be looked at asap (note payroll is Wrexham County Borough Council)		
<b>Outstanding actions (if any)</b>	4/9/19 No outstanding actions. Remittance now received.		
<b>Assessment of breach and brief summary of rationale</b>	<p>21/8/19 Remittance still outstanding. Second occurrence but clearly all due to the same staffing issue. Will continue to chase.</p> <p>4/9/19 Reassessed - remittance received.</p>		
<b>Reported to tPR</b>	0		

CLWYD PENSION FUND - CALENDAR OF EVENTS APRIL 2019 ONWARDS						
Month	Date	Day	Committee	Training	Pension Board	Location
<b>2019</b>						
<b>May</b>						
	13 - 15 May	Mon - Wed		PLSA Local Authority Conference		Gloucestershire
<b>June</b>						
	12-Jun	Wed	9.30am - 1pm			County Hall
	26-Jun	Wed		CIPFA PB Annual Event		London
<b>July</b>						
	02-Jul	Tue			9.30am - 12.30pm	County Hall
<b>August</b>						
<b>September</b>						
	04-Sep	Wed	9.30am - 1pm			County Hall
	4 - 6 Sept	Wed - Fri		LGC Investment Summit		Newport
<b>October</b>						
	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
<b>November</b>						
	05-Nov	Tues		Admin / Governance Basics		Mold
	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
<b>December</b>						
	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
<b>2020</b>						
<b>January</b>						
	23 - 24 Jan	Thur - Fri		LGA Annual Governance Conference		York
<b>February</b>						
	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
<b>March</b>						
	18-Mar	Wed	9.30am - 4.30pm			County Hall
<b>May</b>						
	18 - 20 May	Mon - Wed		PLSA Local Authority Conference		Gloucestershire
<b>June</b>						
	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

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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 detrimental impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognising that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low	Orange	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	Green	☺			None	CPFM	28/02/2020	06/11/2019	
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	Yellow	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 6 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 7 - Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. 8 - 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	Yellow	☺	Current likelihood 1 too high	03/06/2019	Mar 2020	1 - Training plan for new committee members to be delivered in progress (PL) 2 - Further self assessment of training needs to be carried out (PL)	CPFM	28/02/2020	06/11/2019
3	Our fiduciary responsibilities are not met	Decisions, particularly at PFC level, are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers	G1 / G2 / G4 / G6 / T2	Negligible	Very Low	Green	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 7 - PFC and PB members trained on fiduciary responsibility and the CPF Conflicts Policy	Negligible	Very Low	Green	☺				CPFM	28/02/2020	06/11/2019	
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low	Green	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	Green	☺	Current likelihood 1 too high	01/07/2016	Jan 2020	1 - Ensure work relating to annual monitoring is completed and included in PFC papers (PL)	Dep. Head of CPF	28/02/2020	06/11/2019
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such as scheme change, national reorganisation and asset pooling	G1 / G4 / G6 / G7	Critical	Very High	Red	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 in place 6 - Officers on Wales Pool DWG 7 - Ongoing monitoring of cybercrime risk by AP	Marginal	Low	Orange	☹	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) 3 - Identify further actions to manage Cybercrime risk (PL)	CPFM	28/02/2020	06/11/2019
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	Orange	1 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restructure 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	Green	☺	Current impact 1 too high Current likelihood 1 too high	01/07/2016	Feb 2020	1 - Recruit to vacant governance and business role (PL) 2 - Ongoing consideration of succession planning (PL) 3 - Continue training of new and newly promoted staff (PL)	CPFM	28/02/2020	06/11/2019
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	Negligible	Very Low	Green	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 10 - Outstanding actions relating to TPR Code reviewed regularly	Negligible	Very Low	Green	☺			1 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure (DF)	CPFM	28/02/2020	06/11/2019	

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## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	LGPS Current Issues
<b>Report Author</b>	Head of Clwyd Pension Fund

### EXECUTIVE SUMMARY

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

- An update outlining the progress of the 2019 LGPS actuarial valuations.
- The effect of the McCloud judgment including the impact on valuations.
- The prospect for English and Welsh LGPS Funds potentially moving to a four-yearly valuation cycle after 31 March 2022.
- The Proposal for Equitable Life's transfer to Utmost Life & Pensions, and it being supported by an overwhelming majority at the EGM on 1 November 2019.
- The requirement to set objectives for Investment Consultant providers remains, with a deadline for doing so of 10 December 2019 for the CMA Order.
- The Office of Tax Simplification (OTS), the independent adviser to Government on simplifying the UK tax system, published a review on 10 October 2019.

### RECOMMENDATIONS

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

<b>1.00</b>	<b>LGPS Current Issues</b>
1.01	<p>The purpose of this report is to provide a general update to Committee Members on various current issues affecting the LGPS.</p> <p>Appendix 1 sets out the Mercer current issues update on a number of issues affecting the LGPS and the Fund.</p>

1.02

Key points to be aware of are:

- At whole Fund level, Mercer is 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. In terms of results at individual employer level, longer term employers who had a significant asset base at the last valuation have tended to follow the pattern above, with average contributions showing a decrease. For less mature employers, with lower assets in 2016, the results are more volatile.
- 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, including the LGPS. However, it is highly unlikely that the remedy will be known before the 31 March 2020 deadline for finalising the 2019 valuation.
- The Actuary will certify 3 years' worth of contributions at the 2019 valuations with the next round of local valuations for English and Welsh LGPS funds as at 31 March 2022. The valuation cycle after 2022 remains under review with 4 year cycles being considered.
- Following the Policyholders' Meeting and Extraordinary General Meeting on 1 November 2019 Equitable Life has confirmed that the proposals on the Scheme and Change to the Articles were passed by an overwhelming majority. High Court approval will be sought at the hearing starting on 22 November 2019 with the ruling expected by 30 November 2019. If approved, the proposal is expected to take effect from 1 January 2020.
- Under the CMA Order, investment objectives will need to be set for investment consulting providers with a deadline for doing so of 10 December 2019.
- The Office of Tax Simplification (OTS), the independent adviser to government on simplifying the UK tax system, published a review on 10 October 2019 making recommendations to "improve people's experience of the tax system at key events in their lives". The review covered a wide range of areas of taxation, including the High Income Child Benefit Charge, the operation of PAYE, how individuals can assist others with their tax affairs and tax education.

<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
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.

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

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): <ul style="list-style-type: none"> <li>• Governance risks: G2 &amp; G7.</li> <li>• Funding and Investment risks: F1, F5</li> </ul>

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 – LGPS Current Issues – November 2019 edition

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

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

- (c) **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 1/49<sup>th</sup> of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.
- (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 than £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).

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# LGPS CURRENT ISSUES

## NEWS IN BRIEF

### IN THIS ISSUE

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- News in Brief
- Dates to Remember
- Contacts

### ACTUARIAL VALUATION - UPDATE

As we commented on in our August update, 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.

In terms of results at individual employer level, longer term employers who had a significant asset base at the last valuation have tended to follow the pattern above, with average contributions showing a decrease. For less mature employers, with lower assets in 2016, the results are more volatile and this can be compounded by significantly by membership profile changes.

Funds can expect full results across the employer base throughout Quarter 4.

### MCLOUD AND IMPACT ON VALUATIONS

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, including the LGPS. However, it is highly unlikely that the remedy will be known before the 31 March 2020 deadline for finalising the 2019 valuation.

As reported in August, 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. In addition, MHCLG has confirmed that it expects each LGPS fund to explicitly state in its valuation report and/or Funding Strategy Statement how it has allowed for the McCloud ruling. In particular, where contribution rates are being reduced, funds should be clear about how they have taken the McCloud ruling into account before making the decision to reduce rates.

Although an exact remedy is unclear, for the purposes of the 2019 valuations, we have estimated the potential impacts of any McCloud remedy by assuming the 1/60ths final salary underpin applied to all members who were active in the Scheme in April 2012 (not just those within 10 years of retirement). At the whole of Fund level this has typically shown increases to overall liabilities of 1% and an additional 1% of salary to the future service rate.

At individual employer level these results can vary significantly depending on the membership profile of the employer. For employers with a significant proportion of active members and a young membership profile these costs can increase to 5% of liabilities and 5% on the future service rate (and higher in some extreme cases where salary increases have been high). Our individual results schedules will highlight these figures to aid discussions between the administering authority and the employer as to whether to begin to fund for the McCloud impact now and remove the risk of unbudgeted contributions being required once the remedy is known.



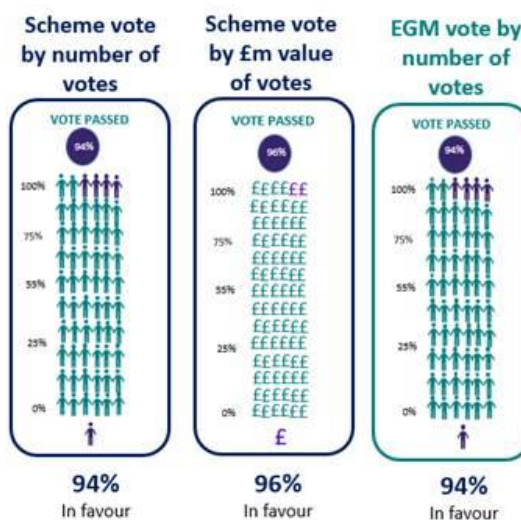
### VALUATION CYCLES

It now seems highly likely the next round of local valuations for English and Welsh LGPS funds will be 31 March 2022. We will therefore certify 3 years' worth of contributions at the 2019 valuations. What happens to the valuation cycle after 2022 remains subject to consultation, although the 2022 valuation could well be the last one done under the three-yearly cycle.

### EQUITABLE LIFE UPDATE

Following the Policyholders' Meeting and Extraordinary General Meeting on 1 November 2019 Equitable Life has confirmed that the proposals on the Scheme and Change to the Articles were passed by an overwhelming majority.

The Equitable Life press release can be found at: <https://www.equitable.co.uk/media/65470/news-release-post-policyholders-meeting-and-egm.pdf>





High Court approval will be sought at the hearing starting on 22 November 2019 with the ruling expected by 30 November 2019. If approved, the proposal is expected to take effect from 1 January 2020.

The next task for Funds to consider, is where the With-Profit fund assets will be reinvested within Utmost Life. Given Counsel's opinion of the Administering Authority's "fiduciary responsibility" towards the members, formal / regulated investment advice is certainly recommended. We certainly do have some concerns about the default "Investing by Age Journey" being put forward by Utmost for some member groups. If Funds do not want to follow the proposed default, they will need to make investment choices and advise Equitable Life by 13 December 2019 for the changes to be in place by 1 January 2020. (Note: Assets will be initially invested in the Secure Cash Fund where the uplift will be applied).

## CMA ORDER - REMINDER

A reminder that the requirement to set objectives for investment consulting providers remains, with a deadline for doing so of 10 December 2019.

The SAB has published an updated briefing note providing further information regarding the order, available [Here](#)

## OFFICE OF TAX SIMPLIFICATION MAKES RECOMMENDATIONS

The Office of Tax Simplification (OTS), the independent adviser to government on simplifying the UK tax system, published a review on 10 October 2019 making recommendations to "improve people's experience of the tax system at key events in their lives". The review covered a wide range of areas of taxation, including the High Income Child Benefit Charge, the operation of PAYE, how individuals can assist others with their tax affairs and tax education. Recommendations relating to pensions include:

- The Government should consider the removal of differences in outcomes between "net pay" and "relief at source" tax relief for low earners.
- HM Revenue & Customs should help to ensure that the tax consequences of decisions about pensions are clear to individuals.
- The Government should continue to review the annual allowance, lifetime allowance and money purchase annual allowance against their policy objectives.

It is not clear yet whether any of the recommendations will be implemented and, if so, when. For some of them, to do so would require legislation and parliamentary time, which is currently in short supply. Any changes in the short term could have been expected to be announced in the Government's next Budget, which had been set for 6 November 2019 but, at the time of writing, has been postponed. The forthcoming General Election this year is likely to introduce a further period of delay.

## DATES TO REMEMBER

DATE	ISSUE	THE LATEST
6 October 2019	Pension Savings Statements	Deadline for issue to members
November/December 2019	4 year valuation cycle consultation	Government response to consultation expected
30 November 2019	Equitable/Life	High Court ruling
10 December 2019	CMA legally binding order	Effective date for CMA order to set strategic objective with investment consultancy providers
12 December 2019	General Election	Britain goes to the polls (again!)
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.

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# Eitem ar gyfer y Rhaglen 11



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	Administration and Communications Update
<b>Report Author</b>	Pensions Administration Manager

### EXECUTIVE SUMMARY

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

- (a) Business Plan 2019/20 update – this includes an update on the GMP reconciliation project and Member Tracing
- (b) Current Developments and News – this includes updates relating to the Annual Employer Meeting and Payroll update meetings.
- (c) Communications – Engagement sessions held with Employers and Members.

### RECOMMENDATIONS

1	That the Committee consider the update and provide any comments.
2	That the Committee note the requirement to potentially extend the timescales in relation to the survivor benefits implementation (A6) as outlined in paragraph 1.01.
3	That the Committee approve the use of the urgency delegation procedure to take forward items A3 (Under/overpayment Policy) and A8 (GMP reconciliation).

## REPORT DETAILS

1.00	ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS
1.01	<p data-bbox="320 322 783 353"><b>Business Plan 2019/20 Update</b></p> <p data-bbox="320 396 1391 501">Progress against the business plan items for quarter three 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:</p> <ul data-bbox="320 544 1391 2087" style="list-style-type: none"><li data-bbox="320 544 1391 943">• A3 Develop Under/Over Payment Policies – this had previously been delayed due to the requirement of more information in relation to the GMP reconciliation project. We are now very close to being able to progress this item as information will shortly be received (see A8). The intention is for this item to now be completed within the agreed extended timescales. However due to the lack of a Committee meeting before December, it is proposed that the under/overpayments policy should be agreed using the Fund's urgency delegation process i.e. decided by the Head of Clwyd Pension Fund and either the Corporate Finance Manager or Chief Executive, subject to agreement with Chair and Vice Chair (or either, if only one is available in timescale).</li><li data-bbox="320 949 1391 1317">• A6 Implement Survivor Benefit Changes – This is as a result of the changes to the regulations in respect of the calculation of and entitlement to surviving partner pensions in respect of civil partners or same sex marriages and the outcome of Elmes versus Essex High Court Ruling. Work is continuing to identify surviving partners that may be entitled to benefits under the new rulings. It is proving time consuming to identify entitled members due to the complexity of the changes and period of time they relate to. It is unclear whether the current timescales are achievable until the final number of affected members have been identified. An update will be provided at the next Committee meeting.</li><li data-bbox="320 1323 1391 1644">• A7 Member Tracing – ATMOS Data Services have been appointed to complete the address tracing and mortality screening exercise. A report and breakdown of any amendments, gone away and potentially deceased members is due from them by the end of November. Once the file has been received, a review will take place to determine if an extension to this item is required. A verbal update will be provided at the Committee meeting and permission to extend if required requested at that point. All external costs relating to this item have previously been agreed within the outsourcing budget.</li><li data-bbox="320 1650 1391 2087">• A8 GMP Reconciliation – This exercise was outsourced to Equiniti and it is now entering its final stage. They have identified all scheme members where the GMP held on CPF's records differed from that of HMRC, as well as identifying what the correct GMP should be on CPF's records. As a result, they have provided us with a high-level summary of the number of pensioners and dependants that have pension levels that are lower or higher than they should be, as well as the estimated over and underpayments in relation to pensions paid to 31 December 2019. It is estimated that there have been total overpayments of pension of £439k and total underpayments of £42k. Equiniti will shortly be providing detailed data in relation to those members, so we can fully understand the implications and the impact at an individual scheme</li></ul>

	<p>member level. At that point, it will be necessary to make a number of decisions in relation to the treatment of the scheme members where their GMPs are incorrect, including the treatment of the pension payments that are incorrect. To avoid having to ask Equiniti to redo their calculations, it is preferred that this exercise is completed before the April 2020 pensions increases are applied but equally we assume it would be preferential to avoid any reductions in pension over the Christmas period, or shortly thereafter. To ensure that these timescales can be met, the Committee are asked to approve that all decisions in relation to this exercise are agreed using the urgency delegation process (as outlined for A3 above). Full updates will be provided to Committee members at the next meeting. The Pension Board has also asked to be kept updated with the proposed treatment of over and underpayments of pension.</p> <ul style="list-style-type: none"> <li>• A9 Aggregation Project – There were approximately 2,000 records where members needed to either be informed that their records had been aggregated or be provided with their respective options. Some of the historical cases were outsourced to Mercer for the initial part of the calculation (deferment) with approximately 500 outstanding cases returned to the Aggregation Team for completion. Mercer completed the cases assigned to them in preparation for the 2019 valuation extract and the Aggregation Team has increased the focus on this area whilst maintaining current work levels. This includes having update meetings and pooling resource within other teams to ensure this project remains on plan. It remains difficult to determine a business as usual state within the Aggregation Team as it will continue to be impacted by one off projects such as the admission of Denbighshire Leisure and Wrexham Commercial Services returning to the host authority both from 1<sup>st</sup> January 2020. Details of both of these can be found in 1.10 Delegated responsibilities.</li> <li>• A11 LGPS Legal Timescales Analysis – A full review of our workflow processes continues to be undertaken with some procedural changes already having been implemented. Once finalised, the additional KPI reports will be shared with the Committee.</li> </ul>
1.02	<p>The Committee is asked to note the update on the business plan and approve the use of the urgency delegation procedure to take forward items A3 (Under/overpayment Policy) and A8 (GMP reconciliation).</p>
1.03	<p><b>Current Developments and News</b></p> <p>A separate LGPS update report has been provided by Mercer and is included with the Committee Papers. The following details other developments and news:</p> <ul style="list-style-type: none"> <li>• The Annual Employer Meeting was held on the 12 November with an improved number of employers in attendance. Positive feedback was received from those employers in attendance. Presentations were given by the Pension Administration Manager, Mercer, Prudential and the LGA covering topics such as the importance of good data and assumed pensionable pay.</li> <li>• The Pension Administration Manager and Technical Development Officer recently attended a meeting with representatives from all other Welsh Funds and Heywoods to discuss current software issues.</li> </ul>

	<p>Heywoods agreed some action points and the meeting was deemed a success. A follow up meeting is to be arranged, to confirm the actions have been completed.</p> <ul style="list-style-type: none"> <li>• As part of our ongoing plan for the successful on-boarding of Wrexham CBC onto iConnect, a meeting between Wrexham payroll managers and CPF representatives took place. Processes and data cleansing preparation were discussed and changes agreed ensuring timescales for this project remain achievable.</li> <li>• A meeting was also held between Flintshire County Council (FCC) and CPF, including HR and payroll representatives. This is to facilitate more streamlined processes for both FCC and CPF and to resolve some outstanding issues.</li> <li>• A thorough website review is currently underway by members of both the Regulations and Communications team and the Technical team. Given the enormity of the project it is expected to take some time but it is being co-ordinated by a member of the Technical team as part of their Work Based Project within their final year of the CIPP qualification.</li> <li>• Testing is underway to increase functionality within Member Self Service (MSS). It is hoped that members will be able to upload their completed retirement option forms directly onto MSS which will speed up the overall retirement process.</li> </ul>
1.04	<p><b>Policy and Strategy Implementation and Monitoring</b></p> <p><i>Administration Strategy</i></p> <p>The latest monitoring information in relation to administration is outlined below:</p> <ul style="list-style-type: none"> <li>• Day to day tasks – Appendix 2 provides the analysis of the numbers of cases received and completed on a monthly basis to October 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 is still pleasing but dropped slightly in October due to the focus on completing the aggregation project and the complexity of those cases. The training of new staff continues to impact on case completion numbers in addition to a higher than average number of cases added in October (2915 cases compared to 1760 and 2053 in August and September respectively).</li> <li>• Key performance indicators – Appendix 3 shows our performance against the key performance indicators that are measured on a monthly basis up to October 2019. The charts illustrate that improvements are being made within most of the Clwyd Pension Fund target areas. As the training of the new staff members continue, the performance against KPI targets remains solid. Focus continues on improving the legal requirements timescales with particular focus on the time the employer is taking to inform us of the member event.</li> </ul>
1.05	<p><i>Internal dispute resolution procedures</i></p> <p>In relation to the cases outstanding for 2018/19:</p> <ul style="list-style-type: none"> <li>• 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. The appeals are currently with the employers to review the original decisions that were made.</li> </ul>



In relation to the cases outstanding for 2019/20:

- There are 4 Stage One appeals against the employer for non-award of ill health benefits, 2 Stage One appeals against the employer for the tier of ill health retirement that was awarded, and 1 Stage one appeal against the employer regarding their process for determining non-award of flexible retirement.
- There is 1 Stage One appeal against Clwyd Pension Fund regarding the process we used to determine who should be the beneficiary of a death grant for one of our deceased members.

	2019/20			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	7			7
Stage 1 - Against Administering Authority	1			1
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.

1.06

**Communications Strategy**

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

- Eight emails have been sent to all employers providing information in relation but not limited to the employer data retention policy, flexible retirement policy and with the slides from Employer and AJCM meeting.
- Numerous presentations to employers and scheme members have taken place, including training sessions for new Pension Board and Committee members, retirement seminars, LGPS presentations and individual sessions explaining combining benefits for multiple employments.
- The Pension Saving Statements were issued on time to scheme members who exceeded the Annual Allowance including relevant guidance notes via their chosen method of communication.
- A training session was also provided to all CPF staff members on the LGPS Councillor Scheme.

1.07

Other key points in relation to communications include:

- The 1-2-1 sessions that were offered to scheme members as part of the Annual Benefit Statement communication have proved really popular with additional dates being booked into February.

	<ul style="list-style-type: none"> <li>• Additional website training has been undertaken to facilitate the updating of the website internally. As MSS registration numbers continue to increase it is vital that the website is up to date.</li> <li>• The Annual Report is currently being translated and will be uploaded to the website once complete.</li> </ul>
1.08	Appendix 4 provides an updated summary of Member Self Service (MSS) registered users, which illustrates that enrolment to MSS continues to grow. It has increased by over 900 members since the last meeting with over 30% of members now registered to use this on-line facility. It is pleasing to see that the number of retirement projections calculated using the on-line benefit projector facility within MSS increased dramatically in this last period (5,654 projections in the last period compared to 9,836 this period). This proves the increased engagement with and interest in pensions that members are having.
1.9	<p><b>Delegated Responsibilities</b></p> <p>The following have been agreed using delegated responsibilities since the last committee meeting and further details are contained in Appendix 5 and 6.</p> <ul style="list-style-type: none"> <li>• Approval of Denbighshire Leisure as a new employer within the scheme</li> <li>• Approval of NEWydd Catering and Cleaning changing from an Open to a Closed employer as of 1<sup>st</sup> November 2019.</li> <li>•</li> </ul>

<b>2.00</b>	<b>RESOURCE</b>
2.01	<p>The position of a full – time Lead Pensions Officer become available due to a valued team member moving on to another role outside of CPF. This post has been filled following recruitment procedures resulting in the internal promotion of two staff members on a job share basis. This has resulted in a full-time Pension Officer role vacancy which is currently being advertised.</p> <p>Two Modern Apprentices started with us in September and have settled in well and are making good progress against their training plan.</p> <p>A full analysis of the Technical and Payroll team is still 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.</p> <p>Staffing levels will be continuously reviewed to measure the impact of the new team members on workloads.</p>

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

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>Appendix 7 provides the dashboard and the extract of administration and communications risks. The key risks continue to relate to:</p> <ul style="list-style-type: none"> <li>• Employers not understanding or meeting their responsibilities which could lead to us being unable to meet our legal or performance expectations.</li> <li>• 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.</li> <li>• 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.</li> </ul>
4.02	<p>Since the last update, the following risks have been updated, showing where outstanding actions have now been completed and new actions to be completed:</p> <ul style="list-style-type: none"> <li>• 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 ongoing training within the team to become business as usual. The likelihood of this occurring has therefore been changed from significant to low, and the impact from marginal to negligible, which means it is now meets its target.</li> <li>• Risk number 4 – Scheme members do not understand or appreciate their benefits due to poor, inaccurate or insufficient communications. Having recruited fully to the Regulations and Communications team and registration numbers to MSS consistently increasing, we have concluded that the risk in this area has reduced. The risk impact has been amended from marginal to negligible to reflect this.</li> <li>• Risk number 6 – Service provision is interrupted due to system failure or unavailability. The risk description has been updated to include system failure as a result of cybercrime. The impact has been increased from negligible to marginal and the likelihood has been increased from unlikely to low. A new action has been added to review cybercrime risk controls. This will be monitored until the impact and protections against cybercrime attacks are better understood.</li> </ul>

<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 – Business Plan update 2019/20  Appendix 2 – Analysis of cases received and completed  Appendix 3 – Key Performance Indicators  Appendix 4 – Member Self Service update  Appendix 5 – Delegated Responsibilities Denbighshire Leisure  Appendix 6 – Delegated Responsibilities NEWydd  Appendix 7 – Risk register update</p>

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

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

# Business Plan 2019/20 to 2021/22 – Q3 Update

## Administration and Communications

### Key Tasks

Key:

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

### Administration (including Communications) Tasks

Ref	Key Action -Task	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	
A13	Employer Relationship Manager (ERM)			x	x		
A14	Trivial Commutation			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
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### **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.

