Pecyn Dogfen Gyhoeddus

Swyddog Cyswllt:
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At:

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

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

Dydd Mercher, 5 Chwefror 2020

Annwyl Gynghorydd

Fe'ch gwahoddir i fynychu cyfarfod Pwyllgor Cronfa Bensiwn Clwyd a gynhelir yn 9.30 am Dydd Mawrth, 11eg Chwefror, 2020 yn Ystafell Bwyllgor Delyn, Neuadd y Sir, Yr Wyddgrug CH7 6NA i ystyried yr eitemau canlynol

R H A G L E N

1 **YMDDIHEURIADAU**

I derbyn unrhyw ymddiheuriadau

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

I dderbyn unrhyw Datganiadau a chynghori'r Aeolodau yn unol a hynny.

3 **COFNODION** (Tudalennau 3 - 12)

Cadarnhau cofnodion y cyfarfod a gynhaliwyd ar 28 Tachwedd 2019 fel cofnod cywir.

ADRODDIADAU STRATEGAETH A PHOLISI

4 **DATGANIAD AR Y STRATEGAETH FUDDSODDI, YN CYNNWYS Y POLISI BUDDSODDI CYFRIFOL** (Tudalennau 13 - 44)

Cyflwyno Datganiad ar y Strategaeth Fuddsoddi i'r aelodau (yn cynnwys y Polisi Buddsoddi Cyfrifol) er cymeradwyaeth

5 **DIWEDDARIAD AR Y PRISIAD ACTIWARAIDD A'R DATGANIAD AR Y STRATEGAETH ARIANNU.** (Tudalennau 45 - 98)

Cyflwyno diweddariad ar y Prisiad Actiwaraidd a’r Datganiad ar y Strategaeth Ariannu i’r aelodau er cymeradwyaeth.

ADRODDIADAU MONITRO

6 **DIWEDDARIAD CYLLID A LLWYBRAU CYRRAEDD TARGED** (Tudalennau 99 - 114)

Rhoi diweddariad i Aelodau’r Pwyllgor ar gynnydd y Strategaeth Rheoli Arian Parod a Risg

7 **CYFUNO BUDDSODDIADAU YNG NGHYMRU** (Tudalennau 115 - 124)

Diweddaru Aelodau’r Pwyllgor ar weithredu Cyfuno Buddsoddiadau yng.

8 **DIWEDDARIAD LLYWODRAETHU** (Tudalennau 125 - 182)

Rhoi diweddariad ac argymhellion ar faterion perthnasol i lywodraethu i Aelodau’r Pwyllgor.

9 **DIWEDDARIAD GWEINYDDU/CYFATHREBU PENSIWN** (Tudalennau 183 - 218)

Rhoi diweddariad ar faterion gweinyddu a chyfathrebu cysylltiedig â Chronfa Bensiwn Clwyd i Aelodau’r Pwyllgor.

10 **DIWEDDARIAD BUDDSODDI AC ARIANNOL** (Tudalennau 219 - 236)

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

11 **DIWEDDARIAD AR YR ECONOMI A'R FARCHNAD A Y STRATEGAETH FUDDSODDI A CHRYNODEB GAN Y RHEOLWR** (Tudalennau 237 - 266)

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

Yn gywir

Robert Robins
Rheolwr Gwasanaethau Democrataidd

CLWYD PENSION FUND COMMITTEE
28 November 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, 28 November 2019.

PRESENT: Councillor Aaron Shotton (Chairman)
Councillors: Haydn Bateman, Ralph Small, Adele Davies-Cooke, Kevin Hughes - left after item 87.

CO-OPTED MEMBERS: Mr Steve Hibbert (Scheme Member Representative).

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

APOLOGIES: Councillor Huw Jones, Councillor Nigel Williams, Councillor Andrew Rutherford.

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive) - left after item 87, Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Adviser – 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), Iain Campbell (Fund Investment Consultant – Mercer), Megan Fellowes (Actuarial Analyst – Mercer - taking minutes), Ieuan Hughes (Graduate Investment Trainee), Paul Vaughan (Clwyd Fund Accountant).

Guest speakers presenting comprising: Sasha Mandich (Russell Investments) and Eamonn Gough (Link Fund Solutions).

The Chairman welcomed the delegates from Link Fund Solutions and Russell Investments, Sasha Mandich and Eamonn Gough, as well as Elaine Williams the new Pension Board member.

The Chairman also highlighted that he would take the agenda items in a different order due to the meeting likely to become inquorate due to members leaving early. As a result, items 9 and 11 were taken immediately after item 5.

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

Mrs McWilliam declared an interest in the procurement plans. Mr Buckland, Mr Harkin and Mr Campbell also declared an interest in the same item. It was confirmed that all four would need to leave if any discussions were had in respect of his topic.

There were no other declarations of interest.

85. **MINUTES 4 SEPTEMBER 2019**

The minutes of the meeting of the Committee held on 4 September 2019 were submitted.

Mr Hibbert thanked the Chairman for raising the matter of Scheme member representative on the WPP JGC and noted it was due to be considered again in January 2020. The Chairman said he would raise it again at the next JGC meeting.

RESOLVED:

(a) The minutes of 4 September 2019 were received, approved and signed by the Chairman.

86. **MINUTES 7 OCTOBER 2019**

The minutes of the meeting of the Committee held on 7 October 2019 were submitted.

RESOLVED:

(b) The minutes of 7 October 2019 were received, approved and signed by the Chairman.

87. **REVIEW OF INVESTMENT STRATEGY AND RESPONSIBLE INVESTMENT POLICY**

Mr Latham expressed the importance of Strategic Asset Allocation as the results of the next Actuarial Valuation will be affected by the decisions that are made today. Fortunately, the Fund is starting with a well-diversified strategy therefore the amendments are more of a minor procedure than major surgery. He outlined that the Committee were being asked to agree the proposed changes to the strategy at this meeting and then the Investment Strategy Statement would be brought for approval at the February Committee.

Mr Harkin presented the proposed revisions to the Strategic Asset Allocation expressing the following key points;

- The Fund are better funded today however; the Fund are still in deficit therefore we need to invest to achieve the required level of return.
- The integrated approach means getting the right balance of Investments, Funding and Covenant. The Fund are ahead of other funds as the Flightpath strategy is already in place, whereas other funds are just beginning to think about risk management.
- The key is to focus on a longer term returns, by setting an asset allocation based on Mercer's 10-year market forecasts.
- Private markets have been very successful for the Fund; the challenge is to ensure that we can continue with what we have.
- Expected returns are generated through statistical analysis by Mercer. Mercer will have forecasts which may not always play out but its ensuring that the asset allocation is effective.

Mr Harkin explained that the current investment strategy set in 2016 was expected to deliver 6.1% p.a. based on market forecasts at that time. However, based on 2019 market views the expected return would reduce to 5.4% p.a. The message is to expect a lower return going forward. Therefore, it will be necessary to ensure that the asset allocation is capable of achieving a return in excess of the Actuary's discount rate i.e. CPI plus 3.2% which has been proposed. Mr Harkin expressed that the current climate in relation to investments is very uncertain so it is important to focus on the long term path, but this will be more difficult going forward.

Mr Harkin explained that the key proposals were shown in the covering report and the presentation but also briefly summarised them as;

1. Invest more in emerging markets.
2. Disinvest completely from Diversified Growth Funds.
3. Restructure the Hedge Fund mandate.
4. Re-categorise Private Markets, and;
5. Create Local/Impact investments portfolio.
6. Review Cash and Risk Management Framework (CRMF).

Councillor Bateman asked what Impact Investments are. Mr Buckland said that these investments look to make a positive contribution to society in addition to meeting investment risk/return requirements. Responsible investment is about ensuring long term sustainability, however, Impact Investments are the next stage, where the focus is to make a positive impact and generate returns for the Fund.

Mr Hibbert queried how the Fund are going to record and report the impact. Mr Buckland said that they are currently considering how best to do that, and it will be articulated within the Responsible Investment Policy, after further discussion with officers.

The Chairman asked what existing investments will move to this new portfolio. Mr Buckland said that there are a range of things to consider, with 17 goals in this area. There are a number of existing investments that could move into the new portfolio and, although this was yet to be agreed with officers, it was likely that around half of the 4% target allocation might be achieved through existing investments.

Mr Everett stated that at a recent meeting he attended, it was raised that there are a significant number of investment opportunities in renewable energy. Mr Everett said that some of these could be appropriate opportunities for the Fund and he asked how to ensure that these opportunities are considered by the Fund going forward. It was agreed that Mr Harkin and Mr Everett will have a formal discussion on this aspect as part of the Pension Fund Advisory Panel meetings and the outcome will be reported back to Committee as necessary.

Mr Buckland highlighted that on slide 21 of the presentation, the expected return for the Fund on the new proposed strategy is 5.6% p.a. which is an increase of 0.2% based on the current 2016 strategy.

Mr Campbell clarified that when assessing the risk of an investment strategy it is important to measure this in a consistent way, and Mercer used a VaR approach. VaR stands for Value at Risk and represents the risk of loss for investments. It estimates how much a set of investments might lose with a given probability, in a given timeframe. The higher the VaR, the higher the risk. Mr Campbell highlighted the need for the Fund to take this risk in order to earn an adequate level of return above the discount rate, which is CPI plus 2.25% for future service accrual at the 2019 valuation.

Mr Campbell explained that slide 25 reflected the key risks faced by the Fund within the Asset Allocation. The risks faced by the Fund are driven in the main, by inflation along with interest rates to the extent a more certain real return can be achieved. Equity risk is also another significant risk. He explained that the grey bars on the chart illustrate a reduction in risk, and the black bars demonstrate the total risk. There is an increase in risk of £7m and the chart on the right shows what is driving that. Mercer confirmed that they are comfortable with this and accepted that taking risk that was expected to be rewarded was appropriate.

Councillor Bateman said in his view that the risk in respect of longer term interest rates and inflation can only go up. He asked what the interest rate is currently. Mr Campbell agreed with Councillor Bateman i.e. that there is a risk, and confirmed that on a 10-year gilt yield the interest rate is less than 1%. Mr Campbell emphasised how difficult interest rates are to predict, which is why the Fund has the risk management framework in place which aims to manage a lot of this risk.

Mr Harkin confirmed that Mercer had built in headroom for the risk that things don't go as planned and similarly this was done when setting the 2016 Strategic Asset Allocation.

Mr Campbell explained that slide 29 illustrated the proposed disinvestment of Diversified Growth Funds. The disinvestment isn't solely due to the poor performance of this class, but because Mercer believe that the Fund is able to hold a diversified portfolio without DGF and through the Best Ideas portfolio for tactical investing which actually performed better.

Mr Hibbert asked around the proposed transition to the new strategy, and expressed concerns over time involved and the costs of implementation. Mr Harkin agreed that it is critical to avoid a lag, therefore Mercer will implement the allocation as quickly as possible.

Mr Harkin continued to discuss the proposed restructure of the Hedge Fund portfolio. He commented that it was proposed that it would now consist solely of Man Group Solutions products who have a lot of market leading products. Mr Harkin confirmed that the proposal is to restructure the existing portfolio so that the Fund would make significant fee savings, including the netting of performance fees. If the new portfolio performs at an overall level, the Fund will pay a performance fee; but if it doesn't, they won't.

Mr Hibbert questioned whether the fees will be higher if the Fund performance is higher. Mr Harkin stated the two things that the Fund will pay for; a fee to Man Group to manage the assets and a fee to cover the Hedge Fund mandate. Until the Fund get the minimum return level required, the Fund won't pay a performance fee. This is called performance fee netting and is a very significant fee saving compared to the current position where managers are still paid even if performance targets aren't met.

Mrs McWilliam asked in respect of the new structure whether Mercer are expecting a change in return. She said that the fee saving is great if the return is going to be similar or greater. Mr Harkin confirmed that the new structure was designed to achieve higher expected returns as well as saving fees.

Mr Buckland continued through the presentation and highlighted the four key approaches to responsible investing; integration, stewardship, investment and screening. He commented on the work that the Fund has already done in this key area, including being Tier One Signatory to the FRS UK Stewardship Code, whereas not many LGPS Funds have achieved this.

He continued to talk through the process that the Fund had been through during the year to reach the proposed policy which was contained as an Appendix to the Committee report.

Mr Hibbert proposed that throughout the policy, and specifically on page 33 and 34, whether the phrase 'long-term financial risk' could be changed to 'financial risks' as he argued that there are short term risks also. This change was agreed and the policy will be amended to reflect this.

The presentation concluded by looking at the potential for fee savings within the proposed Strategy and where these fee savings were generated. Finally, the implementation timeline illustrated how the Fund would be looking to transition to the new Strategy and whether it will be implemented through the WPP. Hedge Funds and CRMF will not be implemented through the WPP at the current time.

The Committee were comfortable with the proposed Strategic Asset Allocation and the Responsible Investment Policy.

RESOLVED:

(a) The Committee agreed the proposed Strategic Asset Allocation (as shown in paragraph 3.02) of the Fund as a basis for consultation with the Fund's Employers.
(b) The Committee considered and agreed the Responsible Investment Policy as the basis for consultation with the Fund's Employers.