## **A13 – Employer Relationship Manager (ERM)**

### **What is it?**

This is a tool within the Altair administration system that acts as a directory for all individual employer information that we intend to implement. ERM will streamline where information is held and make it more accessible to the Administration Team. This will reduce paper files and is easier to keep up to date and maintain than existing processes.

### **Timescales and Stages**

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

Develop, collate, update and maintain	2019/20 Q3 & Q4
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### **Resource and Budget Implications**

All internal costs are to be met from the existing budget and the cost of ERM is included within the existing systems budget.

## **A14 - Trivial Commutation**

### **What is it?**

This is where a member who is entitled to a small pension can elect to give up the entirety of that pension and instead receive their benefit as a single lump sum payment. A project will be carried out to identify any pensioners and dependants who may be eligible for trivial commutation and to offer it to them. This will reduce the administrative burden on the Fund paying a large number of very small pensions over a number of years as well as providing greater clarity from a funding perspective. The government

has a limit for members to trivially commute their pension in relation to their single pension (£10,000 value – called a "small pot") and total benefits (£30,000 – called "trivial commutation"). As well as reducing the number of pensioner payments that require ongoing payment this could also have a positive impact on the funding level as it removes the liabilities for these members. It will also be welcomed by a number of pensioners who would prefer a one-off lump sum payment rather than ongoing smaller payments of little value.

**Timescales and Stages**

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

Identify members eligible to commute under £10,000	2019/20 Q3 & Q4
Communicate with eligible members and pay lump sums	2019/20 Q3 & Q4
Identify members eligible to commute under £30,000	2020/21
Communicate with eligible members and pay lump sums	2020/21

**Resource and Budget Implications**

The majority (if not all) of this work may be outsourced to Mercer or another external provider to assist with resourcing. The precise cost of this is as yet unknown but a contingency has been included for 2019/20 within the budget to cover potential costs. It will also require input by the Technical Team with some assistance from the Operational Team, with any such input being focussed on the later stages of the project. All internal costs are to be met by existing budget.

## Employer Liaison Team Tasks

Ref	Key Action -Task	2019/20 Period				Later Years	
		Q1	Q2	Q3	Q4	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?

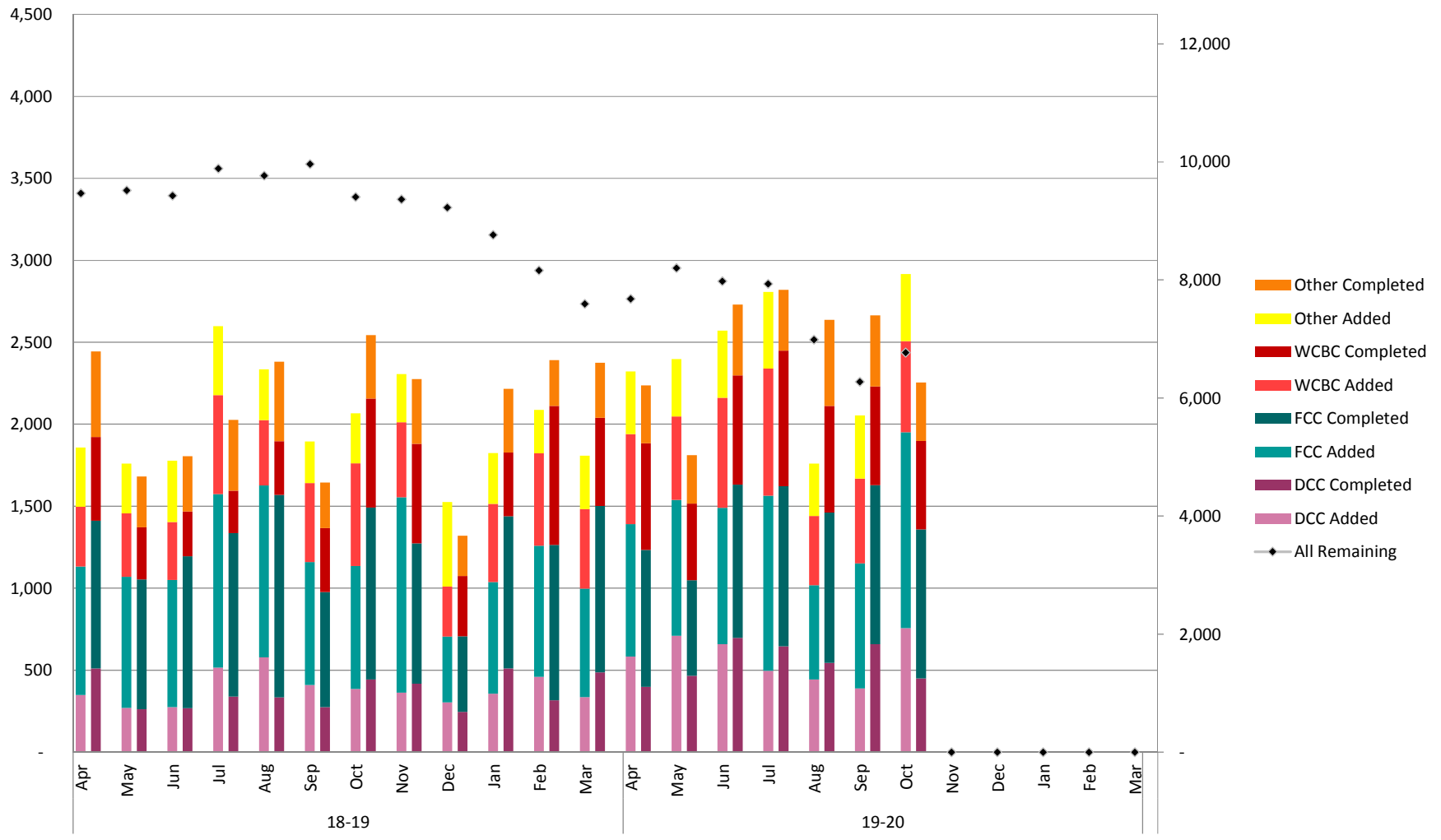
Periodic review of the scope of the agreements for each employer taking into account iConnect requirements and scope/success of ELT service to date.

## Timescales and Stages

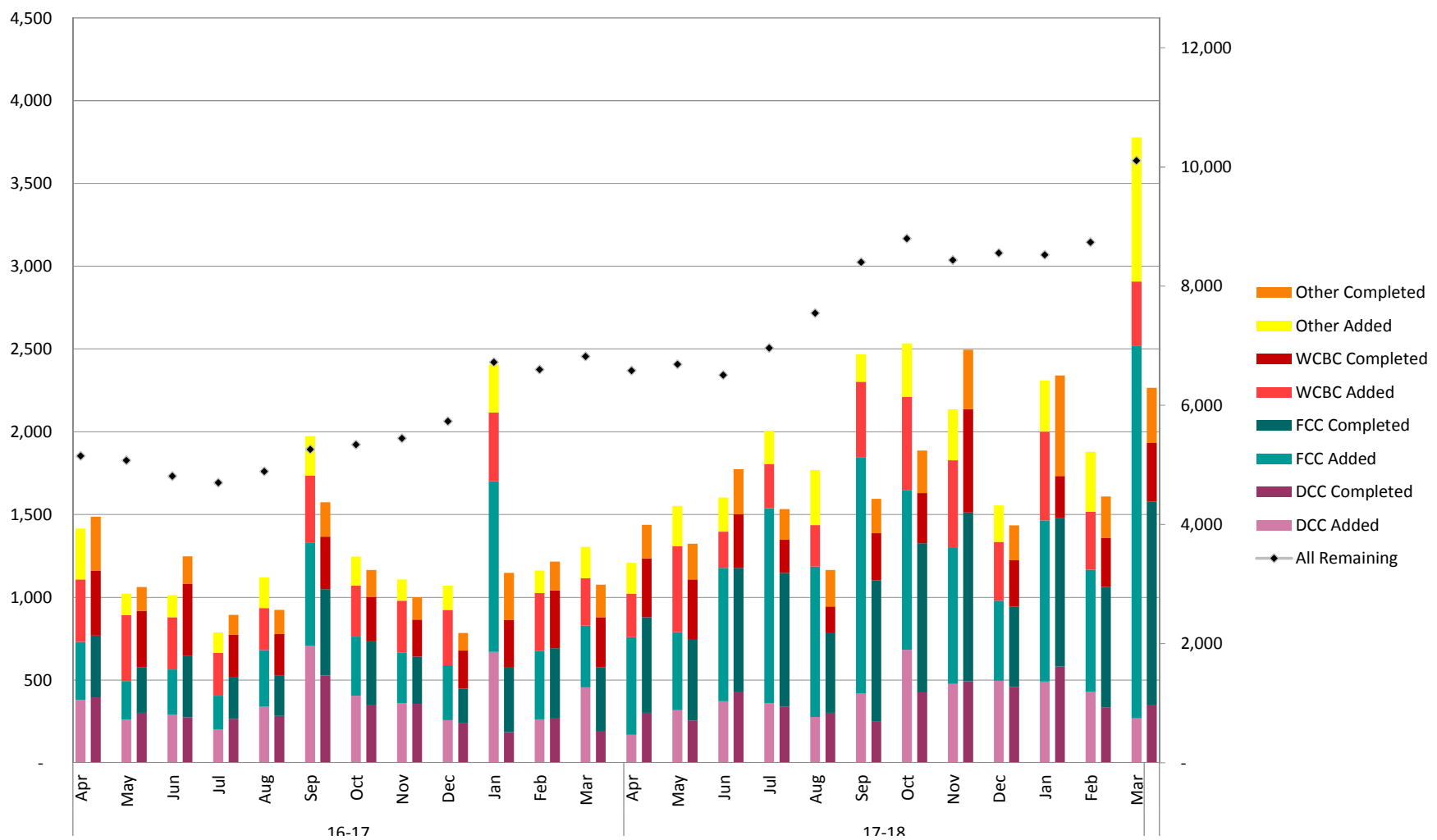
Fundamental review of agreement - FCC	2019/20 Q1
Whistle-stop review to address any issues/new requirements - FCC	2020/21 Q1
Fundamental review of agreement – Wrexham CBC	2019/20 Q2
Whistle-stop review to address any issues/new requirements – Wrexham CBC	2020/21 Q2



**Case Levels – Current and Previous Year**



**Case Levels – Historical**



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:

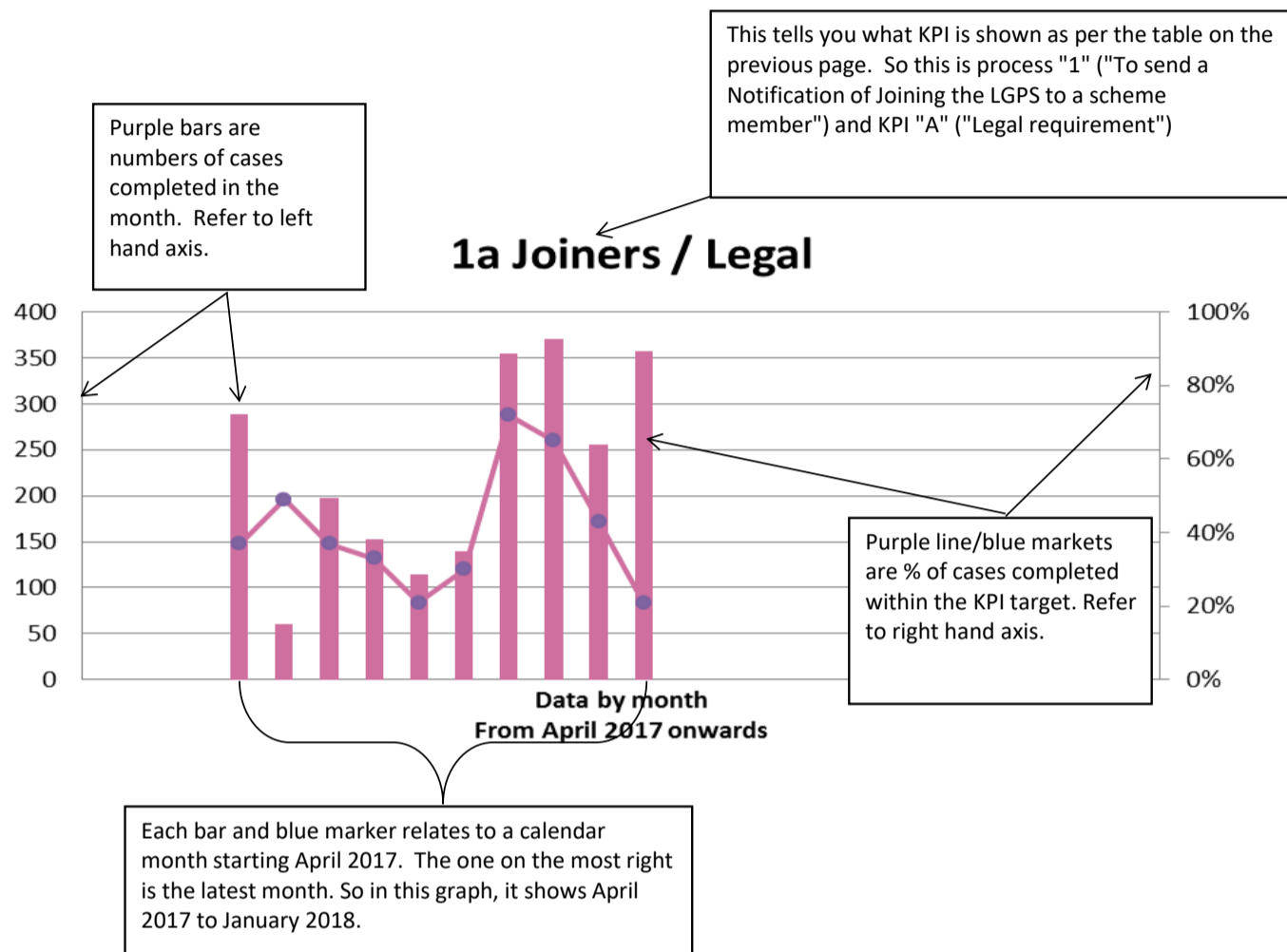
		A	B	C
	Process	Legal Requirement	Overall	CPF Administration element target
1	To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being 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 <sup>4</sup>	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**

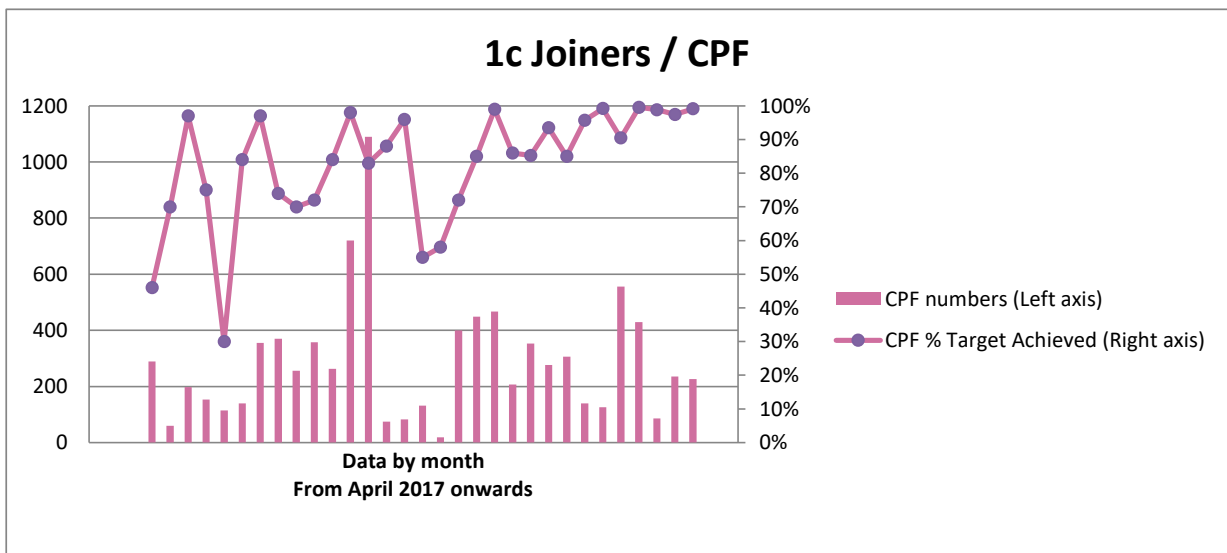
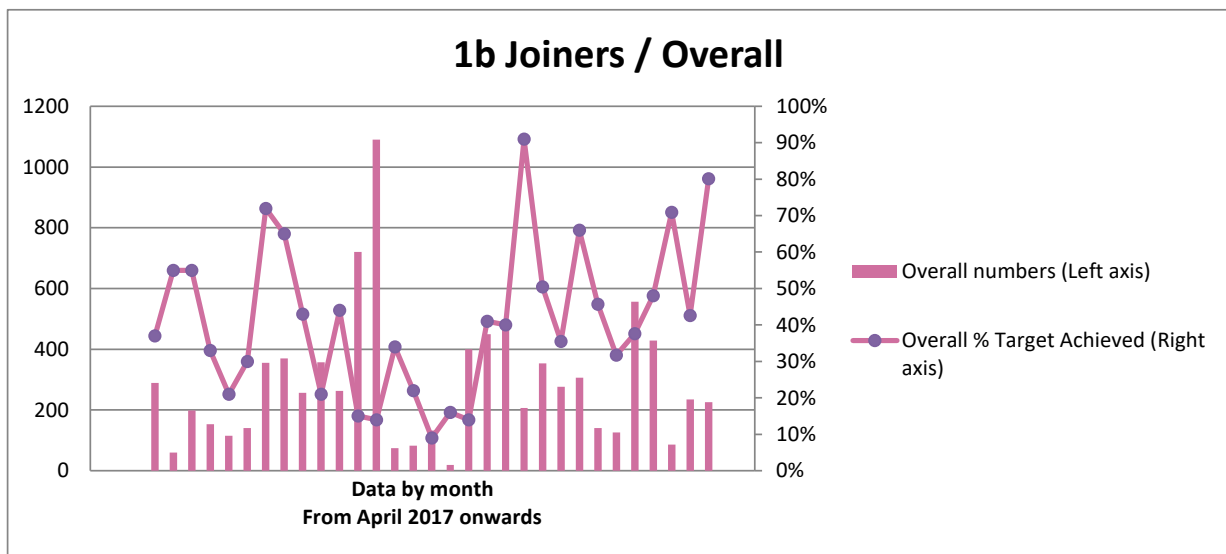
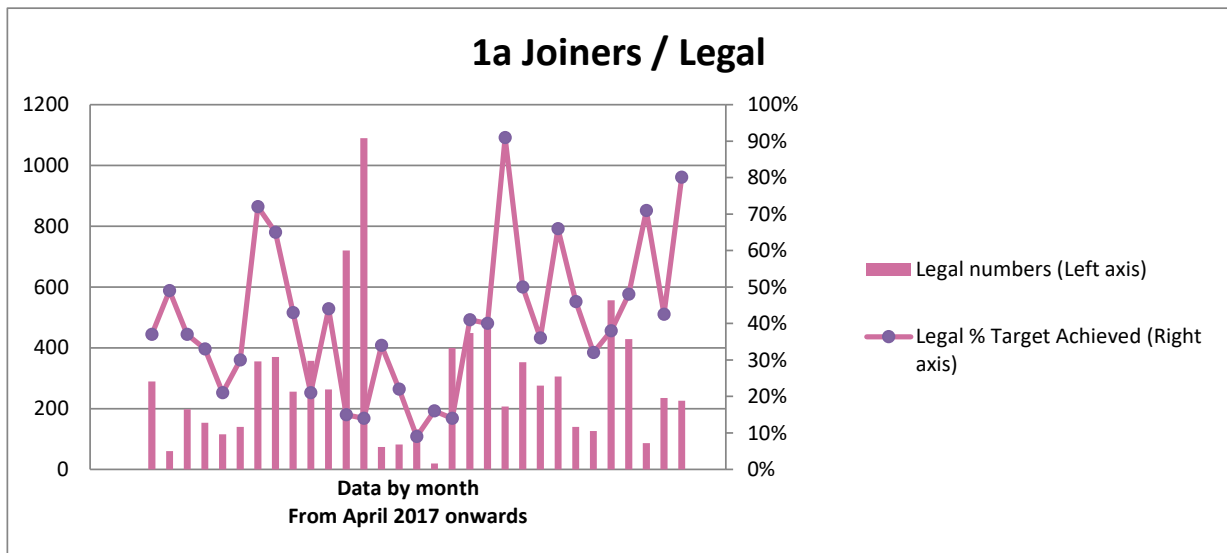
One graph has been provided for each KPI in the table above. Each graph shows month by month:

- The number of cases which have been completed each month
- The percentage of those cases completed that were completed within the KPI target

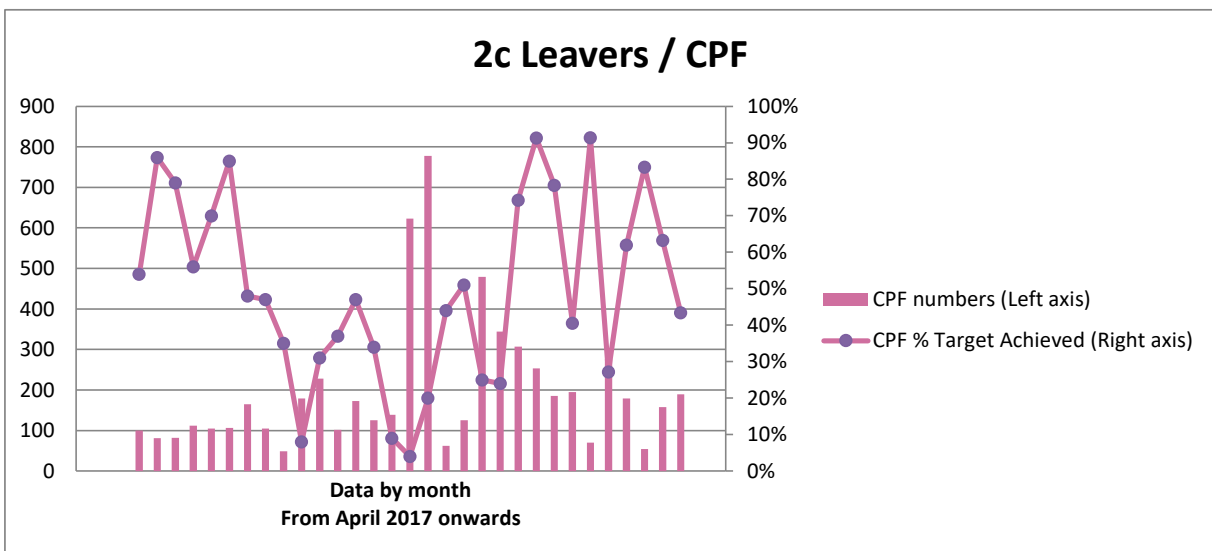
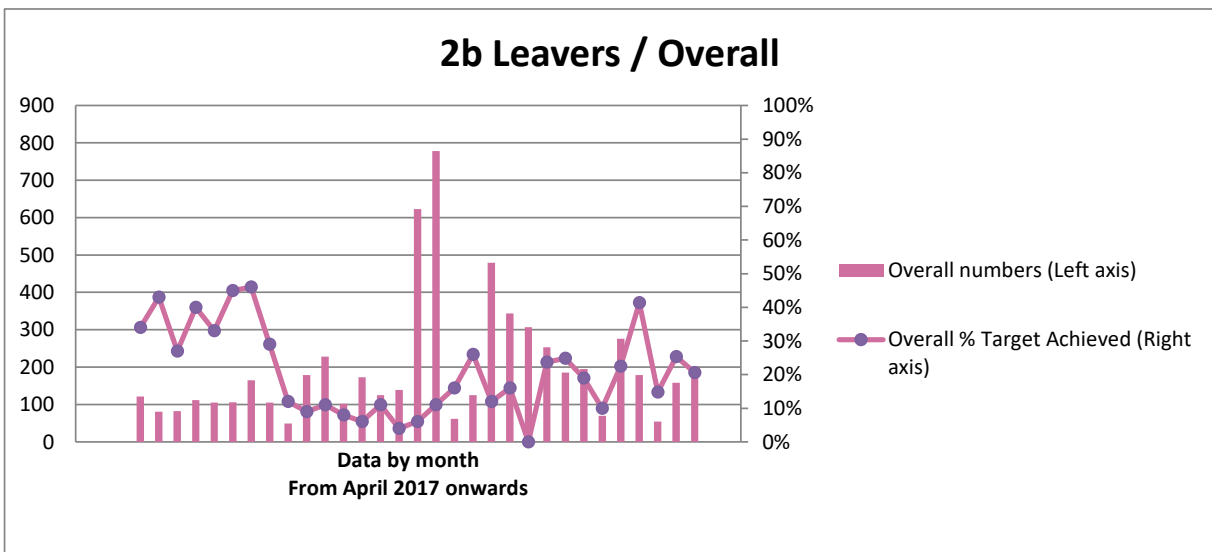
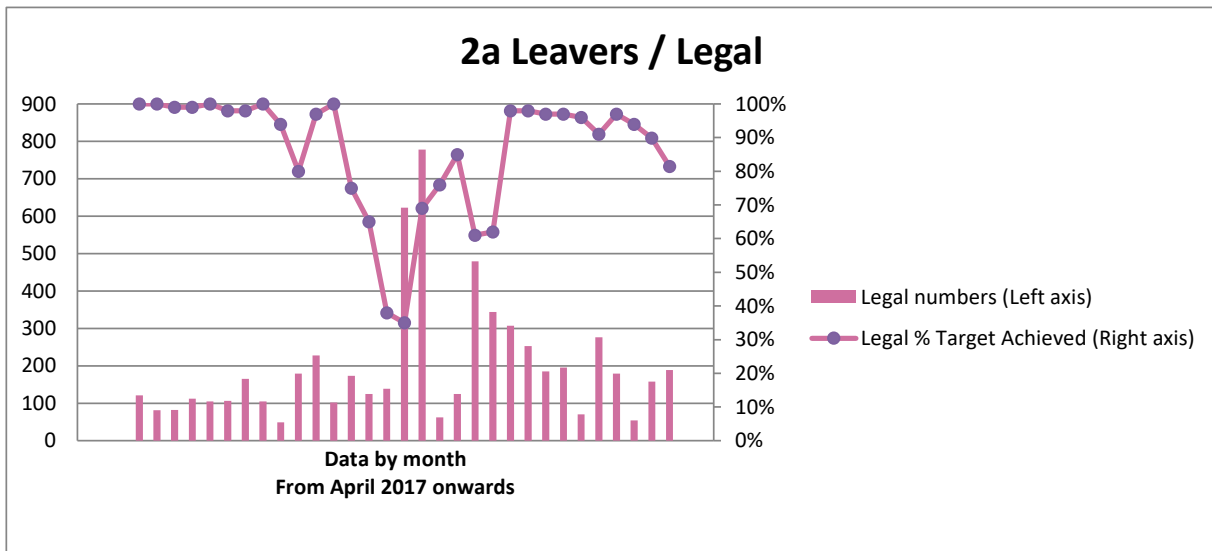
This is illustrated further below.



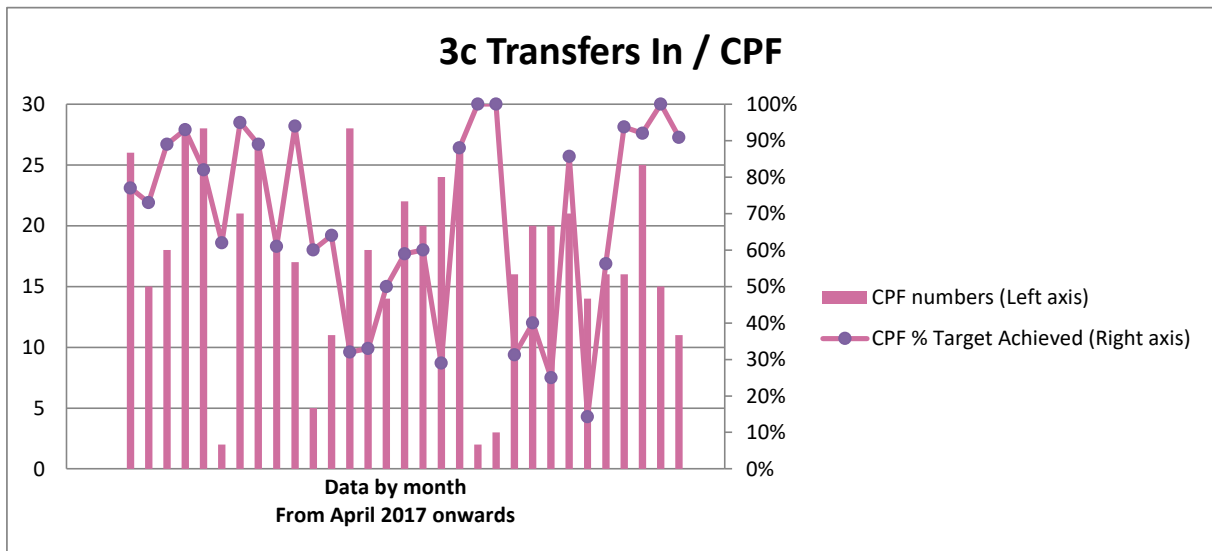
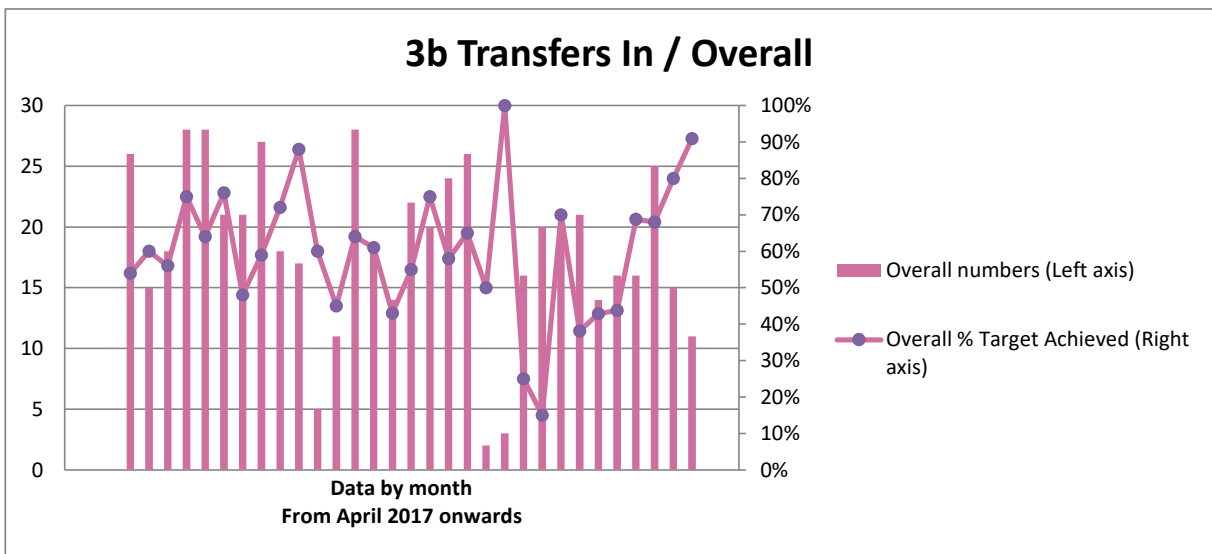
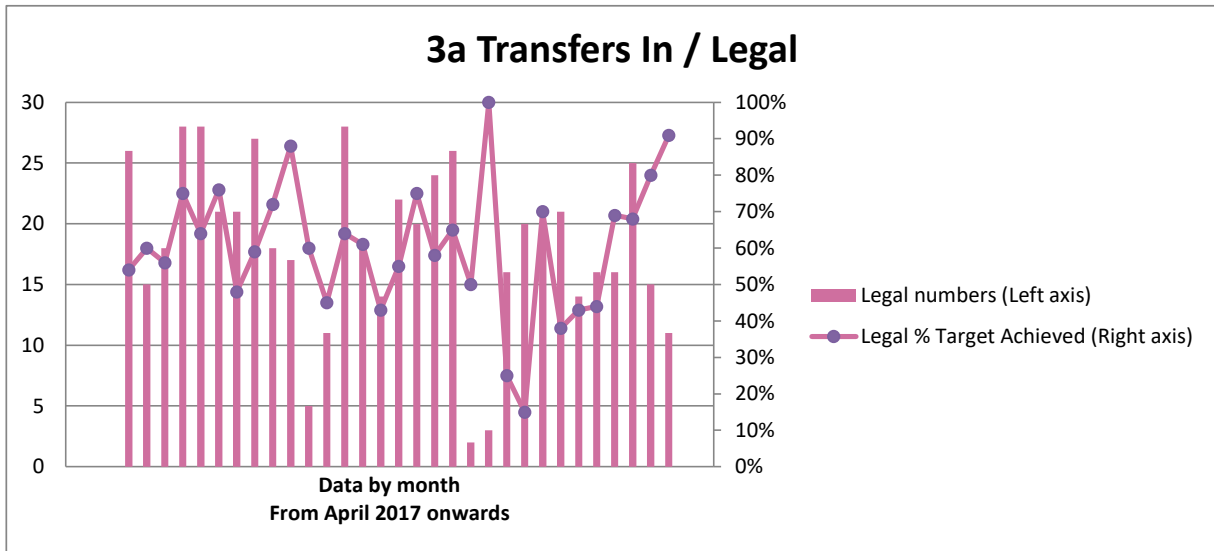
## Key Performance Indicators - relating to 31 October 2019



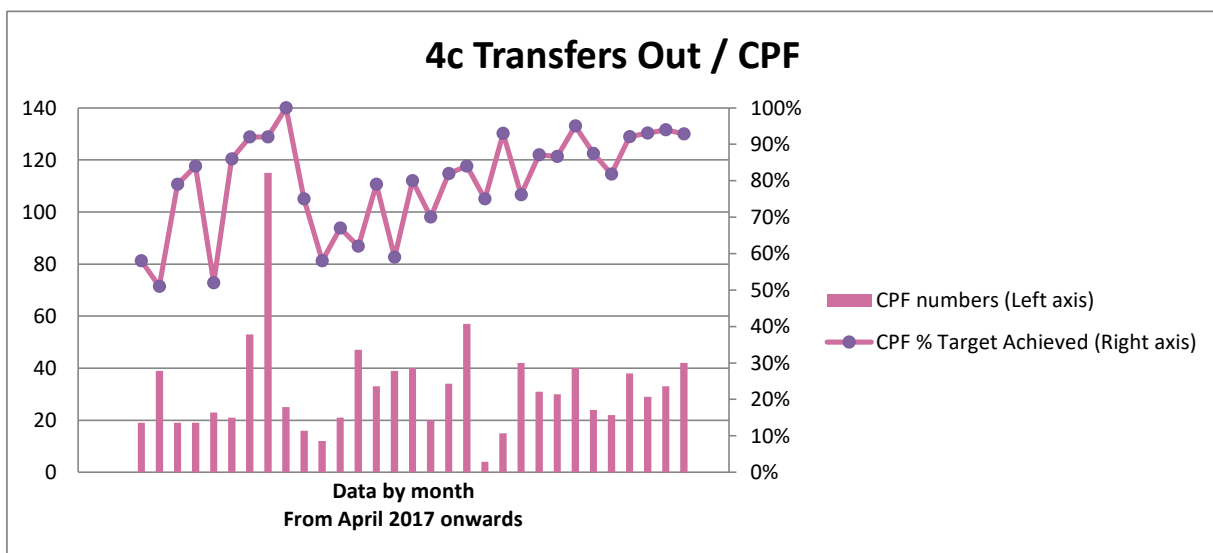
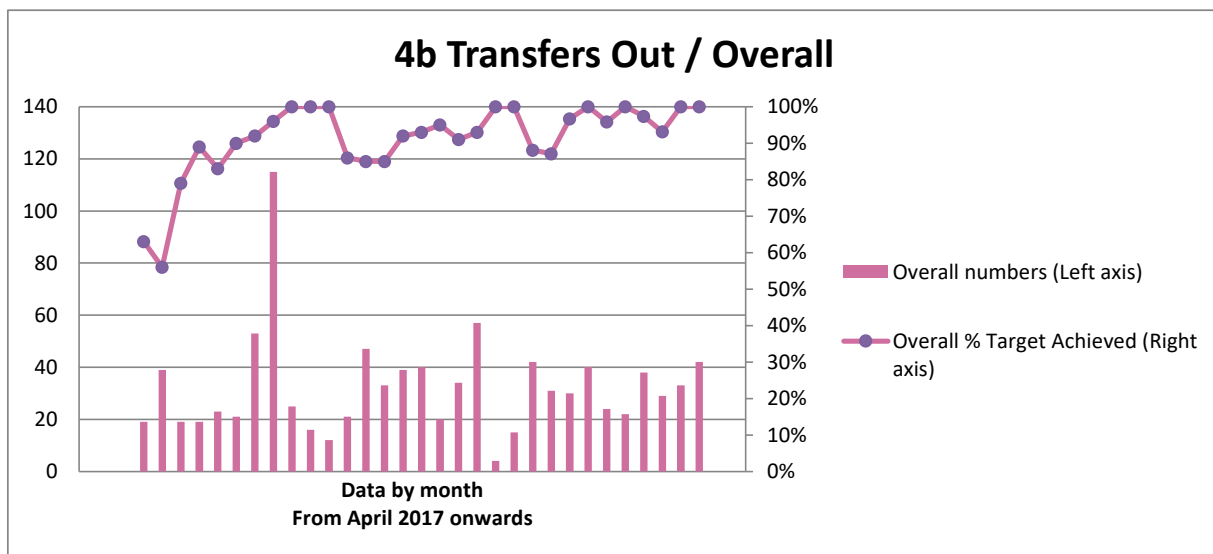
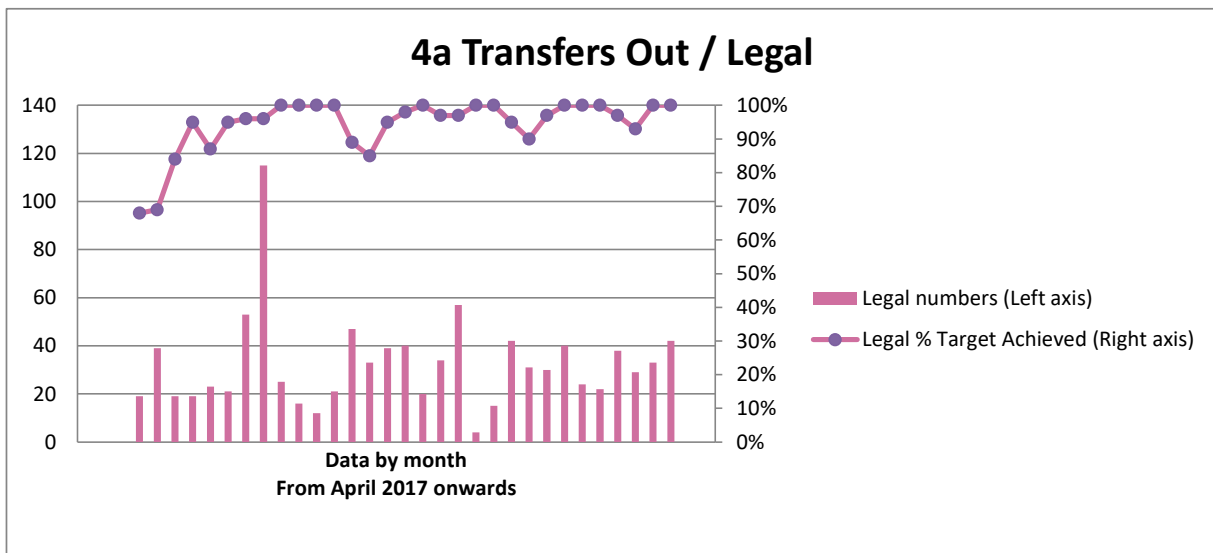
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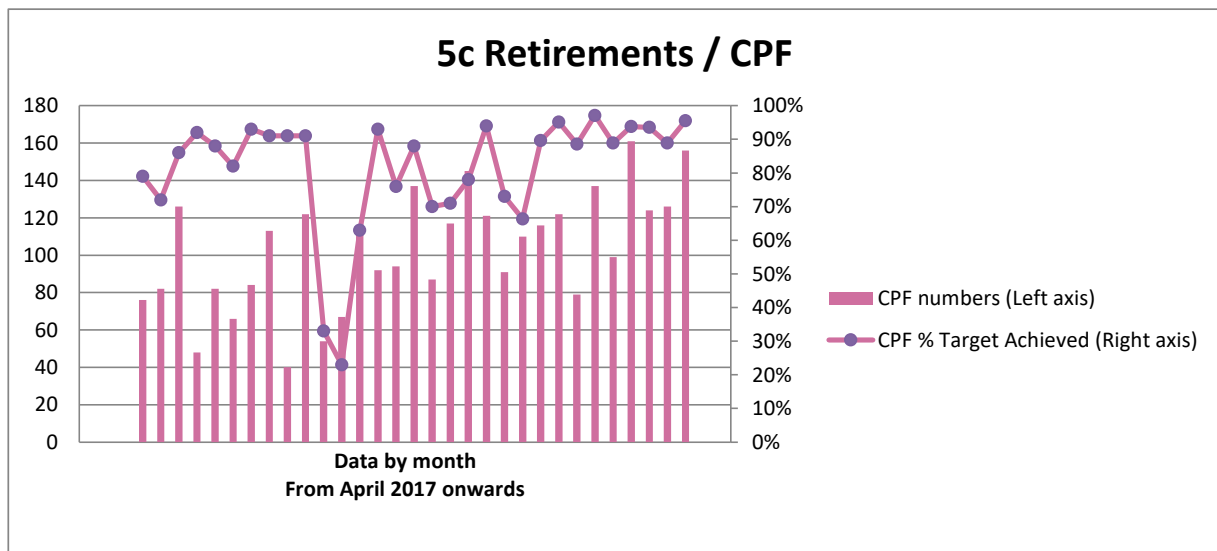
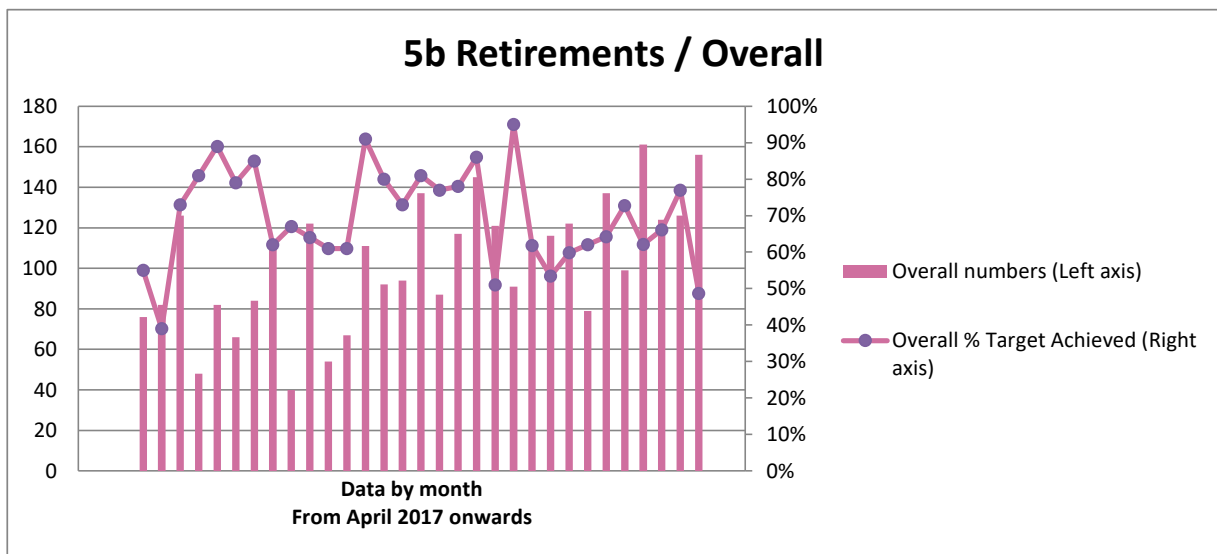
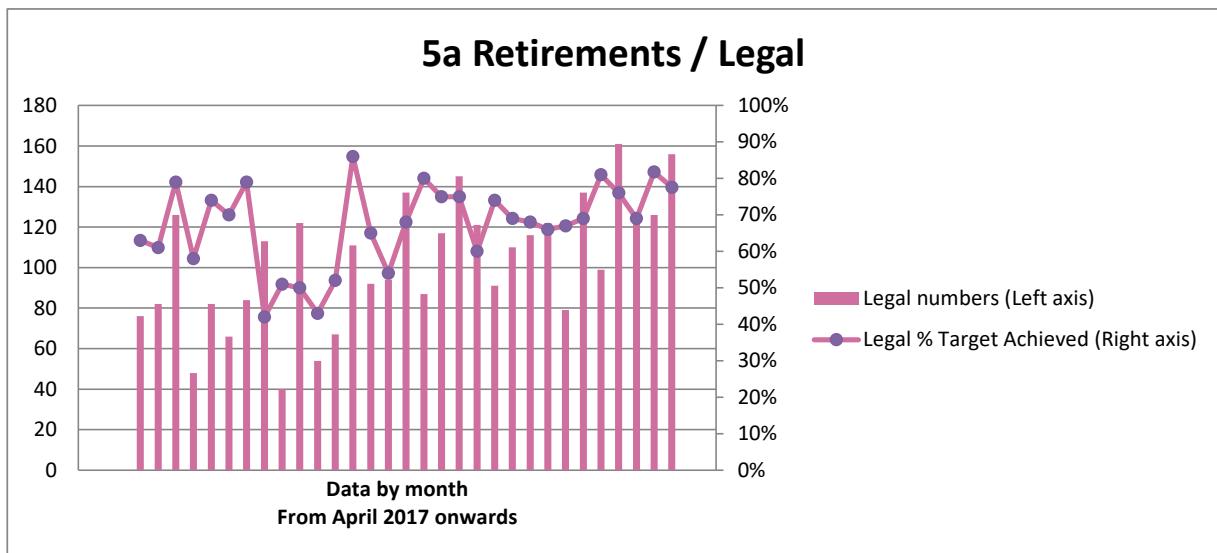