88. **POOLING INVESTMENTS IN WALES**

Mr Latham stated that the current oversight adviser is Hymans Robertson who were appointed for the initial establishment and transitional period. However, the Pool will be appointing an adviser for on-going monitoring and further development of the WPP. The results of the procurement is to be agreed at the next JGC meeting on 9th December 2019. It was also mentioned that both Mr Latham and Mrs Fielder can't attend the next JGC meeting due to the timing of the meeting.

Mr Gough gave a brief overview of his role which is the relationship manager at Link Fund Solutions and is responsible for the safety and oversight of the Fund. Mr Gough expressed the following key points regarding the WPP;

- Tranche 1 Funds involves two equity funds which started at the end of 2017.
- The FCA approved the Funds in July 2018.
- The first WPP manager day was in September 2018.
- The first launch of the Fund occurred in January 2019.
- BlackRock were appointed to transition the fixed income funds.

- Karl Midl has worked for Link Fund Solutions for over 20 years and was appointed mid 2019 as Managing Director for Link Fund Solutions.
- The global growth equity fund is more familiar to the WPP and has 3 underlying managers (2 of these where existing managers).
- The global opportunity equity fund is Russell Investments Best Ideas Fund with 7 underlying managers.

Mr Hibbert asked whether the WPP has agreed to share costs and how they are shared. Mr Gough said that from a transition stand point approach, each authority will be responsible for reshaping their portfolio. Therefore, the cost is proportionate to the size of each Fund. Mrs Fielder said that she has details of all of these costs and can identify the total transition cost. She mentioned that the only cost that is split equally across the eight Funds is the governance cost.

Mr Mandich re-stated the three objectives of pooling which the WPP was implementing;

1. To create scale.
2. To enable co-investments.
3. To put in place a better governance structure.

He emphasised that the Fund are a smaller fund in a bigger pool but in the long run this has helped the Fund save money, by getting a lower cost through a bigger scale.

The performance review on slide 8 of their presentation shown that the excess net return to date is 0.92%, which represents from mid-February 2019 to the end of October, is an excellent start.

Mr Gough confirmed that Tranche 1 and 2 have been completed. Tranche 3 is a fixed income fund with Hymans Robertson appointed as the transition advisor and they are looking to launch this in January 2020.

On slide 16, Mr Mandich raised that that they are hiring 5 to 6 managers for the Emerging Market Sub-Fund to achieve a smooth pattern of returns.

Mrs McWilliam asked Mr Gough to explain the risks of the recent event involving Woodford Investment Management to the Committee. Mr Gough commented that there are limitations to what he can say but this is still ongoing. Neil Woodford is an investment manager who is involved with a number of Funds, one being an equity fund which was frozen and is now being wound down by Link Fund Solutions. There is lots of media attention on this, but the impact on the WPP and therefore the Fund is that Karl Midl who was recently appointed may not be as available as he used to be. Mrs McWilliam suggested that the Officer Working Group probe into this matter.

RESOLVED:

(a) The Committee noted the report.
(b) The Committee received a presentation from the WPP Operator.

(c) The Committee discussed and agreed any comments or questions for WPP.

89. **2019 ACTUARIAL VALUATION**

Mr Middleman gave a brief update on the 2019 Actuarial Valuation. He stated that everything has been going well so far and that Mercer are in the process of agreeing final contributions with employers. The Funding Strategy Statement (FSS) consultation feedback period finished on 15 November, therefore feedback from employers is being collated and will be brought back to the February Committee for final sign off of the FSS.

A key discussion point has been the allowance for the McCloud judgment. The latest update on the McCloud judgment is that any remedy will not be known until April 2021 at the earliest. Mr Middleman suspected it will be later but that it will be in time for the next actuarial valuation in 2022.

A key aspect however is the administration work needed to implement the changes which is expected to be significant. He strongly recommended that Funds discuss with employers and request member data for members who are affected by the McCloud judgment. The administration team will need to put this on the agenda now to give sufficient lead in time. Mrs Williams noted it was already high on the agenda for the team.

RESOLVED:

(a) The Committee noted this report on the outcomes and the progress being made with the actuarial valuation project.

90. **2019 AVC REVIEW UPDATE**

Mr Buckland gave a brief summary of events regarding the 2019 AVC Review. Currently there are 600 Fund members who have AVC's with Prudential and 6 Fund members with AVC's with Equitable Life. As reported at the last meeting the Equitable Life funds will be transferred to Utmost life. The next step for the Equitable Life investments is the court hearing which started last week, where formal approval will be sought to implement the changes. Assuming approval is received, this will be effective from 1 January 2020. There is a series of communications that will be sent to members informing them of the changes.

RESOLVED:

(a) The Committee noted the contents of this report and the accompanying appendix.

91. **GOVERNANCE UPDATE (Taken after item 87)**

On this item of the agenda, Mr Latham emphasised the SAB Good Governance phase 2 report which was published on 15 November and is attached in Appendix 4.

He then went on to explain that the CMA requirements on paragraph 1.06 relate to the investment strategy and the risk management framework. Two sets of objectives are required and it is recommended that this will be delegated to Mr Latham and Mrs Fielder to determine these objectives.

On paragraph 1.09, Mr Latham confirmed that the Pensions Regulator's annual survey has been sent.

Mr Hibbert referred to the LGPS SAB meeting note from 6 November 2019 and asked whether the letter had been received by WPP regarding Funds in a pool who do not have a Scheme Member Representative. Mr Latham and Mrs Fielder did not know if it had been received but will confirm and get back to Mr Hibbert.

Mr Latham highlighted the training policy updated and particularly the the LGA meeting in January 2020 and the LGC meeting in March 2020 which Committee and Board members could attend.

He noted the breaches, and that the general trend of breaches reflects that this number is coming downwards which is a pleasing direction for the Fund.

RESOLVED:

(a) The Committee considered the update and provided 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.
(b) The Committee approved 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.
(c) The Committee approved 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).

92. **LGPS CURRENT ISSUES**

The report was noted and no further questions were asked.

RESOLVED:

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

93. **ADMINISTRATION AND COMMUNICATIONS UPDATE (Taken after item 91)**

Mrs Williams gave a brief update on the administration and communication related items from the latest quarter. The recommendations focus on the 2019/20 Business Plan. Mrs Williams mentioned that timescales may slip on the implementation of the survivor benefit changes because the administration team need to go back all members in the Fund to determine if members had any relationship and therefore any surviving benefits in the Fund.

The GMP reconciliation exercise was outsourced to Equiniti and is now entering its final stage. The exercise involved confirming that HMRC GMP records match the Fund's. There have been challenges faced in this exercise and this will include the need to repay underpayments and consider reclaiming overpayments for some pensioners and dependant members, as well as then increasing or reducing pensions going forward. Due to the tight timescales, the Committee were being asked to allow these decisions to be made using the urgency delegations, and then an update would be brought to the February Committee meeting.

Mr Hibbert queried the plan on reclaiming any overpayments the Fund had made to pensioners as a result of an incorrect GMP. Mrs McWilliam suggested that it is highly likely that the decisions will be that the Fund will not seek to reclaim for any overpayments. This approach has been recommended by the LGA following a suggestion from Government. It was also confirmed that the DWP would not be refunding any overpayments due to incorrect data.

Mrs Williams said the Fund are hoping to implement everything by the February Committee so that the Fund does not go through another pension increase period i.e. April 2020.

On page 170, Councillor Bateman asked how the recruitment process was progressing. Mrs Williams said that there was a number of internal interviews and two candidates were successful. Both had strong interviews therefore, the position will be shared between both candidates. One has a post in the retirement team working part-time, and one will work in the aggregation team part-time. The succession planning that the Fund has requires more lead roles, so Mrs Williams believed that this will work extremely well.

Mrs Williams also added cybercrime as a new risk, the Fund will be requesting more information from Flintshire on this.

RESOLVED:

(a) The Committee considered the update and provide any comments.
(b) The Committee noted the requirement to potentially extend the timescales in relation to the survivor benefits implementation (A6) as outlined in paragraph 1.01.
(c) That the Committee approved the use of the urgency delegation procedure to take forward items A3 (Under/overpayment Policy) and A8 (GMP reconciliation).

94. **INVESTMENT AND FUNDING UPDATE**

The report was noted and no further questions were asked. Mrs Fielder raised from a Fund perspective that the New Cost Transparency Templates were not as transparent as the ones that the Fund produced. To raise awareness, Mrs Fielder is in contact with both the PLSA and the LGA as she believed that there may be an issue with the templates.

RESOLVED:

(a) The Committee considered and noted this report for delegated responsibilities.

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

The report was noted and no further questions were asked.

RESOLVED:

(a) The Committee noted 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.
(b) The Committee noted the Investment Strategy and Manager Performance summary for the quarter ended 30 September 2019.

96. **FUNDING, FLIGHTPATH AND RISK MANAGEMENT FRAMEWORK UPDATE**

The report was noted and no further questions were asked.

RESOLVED:

(a) 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 was noted.
(b) The impact of the equity protection strategy was noted.
(c) The Committee noted 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 holding.

The Chairman thanked everyone for their attendance and updates at the Committee meeting. The next formal Committee meeting is on 11th February. The meeting finished at 1pm.

……………………………………

Chairman

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday,11th February 2020
Report Subject	Investment Strategy Statement
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

At the meeting of the Committee in November 2019 the revised investment strategy was agreed, subject to consultation with the Fund's Employers. This consultation has now concluded, and therefore the final element of implementing the new Strategy is to revise and publish the Fund's Investment Strategy Statement (ISS).

The LGPS Investment Regulations include a requirement to produce, and maintain an ISS. The Fund's first ISS was produced in 2017, and revised in 2018. In conjunction with the review of the investment strategy it is now appropriate to review and update.

The revised ISS is attached as an Appendix to this report, and has been updated in a number of areas:

- Funding Principles – to reflect the updated position from the 2019 Actuarial Valuation.
- New Strategic Asset Allocation – as agreed by the Committee in November 2019.
- Approach to Risk Management – to reflect activity in the renamed Cash and Risk Management Framework.
- Responsible Investment Policy – updated policy agreed by the Committee in November 2019.

These changes will be explained in more detail at the meeting, and there will also be a brief training session to remind the Committee of the requirement to produce an ISS.

RECOMMENDATIONS	
1	The Committee note, comment on and approve the revised Investment Strategy Statement.

REPORT DETAILS

1.00	**2019/20 Review of Investment Strategy and Investment Strategy Statement**
1.01	The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish an Investment Strategy Statement (ISS). The Regulations and accompanying guidance required that Administering Authorities prepared and published their first ISS by 1 April 2017. After this, the requirement is that the ISS is regularly reviewed and updated from time to time; at least every three years. The Clwyd Fund produced and published its first ISS in 2017, and revised in 2018. Given the changes to the Investment Strategy and Responsible Investment Policy agreed by the Committee in November 2019, it is now necessary to revise the ISS. The updated ISS is attached as an appendix to this report and the key changes are highlighted in the following paragraphs. To support the revised document, the Committee will receive a brief training session at the meeting, which will cover the requirements to produce an ISS and also explain the changes. The Fund's overall Funding and Investments aims are reported on Page 4 of the ISS, and have been updated to include the addition of the Pooling objective. These objectives effectively set the scene for the Fund's investment strategy, and Responsible Investment beliefs. The Funding Principles on pages 5 and 6 of the ISS reflect the updated position of the Fund after the 2019 Actuarial Valuation. As the Committee will be aware, the results of the Actuarial Valuation, in particular the required investment returns (future service discount rate), drive the review of the Investment Strategy. Following the funding position, the ISS explains the process of reviewing the investment strategy and the resultant strategic asset allocation. This revised Strategy was presented to, and agreed by, the Committee in November 2019. The new strategy is detailed on Pages 10 of the ISS, and the key changes are: • Dis-invest from Diversified Growth Funds due to overall diversification of the Fund leading to less compelling case to hold; • Increase physical listed equity allocations in developed and Emerging Markets; • New Sustainable equity allocation to support RI Policy; • Restructure existing Hedge Funds allocation; • Create new explicit Local/Impact portfolio in Private Markets portfolio. • Establishment of the Cash and Risk Management Framework On page 12 the table shows the agreed strategic asset allocation and the ranges around the target weights. These ranges are designed to ensure the strategic weights do not drift to far from their target, but allow some

	flexibility to ensure that the Fund is not needing to continually re-balance the portfolio which would not be cost effective. The LGPS Regulations require that the ISS explains the Fund's approach to risk management. As the Committee will be aware this is an area that the Fund takes very seriously, and the ISS has been updated to reflect a number of activities that have taken place within the Cash and Risk Management Framework. This is covered on pages 14 and 15. The final section which has seen significant change starts on page 23, and is the Fund's new Responsible Investment (RI) Policy. The policy was agreed in November and is now included within the ISS as was its predecessor, the Sustainability Policy. As the Committee will recall the RI Policy includes a number of areas including pooling, stewardship and engagement and reporting and disclosure. The Policy also includes the Fund's approach to Climate Change. The Fund has identified 5 key Strategic RI priorities that will focus its work over the next 3 years (2020-2023), and these are reported on pages 26 and 27. The Committee will recall that the agreement and subsequent publication of the ISS is the final element in the review of the Fund's Investment Strategy, and the new strategic asset allocation take effect from 1 April 2020. The officers have already started work with advisers to implement the new strategy in a timely way.