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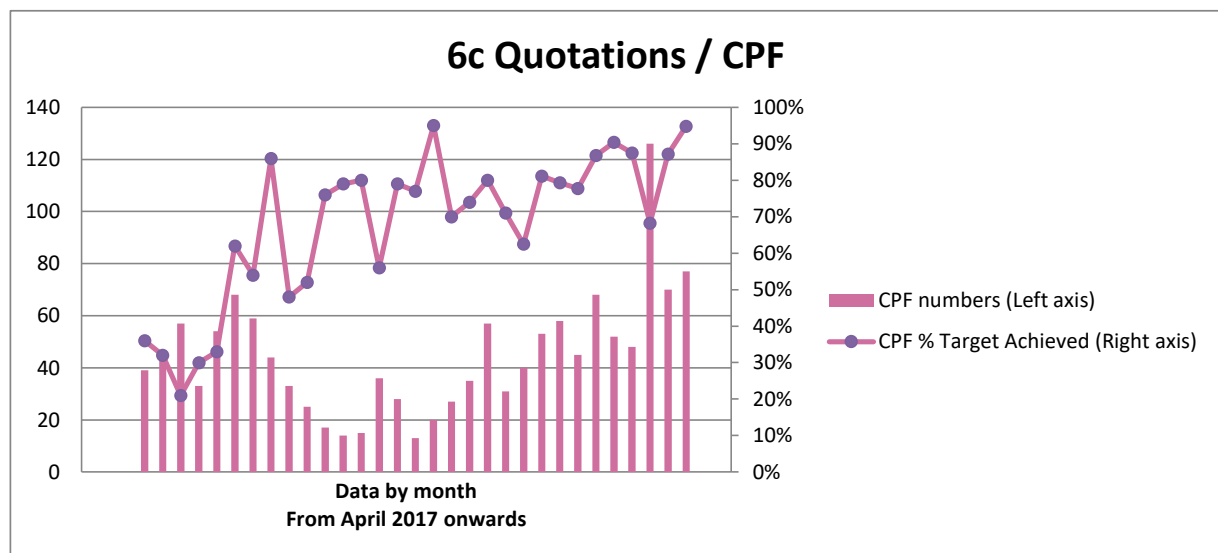
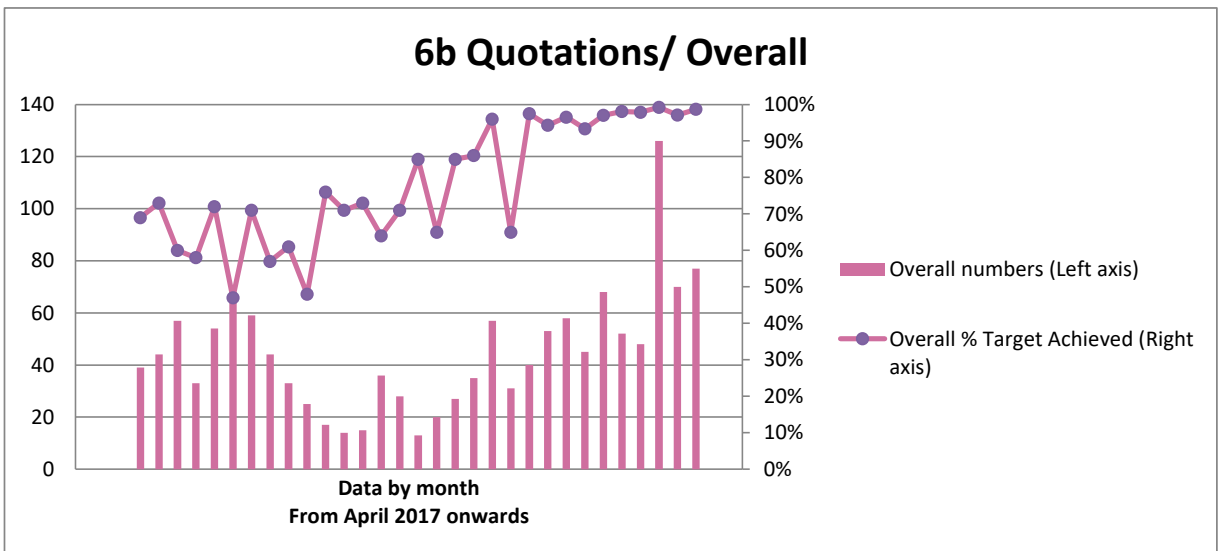
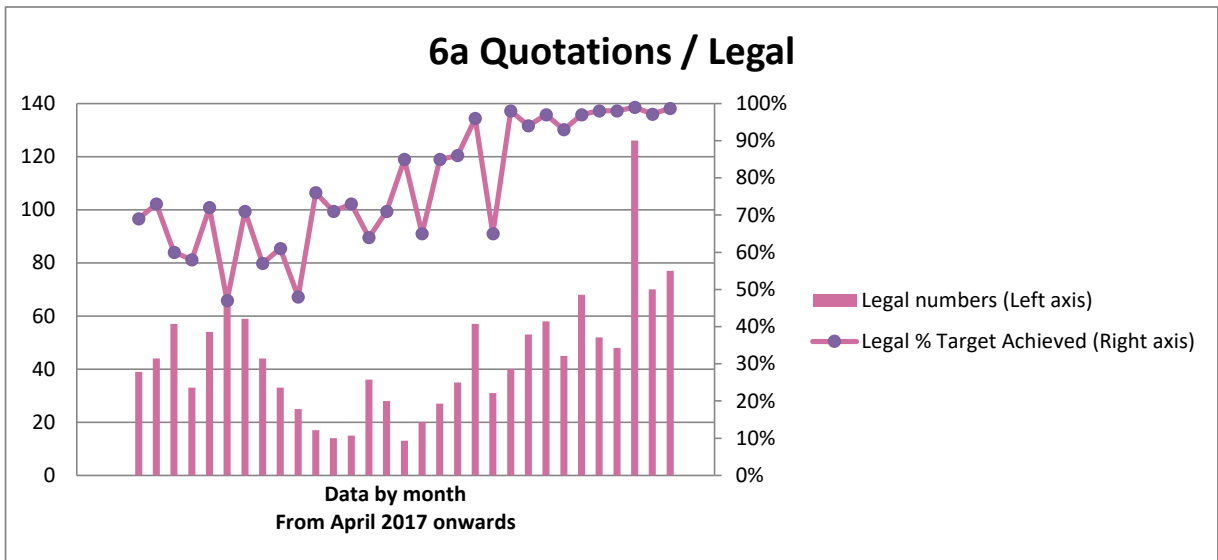




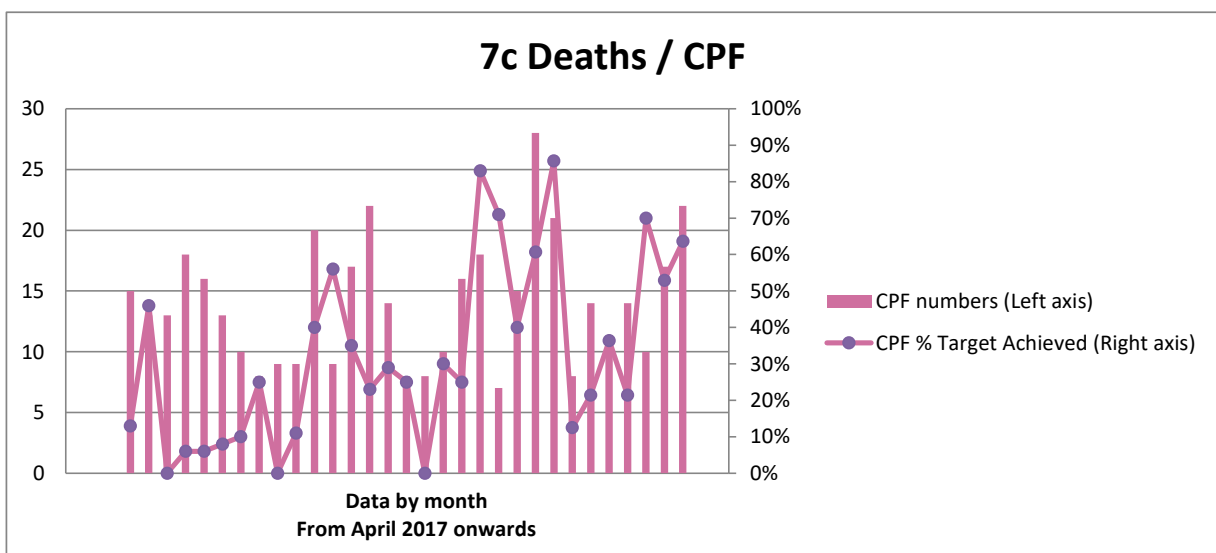
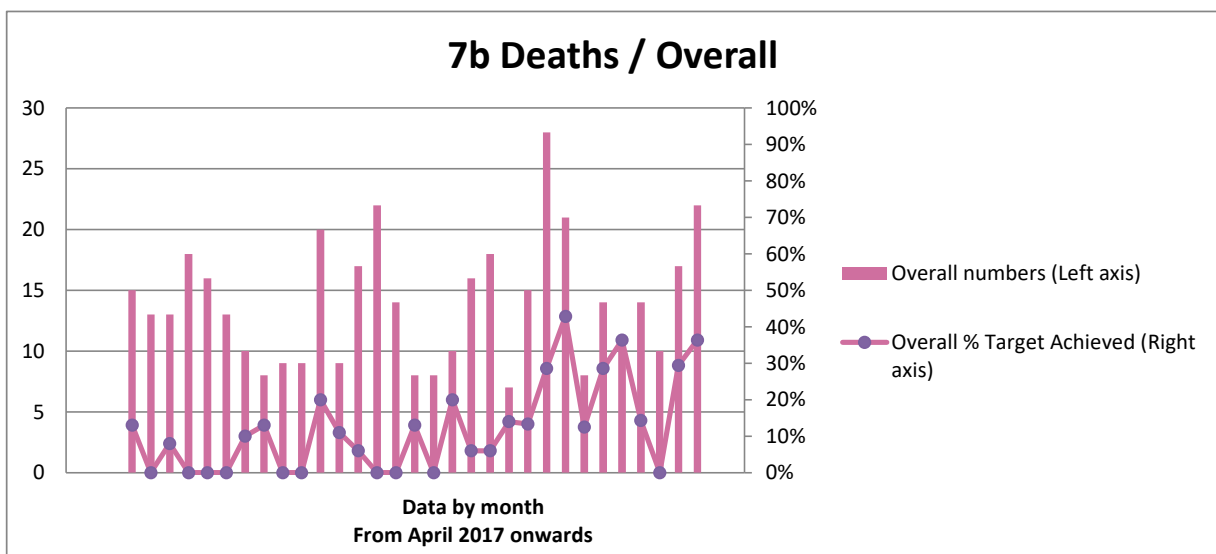
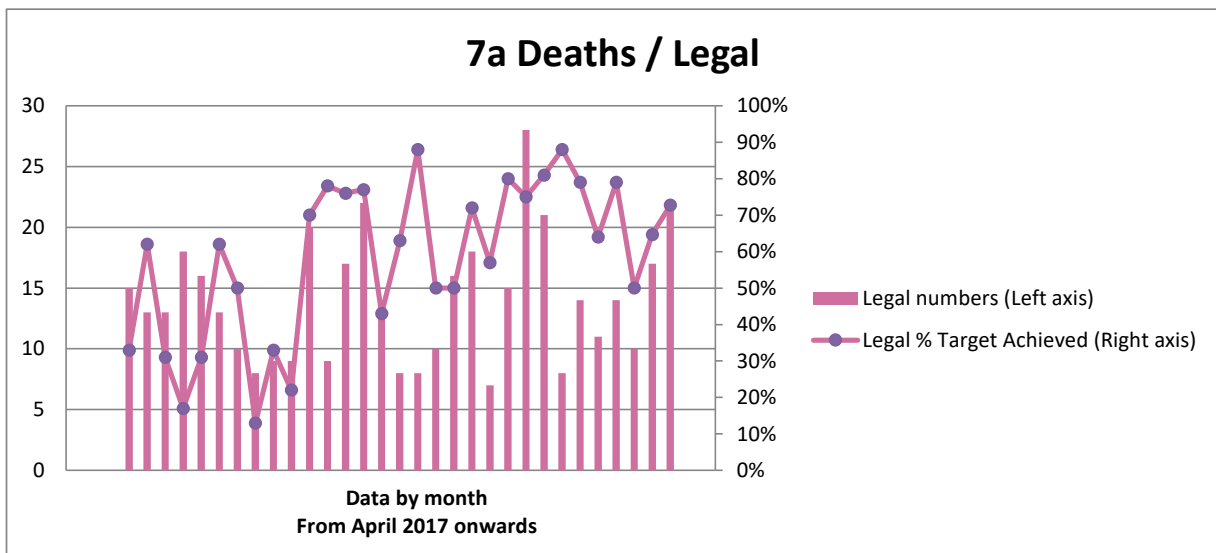
## Key Performance Indicators - relating to 31 October 2019



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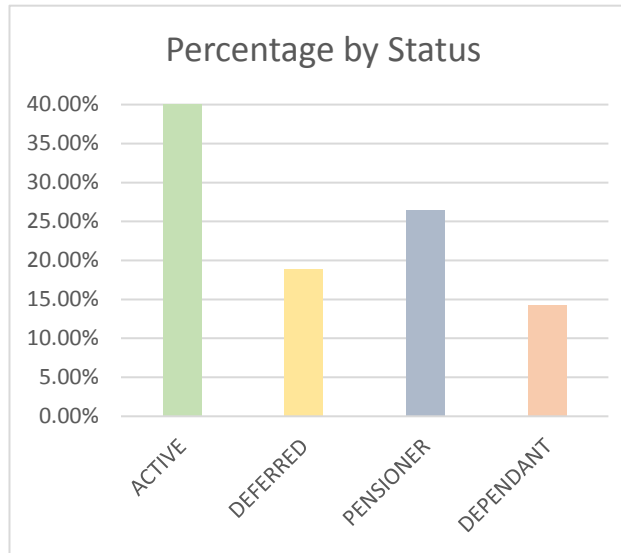
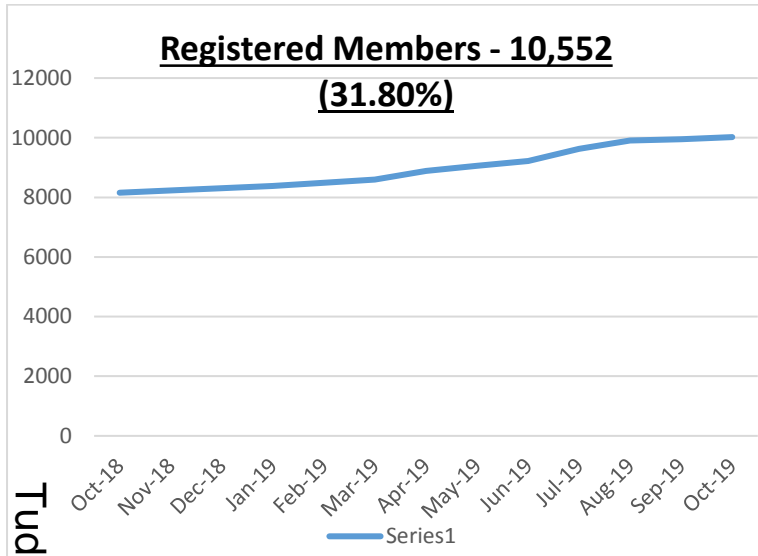


## Key Performance Indicators - relating to 31 October 2019



Mae'r dudalen hon yn wag yn bwrpasol

# MEMBER SELF SERVICE – 05/11/2019



**Statistics between**  
14/08/2019 to 05/11/2019 (84 days)

**CONTACT US TASKS**

396	MSSKEY	Key requests
62	MSENQ	Enquiry tasks
14	MSSEST	Estimate tasks
18	MSSRET	Retirement tasks
9	MSSTVT	Transfer tasks

**103 Contact Us (1.23 p/day)**

**179 MSSADD Address update (new)**

**8 Bank details updated**

**BENEFIT PROJECTIONS**

9,836 BENEFIT PROJECTIONS CALCULATED

**Avg 117.10 per day**

**EXPRESSION OF WISH**

265 CHANGES OF EXPRESSION OF WISH

**3.15 per day**

**ELECTED FOR POSTAL CORRESPONDANCE**

**2,062 – 6.21% of overall members**  
211 have registered also

386	ACTIVE
73	DEFERRED
1,398	PENSIONER
205	DEPENDANTS

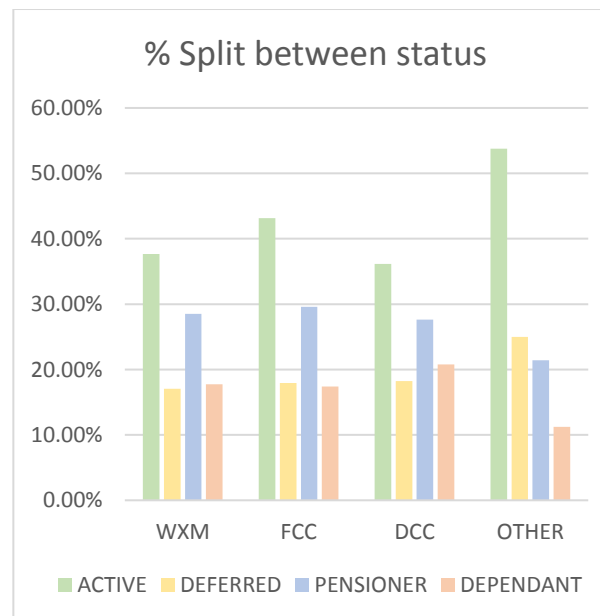
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**Update from August 2019 to November 2019**

Annual Benefit Statements (ABS) were issued in mid-August. Since then, the Regulations & Communications Team has been providing 1:1s at members' workplaces to help them with their pension queries and to promote the use of MSS.

This is reflected in this periods stats as MSS registration has increased from 27.43% of membership in August to 31.80% in November.

The use of benefit projectors has increased since the last period (5,654 projections in the last period compared to 9,836 this period). Issuing the ABS along with the 1:1s are some of the factors as to why this has increased. Members are engaging with their pensions and are using the projectors to gauge if their pension value is enough to live off based on specific retirement dates.



Mae'r dudalen hon yn wag yn bwrpasol

## DELEGATED RESPONSIBILITIES

Delegation:	Delegated Officer(s):	Communication and monitoring of Use of Delegation
<p>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.</p>	<p>CPFM and either the CFM or CE after taking appropriate advice from the FA.</p>	<p>Ongoing reporting to PFC for noting</p>
<p><b>Action taken –</b></p> <p>Denbighshire Leisure Ltd was admitted as an admission body to the Clwyd Pension Fund with effect from 1 October 2019.</p> <p><b>Background</b></p> <p>Denbighshire Leisure Ltd is a company providing Leisure services for Denbighshire County Council (DCC). Denbighshire Leisure 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):</p> <p><i>1. The following bodies are admission bodies with whom an administering authority may make an admission agreement-</i></p> <p>(a) <i>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);</i></p> <p>(b) <i>a body, to the funds of which a Scheme employer contributes;</i></p> <p>(c) <i>a body representative of-</i></p> <p>(i) <i>any Scheme employers, or</i></p> <p>(ii) <i>local authorities or officers of local authorities;</i></p> <p>(d) <i>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></p> <p>(i) <i>the transfer of the service or assets by means of a contract or other arrangement, X</i></p> <p>(ii) <i>a direction made under section 15 of the Local Government Act 1999 (115) (Secretary of State's powers),</i></p> <p>(iii) <i>directions made under section 497A of the Education Act 1996 (116) ;</i></p> <p>(e) <i>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.</i></p>		

The effective date of the contract is 1 October 2019 with eligible employees transferring on the following dates (i) Commencement date, (ii) 1 November 2019 and (iii) 1 April 2020. An admission agreement has been prepared and signed by all parties. As the body is providing a service for DCC, DCC is also party to the admission agreement.

The agreement is an open agreement (i.e. all eligible employees shall be permitted to participate in the Pension Fund).

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 13.8% of pensionable pay with contributions payable from 1 April 2020 reassessed as part of the 2019 actuarial valuation exercise.

The level of risk to the Fund has also been assessed, and it has been determined that at the Commencement Date a Bond is not required, and that Denbighshire County Council will act as Guarantor.



## DELEGATED RESPONSIBILITIES

Delegation:	Delegated Officer(s):	Communication and monitoring of Use of Delegation
<p>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.</p>	<p>CPFM and either the CFM or CE after taking appropriate advice from the FA.</p>	<p>Ongoing reporting to PFC for noting</p>
<p><b>Action taken –</b></p> <p>Newydd Catering &amp; Cleaning Services Ltd have applied to amend their Admission Agreement so that with effect from 1 November 2019 no New Eligible Employee shall be admitted to the Pension Scheme. A new agreement has been signed by all parties.</p> <p><b>Background</b></p> <p>Newydd Catering &amp; Cleaning Services Ltd is a company providing services for Flintshire County Council (DCC). Newydd Catering &amp; Cleaning Services Ltd entered into an admission agreement dated 1 May 2017 as an open scheme, where employees whose employment began on or after that day were permitted to become a member of the Pension Scheme. Newydd became an Admitted Body under the provision of Schedule 2 of the Local Government Pension Scheme Regulations 2013 (their specific circumstance is crossed below):</p> <p><i>1. The following bodies are admission bodies with whom an administering authority may make an admission agreement-</i></p> <ul style="list-style-type: none"> <li>(a) <i>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);</i></li> <li>(b) <i>a body, to the funds of which a Scheme employer contributes;</i></li> <li>(c) <i>a body representative of-</i> <ul style="list-style-type: none"> <li>(i) <i>any Scheme employers, or</i></li> <li>(ii) <i>local authorities or officers of local authorities;</i></li> </ul> </li> <li>(d) <i>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> <ul style="list-style-type: none"> <li>(i) <i>the transfer of the service or assets by means of a contract or other arrangement,</i> X</li> <li>(ii) <i>a direction made under section 15 of the Local Government Act 1999 (115) (Secretary of State's powers),</i></li> <li>(iii) <i>directions made under section 497A of the Education Act 1996 (116) ;</i></li> </ul> </li> </ul>		

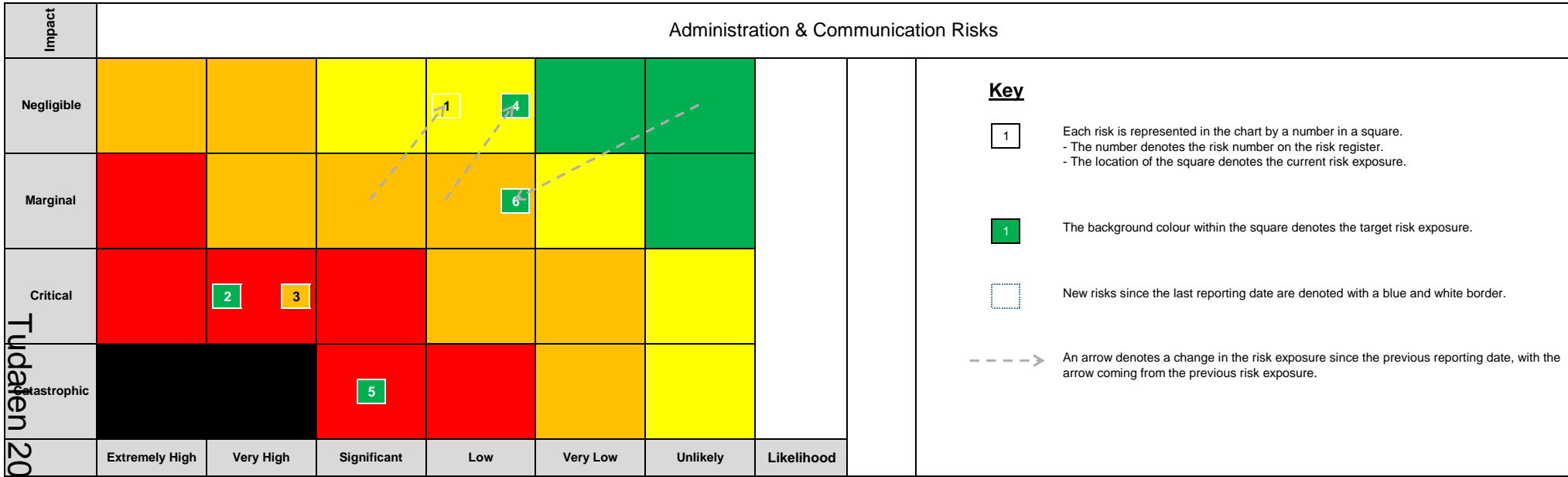
(e) *a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.*

The effective date of the amended contract is 1 November 2019 and an amended admission agreement has been prepared and signed by all parties. As the body is providing a service for FCC, FCC will also be party to the admission agreement.

The agreement is a Closed agreement (i.e. restricted to just the transferring employees) with existing Clwyd Pension Fund eligible employees transferring and therefore being covered by the agreement.

Advice has been taken from the Fund Actuary. The employer contribution rate payable from 1 April 2020 will be reassessed as part of the 2019 actuarial valuation exercise.