2.00	**RESOURCE IMPLICATIONS**
2.01	There will be a cost of transitioning to the new Investment Strategy, and officers are working with advisers to ensure that this is done in the most cost effective way.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	The Administering Authority consulted with employing bodies over the development of the Investment Strategy and Responsible Investment Policy in December 2019, and January 2020.

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Funding and Investment risks: F3, F6, F8 and F9.
4.02	The review of the Fund's Investment Strategy aims to achieve the requisite level of investment return to meet the Actuarial requirements, whilst at all times managing the levels of risk effectively.

	The ISS covers this in some detail, and highlights the focus that the Fund places on risk within the Cash and Risk Management Framework.

5.00	**APPENDICES**
5.01	Appendix 1 – Investment Strategy Statement

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	1. Current ISS. 2. Committee reports on the review of the Investment Strategy in November 2019. 3. Training sessions on setting Investment Strategy and Responsible Investment in 2019. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk
7.00	**GLOSSARY OF TERMS**
7.01	A list of commonly used terms are as follows: a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. c) **Absolute Return** – The actual return, as opposed to the return relative to a benchmark. d) **Annualised** – Figures expressed as applying to 1 year. e) **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. f) **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. g) **Money-Weighted Rate of Return** – The rate of return on an investment including the amount and timing of cash-flows.

	h) **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. i) **Three-Year Return** – The total return on the fund over a three-year period expressed in percent per annum. j) **Time-Weighted Rate of Return** – The rate of return on an investment removing the effect of the amount and timing of cash-flows. k) **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. **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

Investment Strategy Statement

Flintshire County Council

Administering Authority for the Clwyd Pension Fund

1. Statutory Requirement for an Investment Strategy Statement

Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund (the Fund) on behalf of its stakeholders; the scheme members and employers participating in the Fund. These responsibilities are primarily set out in Local Government Pension Scheme regulations; the regulatory framework is set out below.

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers.
In England and Wales, such a scheme was created by the Local Government Pension Scheme Regulations 2013 (The Regulations). These Regulations were made by the Secretary of State exercising powers in the Superannuation Act 1972.

Under powers contained in The Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replace the 2009 Investment Regulations. These regulations came into force on 1 November 2016.
Regulation 7(1) requires administering authorities to formulate an Investment Strategy Statement (ISS) which must be in accordance with guidance issued by the Secretary of State, and replaces the existing requirement to produce and maintain a Statement of Investment Principles.

The ISS must include:

a. A requirement to invest money in a wide variety of investments;
b. The authority's assessment of the suitability of particular investments and types of investments;
c. The authority's approach to risk, including the ways in which risks are to be measured and managed;
d. The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
e. The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
f. The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments. This, in effect, replaces Schedule 1 of the 2009 Regulations.

The statement must be published by 1 April 2017 and regularly reviewed and at least every three years.

The original document was designed to comply with the guidance given by the Secretary of State, and was effective from 1 April 2017 and has been reviewed on a regular basis, and updated in 2018. This updated version was presented to the Committee in February 2020 for approval.

The ISS should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Strategy
- Clwyd Pension Fund Annual Report and Accounts
- Clwyd Pension Fund Actuarial Valuation.

All the above statements and documents can be found on the Fund's web site at https://mss.clwydpensionfund.org.uk/

About the Fund

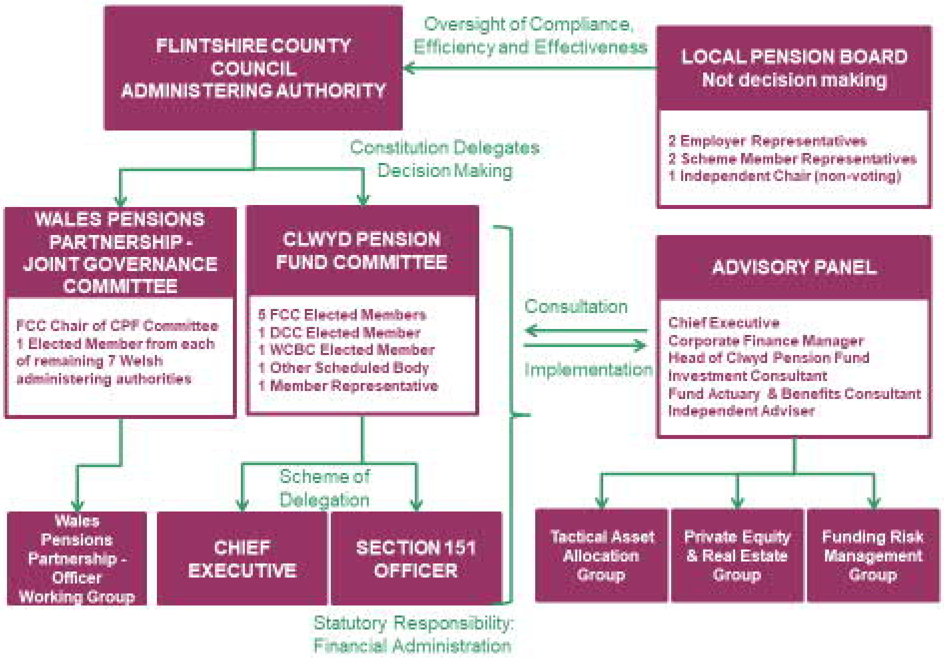
The Clwyd Pension Fund ("CPF") is a £2.0bn Local Government Pension Fund which provides death and retirement benefits for local government employees (other than teachers, police and fire-fighters) in North East Wales and employees of other qualifying bodies which provide similar services.

Total Fund membership is about 46,900 with about 16,800 active contributors from 47 contributing employers and about 30,100 retired members, widows and deferred members.

Governance and Management of the Fund

The key decision making and management of the Fund has been delegated by Flintshire County Council ("the Council") to a formal Pension Fund Committee ("PFC"), supported by a Pensions Advisory Panel ("AP"). Before making strategic investment decisions the Clwyd Fund takes advice from a regulated investment consultant; Mercer, who also provide Risk Management advice. The County Council's Section 151 Officer (Corporate Finance Officer) has a statutory responsibility for the proper financial affairs of the Council including Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Executive.

The Fund's governance structure is illustrated in the diagram below.



Aims and Objectives for the Management of the Fund

In the Management of the Fund there is a Mission Statement and Governance Objectives (shown below). These apply to the approach to investing the Fund's monies as well as managing the overall Fund. These holistic objectives have been developed to guide the management of all aspects of the Fund.

Our Mission Statement is:

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

The key actions and areas of focus in the Fund's business plan are grouped into the four areas of governance, funding and investments, communications and administration, to align with the key aims and objectives of these strategies and policies. The specific aims relating to the investment management of the Fund are summarised below.

Funding and Investments

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination.
- 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.
- Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

Investment Strategy of the Clwyd Pension Fund

The following sections details the Fund's investment strategy, which takes into account Regulation 7(2) (a) and 7(2) (b) listed below:

2. Investment of money in a wide variety of investments

Regulation 7(2) (a) requires that administering authorities invest in a diversified portfolio of assets to ensure that risk is appropriately managed and volatility of overall return is reduced. The guidance does not prescribe the specific asset classes over which Fund monies must be invested.

3. Suitability of particular investments and types of investments

Regulation 7(2) (b) requires that in assessing the strategic allocation for the Fund, an administering authority assesses the suitability of particular investments and types of investments against the need to meet pension obligations as they fall due.

In assessing the suitability and variety of investments, and considering the risks, the starting point should be the Fund's overall objectives. These are listed in the previous section "About the Fund".
In order that these primary objectives can be achieved, the following funding and investment principles have been agreed.

Funding Principles

The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2020 includes a number of investment return assumptions:

- An investment return (discount rate) for the funding target of CPI inflation plus 1.75% p.a. (assumed 4.15% p.a.).
- An investment return (discount rate) for the future service contribution rate of CPI Inflation plus 2.25% p.a. (assumed 4.65% p.a.).

Over a three-year period, an investment return above these assumptions will contribute to reducing the funding deficit and thus employer contributions, providing that liability assumptions such as longevity and inflation remain on target. The Fund's triennial Valuation considers all these factors when determining employer contribution rates. New employer rates will be implemented from 1st April 2020. The next Actuarial Valuation will be as at 31st March 2022 with implementation from April 2023.

A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013. The Statement outlines the strategy for recovering the funding deficit over 13 years. A copy of the FSS can be obtained from the Fund's web site at https://mss.clwydpensionfund.org.uk/ . The funding strategy will be monitored during 2020/23.

In managing the Fund, the key objectives are:

- to aim for a funding level of 100% and
- to aim for long term stability in employers' contribution rates, whilst recognising the constraints on affordability for employers.

A full list of the aims and objectives of the Fund are set out within the executive summary of the FSS.

The Clwyd Pension Fund was funded at 91% of liabilities (at the 2019 Actuarial Valuation) and employers' rates are currently structured to achieve a gradual return to 100% funding by 2032.

Whilst stability of costs from the employers' rates has the higher priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice
- employers will adopt appropriate and economic policies in those areas where they have discretion and where the costs of their actions fall on the Fund
- the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will continue to take an active risk relative to its liability profile.

The investment principles of the Fund are stated in full below, and are intended to strike the appropriate balance between the strategy most suitable for long-term consistent performance and the funding objectives. A favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

Investment Principles

The key investment objectives for the Fund are to aim for sufficient excess investment returns relative to the growth of liabilities to meet the funding objectives set out above on an on-going basis, whilst maintaining an appropriate balance between long-term consistent investment performance and the funding objectives.

The Fund’s overall strategic risk and return profile is currently determined through its strategic asset allocation. In establishing the Fund’s long-term strategic asset allocation, or strategic benchmark, the key factors are the overall level of return being sought, the minimum level of risk consistent with this and the impact of diversification in reducing this risk further. At asset class or mandate level, asset class weightings, appropriate benchmarks and out-performance targets are the key building blocks in framing this overall Fund strategy.

It is Fund policy to carry out a fundamental review of the Fund’s structure and management arrangements at least every four years. The review includes research on market views for the longer-term risk, return and correlation profiles for different asset classes and a more tactical view on the global economic and market environment over the next three to five years. This research is used to determine an optimum future balance between the various assets classes and hence the Fund’s fixed strategic benchmark.

The latest Fund review was undertaken in 2019 and changes as a result of this will be implemented in 2020. Details of the investment strategy are included in the following sections.

Investment Strategy

Setting the Strategy

The Committee have determined their investment strategy to meet the objectives outlined earlier in this Statement. This includes consideration for the Fund's liability profile and the Committee's attitude to risk.

The strategic benchmark highlighted later in this section takes account of the risk and return characteristics of each asset class and provides a reasonable long-term balance appropriate to the liabilities of the Fund. The Clwyd Pension Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The Committee recognise the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Committee have appointed investment managers to select and manage the allocations across asset classes, in particular where it would not be practical (or appropriate) for the Committee to commit the resources necessary to make these decisions themselves.

In assessing the suitability of investments required to form the overall portfolio the Committee consider a number of characteristics of each asset class, and sub asset class. These characteristics include potential return, risk/volatility of returns, liquidity, duration and interest rate sensitivity. In setting and reviewing an overall investment strategy for the Clwyd Pension Fund the starting point is always the Actuary's assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

2019 Review

The 2019 review showed, using Mercer market forecasts for Quarter 2 2019, that the expected market returns over the coming ten-year period would mean that the Fund could be expected to generate a return of 5.6% p.a. (CPI inflation plus 3.4% p.a.). Investigations showed that the portfolio was, in the main, well diversified and did not need a significant overhaul, however, there were opportunities to reduce risk without sacrificing return.

These opportunities led to six main areas of change:

- Dis-invest from Diversified Growth Funds due to overall diversification of the Fund leading to less compelling case to hold;
- Increase physical listed equity allocations in developed and Emerging Markets;
- New Sustainable equity allocation to support RI Policy;
- Restructure existing Hedge Funds allocation;
- Create new explicit Local/Impact portfolio in Private Markets portfolio;
- Establishment of the Cash and Risk Management Framework.

These changes meant that the expected return could be increased by 0.2%, with minimal change to the projected Deficit Risk.

Further details in relation to the investment strategy are outlined in this section.

Investment Decisions

The Committee distinguish between three types of investment decision: strategic, tactical and stock-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

The Committee takes all such decisions themselves. They do so after receiving advice from their investment consultant. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Fund benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are ultimately the responsibility of the Committee. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the respective fund. Furthermore, the Committee have delegated certain powers to the Head of the Clwyd Pension Fund taking advice from the Tactical Asset Allocation Group. The purpose of the Tactical Allocation Portfolio, managed by the group is to take advantage of short term (approximately one year) opportunities that are consistent with the long term risk and return goals of the Fund. The Tactical Allocation Group is bound by the Tactical Allocation Portfolio Terms of Reference.

Stock Selection Decisions

All such decisions are the responsibility of the investment managers with which the Fund invests.

Strategic Asset Allocation

In setting the Strategic Asset Allocation for the Clwyd Pension Fund the Regulations require the Committee to invest in a wide variety of investments and in doing so assess the suitability of particular types of investments. Subject to satisfying these elements of the Regulations the Clwyd Pension Fund is not constrained to certain types of investments; the requirement is for the Committee to set their own limits. The Fund is therefore permitted to invest across a wide range of asset classes, including, but not limited to, the following:

- Agriculture
- Cash (including currency)
- Commodities
- Convertible bonds
- Diversified growth
- Emerging market debt
- Hedge Funds and Managed Futures (including via a managed account platform)
- High yield bonds
- Infrastructure
- Liability driven investment products
- Multi –Asset Credit
- Private credit
- Private equity
- Property
- Timber
- UK and overseas corporate bonds
- UK and overseas equities
- UK and overseas government bonds, fixed and inflation-linked

Balance between different types of investments

The Regulations require the administering authority to have regard for the diversification of the Fund's investments.

The Fund will, at all times, invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing.

The Fund may invest via pooled and segregated portfolios based on the appropriateness of each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

The investment structure agreed in the 2019/20 investment strategy review is detailed in the table below:

Asset Class	Strategic Weight
Developed Global Equity*	10.0%
Emerging Market Equity	10.0%
Hedge Funds	7.0%
TAA/Best Ideas **	11.0%
Multi-Asset Credit	12.0%
Cash and Risk Management Framework	23.0%
Private Markets***	
Property	4.0%
Private Equity	8.0%
Local/Impact	4.0%
Infrastructure	8.0%
Private Credit	3.0%
Total	100.0%

Notes:

*The Global Equity Portfolio includes a 5% Strategic Weight to a specific Low Carbon ESG focused fund.

**The Best Ideas portfolio is tactically allocated according to shorter-term market views. This can be implemented by increasing the allocation to any of the asset classes listed above or by separate asset classes in any type of investment. This allocation is made through consultation with the Tactical Allocation Group, which is bound by the Tactical Allocation Portfolio Terms of Reference. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

***The Target allocation of the underlying asset classes in Private Markets will take some time to achieve due to the illiquidity of the asset classes involved.

The Fund's investment managers are remunerated either by way of an ad valorem fee, i.e. the fee is a percentage of the value of assets under management, or a combination of an ad valorem and performance-related fee. The principle of performance-related fees is that the base fee is lower and that the manager is only paid a higher fee if the performance objective is met or exceeded.

Asset Allocation and Long Term Expected Return on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under- or out-performance compared to the long term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored ('Strategic Allocation'). In addition, there are ranges for each asset category that allow limited deviation within the framework ('Strategic Range'). The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing.

In addition to the Strategic Allocation and Strategic Ranges, a conditional medium term asset allocation (Conditional Range) exists, to manage major risks to the long term strategic asset allocation which may emerge between Fund reviews.

The Fund's strategic allocation, as set out below, does not assume any outperformance from the investment managers. The expected returns stated in this table are as at the date of the 2019/20 strategic review.

Asset Class	Strategic Weight (%)	Strategic Range (%)	Conditional range* (%)	Expected return above inflation(CPI)*** p.a.
Developed Global Equity	10.0	5.0 - 15.0	0 – 30	4.5%
Emerging Market Equity	10.0	5.0 – 15.0	0 – 30	6.4%
Hedge Funds***	7.0	5.0 – 9.0	0 – 15	1.3%
TAA/Best Ideas****	11.0	9.0 – 13.0	0 – 20	2.5%
Multi-Asset Credit	12.0	10.0 – 14.0	0 – 20	2.4%
Cash and Risk Management Framework*****	23.0	10.0 – 35.0	0 – 40	2.8%
Private Markets				
Property	4.0	2.0 – 6.0	0 – 8	2.0%
Private Equity	8.0	6.0 – 10.0	0 – 15	6.0%
Local/Impact	4.0	0.0 – 6.0	0 – 8	3.1%
Infrastructure	8.0	6.0 – 10.0	0 – 15	3.1%
Private Credit	3.0	1.0 – 5.0	0 - 6	1.5%
Total	100.0			

Notes:

* The Conditional ranges are at a total Fund level.

** Expected return is expressed as an excess long-term return over CPI Inflation to reflect extra risk being taken, excluding active management. This is based on Mercer Market Forecast as at the date of the 2019/20 strategic review. CPI Inflation is used as the basis for expected returns as it is a proxy for valuing the liabilities.

*** The Hedge Fund allocation is being restructured as a result of the 2019/20 review

**** The Best Ideas allocation is a short term (12-month horizon) tactical allocation based on the JLT/Mercer's (the Fund's Investment consultant) "best ideas". The portfolio should be liquid and cost efficient.

***** The Cash and Risk Management Framework, a combination of Liability Driven Investment (LDI) and synthetic equity instruments, will be managed as part of a risk management approach. Given the nature of this mandate i.e. protection against liability changes, it is not intended to rebalance the allocation, which can lead to a movement away from the initial strategic allocation of 23%.

The inclusion of a diversified range of assets and the scope for tactical allocation in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. This was the case when modelling the revised investment strategy in 2019. This is explained in more detail in the risk section below.

Cash and Risk Management Framework

In March 2014, the Fund set up a Risk Management Framework (now referred to as Cash and Risk Management Framework). This has evolved since its initial implementation, and now includes the following hedging strategies that seek to manage a variety of financial risks. These strategies are implemented by Insight Investment Management (Insight).

- Liability hedging programme, controlling the Fund's interest rate and inflation risk

In March 2014, the Fund established a liability hedging programme covering both interest rate and inflation risks. A 'flightpath' for increasing the level of protection was agreed based on market yield triggers to ensure that risk was reduced at favourable times. Since the adoption of the flightpath, a number of market triggers have been implemented.

As part of the 31 March 2019 actuarial valuation and investment strategy review cycle, the Officers and Fund consultants (Mercer and JLT) have reviewed the flightpath and no change has been made to the interest rate and inflation triggers at this stage.

Further, as part of the flightpath, whilst there are no formal funding level triggers in place, it has been agreed that when the funding level reaches 100% or higher, consideration will be given as to whether to further control the Fund's interest rate and inflation risk. The Funding and Risk Management group monitors the funding level on a monthly basis.

- Synthetic equity portfolio, gaining exposure to equities whilst hedging the downside risk

The Fund implemented a synthetic equity strategy in order to increase its expected return potential in a capital efficient manner. In order to manage the downside risks associated with the synthetic equity strategy, a static equity protection strategy was put in place, protecting against equity market falls on the equity exposure. This was in place from April 2017 until May 2018.

In May 2018, a new dynamic protection strategy was put in place. This provides improved flexibility and on-going governance versus the previous static approach as it allows the structure to more easily adapt to changing market conditions.

- Currency hedging strategy, hedging exposure to currency risk

In August 2019, the Fund implemented a currency hedging strategy to reduce the risk of a strengthening pound devaluing the value of the Fund's physical overseas equity holdings. This was in light of the continued weakening of sterling. As holders of overseas assets, the Fund had benefitted significantly from the fall in sterling following the EU referendum and wished to reduce currency risk by locking in a portion of the gains made.

- Collateral management strategy

The above strategies make use of derivatives and therefore require collateral to be set aside in order to support the positions and protect the Fund (and counterparties) from the risk of default. There is a balance between holding enough collateral to support the strategies against a material and sudden move in markets, versus holding too much that it becomes a drag on the Fund's returns.

In order to manage this balance, the Fund implemented a collateral management strategy. This ensures that the Fund holds the required amount of collateral to support the strategies, with any excess collateral held in higher yielding funds that can be sold quickly if more collateral is required. This helps generate additional return and reduces the governance burden on the Fund, leading to improved efficiency.

Realisation of investments

The Fund's investment policy is structured so that the majority of its investments (in equities and bonds) can, except in the most extreme market conditions, be readily realised.

However, the availability of alternative investment vehicles enables the Fund to invest in less liquid asset classes and to build well-diversified portfolios. Investments such as property, infrastructure and private equity/debt are long term investments which the Fund is less likely to be able to realise in a short period. "Lock-up" periods are normal practice in hedge funds (to manage the in/out flows to ensure existing clients' capital is protected) which means that these investments are not readily realisable either.

Notwithstanding this, the Fund maintains sufficient investments in liquid assets to meet its liabilities in the short and medium term as they fall due.

Cash Strategy

From 1st April 2011 the 2009 Investment Regulations required the Pension Fund to have a separate bank account from the Local Authority.

The Pension Fund does not have a strategic allocation to cash for investment purposes but holds surplus cash for paying:

- Benefits and transfers as per the Regulations.
- The administration costs of the Fund.
- The Investment management fees.
- Commitments to real assets and private market investments.

However, in extreme market conditions cash could be used as part of the Conditional Asset Allocation.

The aim is to avoid requiring to borrow for liquidity purposes, although Investment Regulations allow Pension Funds to borrow for a maximum of 90 days.

The cash could be deposited in one of the following, subject to cash flow requirements:

- The Pension Fund bank account with the National Westminster bank for daily liquidity.
- A deposit account with the National Westminster Bank with instant access.
- The Insight Liquidity Fund for unexpected liquidity requirements or higher rates of return.

As part of the 2019/20 review the Fund is developing its Cash Management Strategy and when this has been agreed this document will be updated to reflect this.

The Deputy Head of the Clwyd Pension Fund will arrange for the implementation of the cash strategy.

Stock Lending

The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund. It has been agreed that investments made through the Wales Pension Partnership will be covered by the pool's stock lending policy.

4. Approach to risk, including the ways in which risks are to be measured and managed

Regulation 7(2) (c) requires that funds describe their approach to risk within their investment portfolio, including summarising the key risks and detailing the approach to mitigate the risk (where possible or appropriate).

Risk Register

The Clwyd Pension Fund has a Risk Management Policy and Risk Register in place.

The Risk Register has a section dedicated to Funding & Investment Risks (including accounting and audit). Specific asset/investment risks highlighted in the risk register include those around investment markets, the failure of managers to achieve their objectives, missing out on market opportunities, and liquidity.

The risk register continually updated and key risks are considered on a regular basis at the Committee and Advisory Panel meetings.

The Committee is aware and seeks to take account, of a number of risks in relation to the Fund's investments, and these are detailed in the following paragraphs.

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence, if the investment returns are less than that required in the funding strategy the funding level will deteriorate, all else being equal. The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is controlled through diversification of asset holdings. The Fund has a bespoke Cash and Risk Management Framework that has established objectives to ensure that the Fund's exposure to interest rate risk and inflation risk is managed and monitored on an on-going basis.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely manager, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is considered in the Fund's Responsible Investment Policy is later in this document.

In considering the Fund's investment strategy, one must therefore bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

Solvency Risk and Mismatching Risk

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

Manager Risk (including the Wales Pension Partnership)

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any managers where concerns exist over their continued ability to deliver the investment mandate.
- The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's external investment managers are required to invest in line with the investment guidelines set by the Fund. Independent custodians safe keep the assets on behalf of the Fund.

Liquidity Risk

- This is monitored according to the level of cash-flows required by the Fund over a specified period.
- Whilst ensuring that there is the appropriate liquidity within the assets held, the Fund invests in less liquid investments to take advantage of the "illiquidity premium" offered.
- Despite this the Fund holds an appropriate amount of readily realisable investments. The Fund's assets are invested in pooled funds which are readily realisable and there is a significant amount of liquidity based upon the existing strategic asset allocation.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- The Fund manages this by regular reviews of the investments and through investing in funds which give a wide degree of diversification.

Corporate Governance Risk

- This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. In the future the Wales Pension Partnership will engage and exercise voting rights on behalf of the Fund. The Fund's Responsible Investment Policy explains the approach in detail, and is included later in this document.

Legislative Risk

- This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation.
- The Committee acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

Market Risk

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.
- The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers.
- The Fund has a significant weighting to a Tactical Asset Allocation/ Best Ideas portfolio (TAA) which aims to take advantage of market risk, by making shorter term tactical allocations which suit the specific characteristics of the Clwyd Fund.

- As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.
- Market risk comprises of the following three types of risk:

Currency Risk

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Fund seeks to address this within the TAA and has also addressed this in the Cash and Risk Management Framework from a strategic perspective.

Interest rate risk and Inflation risk

This covers the following risks:

Interest rate risk -

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.

Inflation risk -

- This is the risk that the value of the Fund's liabilities which are inextricably linked to Consumer Price Index (CPI) inflation, increase at greater rate than the assets.
- The Committee also acknowledge the interest rate risk and inflation risk related to individual debt instruments. This is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management and investing in assets that move in line with inflation such as Infrastructure.
- Since 2014 the Fund has adopted a Risk Management/Flight-path approach to managing the specific inflation and interest rate risk. The Flight path is regularly reviewed and the appropriate trigger levels set.