# Administration and Communication Risks Heat Map and Summary



Tudareen 2013

**Clwd 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	Negligible	Low	Yellow	<ul style="list-style-type: none"> <li>1 - Training Policy, Plan and monitoring in place</li> <li>2 - BP 2017/18 improvements assist with staff engagement</li> <li>3 - Benefit consultants available to assist if required</li> <li>4 - Ongoing task/SLA reporting to management/AP/PC/LPB to quickly identify issues</li> <li>5 - Data protection training, policies and processes in place</li> <li>6 - System security and independent review/sign off requirements</li> <li>7 - ELT established</li> <li>8 - Temporary staff changed to permanent, and further resource increase/recruitment to new posts</li> <li>9 - Ongoing monitoring of ELT and Ops resource/workload for backlogs</li> <li>10 - Establishment of aggregation team</li> <li>11 - Ongoing training within the team</li> </ul>	Negligible	Low	Yellow	☺			<ul style="list-style-type: none"> <li>1 - Ongoing consideration of resource levels post recruitment of new posts (KW)</li> <li>2 - Review structure of Technical team (AH)</li> </ul>	Pensions Administration Manager	31/03/2020	08/11/2019	
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	Red	<ul style="list-style-type: none"> <li>1 - Administration strategy updated</li> <li>2 - Employer steering group established</li> <li>3 - Greater engagement through Pension Board</li> <li>4 - Backlog project in place</li> <li>5 - Establishment of ELT</li> <li>6 - Increased data checks/analysis (actuary and TPR)</li> <li>7 - Implemented further APP data checks to identify issues</li> <li>8 - Updated Admin Strategy to include a compliance declaration</li> </ul>	Negligible	Very Low	Green	☹	Current impact 2 too high Current likelihood 3 too high	01/07/2016	Mar 2021	<ul style="list-style-type: none"> <li>1 - Ongoing roll out i-connect (AH)</li> <li>2 - Ongoing monitoring of ELT resource/workload (KW)</li> <li>3 - Develop and roll out APP training - in house and employers (KW)</li> <li>4 - Identify other employer data issues and engage directly with employers on these (KW/AH)</li> </ul>	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	Red	<ul style="list-style-type: none"> <li>1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues</li> <li>2 - Benefit consultants available to assist if required</li> <li>3 - Recruitment to new posts</li> </ul>	Marginal	Low	Orange	☹	Current impact 1 too high Current likelihood 2 too high	27/08/2018	Oct 2020	<ul style="list-style-type: none"> <li>1 - Ongoing consideration of resource levels post recruitment of new posts (KW)</li> <li>2 - Ongoing consideration of likely national changes and impact on resource (KW)</li> </ul>	Pensions Administration Manager	31/03/2020	08/11/2019
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1 / C2 / C3	Negligible	Low	Yellow	<ul style="list-style-type: none"> <li>1 - Communications Strategy in place</li> <li>2 - Annual communications survey for employees and employers</li> <li>3 - Specialist communication officer employed</li> <li>4 - Website reviewed and relaunched (2017)</li> <li>5 - Member self service launched (2017)</li> <li>6 - Comms Officer recruited</li> </ul>	Negligible	Very Low	Green	☹	Current likelihood 1 too high	01/07/2016	Jun 2020	<ul style="list-style-type: none"> <li>1 - Ongoing promotion of member self service (KM)</li> <li>2 - Ongoing identification of data issues and data improvement plan (All)</li> <li>3 - Review of effectiveness of new website/Connect member self-service planned for 2019/20 (KM)</li> </ul>	Pensions Administration Manager	31/03/2020	08/11/2019
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	Red	<ul style="list-style-type: none"> <li>1 - Business plan has number of improvements (i-connect/MSS etc)</li> <li>2 - Review of ad-hoc processes (e.g. deaths and aggregation)</li> <li>3 - Participating as a founding authority on national framework for admin systems (if it proceeds)</li> <li>4 - Procurement of Altair on business plan</li> <li>5 - Joined latest Heywood Testing Party</li> <li>6 - Implementation of other Altair modules including in-house lump sum payment facility</li> </ul>	Negligible	Very Low	Green	☹	Current impact 3 too high Current likelihood 2 too high	01/07/2016	Mar 2020	<ul style="list-style-type: none"> <li>1 - Ongoing roll out of iConnect (AH)</li> <li>2 - Ongoing identification of data issues and data improvement plan (All)</li> <li>3 - Review of effectiveness of new website/Connect planned for 2019/20 (KM)</li> <li>4 - Increased engagement with Heywood about change in their business model (KW)</li> <li>5 - Development of pension admin system national framework as a founder member (KW)</li> </ul>	Pensions Administration Manager	31/03/2020	14/08/2019
6	Service provision is interrupted	System failure or unavailability, including as a result of cybercrime	A1 / A4 / C2	Marginal	Low	Orange	<ul style="list-style-type: none"> <li>1 - Disaster recover plan in place and regularly checked</li> <li>2 - Hosting implemented</li> <li>3 - Implement lump sum payments via pensioner payroll facility</li> </ul>	Negligible	Unlikely	Green	☹	Current impact 1 too high Current likelihood 2 too high	08/11/2019	Jun 2020	<ul style="list-style-type: none"> <li>1 - Ongoing checks relating to interface of recovery plan with non-pensions functions (KW)</li> <li>2 - Resolve other areas identified by last disaster recovery test (KW)</li> <li>3 - Redo disaster recovery test (KW)</li> <li>4 - Develop business continuity policy for CPF (KW)</li> <li>5 - Review of cybercrime risk controls (KW/PL)</li> </ul>	Pensions Administration Manager	31/03/2020	08/11/2019

# Eitem ar gyfer y Rhaglen 12



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	Investment and Funding Update
<b>Report Author</b>	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 6. New Cost Transparency Templates for completion by Fund Managers signed up to the code have been produced.  
One of our current managers, Investec Asset Management are to become a separately listed entity in 2020. As a result, they will be changing their name to Ninety One.
- (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.
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## REPORT DETAILS

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
	<b>Business Plan Update</b>
1.01	<p>Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plans for 2019/20.</p> <p>All projects are ongoing and on target.</p>
	<b>Current Development and News</b>
1.02	<p>The Cost Transparency Initiative (CTI) is the new industry standard for institutional investment cost data. The availability of comprehensive and transparent information on costs and charges is important in helping investors to decide whether investments represent value for money. It is supported by the Pensions and Lifetime Savings Association (PLSA), the Investment Association (IA) and the Local Government Pension Scheme Advisory Board. A set of templates and tools which, together form a framework investors can use to receive standardised costs and charges information from Fund Managers.</p> <p>As the Committee are aware, the Fund has been using its' own templates for many years in order to be as transparent as it can be in disclosing the required fees in its Statutory Accounts and also then disclosing increased fees in its Annual Report to include any fees relating to underlying managers which are not required in the accounts.</p> <p>The Fund welcomes the CTI and standard templates and the move towards greater transparency but has some issues with the templates in relation to the capture of underlying manager fees which need to be separately identified for its Hedge Fund manager and some of the Private Market managers. The current templates are not clear on the separation of those fees.</p> <p>The Deputy Head of the Fund has been in discussions with both the PLSA and the Local Government Association (LGA) to express the Funds concerns and agree a way forward.</p> <p>In addition, one of our Fund managers has been selected to pilot the new templates and has requested that our Fund data for that mandate be used.</p>
1.03	<p>In September 2018, following a strategic review, the Boards of Investec plc and Investec Limited (collectively "Investec Group") announced that Investec Asset Management ("IAM") would become a separately listed entity. As a result they had the opportunity to create a new name and brand that was wholly separate from Investec Group and stayed true to who they are; a focused and independent asset manager.</p> <p>They have chosen a name with a strong connection to their heritage, that feels authentic to who they are and will stand out in a competitive market.</p> <p>They are a global company, who never forgot their roots. The investment firm started in South Africa, in 1991. Back then, change was coming, and they were part of it. '91 was a year of transformative change; the world</p>

	<p>wide web went global. '91 also saw the end of the Soviet Union. Perhaps most momentous for them, that year also marked significant steps towards the end of apartheid.</p> <p>With change came the chance to invest in a better future. Being part of that change made them who they are today.</p> <p>Investec Asset Management are changing their name, but not who they are and the new name is Ninety One.</p> <p>This recognises the momentous time in which the firm started.</p> <p>While the name will change, most importantly they will remain exactly the same company, with the same dedicated people focused on meeting our investment needs.</p>
1.04	<p><b>Policy and Strategy Implementation and Monitoring</b></p> <p>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 13.</p> <p>The Advisory Panel also receive reports from the following groups:</p> <ul style="list-style-type: none"> <li>• Tactical Asset Allocation Group (TAAG)</li> <li>• Funding and Risk Management Group (FRMG)</li> <li>• Private Equity and Real Assets Group (PERAG)</li> </ul> <p>Any delegations arising from these meetings are detailed in Appendix 2.</p>
1.05	<p><b>Delegated Responsibilities</b></p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting.</p> <p>To summarise:</p> <ul style="list-style-type: none"> <li>• Cashflow forecasting continued to identify low short term liquidity which has resulted in a further redemption 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.</li> <li>• Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG) and are ahead of their target.</li> <li>• Within the Private Market portfolio, due diligence has been undertaken on 1 investment within the Private Equity portfolio which follows the strategy agreed by the Advisory Panel for this asset class.</li> </ul>

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

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

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	Appendix 3 provides the dashboard and risk register highlighting the current risks relating to Investments and Funding matters.
4.02	<p>There have been no changes to the register since the last Committee. Three of the eight risks are currently at their overall target risk albeit F1, the individual current likelihood risk is slightly higher than target.</p> <p>Four of the risks are significant, F2, F3, F4 and F6. All are investments and Funding and substantially different to the target risks.</p> <p>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.</p> <p>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.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 - 2019/20 Business plan update</p> <p>Appendix 2 – Delegated Responsibilities</p> <p>Appendix 3 – Risk dashboard and register – Investments and Funding</p>

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



7.00	GLOSSARY OF TERMS
7.01	<p>(a) <b>The Fund - Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>The Committee - Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>TAAG – Tactical Asset Allocation Group</b> – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.</p> <p>(e) <b>AP – Advisory Panel</b> – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor.</p> <p>(f) <b>PERAG – Private Equity and Real Asset Group</b> – 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.</p> <p>(g) <b>In House Investments</b> – 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.</p> <p>(h) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(i) <b>ISS – Investment Strategy Statement</b> – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.</p> <p>(j) <b>FSS – Funding Strategy Statement</b> – the main document that outlines how we will manage employers contributions to the Fund</p> <p>(k) <b>Funding &amp; Risk Management Group (FRMG)</b> - 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.</p>

- (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.  
<https://www.schroders.com/en/uk/adviser/tools/glossary/>

# Business Plan 2019/20 to 2021/22 – Q3 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				Later Years	
		Q1	Q2	Q3	Q4	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.

Mae'r dudalen hon yn wag yn bwrpasol



## **DELEGATED RESPONSIBILITIES**

	<b>Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
1.041	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 Head of the Clwyd Pension Fund 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 September 2019 the Fund redeemed £10m from the Insight cash collateral to alleviate initial shortage of cash to fund possible Private Market draw downs.

### **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 30<sup>th</sup> September 2019 was £10.8m (£11.4m at 30<sup>th</sup> June 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 necessary. The cash balance as at 31<sup>st</sup> October 2019 was £6.4m which resulted in a further £30m being called in November. 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. As part of the Investment Strategy Review, the Risk Management Framework will now also incorporate Cash Management. Monthly cash flows for the financial year to 2019/20 are shown graphically at the end of the delegations appendix.

	<b>Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
1.042	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 Liquidity Fund –£ 20.0m (crystallised +0.9% )
- Partial redemption of BlackRock Emerging Market Equity - £11.0m (crystallised +19.4%)
- Switch LGIM US Equity from unhedged to hedged –(crystallised +11.2% )
- Invest £11.0m in LGIM High Yield Bond Fund
- Invest £20.0m in LGIM Active Global Corporate Bond Fund

The current allocations within the portfolio following the transactions are:

- US Equities (1.7%)
- Emerging Market Equities (0.8%)
- Japanese Equities (0.8%)
- Commodities (1.0%)
- Real Estate (1.6%)
- Infrastructure (1.6%)
- Emerging Market Bonds (1.4%)
- Global Bonds (1.0%)
- High Yield Bonds (0.6%)
- Liquidity Fund (0.5%)

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

As at the end of September 2019, the Best Ideas portfolio 1 year performance was +7.4% against a target of +4.8% and the 3 year performance was +7.8% against a target of +5.4%.

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

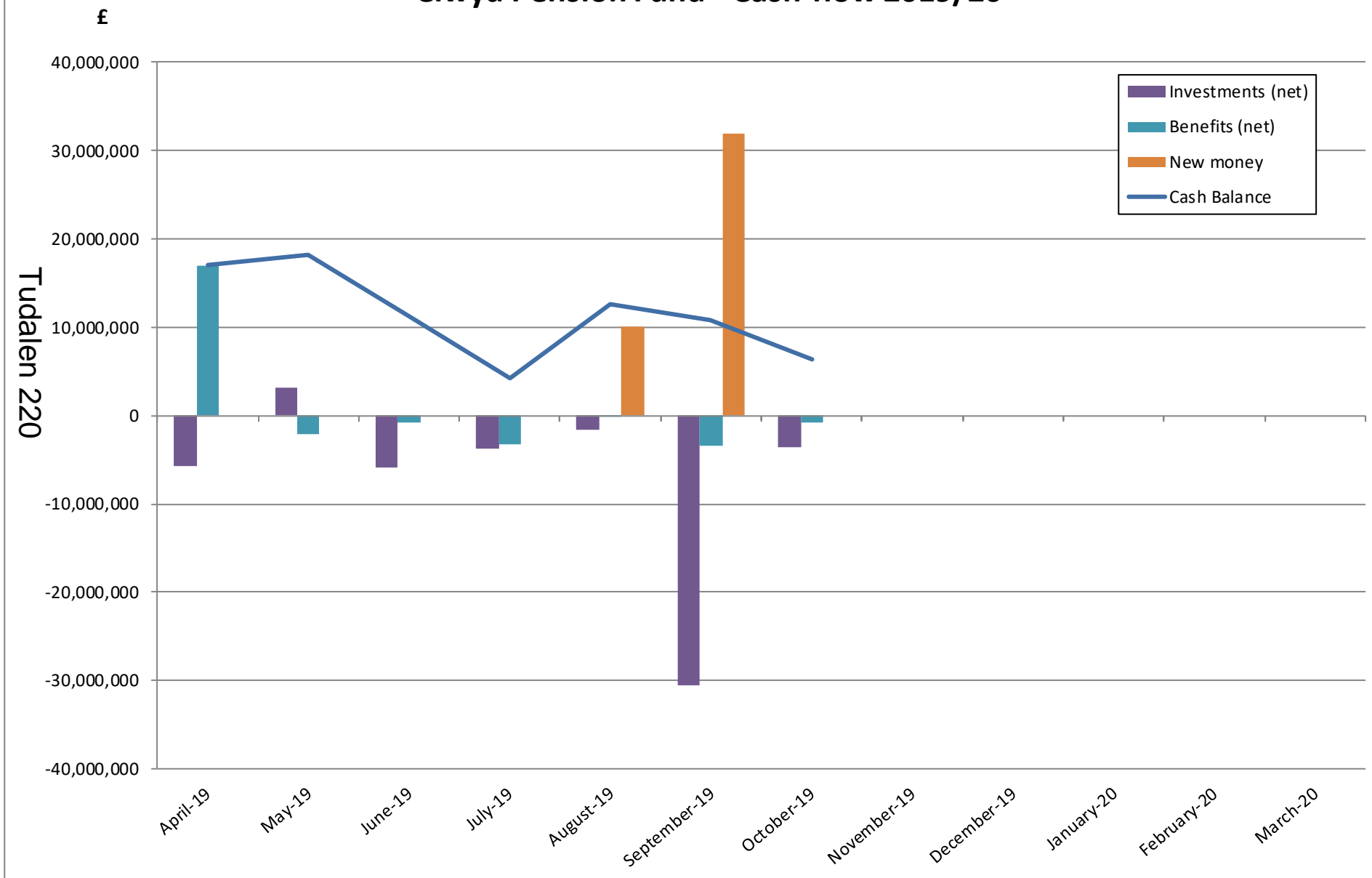
The Private Equity & Real Estate Group (PERAG) of officers and advisor meet quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular 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

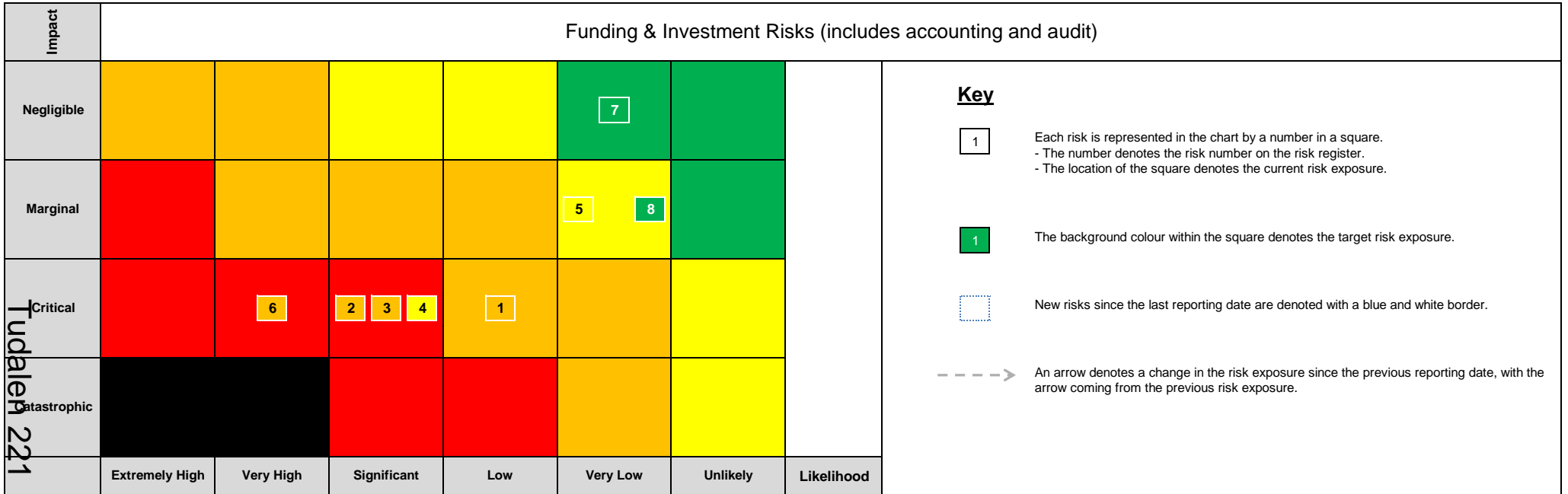
### **Action Taken**

Due diligence has been undertaken on August Equity V, a Private Equity Fund, which is an existing manager included in our forward work program, coming back to the market with a follow on Fund The commitment has yet to be formally approved.

# Clwyd Pension Fund - Cash-flow 2019/20



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



16 November 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 reasonable risk parameters
- F2 Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- F6 Ensure net cash outgoings can be met as/when required
- F7 Minimise unrecoverable debt on employer termination.
- F8 Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- F9 Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

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	High	1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process	Critical	Very Low	High	☹️ Current likelihood 1 too high	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	High	See points within points 3,4 and 5	Marginal	Low	High	☹️ 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	High	1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring of funding position versus flightpath targets 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of investment opportunities available 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	High	☹️ 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	Valuation liabilities increase due to market movements/inflation moving out of line with actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Significant	High	1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee. 5 - Consideration and understanding of potential Brexit implications.	Marginal	Very Low	High	☹️ 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 being out of line with assumptions due to demographics	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Very Low	High	1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low	High	☺️			1 - Assumptions and experience 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	High	1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS 4 - Participation in National consultations and lobbying 5 - Costings performed in relation to the potential impact of McCloud on employers. Employers informed as part of the valuation regarding the potential contribution provision over 2020-23	Marginal	Low	High	☹️ 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	16/11/2019
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	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	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	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	Low	☹️ 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

# Eitem ar gyfer y Rhaglen 13



## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	Economic Update, Investment Strategy and Manager Summary
<b>Report Author</b>	Head of Clwyd Pension Fund

### 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 September 2019

Key points to note:

#### Economy and Markets

- Positive returns across most markets in quarter. Strong positive returns in year to date.
- US/China trade war still key driver for markets.
- Brexit and new Prime Minister, and General Election are key issues for UK and Europe.

#### Clwyd Fund Strategy and Performance

- Over the three months to 30 September 2019, the Fund's total market value increased by £39.2m to £1,996.5m.
- Fund Performance over 3 months, 12 months and 3 years; +2.0%, +5.4% and +7.5% respectively.
- In-House assets and Tactical Allocation portfolio were best performers over the quarter.

## RECOMMENDATIONS

1.	To discuss and comment on the Market and Economic update for the quarter ended 30 September 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 September 2019.

## REPORT DETAILS

<b>1.00</b>	<b>INVESTMENT AND FUNDING RELATED MATTERS</b>
1.01	<p><b>Economic and Market Update</b></p> <p>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:</p> <ul style="list-style-type: none"><li>• <b>Market Background</b> – contains key financial markets data for the period under review, including performance of selected markets including equities, bonds inflation and currencies.</li><li>• <b>Economic Statistics</b> – contains key economic statistics during the period under review, including Gross Domestic Product (GDP) Growth, Inflation Employment and Manufacturing.</li><li>• <b>Market Commentary</b> – provides detailed commentary on the economic and market performance of major global regions and financial markets.</li></ul>
1.02	<p>The quarter saw the continuation of the positive returns seen in the first six months of 2019. Whilst the trend has been a positive one over the three months and the year to date the positive sentiment in markets remains fragile, and there have been periods of volatility.</p> <p>The US-China trade war is still impacting on the global economy and whilst has calmed in recent weeks always has the potential to re-ignite and cause further periods of volatility.</p> <p>In the UK, there is still only one subject dominating. The UK's exit from the European Union has continued to affect markets and whilst the exit date has been pushed back again to 31 January 2020, the outcome of the general election in December will clearly have a significant impact. This continuing uncertainty led to falls in the value of Sterling against all currency majors.</p>
1.03	<p>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.</p>



1.03	<p><b>Investment Strategy and Manager Summary 30 September 2019</b></p> <p>Over the 3 months to 30 September 2019, the Fund's total market value increased by £39.2m to £1,996.5m; combined with a rise of £173.2m in the first six months of 2019, gives an overall increase of £212.4m since the start of the year. This has now more than made up for the falls in value the portfolio saw in the final quarter on 2018.</p> <ul style="list-style-type: none"> <li>• Total Fund assets returned 2.0% over the quarter, outperforming the composite target which returned 1.7%.</li> <li>• Over the one year period, Total Fund assets returned 5.4%, in line with the composite target of 5.4%.</li> <li>• Over the last three years, Total Fund assets returned 7.5% p.a., ahead of the composite target of 7.0% p.a.</li> </ul> <p>The strongest absolute returns over the quarter came from the Fund's In-House assets and the Tactical Allocation portfolio. In-House assets returned 2.0%, and the Tactical Allocation portfolio 1.9%. Within the In-House portfolio Private Equity was the strongest performer returning 4.0% in the quarter. In the Tactical Allocation portfolio there was continued strong performance from the Best Ideas portfolio which returned 3.1% in the quarter.</p> <p>The Fund's asset portfolio is broadly within the strategic ranges set for the asset classes. 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 within the LDI portfolio.</p> <p>The Fund's Strategic Asset Allocation is currently being formally reviewed and will consider the strategic overweight and underweight positions. There is a report elsewhere on today's agenda considering this.</p>
1.04	<p>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.</p> <p>As reported at the last meeting, as part of the Funds Strategic Asset Allocation which is being presented elsewhere on today's agenda, individual manager mandates will be reviewed. The Fund is 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.</p>

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

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

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	<p>The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk.</p> <p>Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.</p>

<b>5.00</b>	<b>APPENDICES</b>
5.01	<p>Appendix 1 - Economic and Market Update - 30 September 2019</p> <p>Appendix 2 - Investment Strategy and Manager Summary - 30 September 2019</p>

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	<p>Economic and Market Update and Investment Strategy and Manager Summary 30 June 2019.</p> <p><b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund  <b>Telephone:</b> 01352 702264  <b>E-mail:</b> <a href="mailto:philip.latham@flintshire.gov.uk">philip.latham@flintshire.gov.uk</a></p>

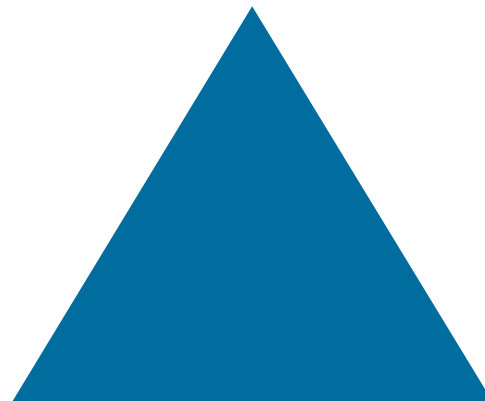
<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>A list of commonly used terms are as follows:</p> <p>(a) <b>Absolute Return</b> – The actual return, as opposed to the return relative to a benchmark.</p> <p>(b) <b>Annualised</b> – Figures expressed as applying to 1 year.</p> <p>(c) <b>Duration</b> – The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.</p>

- (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:**

<https://www.schroders.com/en/uk/adviser/tools/glossary/>

Mae'r dudalen hon yn wag yn bwrpasol



**CLWYD PENSION FUND**  
**ECONOMIC AND MARKET UPDATE**  
**PERIOD ENDING 30 SEPTEMBER 2019**



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# 1 MARKET BACKGROUND

## PERIOD ENDING 30 SEPTEMBER 2019



### MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	1.3	2.7	6.8
Overseas Developed	3.9	8.2	12.8
North America	4.9	10.4	15.1
Europe (ex UK)	1.6	6.3	10.0
Japan	6.6	0.3	8.4
Asia Pacific (ex Japan)	-1.6	3.7	8.1
Emerging Markets	-0.5	7.1	8.4
Frontier Markets	-7.0	0.2	3.2
Property	0.6	2.9	7.7
Hedge Funds <sup>3</sup>	0.3	2.1	3.8
Commodities <sup>2</sup>	-4.7	-18.5	-0.3
High Yield <sup>2</sup>	0.9	5.4	4.6
Emerging Market Debt	2.5	16.5	4.9
Senior Secured Loans <sup>2</sup>	0.9	1.4	2.7
Cash	0.2	0.7	0.5

Yields	% p.a.
UK Equities	4.21
UK Gilts (>15 yrs)	0.91
Real Yield (>5 yrs ILG)	-2.20
Corporate Bonds (>15 yrs AA)	1.81
Non-Gilts (>15 yrs)	2.33

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	11.0	23.0	5.3
Index-Linked Gilts (>5 yrs)	8.7	20.3	5.3
Corporate Bonds (>15 yrs AA)	8.5	21.0	5.2
Non-Gilts (>15 yrs)	7.8	19.3	4.8

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-3.17	-5.50	-1.74
Against Euro	1.14	0.68	-0.74
Against Yen	-2.87	-10.09	0.41

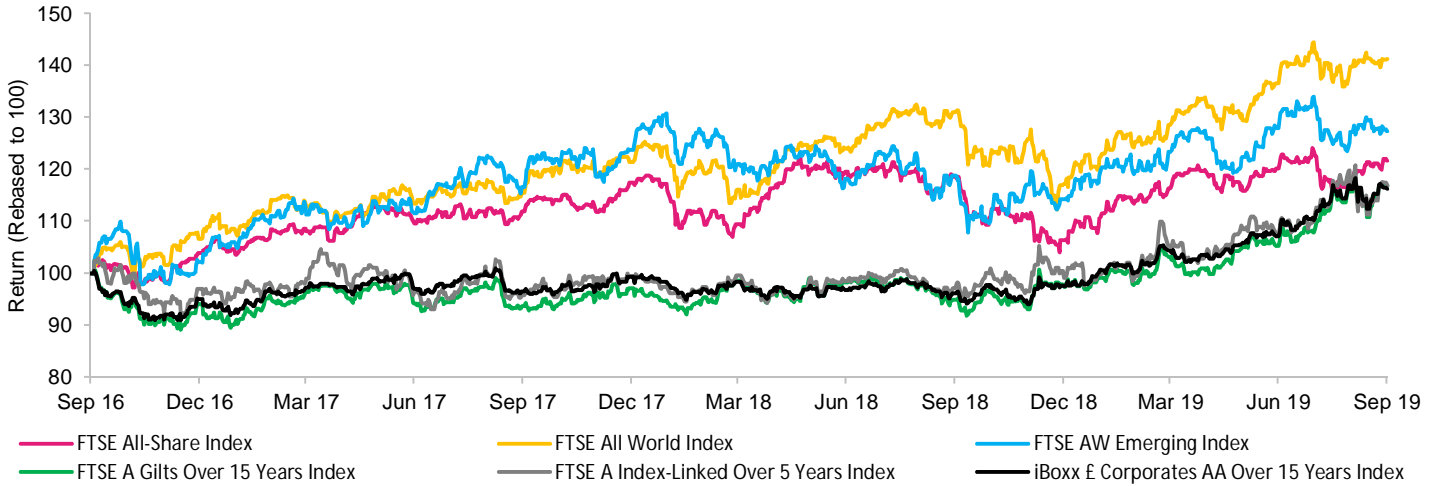
Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.5	2.4	3.2
Price Inflation – CPI	0.5	1.7	2.4
Earnings Inflation <sup>1</sup>	0.9	3.4	3.1

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.08	0.41	0.75
UK Gilts (>15 yrs)	-0.49	-0.95	-0.51
Real Yield (>5 yrs ILG)	-0.31	-0.71	-0.42
Corporate Bonds (>15 yrs AA)	-0.44	-1.00	-0.42
Non-Gilts (>15 yrs)	-0.45	-0.94	-0.27

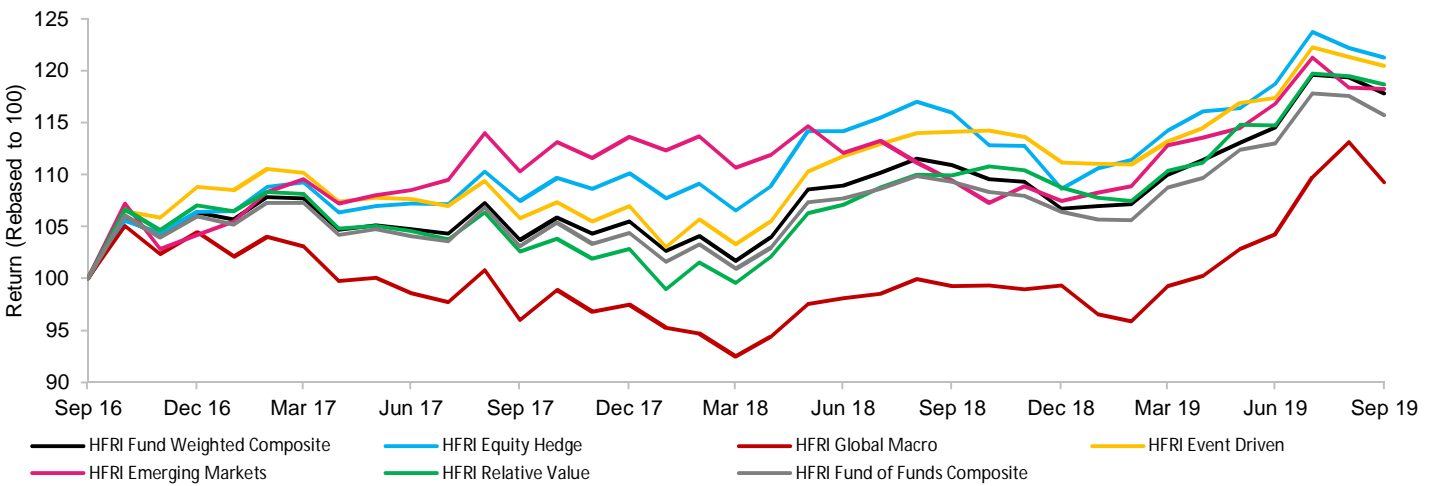
Source: Refinitiv.

Notes: <sup>1</sup> Subject to 1 month lag. <sup>2</sup> GBP Hedged. <sup>3</sup> Local Currency.

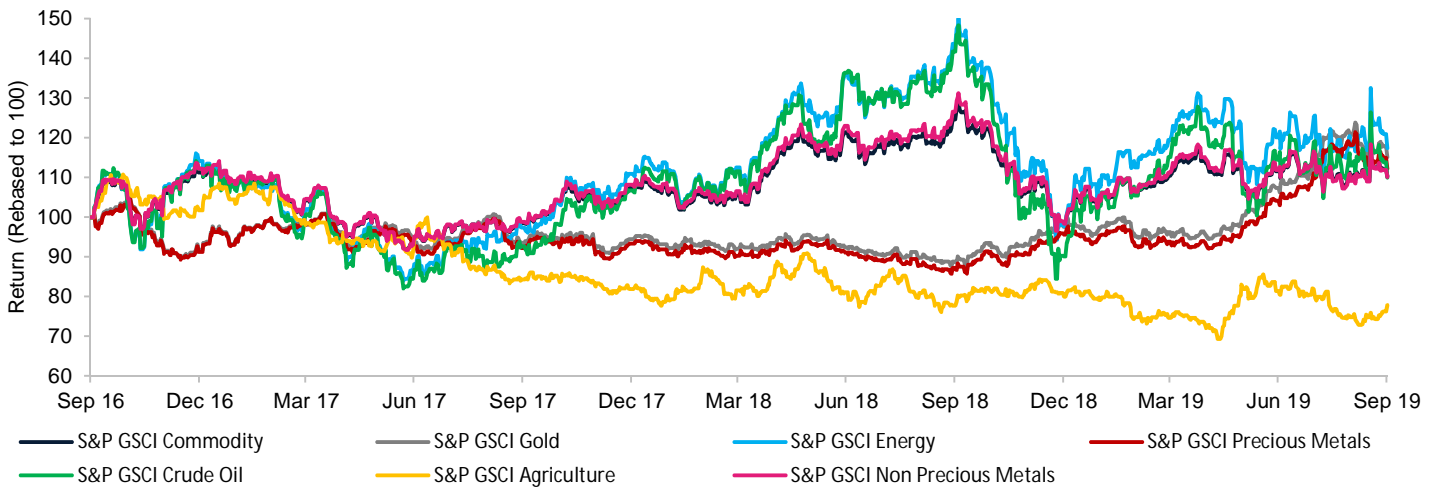
Market performance – 3 years to 30 September 2019



Hedge Funds: Sub-strategies performance – 3 years to 30 September 2019



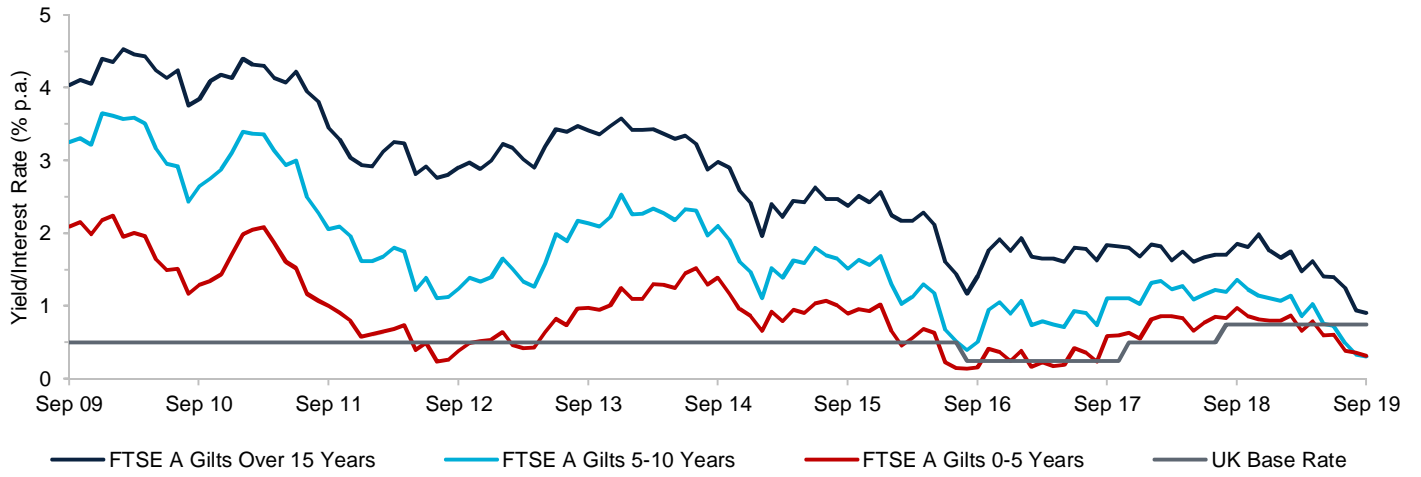
Commodities: Sector performance – 3 years to 30 September 2019



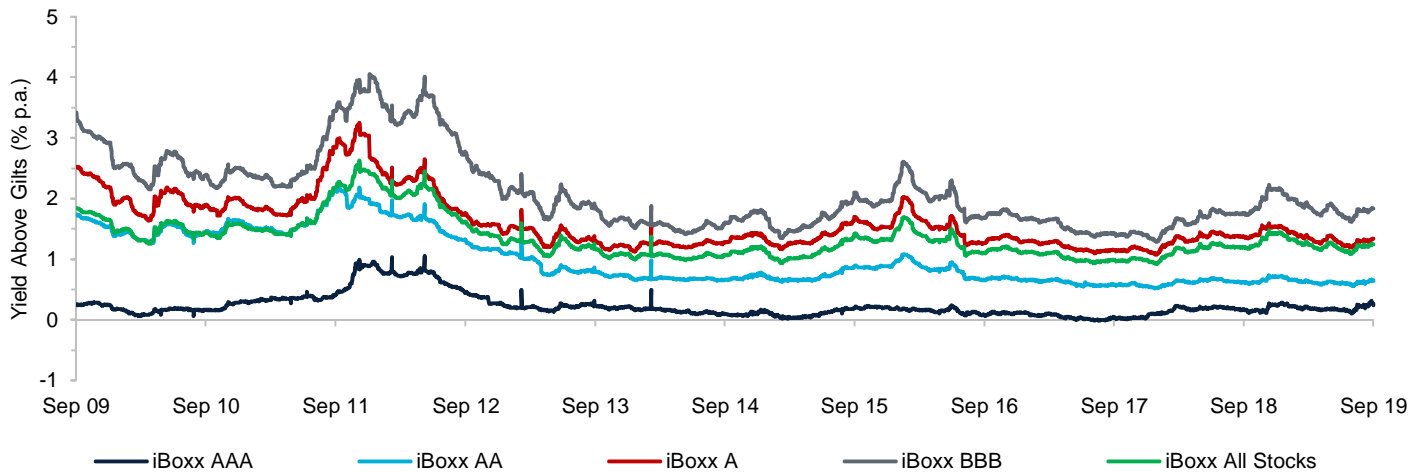
Source: Refinitiv



UK government bond yields – 10 years to 30 September 2019



Corporate bond spreads above government bonds – 10 years to 30 September 2019



Source: Refinitiv

## 2 ECONOMIC STATISTICS

Economic Statistics as at:	30 September 2019			30 June 2019			30 September 2018		
30 September 2019	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US
Annual Real GDP Growth <sup>2</sup>	1.3%	2.8%	2.3%	2.1%	2.9%	2.7%	1.3%	3.4%	3.2%
Annual Inflation Rate <sup>3</sup>	1.7%	0.8%	1.7%	2.0%	1.3%	1.6%	2.4%	2.1%	2.3%
Unemployment Rate <sup>4</sup>	3.9%	7.5%	3.6%	3.8%	7.6%	3.6%	4.0%	8.0%	3.8%
Manufacturing PMI <sup>5</sup>	48.3	45.7	51.1	48.0	47.6	50.6	53.7	53.2	55.6

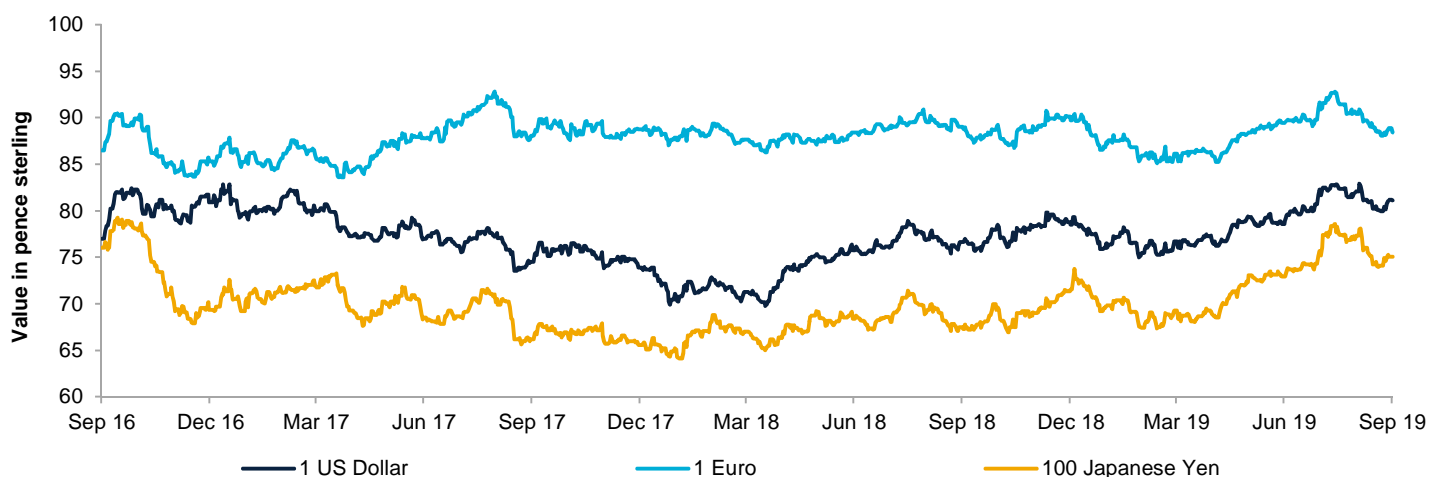
Change over periods ending:	3 months			12 months		
30 September 2019	UK	Euro <sup>1</sup>	US	UK	Euro <sup>1</sup>	US
Annual Real GDP Growth <sup>2</sup>	-0.8%	-0.1%	-0.4%	0.0%	-0.6%	-0.9%
Annual Inflation Rate <sup>3</sup>	-0.3%	-0.5%	0.1%	-0.7%	-1.3%	-0.6%
Unemployment Rate <sup>4</sup>	0.1%	-0.1%	0.0%	-0.1%	-0.5%	-0.2%
Manufacturing PMI <sup>5</sup>	0.3	-1.9	0.5	-5.4	-7.5	-4.5

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 September 2019	30 Sep 19	30 Jun 19	30 Sep 18	3 months	12 months
1 US Dollar is worth	81.15	78.57	76.68	-3.2%	-5.5%
1 Euro is worth	88.47	89.48	89.07	1.1%	0.7%
100 Japanese Yen is worth	75.09	72.93	67.51	-2.9%	-10.1%

### Exchange rate movements – 3 years to 30 September 2019



Source: Refinitiv, Markit, Institute for Supply Management, Eurostat, US Department of Labor and US Bureau of Economic Analysis.

## 3 MARKET COMMENTARY

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### INTRODUCTION

Equity markets were more sanguine during the third quarter, following a strong upward trend in the first half of 2019. The notable exceptions over the quarter have been the equity markets of the US and Japan.

Trade tensions remain high with the US and China still in dispute and introducing further tariffs. A resolution to settle the one-and-a-half year spat between both countries has become less likely, with news flow from China becoming more influential in equity market reactions, while the prospect of a sudden rupture between the UK and EU and the trade disruption this would cause is becoming an increasingly likely scenario.

Recent economic data around the world has been mixed. Whilst the US economy appears to be supported by consumer spending, the manufacturing and business investment data is weaker. Outside the US, a deceleration is more apparent with China slowing and European GDP contracting in the second quarter, particularly in Germany and Italy.

The US Federal Reserve's Open Market Committee (FOMC) cut its interest rates twice over the quarter. The first rate cut in July put the benchmark rate in the target range of 2.0% to 2.25%. The second rate cut in September moved the target range to 1.75% to 2.0%. Since the end of the quarter, the FOMC has cut rates for the third time putting the benchmark rate in the target range of 1.5% to 1.75%. The reductions in rates are an attempt by the FOMC to prevent economic expansion from slowing down amid the global slowdown. The European Central Bank (ECB) also cut its key deposit rate to a new record low of minus 0.5%, and announced the resumption of its quantitative easing programme, with the purchase of assets worth €20bn a month for an indefinite period starting in November.

### UNITED KINGDOM

- UK equity markets have been increasingly volatile over the quarter as the new Prime Minister, Boris Johnson, engaged with the opposition in Parliament and the European Union.
- Markets became increasingly unsettled as the 31 October deadline for leaving the EU approached. This uncertainty has also fed through into the behaviour of Sterling, the value of which has swung on Brexit news flow.
- The uncertainty has also shown itself in the low levels of confidence demonstrated by forward looking industry data. There is however an expectation that the budget due later this year will contain a number of stimulus packages, some of which have been announced already, that could help a stuttering UK economy.

### NORTH AMERICA

- The US market appears to be well supported by the consumer at present and the looser monetary policy from the US Federal Reserve; however, there are signs of the economy softening in other sectors with weaker earnings forecasts. This softening is of particular interest as the 2020 election year approaches.
- The ongoing trade tensions between the US and China are proving to be a drag on the economy and the current impeachment attempts on the President are not helpful to investment markets.

### EUROPE (EX UK)

- The risk of recession in Germany and Italy is now very high indeed even with the additional support of another bout of ECB Quantitative Easing.
- European equity market growth has been good year to date; however, the third quarter saw a flattening of the market over company performance concerns.
- The appointment of Christine Lagarde as the head of the ECB, replacing Mario Draghi, is seen as a positive move and a continuation of the policies that the ECB took in the wake of the financial crisis.

## JAPAN

- The strong recovery from the lows of 2018 continued apace with Japan being the standout market over the third quarter. Japan is seen and considered to offer a relative safe haven during this phase of the market, particularly when considered alongside the Yen.
- An agreed, but as yet signed-off trade agreement between the US and Japan, as well as constructive trade negotiations with the EU has been seen as a positive impetus for the Japanese economy.
- The recent change of Emperor in Japan, the first abdication since 1817, will see the Enthronement Ceremony likely taking place in the final quarter of 2019. This event is seen largely as a change of era in Japan and a sense of optimism surrounds the country.

## ASIA PACIFIC (EX JAPAN) / EMERGING MARKETS

- The ongoing trade negotiations between China and the US are not providing markets with the clear direction they would like, however, with adversity comes opportunity as other countries are starting to consider how they can benefit from the lack of progress, particularly where they are not caught or indirectly adversely affected by China/US tariffs.
- It is also notable that slowing global growth is starting to impact equity markets in the region which, combined with heightened social unrest, specifically in Hong Kong, is creating a drag on the region's equity markets.
- The third quarter saw emerging market equities take a step backwards, delivering a slight negative performance over the quarter – this is as a result of the strengthening US Dollar starting to raise concerns again in tandem with slowing global growth on the back of rising trade tensions.

## FIXED INCOME

- The recent cutting of interest rates globally has contributed to a slightly more attractive market in debt, although this is tempered to a degree by liquidity concerns.
- That said there remains a strong demand for safe haven assets, even in a low and falling yield environment.
- Brexit uncertainty still persists and gilt yields could push lower through this prolonged period of uncertainty and offer protection in what is proving a difficult period for the UK.

## ALTERNATIVES

- Hedge Funds had a positive third quarter, as all strategies posted gains in Sterling terms. Overall, Hedge Funds returned 2.9% in Sterling terms and -0.4% in US dollar terms. Global Macro strategies were the best performing strategies, returning 4.8% (Sterling) and 1.5% (US dollar). Emerging Market strategies were once again the worst performing strategies over the quarter, returning 1.3% (Sterling) and -2.0% (US dollar).
- Commodities had a negative quarter, returning -1.0% in Sterling terms (-4.2% in US dollar terms). Precious Metals and Gold were the best performing commodities returning 7.8% and 7.2%, respectively in Sterling terms (3.8% and 4.4% in US dollar terms). Agriculture was the worst sector, returning -4.3% (Sterling) and -7.3% (US dollar). Crude Oil, Non-Precious Metals and Energy declined in both Sterling and US dollar terms.
- Property returns were unchanged from the previous quarter, returning 0.6% over the period as Brexit uncertainty and a slowdown in economic activity continue to impact the sector. Within the retail sector, several retailers have announced store closures and are increasingly requesting for large cuts in rent. Within industrials, rental growth has eased, reflecting weaker demand from manufacturers.

## OUTLOOK

There is an increasing risk of a global recession as trade tensions depress global manufacturing, along with uninspiring earnings growth, diminishing business confidence and a break in capital expenditures. Although markets are cautious for now, a combination of central bank easing, a trade-war resolution and China stimulus could brighten the outlook.

Since end of the quarter, Brexit has been delayed until 31 January 2020, with a UK general election to go ahead on 12 December 2019. Boris Johnson will look to increase the Conservative majority to get his deal with the EU through, where as the opposition parties will look to offer either a second referendum or revoke Article 50 altogether.