Risk Budgets

When reviewing the Investment Strategy in 2019/20, as well as addressing the potential for investment return, the Fund also considered the risk of the proposed strategy when compared to the previous one. Risk is assessed by using a Value at Risk (VaR) approach. This approach measures the risk of loss for investments and estimates how much an investment strategy might lose (with a given possibility) given normal market conditions, in a set time period such as a day or a year.

The Fund needs to take risk within its Investment Strategy in order to achieve an adequate level of return above the Actuary's future service discount rate of Inflation (CPI) +2.25% per annum.

At a total Fund level, the total expected return of the previous strategy was 5.4% per annum with a VaR of £437.9m. The revised strategy as described earlier in the document increases the potential return to 5.6% per annum, with a VaR of £444.6m. The potential for increased return is reflected in the marginal increase in risk.

Proper advice

In assessing the Fund's strategy, including an assessment of the implicit risks, and setting the maximum limits Flintshire County Council as Administering Authority for the Clwyd Pension Fund has taken proper advice from Officers, JLT Benefits Solutions (Investment Consultants) and Mercer (Actuaries and Risk Management Advisers).

As part of the Fund's governance structure, there are regular meetings between the Fund's officers, the Investment Consultants, the Actuaries and Risk Management Advisers and the Fund receives advice from these parties on a continuous basis.

5. Approach to pooling

Regulation 7(2) (d) requires that all authorities commit to a suitable pool to achieve benefits of scale. It also requires that administering authorities confirm the chosen investment pool meets Government's investment reform criteria, or to the extent that it does not, that Government is content for it to continue.

The Clwyd Pension Fund is participating in the development of the Wales Pension Partnership (WPP). The proposed structure and basis on which the WPP will operate was set out in the July 2016 submission to the Government.

The WPP received confirmation from the Minister for Local Government that he was happy that the proposals met the required criteria, with the exception of the size requirement. However, the Minister confirmed in his letter to the Welsh Funds that given the special position of Wales, and the long history of collaboration he was content with the final proposal.

The agreed objectives of the WPP are:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

In the longer term, subject to the above mentioned objectives being met, the Clwyd Fund is committed to investing all of its assets through the WPP.

Structure and governance of the WPP

The Pool has appointed Link Fund Solutions Ltd to establish and run a collective investment vehicle for the sole use of the LGPS funds in Wales. A diagram showing the governance structure is shown on the next page.

A Joint Governance Committee (JGC) was established in 2017 to oversee the operator. The Committee comprises elected members – one from each of the eight participating funds. It is anticipated that this may be the Chairs of the respective Pensions Committees though administering authorities may choose to nominate alternative members if appropriate. This arrangement provides accountability for the operator back to individual administering authorities.

The JGC is setup formally as a Joint Committee between the participating administering authorities. It operates on the basis of "One Fund, One Vote", though in practice any decisions are reached on a consensus wherever possible. A formal Terms of Reference for the Committee has been agreed.

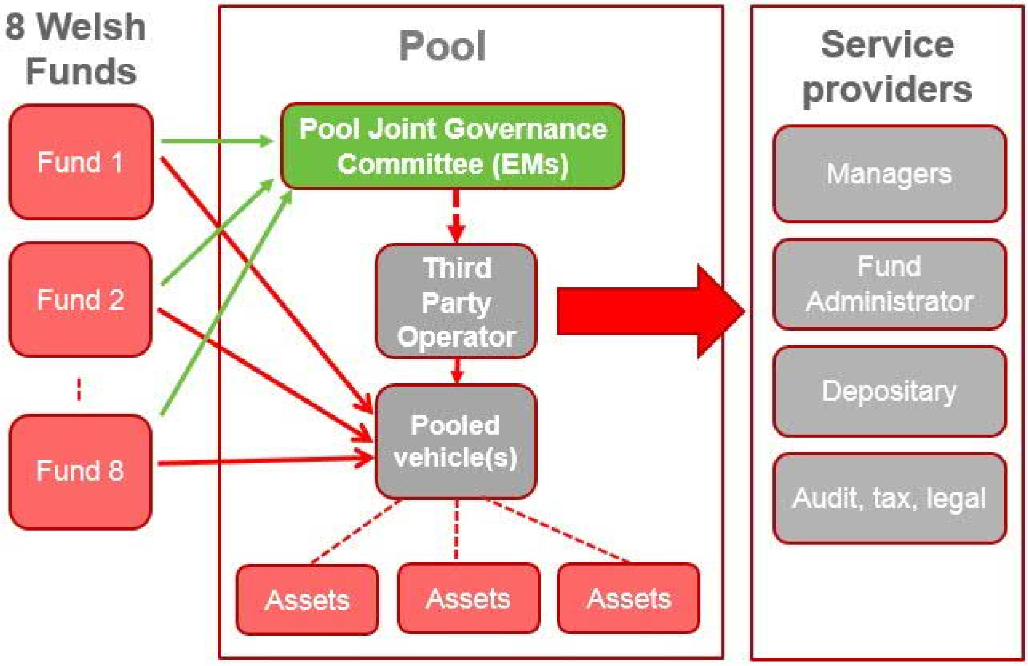
Each authority has committed to the pool by agreeing and signing an Inter-Authority agreement. The agreement sets out the principles behind the WPP, and will commit the administering authorities to sharing the costs of setup.

The WPP Officer Working Group has been established as part of the Inter Authority Agreement to support and advise the Joint Governance Committee on such matters as the Joint Governance Committee may reasonably request or any matters relating to the pooling agreement which are raised by any of the authorities' Section 151 Officers or Monitoring Officers.

Each authority delegates to officers to the Officer Working Group. In relation to Clwyd Pension Fund, the Pension Fund Committee determines which of its officers sit on the Officer Working Group. Each authority's Section 151 Officer and Monitoring Officer are entitled to attend the Officer Working Group

Each authority has committed to the pool by agreeing and signing an Inter-Authority agreement. The agreement sets out the principles behind the WALES pool, and will commit the administering authorities to sharing the costs of setup.

Governance Structure of the WPP



Link Fund Solutions is responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as a depository asset servicer, and an external valuer as necessary.

Listed bonds and equities will be invested through a UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle. It may be that alternative vehicles are more appropriate for some asset classes. As well as considering the options with Link Fund solutions, advice will be sort of the final proposed approach from a tax efficiency and legal compliance basis.

The process and benefits of doing so will be discussed with the operator. Given the Clwyd Fund has a significant proportion of its assets in alternative, less liquid investments it may be some time before all of the Fund's assets are able to be pooled.

6. Approach to Environmental, Social and Governance issues

And

7. 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) policy was 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-authorised 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 .

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.

Reporting and Disclosure

The Fund is committed to transparency of its actions, in particular with respect to RI. The Annual Report contains copies of a number of documents including policy statements, and the ISS (in full). The annual report is circulated widely and is published on the Fund's website. It is accepted that approaches to RI and sustainability will evolve and develop over time, and it is therefore essential to keep policies and practices under regular review to ensure their effectiveness. In addition, the Fund recognises the importance of transparency and reporting in respect to RI and ESG issues, and therefore plans to enhance its analysis, disclosure and reporting on this and will include manager ESG ratings, voting and engagement and carbon emissions analysis, and impact where relevant.

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 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 term 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 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.

Climate Change

The Fund recognises the importance in addressing the financial risks 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 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.

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 11th February 2020
Report Subject	Valuation Update and Funding Strategy Statement
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

The Committee were provided with an updated draft FSS in September 2019, since then:

- The formal FSS consultation with all interested parties was completed during November 2019 (although the Fund welcomed comments after that point at the request of employers).
- Employers also had the opportunity to attend the AJCM on the 12 November 2019 to discuss their individual valuation results and feedback comments, and these are incorporated into the final FSS.
- A number of Regulation changes were expected to be introduced but haven't been implemented, these have been removed from the FSS. The FSS should be updated in the future to reflect any Regulation changes.
- In January 2020 it was confirmed that a consultation on whether RPI inflation should be reformed will start on 11 March 2020 with the likely outcome being RPI would be more closely aligned with the CPI inflation index. This caused the market to reconsider its view on future RPI inflation. As a consequence, our assumption for the difference between RPI and CPI will need to allow for this. We have therefore included wording in the final proposed FSS to recognise this assumption needs to be reviewed in light of the proposed change in the RPI inflation measure (or other factors).

The proposed final Funding Strategy Statement in relation to the 2019 valuation is attached as Appendix 1 and has been produced for ratification by the Committee. The Actuary will then produce the final valuation report and implement the new contribution requirements from 1 April 2020.

RECOMMENDATIONS	
1	The Committee notes the activity since the September 2019 meeting and the consultation carried out.
2	The Committee approve the final Funding Strategy Statement.

REPORT DETAILS

1.00	**2019 Actuarial Valuation and Funding Strategy Statement**
1.01	The LGPS Regulations provide the statutory framework under which the Administering Authority is required to prepare and publish a Funding Strategy Statement (FSS) alongside each actuarial valuation. The Fund Actuary must have regard to the FSS as part of the actuarial valuation process. The FSS must also be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement. The training held at the Committee meeting on 4 September 2019 discussed the purpose and aims of the FSS and highlighted the key points that are set out within it. The draft FSS that was brought to Committee in September 2019 has since been updated to reflect the following: • the completion of the formal FSS consultation with all interested parties during November 2019 (although the Fund welcomed comments after that point at the request of employers). • employers were provided with their individual results during late October / early November and the Annual Joint Consultative Meeting (AJCM) took place on 12 November to allow employers the opportunity to have further discussions with the Fund and the Actuary, and feedback on the Consultation process. Comments have been received from employers and incorporated into the FSS where necessary. • A number of Regulation changes were expected to be introduced in 2019/20. These will no longer be implemented by 31 March 2020 (if at all) so these Regulation updates have been removed from the FSS. The Regulation updates that have been removed covered the following: o The move to a 4 yearly valuation cycle and the introduction of interim valuations / employer contribution reviews o the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers o the introduction of the deemed employer route which was an alternative to the admitted body route for achieving pension protection We will consider whether the FSS should be updated in the future to reflect these Regulation changes once the details are available. The Committee will be updated in due course. • The chair of the UK Statistics Authority wrote a letter to the Chancellor suggesting that RPI is moved to CPIH by 2030. Following this, a consultation will commence on 11 March 2020 for

	6 weeks on whether/when these changes should be made to RPI. A response is expected by July 2020. This does not affect the assumptions at the valuation date but we need to consider how it affects our assumptions in the inter-valuation period. We believe that the market has already priced in some of this expected change in RPI so when deriving our CPI assumption, we need to ensure any future assessment of funding or termination calculations allow for this. At the valuation, the overall reduction to RPI inflation to arrive at the CPI inflation assumption is 1.0% per annum which was consistent with the market position at that time. For example, at the current time we recommend that the reduction is reduced to 0.7% per annum, to reflect a better estimate of future CPI inflation. This adjustment will be kept under review as the consultation progresses and we better know the outcome. We have therefore included wording to enable this within the FSS. Furthermore, we would recommend that the FSS and in particular the termination policy is reviewed at least annually up to the next valuation. In conjunction with this we recommend the mortality assumption used for the termination policy is reviewed at the same time to reflect the latest trends. • Updates to the numbers within the FSS now that the valuation process is close to completion Once the final FSS has been ratified by the Committee, the Fund Actuary will produce the final valuation report and contribution certificate no later than 31 March 2020 and the new contribution rates will be implemented from 1 April 2020 for the 3 years to 31 March 2023.

2.00	**RESOURCE IMPLICATIONS**
2.01	The Fund officers will confirm the final rates to the employers. The Actuary will produce the valuation report which will be signed off by 31 March 2020.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	The Administering Authority consulted with employing bodies over the development of the Funding Strategy Statement during November 2019.

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

5.00	**APPENDICES**
5.01	Appendix 1 – Funding Strategy Statement

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	1. Current FSS and 2016 Actuarial Valuation report. 2. Committee reports on the actuarial valuation and funding strategy statements from June 2019. 3. Separate presentation from the Fund Actuary in September 2019. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

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

	(d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (g) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement. (h) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (i) **GAD – Government Actuary's Department -** The Government Actuary's Department is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury. (j) **CPI –** Acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Mae'r dudalen hon yn wag yn bwrpasol

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FUNDING STRATEGY STATEMENT

CLWYD PENSION FUND

[DATE]

FLINTSHIRE COUNTY COUNCIL

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

I EXECUTIVE SUMMARY

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

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

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

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

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

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

The Clwyd Pension Fund has a number of key aims and objectives which are set out within the business plan. The key funding objectives are referred to throughout the FSS and are summarised below:

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters.
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible.
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities.
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives.
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives.
- Ensure net cash outgoings can be met as/when required.
- Minimise unrecoverable debt on employer termination.
- Ensure that the future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.