## 4 MARKET STATISTICS INDICES USED

Asset	Index
<b>Growth Assets</b>	
UK	FTSE All-Share Index
Overseas Developed	FTSE World (ex UK) Index
North America	FTSE North America Index
Europe (ex UK)	FTSE World 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 (Local Currency)
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	UK SONIA Index
<b>Bond Assets</b>	
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (>5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index
<b>Yields</b>	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (>5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
<b>Inflation</b>	
Price Inflation – RPI	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)
<b>Exchange Rates</b>	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Note: All indices above are denominated in Sterling unless stated otherwise.

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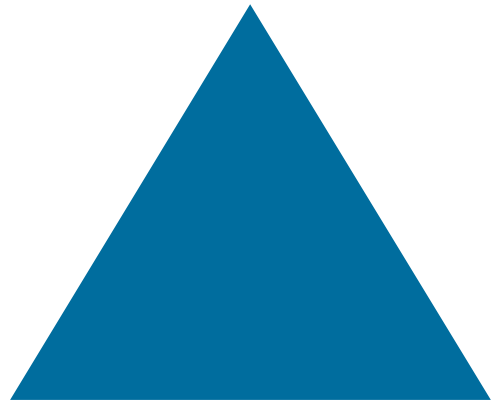
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**CLWYD PENSION FUND**  
**INVESTMENT STRATEGY AND**  
**MANAGER SUMMARY**  
**PERIOD ENDING 30 SEPTEMBER 2019**



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# 1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

This report is produced by JLT Benefit Solutions ("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 is produced separately by another team in Mercer.

## OVERALL

Over the 3 months to 30 September 2019, the Fund's total market value increased by £39.2m to £1,996,472,456.

Over the quarter, total Fund assets returned 2.0%, ahead of its target of 1.7%. Total Fund (ex LDI) returned 1.5%, also ahead of its target of 1.3%.

All strategies posted positive returns; In-House assets rose by 2.0% followed by the Tactical Allocation Portfolio which gained 1.9%. Total equities rose 1.4%, whilst the Managed Account Platform and Total Credit rose by 1.2% and 0.1%.

In relative terms, Total Fund assets were ahead of their target by 0.3%, mainly attributable to the Best Ideas Portfolio which outperformed its target by 1.8%, adding 0.2% to total relative performance.

Total Equities returned 1.4% underperforming its target by 0.2%, whilst Total Credit fell short of its target by 0.5%, returning 0.1% against a target of 0.6%. Both sections made a neutral contribution to total relative returns.

Managed Futures and Hedge Funds increased by 1.1%, performing in line with its target.

In-House assets returned 2.0% against a target of 1.3%. All the sub-portfolios contributed positively to total relative performance, with the exception of the Property assets which declined by 0.1%.

Insight's LDI portfolio increased by 3.6% over the quarter, due to a combination of falling yields and rising equity markets. Overall, the overweight allocation to the LDI portfolio added 0.1% to relative performance.

## EQUITIES

Markets rose for the third straight quarter despite the uncertainty around global economic growth. Geopolitical tensions rose over the quarter as further tariffs were imposed in the US-China trade war on both sides. The US moved first, by imposing tariffs on \$112bn of Chinese imports. This was the first move in President Trump's latest plan to implement 15% duties on \$300bn of Chinese imports by the end of 2019. China retaliated by introducing measures targeting \$75bn worth of US goods, and also resuming 25% tariffs imposed on US cars and auto parts, set to take effect in December this year.

In Developed Markets, Japan led regional equity performance (+6.6%) followed by North America (+4.9%). Europe (ex UK) posted gains of 1.6% whilst UK equities rose by 1.3%. Asia Pacific (ex Japan) declined by 1.6% over the quarter.

Over the last 12 months, all Developed Equity markets posted positive returns. North America gained the most, increasing by 10.4% over the period. Japan was the weakest performer, rising by 0.3% whilst UK equities gained 2.7%.

Emerging Markets and Frontier Markets declined, returning -0.5% and -7.0%, respectively, over the quarter. Over the last 12 months, Emerging Markets returned 7.1% whilst Frontier Markets rose by just 0.2%.

Total Equity assets returned 1.4% compared to a composite target of 1.6%. Wellington Emerging Market (Core) outperformed its target returning 0.8% over the quarter against a target of -0.7%. BlackRock World Multifactor also exceeded its target by 0.1%, returning 2.6%. Russell WPP Global Opportunities Fund returned 3.4% against a target of 3.8%, whereas Wellington Emerging Market (Local) generated a negative return of -2.1% against a target of -0.5%.

In the Emerging Markets portfolio, stock selection in Taiwan, Brazil and South Korea and within the Information Technology sector drove relative performance. Stock selection in Utilities and Industrials also proved to be beneficial. This was partially offset by poor stock selection and asset allocation in the Materials and Financials sectors.

Both the Wellington Emerging Market equity funds were behind their 3 year performance objectives at quarter end.

## CREDIT

Credit markets rose substantially over the quarter as central banks deployed more accommodative policies in response to ongoing trade wars and weaker global growth data.

The US Federal Reserve's Open Market Committee (FOMC) cut its interest rates twice over the quarter. The first rate cut in July put the benchmark rate in the target range of 2.0% to 2.25%. The second rate cut in September moved the target range to 1.75% to 2.0%. Both reductions in rates are an attempt by the FOMC to prevent economic expansion from slowing down amid the global slowdown. The ECB also cut its key deposit rate to a new record low of minus 0.5%, and announced the resumption of its quantitative easing programme, with the purchase of assets worth €20bn a month for an indefinite period starting in November. In the UK, the Bank of England indicated that it was prepared to lower rates in the event of a no-deal Brexit.

Over the quarter, Long Dated Conventional Gilts, Index-Linked Gilts and UK Corporate Bonds increased by 11.0%, 8.7% and 8.5%, respectively. Emerging Market Local Currency Debt and Emerging Market Hard Currency Debt returned 1.3% and 4.7%, respectively. Global High Yield increased by 0.9% over the period.

Total Credit returned 0.1% over the quarter, 0.5% behind of its target. The Private Credit sub-portfolio (which remains in its commitment phase) delivered a return of 2.4% against a target of 1.6%.

Permira Credit Solutions III (European mandate) and BlackRock Middle Market Senior (North American mandate) were c.88% and c.37% funded respectively at the end of September as capital deployment continues for both funds.

In Investment Grade Credit, the best performing sectors were Gaming, Packaging and Building Materials, whilst the worst performing sectors were Independent Energy, Transportation Services and Midstream.

US High Yield generated a positive return over the quarter, due to a dovish US Federal Reserve and positive retail flows. Over the quarter, 27 out of the 34 industry sectors outperformed the benchmark.

In Emerging Market Debt, 8 out of 19 benchmark countries posted positive returns in Q3, with the majority of gains coming in September. Falling domestic bond yields supported returns for most countries except Argentina, South Africa and Uruguay; yields declined the most in Turkey.

## HEDGE FUNDS

Hedge Funds had a positive third quarter, as all strategies posted gains in Sterling terms. Overall, Hedge Funds returned 2.9% in Sterling terms and -0.4% in US dollar terms. Global Macro strategies were the best performing strategies, returning 4.8% (Sterling) and 1.5% (US dollar). Emerging Market strategies were once again the worst performing strategies over the quarter, returning 1.3% (Sterling) and -2.0% (US dollar).

Over the last 12 months, all strategies advanced in Sterling terms whereas most advanced in US dollar terms with the exception of Equity Hedge and Event Driven strategies. Global Macro strategies were the best performing strategies over 12 months, posting 10.1% in Sterling terms and 4.0% in US dollar terms.

ManFRM's Managed Futures & Hedge Funds strategy grew by 1.1%, in-line with its target. ManFRM Hedge Funds (Legacy) assets, which only consist of Liongate assets, returned 3.3% over the quarter, outperforming its target of 1.1%, although this was attributable to the strengthening of Sterling against the US dollar over the period.

## TACTICAL ALLOCATION PORTFOLIO

### *DIVERSIFIED GROWTH*

Total Diversified Growth assets increased by 0.4% over the quarter, underperforming its target of 1.6%.

Pyrford returned 0.9%, below its target by 0.7%. Growth was mainly due to UK equities, and to some extent bonds as positions in UK and overseas bonds added to performance, capitalising from the substantial fall in yields over the quarter.

Investec returned -0.1%, below its target by 1.7%. Both 'Growth' and 'Defensive' strategies contributed positively to performance, whilst 'Uncorrelated' strategies detracted from performance. Exposure to US Treasuries were beneficial to the fund's performance as yields fell sharply over the quarter. Additionally, exposure to gold was positive as prices rallied over fears of global economic slowdown. Short positions in US equities detracted, eroding some of the above gains.

### *BEST IDEAS PORTFOLIO*

The Best Ideas Portfolio returned 3.1% over the quarter, ahead of its target by 1.9%. Portfolio returns over 12 months and 3 years were above the target by 2.7% and 2.5% p.a., respectively.

Most of the sub-funds within the portfolio posted positive gains with the exception of BlackRock Emerging Market Equities and Investec Global Natural Resources which declined 0.9% and 0.6%, respectively. LGIM Global Real Estate Equities and BlackRock US Opportunities led performance, returning 8.0% and 7.3%, respectively.

In July, c. £14.6m was disinvested from the BlackRock European Equities (Unhedged) Fund. The proceeds were split equally between the PIMCO Emerging Market Debt and BlackRock Emerging Market Equity Funds. Additionally, holdings in the BlackRock Japanese Equities (Unhedged) were switched into the BlackRock Japanese Equities (Hedged) Fund.

In August, £20m was transferred from the LGIM Sterling Liquidity Fund to the LGIM Global Corporate Bond Fund.

## IN-HOUSE ASSETS

Total In-House assets returned 2.0%, ahead of its target by 0.7%. Overall this contributed 0.2% towards total relative performance. The two sub-sections of the In-House assets; the Real Assets Portfolio and the Private Markets Portfolio returned 0.9% and 3.2%, respectively.

All assets within the Private Markets Portfolio rose over the quarter; Private Equity increased by 4.0%, ahead of its target of 1.4%, Opportunistic assets also increased, returning 0.6%, underperforming its target by 0.8%.

Within the Real Assets Portfolio, Infrastructure and Timber/ Agriculture generated positive returns; Infrastructure returned 2.4%, outperforming its target by 0.9%, whereas Timber/ Agriculture returned 0.8% against a target of 1.4%. Property assets decreased by 0.1% over the quarter, underperforming its target by 0.7%.

# 2 STRATEGIC ASSET ALLOCATION

## 30 SEPTEMBER 2019

### Allocation by underlying asset class

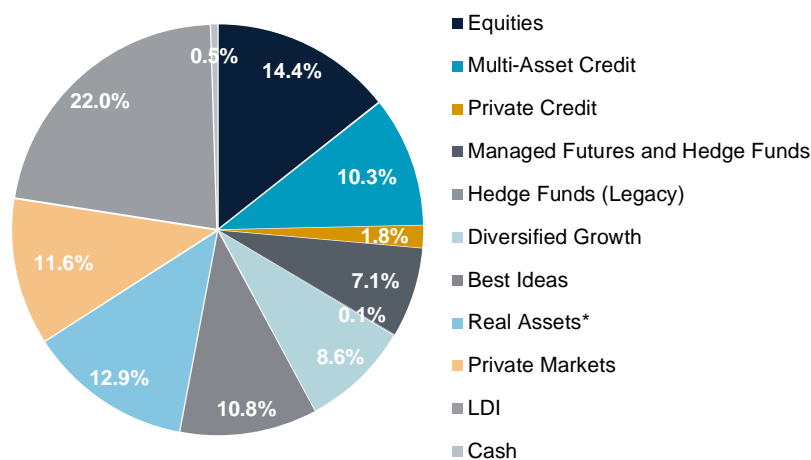
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	164,205,892	8.2	8.0	+0.2	5.0 – 10.0
Emerging Market Equities	122,457,808	6.1	6.0	+0.1	5.0 – 7.5
Multi-Asset Credit	205,351,507	10.3	12.0	-1.7	10.0 – 15.0
Private Credit <sup>2</sup>	35,180,138	1.8	3.0	-1.2	2.0 – 5.0
Managed Futures and Hedge Funds	141,779,037	7.1	9.0	-1.9	7.0 – 11.0
Hedge Funds (Legacy) <sup>1</sup>	1,199,708	0.1	0.0	+0.1	–
Diversified Growth	170,916,378	8.6	10.0	-1.4	8.0 – 12.0
Best Ideas	216,548,681	10.8	11.0	-0.2	9.0 – 13.0
Property	122,649,673	6.1	4.0	+2.1	2.0 – 6.0
Infrastructure / Timber / Agriculture	135,100,164	6.8	8.0	-1.2	5.0 – 10.0
Private Equity / Opportunistic	230,944,898	11.6	10.0	+1.6	8.0 – 12.0
LDI & Synthetic Equities	439,416,016	22.0	19.0	+3.0	10.0 – 30.0
Cash	10,722,557	0.5	0.0	+0.5	0.0 – 5.0
<b>TOTAL CLWYD PENSION FUND</b>	<b>1,996,472,456</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	

Notes: <sup>1</sup> Hedge Funds (Legacy) includes the Liongate portfolios and is provided by ManFRM. <sup>2</sup> The Private Credit allocations are not yet fully funded. Totals may not sum due to rounding.

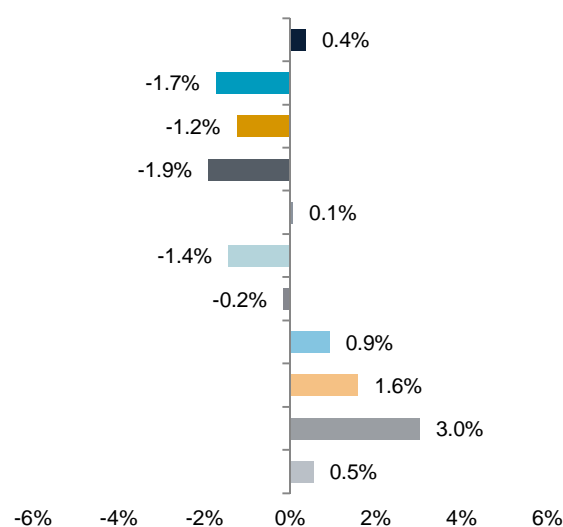
### Points to note

- Permira Credit Solutions III (European mandate) and BlackRock Middle Market Senior (North American mandate) were c.88% and c.37% funded at the end of September 2019.
- The total allocation to LDI remains overweight by 3.0% relative to its strategic allocation.

### Strategic Asset Allocation as at 30 September 2019



### Deviation from Strategic Allocation



Notes: Totals may not sum due to rounding. \* In-House Property, Infrastructure and Timber/Agriculture portfolios.

# 3 VALUATION AND ASSET ALLOCATION

## AS AT 30 SEPTEMBER 2019

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Russell	WPP Global Opportunities	87,065,892	4.4	4.0	5.0 – 10.0
BlackRock	ACS World Multifactor Equity	77,140,000	3.9	4.0	
Wellington	Emerging Markets (Core)#	59,767,257	3.0	3.0	5.0 – 7.5
Wellington	Emerging Markets (Local)#	62,690,551	3.1	3.0	
<b>Total Equity</b>		<b>286,663,700</b>	<b>14.4</b>	<b>14.0</b>	
Stone Harbor	LIBOR Multi-Strategy	131,939,846	6.6	12.0	10.0 – 15.0
Stone Harbor	Multi-Asset Credit	73,411,661	3.7		
<b>Multi-Asset Credit Portfolio</b>		<b>205,351,507</b>	<b>10.3</b>	<b>12.0</b>	<b>10.0 – 15.0</b>
Permira	Credit Solutions III	27,257,421	1.4	1.8	2.0 – 5.0
BlackRock	Middle Market Senior	7,922,717	0.4	1.2	
<b>Private Credit Portfolio</b>		<b>35,180,138</b>	<b>1.8</b>	<b>3.0</b>	<b>2.0 – 5.0<sup>(1)</sup></b>
<b>Total Credit</b>		<b>240,531,645</b>	<b>12.0</b>	<b>15.0</b>	<b>10.0 – 20.0</b>
ManFRM	Managed Futures & Hedge Funds	141,779,037	7.1	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	1,199,708	0.1	0.0	–
<b>Managed Account Platform</b>		<b>142,978,745</b>	<b>7.2</b>	<b>9.0</b>	<b>7.0 – 11.0</b>
Pyrford	Global Total Return	85,192,359	4.3	5.0	8.0 – 12.0
Investec	Diversified Growth	85,724,019	4.3	5.0	
<b>Diversified Growth Portfolio</b>		<b>170,916,378</b>	<b>8.6</b>	<b>10.0</b>	<b>8.0 – 12.0</b>
BlackRock	US Opportunities	19,611,453	1.0		
BlackRock	Emerging Markets Equities	27,796,833	1.4		
Investec	Global Natural Resources	20,790,277	1.0		
LGIM	Infrastructure Equities MFG (Hedged)	30,687,645	1.5		
LGIM	Global Real Estate Equities	30,638,706	1.5		
LGIM	Sterling Liquidity	10,069,434	0.5	11.0	9.0 – 13.0
LGIM	North American Equities (Unhedged)	14,037,914	0.7		
PIMCO	Emerging Market Debt Local	28,348,267	1.4		
BlackRock	Japanese Equities (Hedged)	14,997,978	0.8		
LGIM	Global Corporate Bonds	19,570,174	1.0		
<b>Best Ideas Portfolio</b>		<b>216,548,681</b>	<b>10.8</b>	<b>11.0</b>	<b>9.0 – 13.0</b>
<b>Tactical Allocation Portfolio</b>		<b>387,465,059</b>	<b>19.4</b>	<b>21.0</b>	<b>15.0 – 25.0</b>
In-House	Property	122,649,673	6.1	4.0	2.0 – 6.0
In-House	Infrastructure	111,228,371	5.6		
In-House	Timber / Agriculture	23,871,793	1.2	8.0	5.0 – 10.0
<b>Real Assets Portfolio</b>		<b>257,749,837</b>	<b>12.9</b>	<b>12.0</b>	<b>10.0 – 15.0</b>
In-House	Private Equity	179,698,241	9.0		
In-House	Opportunistic	51,246,657	2.6	10.0	8.0 – 12.0
<b>Private Markets Portfolio</b>		<b>230,944,898</b>	<b>11.6</b>	<b>10.0</b>	<b>8.0 – 12.0</b>
<b>Total In-House Assets</b>		<b>488,694,735</b>	<b>24.5</b>	<b>22.0</b>	
Insight	LDI Portfolio	439,416,016	22.0	19.0	10.0 – 30.0
<b>Total Liability Hedging</b>		<b>439,416,016</b>	<b>22.0</b>	<b>19.0</b>	<b>10.0 – 30.0</b>
Trustees	Cash	10,722,557	0.5	-	0.0 – 5.0
<b>TOTAL CLWYD PENSION FUND</b>		<b>1,996,472,456</b>	<b>100.0</b>	<b>100.0</b>	

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. <sup>1</sup> The Private Credit allocation is not yet fully funded.

# 4 PERFORMANCE SUMMARY

## PERIODS ENDING 30 SEPTEMBER 2019

Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance vs Objective	
		Fund	Target	Fund	Target	Fund	Target		
n/a	<b>Russell</b>	WPP Global Opportunities	3.4	3.8	n/a	n/a	n/a	n/a	n/a
n/a	<b>BlackRock</b>	World Multifactor Equity Tracker	2.6	2.5	2.5	2.1	n/a	n/a	n/a
<span style="color: red;">●</span>	<b>Wellington</b>	Emerging Markets (Core) <sup>#</sup>	0.8	-0.7	6.8	5.1	8.2	9.3	Target not met
<span style="color: red;">●</span>	<b>Wellington</b>	Emerging Markets (Local) <sup>#</sup>	-2.1	-0.5	9.1	6.1	7.9	10.4	Target not met
<b>Total Equity</b>			1.4	1.6	5.2	6.0	10.1	11.7	
<span style="color: green;">●</span>	<b>Stone Harbor</b>	LIBOR Multi-Strategy	-0.4	0.4	0.5	1.7	2.1	1.5	Target met
n/a	<b>Stone Harbor</b>	Multi-Asset Credit	-0.2	0.4	3.9	1.7	n/a	n/a	n/a
<b>Multi-Asset Credit Portfolio</b>			-0.3	0.4	1.7	1.7	2.1	1.5	
n/a	<b>Permira</b>	Credit Solutions III	2.3	1.5	6.8	6.0	n/a	n/a	n/a
n/a	<b>BlackRock</b>	Middle Market Senior	2.4	2.2	n/a	n/a	n/a	n/a	n/a
<b>Private Credit Portfolio</b>			2.4	1.6	6.2	6.4	n/a	n/a	
<b>Total Credit</b>			0.1	0.6	2.3	2.3	2.6	1.8	
<span style="color: red;">●</span>	<b>ManFRM</b>	Managed Futures & Hedge Funds	1.1	1.1	-0.9	4.4	-0.7	4.1	Target not met
n/a	<b>ManFRM</b>	Hedge Funds (Legacy) <sup>*</sup>	3.3	1.1	-65.1	4.4	-40.2	4.1	n/a
<b>Managed Account Platform</b>			1.2	1.1	-2.4	4.4	-2.2	4.1	
<span style="color: red;">●</span>	<b>Pyrford</b>	Global Total Return	0.9	1.6	2.6	7.0	1.8	7.9	Target not met
<span style="color: red;">●</span>	<b>Investec</b>	Diversified Growth	-0.1	1.6	4.0	6.4	2.2	7.1	Target not met
<b>Total Diversified Growth</b>			0.4	1.6	3.3	6.7	2.0	7.5	
<span style="color: green;">●</span>	<b>Best Ideas Portfolio</b>		3.1	1.2	7.4	4.7	7.9	5.4	Target met
<b>Tactical Allocation Portfolio</b>			1.9	1.2	5.6	4.7	5.1	5.5	
<span style="color: red;">●</span>	<b>In-House</b>	Property	-0.1	0.6	6.6	2.9	7.2	7.8	Target not met
<span style="color: green;">●</span>	<b>In-House</b>	Infrastructure	2.4	1.5	9.1	5.9	12.6	5.7	Target met
<span style="color: red;">●</span>	<b>In-House</b>	Timber / Agriculture	0.8	1.4	2.9	5.9	2.8	5.6	Target not met
<b>Real Assets</b>			0.9	1.2	6.9	4.8	7.9	6.2	
<span style="color: green;">●</span>	<b>In-House</b>	Private Equity	4.0	1.4	10.6	5.9	13.7	5.6	Target met
<span style="color: green;">●</span>	<b>In-House</b>	Opportunistic	0.6	1.4	2.6	5.9	8.4	5.7	Target met
<b>Private Markets Portfolio</b>			3.2	1.4	8.8	5.9	12.9	5.6	
<b>Total In-House Assets</b>			2.0	1.3	7.9	5.3	10.3	6.0	
n/a	<b>Insight</b>	LDI Portfolio	3.6	3.6	7.1	7.1	11.3	11.3	n/a
<b>Total (ex LDI)</b>			1.5	1.3	4.8	5.0	6.3	6.1	
<b>TOTAL CLWYD PENSION FUND</b>			2.0	1.7	5.4	5.4	7.5	7.0	
<b>Strategic Target (CPI +4.1%)</b>			1.6		6.3		6.3		
<b>Actuarial Target (CPI +2.0%)</b>			1.1		4.2		4.2		

Notes: 'n/a' against the objective is for funds that have been in place for less than three years.

\* ManFRM Hedge Funds (Legacy) valuation includes the Liongate portfolios and is provided by ManFRM. # Wellington Emerging Markets Core and Wellington Emerging Markets Local data has been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.