Key elements of the funding strategy are as follows:

- Employer covenant and investment strategy will have a major influence on the valuation results.
- Deficit recovery periods will be determined by the Administering Authority with the aim of recovering deficits as quickly as possible and vary by employer. Existing contribution plans will not be reduced even if the funding position has improved unless the employer covenant is sufficiently strong and if the Administering Authority agrees. The average recovery period for the Fund is 13 years. Deficit recovery contributions will be expressed as £s amounts.
- It will be possible for employers to prepay their deficit contributions for the full 3 years or annually at each April which would result in a cash saving.
- The key financial assumption – the discount rate – has been derived by considering the long term expected return on the Fund's investment over and above assumed future Consumer Price Inflation (CPI).
- The demographic assumptions for the whole Fund have been determined by carrying out a bespoke analysis of the Fund's membership along with a review of other LGPS Funds.
- It is strongly recommended that employers consider and understand the Fund policies which primarily relate to employers joining the Fund, ongoing monitoring of the financial strength of employers (covenant) and the approach adopted when employers leave the Fund (termination).

Ensuring that the Clwyd Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (Flintshire County Council). The Funding Strategy adopted by the Clwyd Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

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

THE FUND'S KEY OBJECTIVE

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

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

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

SOLVENCY AND LONG TERM COST EFFICIENCY

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

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

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

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 91% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

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

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

The average recovery period for the Fund as a whole is 13 years at this valuation which is 2 years shorter than the average recovery period of 15 years from the previous valuation. After taking into account affordability and other considerations, all individual employer recovery periods have reduced at this valuation.

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

The Fund has also considered its policy in relation to costs that could emerge from the McCloud judgement, in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. The costs have been quantified and notified to employers and the majority of employers have made provisions directly in their contributions

ACTUARIAL ASSUMPTIONS

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

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

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

EMPLOYER ASSET SHARES

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

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

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

FUND POLICIES

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

1. Covenant assessment and monitoring

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

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

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

2. Admitting employers to the Fund

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

- Mandatory Scheme Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

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

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

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

4. Insurance arrangements

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

CONTENTS

APPENDICES

1
INTRODUCTION

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

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

BENEFITS

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

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

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the actuary, including the provision of a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution.

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

PRIMARY RATE

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

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

SECONDARY RATE

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

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

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

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

2
PURPOSE OF FSS IN POLICY TERMS

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

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

The purpose of this Funding Strategy Statement is therefore:

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

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

3

AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

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

THE PURPOSE OF THE FUND IS TO:

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

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

4
RESPONSIBILITIES OF THE KEY PARTIES

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

KEY PARTIES TO THE FSS

The **Administering Authority** should:

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

The **Individual Employer** should:

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

The **Fund Actuary** should:

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

5
SOLVENCY FUNDING TARGET

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

SOLVENCY AND LONG TERM EFFICIENCY

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

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

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

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

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

Underlying these assumptions are the following two tenets:

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

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

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

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

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

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

- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). This has resulted in an average recovery period of 13 years being adopted across all employers.

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

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

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

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

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

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

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

  <u>The policy for employers who have a **guarantor** participating in the Fund:</u>

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

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

  The Fund will notify all parties in the event that agreement cannot be reached, however ultimately the Fund will comply with the Regulations and therefore pay any exit credit to the exiting employer. In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate agreement. This would only be taken into account if the Administering Authority is made aware of any such arrangement.

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

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

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

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

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

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

The termination policy is set out in Appendix C. This will be reviewed at least on an annual basis to take into account any emerging trends or changes in financial or demographic factors e.g. longevity trends which affect the termination assessment for employers.

7

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

The results of the 2019 valuation show the liabilities to be 91% covered by the current assets, with the funding deficit of 9% being covered by future deficit contributions.

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

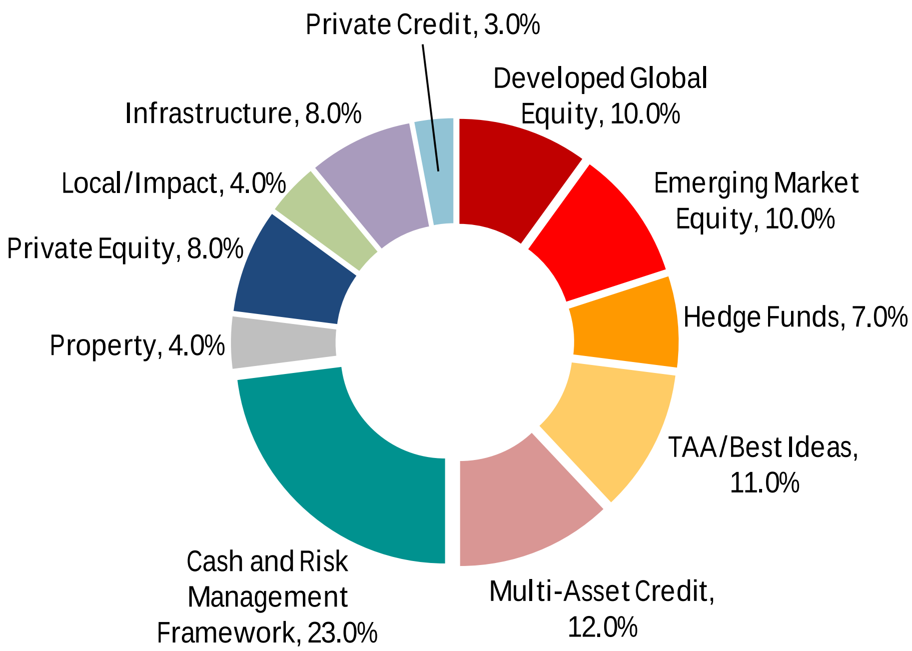
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns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

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

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of negative 1% per annum at the valuation date and a more prudent longevity assumption. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 54%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken

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

The long term strategic allocation is:



Based on the investment strategy above and the assessment of the return expectations for each asset class leads to an overall best estimate average expected return of 2.8% per annum in excess of CPI inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

A measure of overall prudence to protect against adverse experience in the future is to consider the funding level if it was assessed on a "best estimate" basis for all the principal assumptions (mainly the investment return and life expectancy). The actuary has assessed this funding level as 110%. This level of prudence is built in to allow the Fund to address adverse events whilst maintain stability (within reasonable parameters) in employer contributions where appropriate.

8

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

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

FINANCIAL

The financial risks are as follows:-

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

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

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

DEMOGRAPHIC

The demographic risks are as follows:-

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

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

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

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

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

INSURANCE OF CERTAIN BENEFITS

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

REGULATORY

The key regulatory risks are as follows:-

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

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

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments and placed a copy on the Fund's website. The first draft was approved at the Committee meeting on 4th September 2019 and finalised on 11th February 2020 after the Fund received consultation feedback from the employing bodies and the final document was ratified by the Committee.

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

Governance risks are as follows:-

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

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

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

9

MONITORING AND REVIEW

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

A full review of this Statement will occur every three years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. However, a review of part or all of the Statement will take place annually to ensure all the relevant parameters remain fit for purpose and will take account of the current economic conditions, change in demographic trends and will also reflect any legislative changes.

FLIGHTPATH - DE-RISKING STRATEGY

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

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

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

FLIGHTPATH – MONITORING/TRIGGER REVIEW

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

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

A dynamic Equity Protection strategy was put in place in 2018. This was after rigorous analysis and value for money considerations by the Fund's Funding and Risk Management Group. The strategy protects against falls of 10% or more of the average market position over the previous 12 months on c£350m of equity exposure in the Insight portfolio. The cost of this will be offset by the Fund's participation in losses beyond a fall of 30% from average market levels of the same 12 months. This arrangement will be financed by giving up some potential upside return on a monthly basis. Whilst more complex to set up, the dynamic strategy provides advantages versus the previous static approach as follows:

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

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

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

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

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

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

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

COST MANAGEMENT AND THE MCCLOUD JUDGEMENT

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

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

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

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

The potential impact of the judgement (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. In line with the Regulations, employer contributions can be reviewed once the outcome is known, if deemed appropriate for some or all of the employers depending on whether a provision was made directly in their agreed contributions rates from 1 April 2020 at this valuation. Updated employer rates will then be implemented from the following 1 April for practical purposes with backdating as appropriate.

FURTHER INFORMATION

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

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APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

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

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

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

Inflation (Consumer Prices Index)

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

The overall reduction to RPI inflation to arrive at the CPI inflation assumption at the valuation date is 1.0% per annum. This adjustment to the RPI inflation assumption will be reviewed from the valuation date to take into account any reform in the RPI index. The change then will be implemented for the policies set out in this Statement.

Salary increases

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

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

Pension increases/Indexation of CARE benefits

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

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

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

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

Commutation

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

Other Demographics

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

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.8% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. and is calculated by estimating the level of expenses for the Fund over the period from 1 April 2020 to 31 March 2023. Investment expenses have been allowed for implicitly in determining the discount rates. In addition, any expenses that are directly attributable to specific employers via the Employer Liaison team, will be included in the assessment of that employer's expense allowance from the 2019 actuarial valuation.

Discretionary Benefits

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

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

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

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

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

EMPLOYER ASSET SHARES

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

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

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

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

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

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

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

Life expectancy assumptions

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

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	100% S3PMA_CMI_2018 [1.75%] 92% S3PFA_M_CMI_2018 [1.75%]
	Dependant	132% S3PMA_CMI_2018 [1.75%] 92% S3DFA_CMI_2018 [1.75%]
	Ill Health	122% S3IMA_CMI_2018 [1.75%] 132% S3IFA_CMI_2018 [1.75%]
	Future Dependant	128% S3PMA_CMI_2018 [1.75%] 111% S3DFA_CMI_2018 [1.75%]
Active	Normal Health	106% S3PMA_CMI_2018 [1.75%] 93% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	122% S3IMA_CMI_2018 [1.75%] 142% S3IFA_CMI_2018 [1.75%]
Deferred	All	128% S3PMA_CMI_2018 [1.75%] 110% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	135% S3PMA_CMI_2018 [1.75%] 118% S3DFA_CMI_2018 [1.75%]

Life expectancies at age 65:

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

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

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

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

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

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

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

Category	Average Deficit Recovery Period (whole years)	Derivation
Unitary Authority Councils	13 years	Determined by reducing the period from the preceding valuation by 3 years (where appropriate).
Other Tax-raising Scheduled and Designating Bodies	9 years	Determined by reducing the period from the preceding valuation on a case by case basis with the intention of reducing by at least 3 years.
Education Bodies (Universities and Colleges)	10 years	Determined by reducing the period from the preceding valuation by at least 3 years.
Admission Bodies (guaranteed by another Scheme Employer within the Fund)	12 years	Subject to agreement with guarantor.

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

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

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

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

OTHER FACTORS AFFECTING THE EMPLOYER DEFICIT RECOVERY PLANS

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

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

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

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

APPENDIX C - ADMISSION AND TERMINATION POLICY

INTRODUCTION

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

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

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

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

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

ENTRY TO THE FUND

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

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

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

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

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

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

ADMITTED BODIES PROVIDING A SERVICE

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

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

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

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

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

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

PRE-FUNDING FOR TERMINATION

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

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

EXITING THE FUND

TERMINATION OF AN EMPLOYER'S PARTICIPATION

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

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

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

EMPLOYERS WITHOUT A GUARANTOR

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

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

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

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

EMPLOYERS WITH A GUARANTOR

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

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

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

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

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

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

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

FUTURE TERMINATIONS

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

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

MINIMUM RISK TERMINATION BASIS

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

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

The financial assumptions above are as at 31 March 2019. These assumptions will be reviewed on an ongoing basis to allow for changes in market conditions along with any other structural or legislative changes.

In particular, since the valuation date it has been announced that RPI inflation is likely to be reformed with the reform potentially meaning the index is closer to the CPIH inflation measure. This would need to be reflected when deriving an updated market estimate of CPI inflation.

For example, when assessing a termination position (at February 2020) we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting 0.7% per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position. This adjustment will be kept under review as more details emerge on the reform of RPI.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. The will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

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

APPENDIX D – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

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

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

RISK CRITERIA

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

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

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

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

ASSESSING EMPLOYER COVENANT

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

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

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

FREQUENCY OF MONITORING

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

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

COVENANT RISK MANAGEMENT

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

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

APPENDIX E – INSURANCE ARRANGEMENTS

OVERVIEW OF ARRANGEMENTS

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

INTERNAL CAPTIVE INSURANCE

The internal captive arrangement operates as follows:

- "Premiums" are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer's primary rate. The premium for 2020/23 is 0.9% of pensionable pay per annum.

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

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

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

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

EMPLOYERS COVERED BY THE ARRANGEMENT

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

- Community related Admitted Bodies
- Town and Community Councils

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

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

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

APPENDIX F - GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FLIGHTPATH: a framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when "triggers" are hit, whilst still expecting to achieve the overall funding target.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 11th February 2020
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Head of Clwyd Pension Fund

EXECUTIVE SUMMARY

Members should note that:

- On consistent actuarial assumptions with the 2016 valuation, the estimated funding position at the end of December is 94% which is around 14% ahead of the expected position from the 2016 actuarial valuation. The 2019 valuation assumptions will be finalised at this committee meeting. The monitoring report will then be rebased from 1 April 2019 using the 2019 valuation as a starting point.

- The level of hedging remains at 20% for interest rate and 40% for inflation at 31 December 2019. Potential RPI reform poses a risk to the values of the Fund's holdings of inflation-linked assets. The Fund has decided to reduce the inflation exposure by 20% on a temporary basis to partly mitigate this risk but retain inflation hedging at 20% to protect against an unanticipated increase in inflation between now and the finalisation of the RPI reform.

- As at 31 December 2019, the revised equity protection strategy (which increased protection levels by 5%) had made a gain of c. £38m since inception of the strategy.

- The currency risk associated with the market value of the synthetic equity portfolio within the Flightpath is hedged, and a further hedge has been placed on the Fund's developed market physical equity holdings. The level of currency hedging remains at 75% and has made a gain of c. £9m since inception of the strategy due to the strengthening of sterling.

RECOMMENDATIONS	
1	That the information (including the funding position) 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 impact of the currency hedging strategy is noted.
4	That the Committee are aware of the risk from potential RPI reform and the balanced action taken to reduce this risk as well as the costs.

REPORT DETAILS

1.00	**FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE**
1.01	***Update on funding and the flightpath framework*** The monthly summary report as at 31 December 2019 from Mercer on the funding position and an overview of the liability hedging mandate is attached in Appendix 1. It includes a "traffic light" of the key components of the Flightpath and hedging mandate with Insight. The report will be presented at the meeting including a reminder of the principle objectives of the framework.
1.02	The estimated funding level is 94% with a deficit of £139m at 31 December 2019 which is 14% ahead of the expected position when measured relative to the 2016 valuation expected funding plan. Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c. 4% to c. 90% with a corresponding increase in deficit of £91m to £230m. For the purposes of this report the funding position has been measured on consistent actuarial assumptions with the 2016 valuation. The 2019 valuation assumptions will be finalised at this committee meeting. The monitoring report will then be rebased from 1 April 2019 using the 2019 valuation as a starting point.
1.03	None of the interest rate triggers have been satisfied since they were re-structured in September 2017.
1.04	The level of hedging was approximately 20% for interest rates and 40% for inflation at 31 December 2019. The hedging implemented to date provides access to a lower risk investment strategy but maintaining a sufficiently high real yield expectation to achieve the funding targets.
1.05	Based on data from Insight, our analysis shows that the management of the Insight mandate is rated as "green" meaning it is operating in line within the tolerances set by our strategic risk advisors. The Cash Plus Fund is rated "green" and is performing as expected. 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 £4.6m in returns since implementation at 31 January 2018 to 31 December 2019 versus the previous structure. No action required.
1.06	***Impact of potential RPI reform and proposed mitigating actions*** In September 2019, the Sajid Javid responded to letters written by the House of Lords' Economic Affairs Committee and the UK Statistics Authority calling for RPI to be abolished and replaced with CPIH (similar to CPI but allows for housing costs) given the known errors with the metric.

	The Chancellor was broadly in agreement with their proposals and is launching a consultation from 11 March 2020 for 6 weeks to determine when this change should be brought into force (earliest 2025, and latest 2030). CPIH has historically been c. 1% p.a. lower than RPI. As such, assets linked to RPI could see a structural fall in value due to RPI reform. The likelihood of RPI changing in the future has increased and this is an important issue to be considered for the Fund given that the investment strategy has c. 40% inflation hedge ratio, holding assets that directly reference RPI. The Fund's liabilities are linked to CPI, so RPI reform is not expected to impact the value of liabilities, but if the value of RPI-linked assets falls, then this will negatively impact the Fund's funding position. Mercer estimate that the potential worst case impact could be a c. £100m increase in deficit unless asset holders are compensated in some way. RPI-linked assets are currently the best proxy for the inflation sensitivity of the liabilities, as CPI-linked assets are not available in the market. They provide protection from a scenario where inflation expectations rise. There's lots of uncertainty around RPI reform. The risk is RPI is repriced at a much lower value, causing a one-off structural fall in the value of RPI-linked assets. However, it may be that following the consultation, RPI reform is abandoned, or investors are appropriately compensated for the negative impact moving from RPI to CPIH would have on index-linked gilts and RPI swaps. In this case, we would expect to see markets reprice RPI higher, which would have a positive impact on the Fund of c. £40m. In order to manage this risk, the Clwyd Pension Fund manager, on the advice from Mercer, have decided to reduce the inflation hedge ratio from 40% to 20% to maintain some protection from increasing inflation between now and when the reform to RPI is known. This would be achieved by selling the c. £320m index-linked gilts and buying fixed interest gilts of an equivalent duration, thus maintaining the 20% interest rate hedge ratio. Transaction costs are expected to be in the region of £320k-£640k and the transition will be completed before the consultation opens on 11 March 2020. These costs should be considered in light of the potential impact on the Fund of the RPI reform. This balanced approach would reduce the risk RPI reform could have on the Fund's deficit from £100m to £50m. To completely remove the risk of RPI reform would materially increase the risk of inflation rising in the interim period and therefore retaining an inflation hedge ratio of 20% continues to provide some inflation protection. There would be a process to buy back the inflation protection at more attractive levels following the announcement of the results of the consultation.
1.07	***Update on Risk Management framework*** (i) Dynamic equity protection implementation and progress It was previously approved by Committee that, subject to fair market pricing, protection against potential falls in the equity markets via the use of Equity Options should be implemented. This was to provide further

	stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality. It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets. Importantly over the longer-term the increased security allows the Actuary to include less prudence in the Actuarial Valuation assumptions; this would translate into lower deficit contributions at the 2019 valuation whilst maintaining equity exposure supports a lower cost of accrual that under traditional de-risking methods. 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. As at 31 December 2019, the dynamic protection strategy had increased by c. £38m since inception of the strategy. Relative to investing in passive equities (and assuming no costs to do so), the strategy has underperformed by c. £20m since inception.
1.08	(ii) Implementation of currency hedging A strategic currency hedging policy was implemented in March 2019. By currency hedging the market value of the synthetic equity portfolio, and leaving the physical equity portfolio unhedged from a currency perspective, this policy 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. 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. Whilst Brexit uncertainty extends into the new year, sterling has continued to depreciate resulting in a small loss on the strategy currency hedge of c. £0.4m relative to an unhedged position as at 31 December 2019. 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 short term until the outcome of Brexit is clearer. This increases the currency hedge on the overall equity portfolio to approximately 75%. Since inception to 31 December 2019, the strategy has increased in value by £9.4m due to the pound strengthening.

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

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Discussion at the Funding and Risk Management Group but not formal consultation required

4.00	RISK MANAGEMENT
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will provide protection against market falls for the synthetic equity exposure via the Insight mandate only. The collateral waterfall framework is intended to increase the efficiency of the Fund's collateral, and generating additional yield in a low governance manner. Hedging the currency risk of the market value of the synthetic equity portfolio will protect the Fund against a strengthening pound which would be detrimental to the Fund's deficit. Hedging the currency risk of the developed market physical equity exposure will mitigate the risk of a strengthening pound as a result of Brexit uncertainty.

5.00	APPENDICES
5.01	Appendix 1 - Monthly monitoring report – December 2019

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016.
6.02	Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (e) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (f) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by Pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (g) **ISS – Investment Strategy Statement** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund Further terms are defined in the Glossary in the report in Appendix 1

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK
MONTHLY MONITORING REPORT
31 DECEMBER 2019

January 2020

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

Overall funding position

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

In absolute terms the funding position is c.14% 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

A dynamic protection structure was implemented in late May 2018. Refinements have been made in August 2019. To be kept under review due to underperformance arising from the financing return.

Cash Plus Fund

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

Collateral waterfall framework implemented in Q1 2019. Overall, the collateral waterfall generated an additional £3m in returns between 31 January 2019 and 30 September 2019 versus the previous structure. No action required.

Collateral and counterparty position

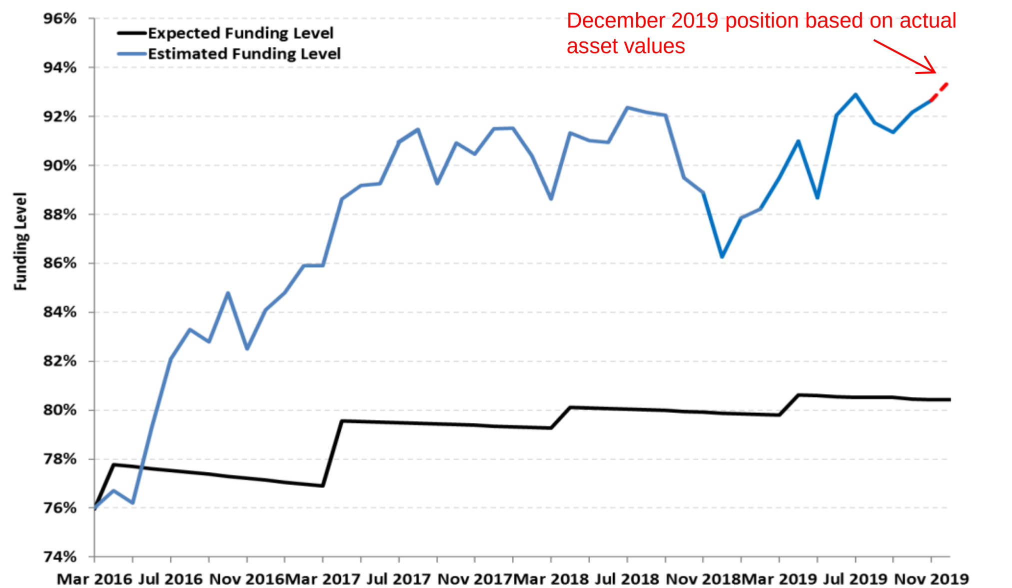
- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.0% rise in interest rates and fall in inflation, in combination with a 40% fall in equity markets without eliminating all collateral

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 £9.4m as at 31 December 2019.

FUNDING LEVEL MONITORING TO 31 DECEMBER 2019

Tudalen 108

Estimated funding position since 31 March 2016



The positions from April 2018 onwards have been adjusted to reflect the actual 2018 and 2019 revaluation/pension increase awarded.

Funding Level Triggers

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

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

**Asset values based on assets provided by Mercer investment consultants as at 31 December 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 31 December 2019 was around 80%.

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

94% (£139m*)

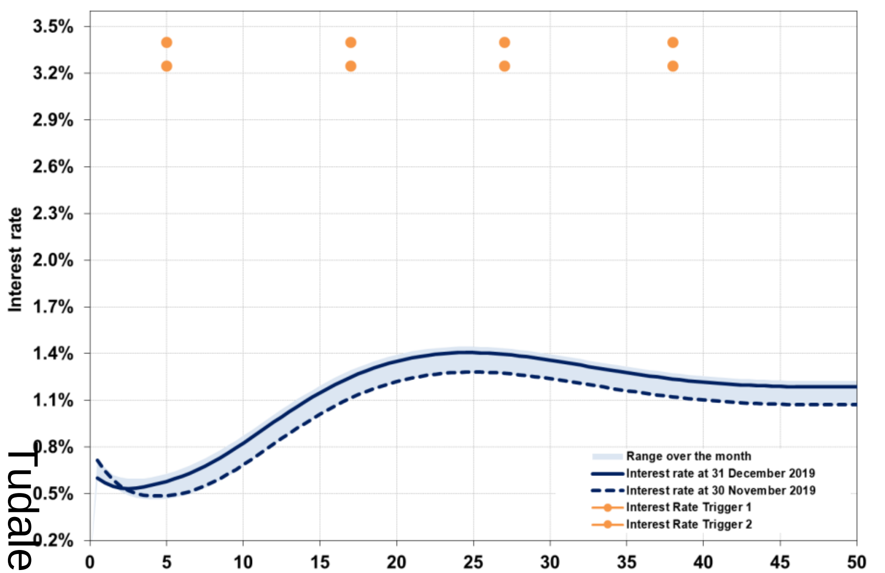
This shows that the Fund's position was ahead of the expected funding level at 31 December 2019 by around 14% on the current funding basis.

Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. This could mean that the likelihood of achieving the assumed real returns going forward has fallen. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c.4% to c.90% with a corresponding increase in deficit of £91m to £230m.