Strategic and Actuarial targets derived from the latest JLT Market Forecast Group assumptions (Q2 2019 forecasts based on conditions at 30 June 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 SEPTEMBER 2019

Strategy	3 months %	12 months %	3 years % p.a.
<b>Total Equities</b>	<b>1.4</b>	<b>5.2</b>	<b>10.1</b>
Composite Objective	1.6	6.0	11.7
Composite Benchmark	1.5	5.1	10.1
<b>Total Credit</b>	<b>0.1</b>	<b>2.3</b>	<b>2.6</b>
Objective	0.6	2.3	1.8
Benchmark	0.4	1.4	0.9
<b>Managed Account Platform</b>	<b>1.1</b>	<b>-0.9</b>	<b>-0.7</b>
Objective	1.1	4.4	4.1
Benchmark	1.1	4.4	4.1
<b>Total Hedge Funds (Legacy)</b>	<b>3.3</b>	<b>-65.1</b>	<b>-40.2</b>
Composite Objective	1.1	4.4	4.1
Composite Benchmark	1.1	4.4	4.1
<b>Total Diversified Growth</b>	<b>0.4</b>	<b>3.3</b>	<b>2.0</b>
Composite Objective	1.6	6.7	7.5
Composite Benchmark	1.6	6.7	7.5
<b>Best Ideas Portfolio</b>	<b>3.1</b>	<b>7.4</b>	<b>7.9</b>
Objective	1.2	4.7	5.4
Benchmark	1.2	4.7	5.4
<b>Total In-House Assets</b>	<b>2.0</b>	<b>7.9</b>	<b>10.3</b>
Composite Objective	1.3	5.3	6.0
Composite Benchmark	1.3	5.3	6.0
<b>Total LDI Portfolio</b>	<b>3.6</b>	<b>7.1</b>	<b>11.3</b>
Composite Objective	3.6	7.1	11.3
Composite Benchmark	3.6	7.1	11.3
<b>Total (ex LDI)</b>	<b>1.5</b>	<b>4.8</b>	<b>6.3</b>
<b>Composite Objective</b>	<b>1.3</b>	<b>5.0</b>	<b>6.1</b>
<b>Composite Benchmark</b>	<b>1.2</b>	<b>4.7</b>	<b>5.6</b>
<b>Total Clwyd Pension Fund</b>	<b>2.0</b>	<b>5.4</b>	<b>7.5</b>
<b>Composite Objective</b>	<b>1.7</b>	<b>5.4</b>	<b>7.0</b>
<b>Composite Benchmark</b>	<b>1.6</b>	<b>5.2</b>	<b>6.7</b>

Source: Performance is calculated by JLT Employee Benefits based on data provided by the managers and is only shown for complete periods of investment.

Notes: 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
<b>Russell</b>	WPP Global Opportunities	Global Developed Equities	MSCI AC World Index NDR +2.0% p.a.	4.0%
<b>BlackRock</b>	World Multifactor Equity Tracker	Global Developed Equities	MSCI World Diversified Multiple-factor Index Midday Net	4.0%
<b>Wellington</b>	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.0%
<b>Wellington</b>	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.0%
<b>Total Equity</b>			<b>Composite Weighted Index</b>	<b>14.0%</b>
<b>Stone Harbor</b>	LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a. <sup>(1)</sup>	12.0%
<b>Stone Harbor</b>	Multi-Asset Credit	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.	
<b>Permira</b>	Credit Solutions III	Private Credit	Absolute Return 6.0% p.a.	1.8%
<b>BlackRock</b>	Middle Market Senior	Private Credit	Absolute Return 9.0% p.a.	1.2%
<b>Total Credit</b>			<b>Composite Weighted Index</b>	<b>15.0%<sup>(4)</sup></b>
<b>ManFRM</b>	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0% <sup>(3)</sup>
<b>Managed Account Platform</b>			<b>3 Month LIBOR Index +3.5% p.a.</b>	<b>9.0%</b>
<b>Barford</b>	Global Total Return	Diversified Growth	UK Retail Price Index +4.5% p.a. <sup>(2)</sup>	5.0%
<b>Investec</b>	Diversified Growth	Diversified Growth	UK Consumer Price Index +4.6% p.a.	5.0%
<b>Best Ideas</b>	Best Ideas	Best Ideas Portfolio	UK Consumer Price Index +3.0% p.a.	11.0%
<b>Tactical Allocation Portfolio</b>			<b>UK Consumer Price Index +3.0% p.a.</b>	<b>21.0%</b>
<b>In-House</b>	Private Equity	Private Markets	3 Month LIBOR Index +5.0% p.a.	8.0%
<b>In-House</b>	Opportunistic	Private Markets	3 Month LIBOR Index +5.0% p.a.	2.0%
<b>In-House</b>	Property	Property	MSCI UK Monthly Property Index	4.0%
<b>In-House</b>	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% p.a.	6.0%
<b>In-House</b>	Timber / Agriculture	Infrastructure	3 Month LIBOR Index +5.0% p.a.	2.0%
<b>Total In-House</b>			<b>Composite Weighted Index</b>	<b>22.0%</b>
<b>Insight</b>	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%
<b>Total Liability Hedging</b>			<b>Composite Liabilities &amp; Synthetic Equity</b>	<b>19.0%</b>

Notes: <sup>1</sup> FTSE A Gilts All Stocks Index until 31 March 2014. <sup>2</sup> UK Retail Price Index +4.4% p.a. until 31 March 2015. <sup>3</sup> Strategic Allocation represents the composite benchmark for the Managed Account Platform. <sup>4</sup> 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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It is important to understand that this is a snapshot, based on market conditions and gives an indication of how we view the entire investment landscape at the time of writing. Not only can these views change quickly at times, but they are, necessarily, generic in nature. As such, these views do not constitute advice as individual client circumstances have not been taken into account. Please also note that comparative historical investment performance is not necessarily a guide to future performance and the value of investments and the income from them may fall as well as rise. Changes in rates of exchange may also cause the value of investments to go up or down. Details of our assumptions and calculation methods are available on request.

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## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Thursday, 28 November 2019
<b>Report Subject</b>	Funding, Flightpath and Risk Management Framework Update
<b>Report Author</b>	Head of Clwyd Pension Fund

### EXECUTIVE SUMMARY

Members should note that:

- On consistent actuarial assumptions, the estimated funding position at the end of September is 91% which is around 10% ahead of the expected position from the 2016 actuarial valuation. The valuation assumptions are being consulted on with employers and these are expected to be finalised at the February committee meeting after the end of the consultation.
- The level of hedging remains at 20% for interest rate and 40% for inflation at 30 September 2019.
- As at 30 September 2019, the revised equity protection strategy (which increased protection levels by 5%) had made a gain of £13m since inception of the strategy.
- A strategic currency hedging solution on the Fund's synthetic equity portfolio was implemented on 8 March 2019 to protect the Fund against a strengthening pound which would have a detrimental impact on the Fund's deficit. The Fund implemented a further hedge in August on the physical overseas developed equities to lock in currency gains. This results in an overall hedge ratio of 75%.

### RECOMMENDATIONS

1	That the updated funding position (currently 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 is noted.
2	That the impact of the equity protection strategy is noted.
3	That the Committee note that any currency risk associated with the market value of the synthetic equity portfolio with the Flightpath strategy is hedged, and a further hedge has been placed on the Fund's developed market physical equity holdings.

## REPORT DETAILS

1.00	<b>FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE</b>
1.01	<p><b><i>Update on funding and the flightpath framework</i></b></p> <p>The monthly summary report as at 30 September 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.</p>
1.02	<p>The estimated funding level is 91% with a deficit of £189m at 30 September 2019 which is 10% 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. 3% to c. 88% with a corresponding increase in deficit of £94m to £283m. 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.</p>
1.03	<p>None of the interest rate triggers have been satisfied since they were re-structured in September 2017.</p>
1.04	<p>The level of hedging was around 20% for interest rates and 40% for inflation at 30 September 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.</p>
1.05	<p>Based on data from Insight, our analysis shows that the management of the Insight mandate is rated as “green” meaning it is operating in line within the tolerances set by our strategic risk advisors.</p> <p>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.</p> <p>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. Overall, the collateral waterfall has generated an additional £2m in returns since implementation at 31 January 2019 to 30 June 2019 versus the previous structure. No action required.</p>
1.06	<p><b><i>Update on Risk Management framework</i></b></p> <p>(i) Dynamic equity protection implementation and progress</p> <p>It was previously approved by Committee that, subject to fair market pricing, protection against potential falls in the equity markets via the use</p>

	<p>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.</p> <p>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.</p> <p>As at 30 September 2019, the dynamic protection strategy had increased by c. £13m 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 since inception.</p> <p>On 1 August 2019, the level of protection for the Fund was increased from 12 month average market levels of 15% to 10%, the cost of which will be offset by the Fund's participation in losses beyond 30%. 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.</p>
1.07	<p>(ii) Implementation of currency hedging</p> <p>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 achieved 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.</p> <p>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 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 as overseas assets would be worth less in sterling terms.</p> <p>The Fund implemented a short term tactical currency hedge of 100% of the physical developed overseas equities in order to lock-in gains from the recent sterling weakness and reduce the risk of a materially strengthening pound following the Brexit outcome. This was implemented in August 2019, and is expected to be in place for the next 6-12months after which the outcome of Brexit will hopefully be clearer. This increases the currency hedge on the overall equity portfolio to approximately 75%.</p> <p>This position was achieved quickly and cheaply via an overlay implemented in the Insight QIAIF. Transaction costs were approximated in advance to be 0.006% p.a. on total exposure, (c. £7.5k p.a.) and 0.03% p.a. management fees (c. £37.5k p.a.) were negotiated.</p>

	Since inception to 30 September, the strategy has increased in value by £1.2m due to the pound strengthening.
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<b>2.00</b>	<b>RESOURCE IMPLICATIONS</b>
2.01	None directly as a result of this report

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

<b>4.00</b>	<b>RISK MANAGEMENT</b>
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): <ul style="list-style-type: none"> <li>• Governance risk: G2</li> <li>• Funding and Investment risks: F1 - F6</li> </ul>
4.02	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure 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 pound as a result of Brexit uncertainty.

<b>5.00</b>	<b>APPENDICES</b>
5.01	Appendix 1 - Monthly monitoring report – September 2019

<b>6.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
6.01	Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016.
6.02	Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview.

	<b>Contact Officer:</b> Philip Latham, Head of Clwyd Pension Fund <b>Telephone:</b> 01352 702264 <b>E-mail:</b> <a href="mailto:philip.latham@flintshire.gov.uk">philip.latham@flintshire.gov.uk</a>
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<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
7.01	<p>(a) <b>The Fund – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region.</p> <p>(b) <b>Administering Authority or Scheme Manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>The Committee – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund.</p> <p>(d) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) <b>FSS – Funding Strategy Statement</b> – the main document that outlines how we will manage employers contributions to the Fund</p> <p>(f) <b>Actuary</b> - 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.</p> <p>(g) <b>ISS – Investment Strategy Statement</b>  The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund</p> <p>Further terms are defined in the Glossary in the report in Appendix 1</p>

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# CLWYD PENSION FUND

## RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT 30 SEPTEMBER 2019

Tudalen 257

October 2019

Paul Middleman FIA

# OVERRIDING OBJECTIVES

Stable and affordable contribution rate

versus

Achieve returns in excess of CPI required under funding arrangements



**Objectives are two-fold but conflicting**

- Risk needs to be taken in order to achieve returns, but risk does not guarantee returns

**Need to ensure a reasonable balance between the two objectives**

- Do you need to take the same level of risk when 70% funded (say) as when 110% funded?

# EXECUTIVE SUMMARY



= as per or above expectations

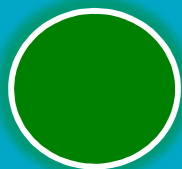


= to be kept under review



= action required

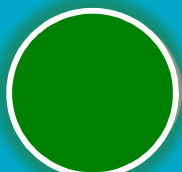
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## Overall funding position

- Ahead of existing recovery plan
- Funding level below the first soft trigger

In absolute terms the funding position is c.10% 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 in line with target levels

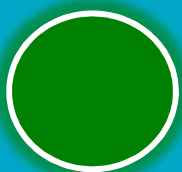
No action required.



## Synthetic equity mandate

- Insight in compliance with investment guidelines
- Underperformed the benchmark over the quarter and since inception
- Maturity constraints as expected

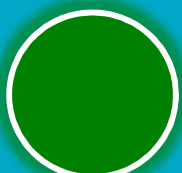
A dynamic protection structure was implemented in Q2 2018. The strategy has been refined following the FRMG in July 2019.



## Cash Plus Fund

- Outperformed over the quarter and since inception
- Collateral waterfall performing as expected
- Management team stable and no change in manager rating

Collateral waterfall framework was implemented in Q1 2019. No action required.



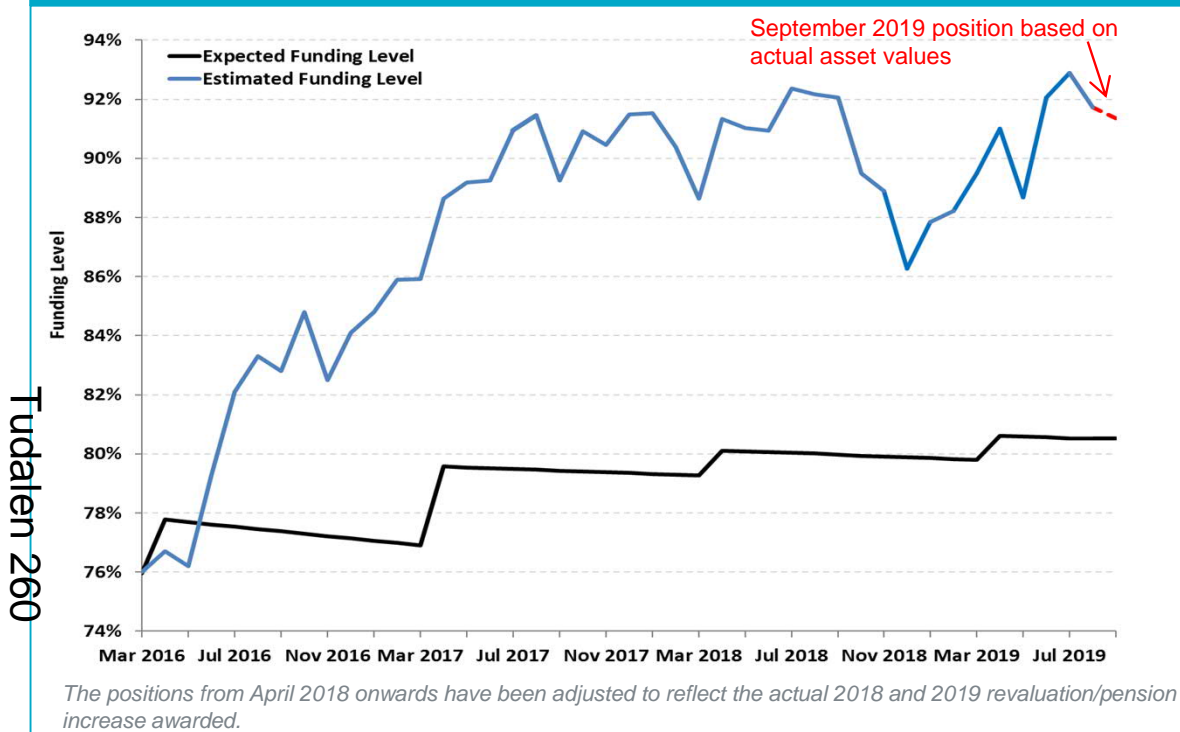
## Collateral and counterparty position

- 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 was implemented within the QIF in August. The Fund has sufficient collateral to withstand this and it had a market value of £0.6m as at 30 September 2019.

# FUNDING LEVEL MONITORING TO 30 SEPTEMBER 2019

## Estimated funding position since 31 March 2016



## Funding Level Triggers

It was concluded at the FRMG on 20 June 2017 that the funding level is not currently sufficiently high to warrant de-risking in a traditional sense via a change in long term strategy.

It was agreed that a “soft” trigger will be put in place to prompt FRMG discussions regarding potential actions as the funding level approaches 100% on the current funding basis. This funding level will be monitored approximately by Mercer on a daily basis.

*\*Asset values based on assets provided by JLT as at 30 September 2019.*

## 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 30 September 2019 was around 81%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 31 August 2019. The **red line** shows the progression of the estimated funding level over September 2019. At 30 September 2019, we estimate the funding level and deficit to be:

# 91% (£189m\*)

This shows that the Fund’s position was ahead of the expected funding level at 30 September 2019 by around 10% on the current funding basis.

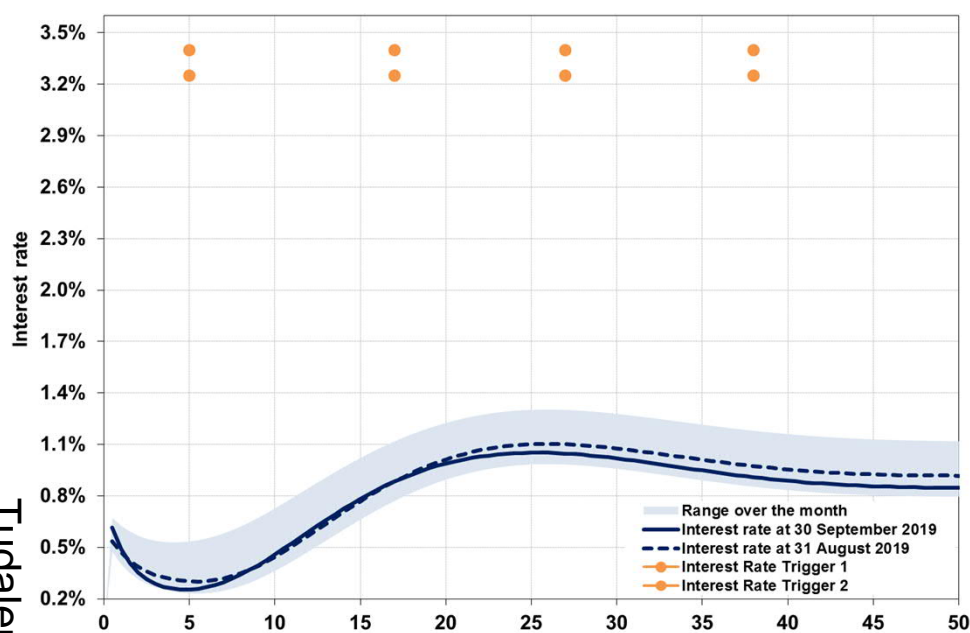
Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. This could mean that the likelihood of achieving the assumed real returns going forward has fallen. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c.3% to c.88% with a corresponding increase in deficit of £94m to £283m.

This will be kept under review in light of changing market conditions.

# UPDATE ON MARKET CONDITIONS AND TRIGGERS

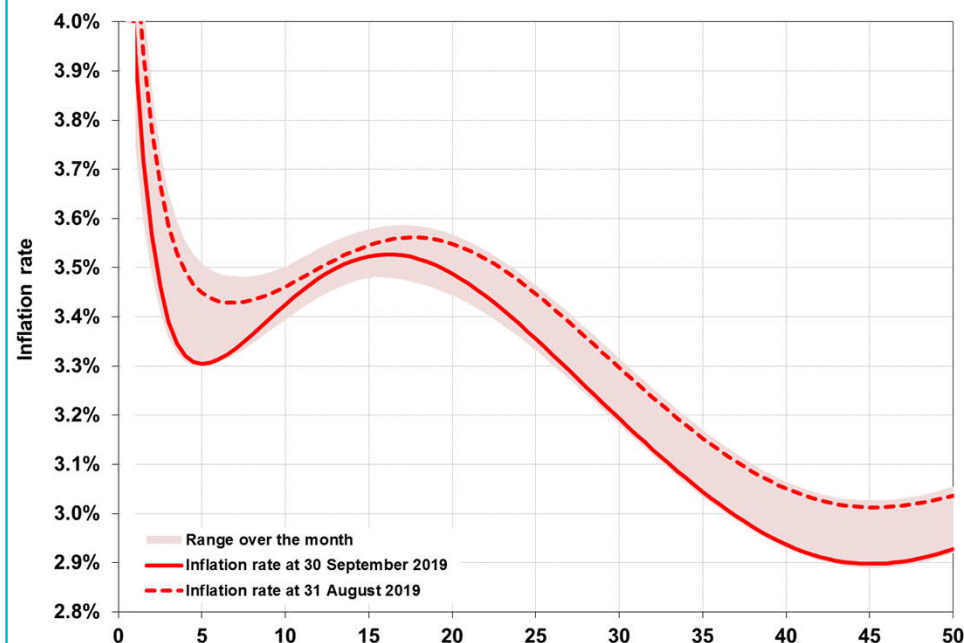
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## Change in interest rates



Date	Band 1	Band 2	Band 3	Band 4	Actual
30 June 2019	23.2%	19.2%	19.5%	20.2%	19.9%

## Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4	Actual
30 June 2019	38.5%	42.7%	35.9%	41.8%	40.0%

## Comments

Interest rates fell marginally over September 2019.

Based on market conditions as at 30 September 2019, yields would need to rise by c.2.2% p.a. before the Fund would hit any of the revised interest rate triggers implemented by Insight in Q3 2017.

## Comments

Inflation expectations fell across the curve during September, with the largest movements observed at the short and long end.

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

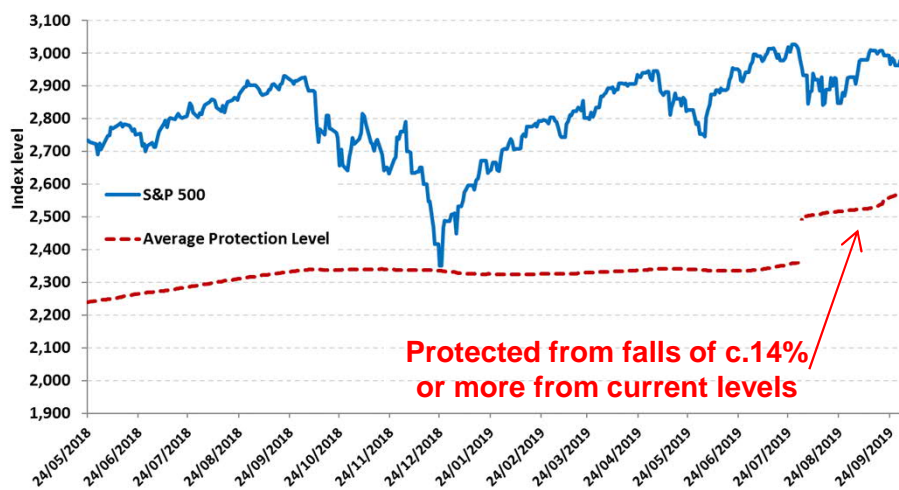


GBP returns	Equity return	Hedging return	Financing return	Costs	Overall return	Relative return
MTD	2.54%	(0.57%)	(0.03%)	(0.03%)	1.91%	(0.63%)
YTD	21.46%	(5.28%)	(1.71%)	(0.37%)	14.10%	(7.36%)
Since Inception	6.74%	(3.30%)	(0.86%)	(0.57%)	2.01%	(4.73%)

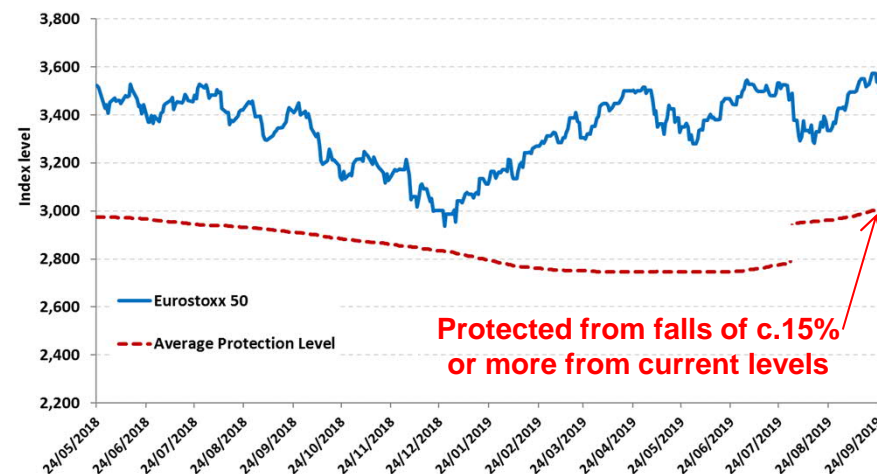
## Comments

- The Fund implemented a dynamic equity protection strategy on 24 May 2018 with exposure of £362m. The equity protection strategy was revised at the beginning of August 2019, increasing the protection level by 5%. This increase is to ensure that the Fund is better protected in the event of a downside as the protection will kick in sooner. This has been funded by selling protection at extreme falls.
- As at 30 September 2019, there was a gain of c. £13m on the strategy since inception, relative to a c. £27m 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 September, as it moved further from the protection level. The Fund is 14% from protection at an overall level.
- From inception on 8 March 2019 to 30 September 2019 the currency hedging has contributed a c. £0.2m loss relative to an unhedged position. This is due to the continuing weakening of Sterling since inception.

## US equity exposure



## European equity exposure



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# 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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