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

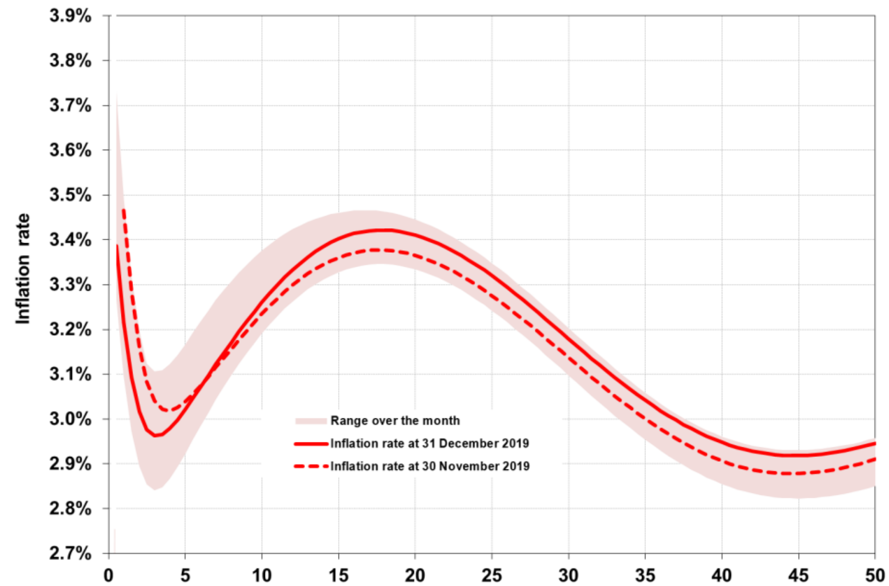
UPDATE ON MARKET CONDITIONS AND TRIGGERS

Change in interest rates



Date	Band 1	Band 2	Band 3	Band 4	Actual
30 September 2019	23.2%	19.1%	19.3%	20.3%	19.0%

Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4	Actual
30 September 2019	38.4%	42.8%	36.0%	41.9%	40.1%

Comments

Interest rates rose marginally across the curve over December 2019.

Based on market conditions as at 31 December 2019, yields would need to rise by c.1.8% p.a. before the Fund would hit any of the revised interest rate triggers implemented by Insight in Q3 2017.

On average there was a rise in interest rates of 0.1% p.a..

Comments

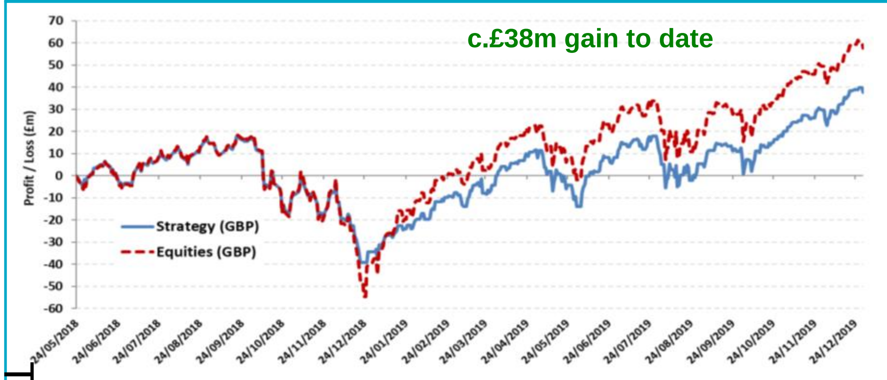
Over December , inflation expectations increased marginally for most durations, with small decreases observed at shorter durations.

It has been agreed that Insight will not resume monitoring of the level of inflation hedging until the interest rate and inflation hedge ratios have been aligned.

**Hedge ratios calculated with reference to 2016 valuation cash flow analysis and relying on a discount rate of gilts + 2.0% p.a..*

UPDATE ON EQUITY PROTECTION MANDATE

Strategy versus equity index



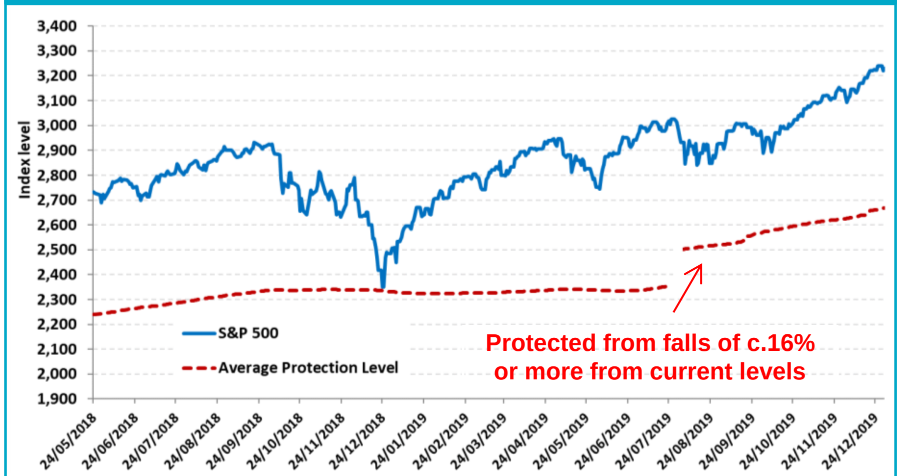
Tudalen 110

GBP returns	Equity return	Hedging return	Financing return	Costs	Overall return	Relative return
MTD	2.39%	(0.32%)	0.01%	(0.03%)	2.05%	(0.34%)
YTD	31.27%	(6.76%)	(1.81%)	(0.48%)	22.22%	(9.05%)
Since Inception	16.76%	(4.64%)	(0.94%)	(0.68%)	10.51%	(6.25%)

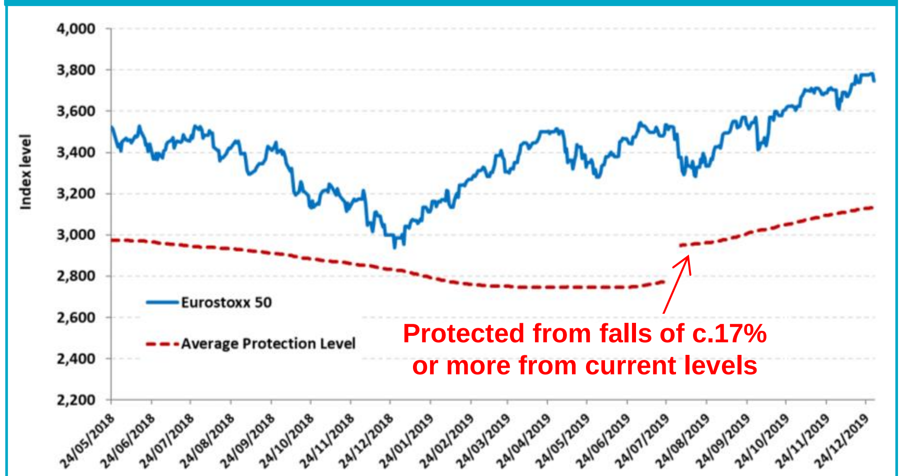
Comments

- 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 31 December 2019, there was a gain of c. £38m on the strategy since inception, relative to a c. £58m 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 December, as it moved further from the protection level. The Fund is 17% from protection at an overall level.
- From inception on 8 March 2019 to 31 December 2019 the currency hedge of the market value of the synthetic equity mandate has contributed a c. £0.4m loss relative to an unhedged position.

US equity exposure

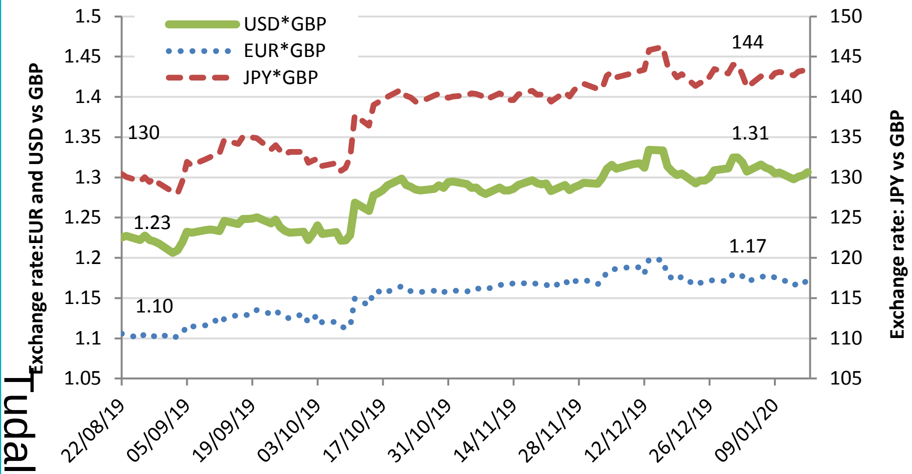


European equity exposure



DEVELOPED MARKET PHYSICAL EQUITY CURRENCY HEDGE

Sterling denominated FX rate



Comments

A currency hedge was placed on the physical, developed equity portfolio to lock-in gains from Sterling weakness and reduce currency risk over what is currently an ongoing volatile period due to uncertainty over the Brexit outcome. The hedge has been implemented via a currency overlay, using 3 month forward contracts, within the Insight QIAIF. The hedge is updated quarterly to allow for changes in the underlying equity exposure.

As at 31 December 2019, the market value of the currency hedge since inception on 22 August 2019 was £9.4m. The market value is positive due marginal improvements in the strength of the pound.

	Currency basket weight	FX performance (since inception*)
EUR	11%	£1.1m
JPY	10%	£1.8m
USD	79%	£6.5m
	100.0%	**£9.4m**

*Insight transacted on the currency hedge on 22 August 2019. Figures may not sum due to rounding.

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.

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MERCER

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 11 February 2020
Report Subject	Pooling Investments in Wales
Report Author	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.

A Joint Governance Committee (JGC) meeting was held on 9th December 2019 and the agenda is attached. The JGC approved the appointed of Hymans Robertson as WPP Oversight Advisor along with other governance documents. The current work plan includes:

- developing governance and communication plan
- reporting and monitoring investment performance
- preparation for the transfer of other asset classes
- tender for a WPP voting and engagement agency.

The Head of Clwyd Pension Fund and Deputy continue to assist the Host Authority (Carmarthenshire County Council) and 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 Powys on 12th March 2020.

RECOMMENDATIONS	
1	That the Committee: a) Note the report. b) Discuss the creation of an impact fund and priority investments. c) Discuss and agree any other comments or questions for WPP.

REPORT DETAILS

1.00	**Pooling Investment in Wales**
1.01	**Governance and Communication** The Officer Working Group (OWG) and advisor have been developing a number of governance related items which were approved by the JGC: • Beliefs policy • Communications plan • Governance Matrix • Training Plan The public report pack from the 9th December JGC can be found here – http://democracy.carmarthenshire.gov.wales/ieListDocuments.aspx?CId=234&MId=3030&Ver=4 and the agenda is attached as Appendix 1. In addition to approving these governance policies and plans, the JGC also approved the appointment of Hymans Robertson as the WPP Oversight Advisor. This will further enhance the governance of the WPP especially in terms of assessing performance.
1.02	The next JGC is in Powys on 12th March 2020 and Clwyd Pension Fund will be represented by the Vice Chair supported by the Head or Deputy Head of the Fund. The main items on the agenda will be: • Business Plan • Scheme Member Representation • Proxy Voting & Engagement tender • Private Markets update
1.03	The next Pension Boards' Chairs' Engagement day is planned for the 2nd April 2020 and Phil Pumford will represent the Clwyd Pension Fund Board
1.04	There is a WPP training day on 21st February 2020 in Powys and the invite is extended to all Committee and Board members. The agenda will be circulated.
1.05	Both the Head and Deputy Head of the Clwyd Fund attended the OWG in Cardiff on 31st January 2020 and the next OWG is 27th March 2020. In the meantime bi-weekly Thursday calls will continue.
1.06	**Reporting and monitoring of WPP investment performance** The investment performance of the Clwyd Pension Fund global equity mandate managed by the WPP is reported in the Investment Strategy and Manager Summary agenda item.
1.07	**Preparation for the transfer of other asset classes** The project plan for the transition of the fixed income mandates has been agreed by the OWG. In the case of the Clwyd Pension Fund, this relates to 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 been appointed. The actual transition of assets is now planned for April 2020 and the transition manager is in direct discussion with our current fund manager.
1.08	The provision of on an emerging market equity sub fund through the WPP is in the later stages of development. The Clwyd Pension Fund has a strategic allocation of 10% or £200m. It is likely to be the end of the year before assets will be transitioned and, in the meantime, work will continue on the development of the WPP Climate Risk Policy which may impact the implementation.
1.09	A sub-group of the OWG had their third 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 27% of the Clwyd Pension Fund's current asset allocation hence the outcome is of particular importance. A recommendation from the sub-group is to have a sub fund within private markets for impact investing, although this is yet to be approved by the JGC. This would be in line with Clwyd Pension Fund revised investment strategy which allocates 4% to local/impact investing. Currently, the two priority areas for the WPP impact fund are affordable housing and climate change, although other areas could be considered on the request of constituent authorities. The Committee are asked for feedback on the creation of an impact sub-fund and views on the priority areas. Impact investing will be part of the WPP training day on 21st February 2020.
1.10	**Competitive tenders for the role of Voting & Engagement Agency and Legal Adviser** The WPP Responsible Investment Policy requires the appointment of a voting and engagement agency. A group of officers, including the Deputy Head of the Clwyd Pension Fund, have agreed a specification and will evaluate tenders including a presentation. The appointment should be ready for approval for the March JGC. This should be seen as an improvement to our current local arrangements and a positive benefit from pooling. The specification includes the requirement of bespoke reporting for constituent authorities. There is also a requirement to re-tender for the legal advisor as the current contract ends on 30th June 2020. A procurement process will commence in February using the LGPS framework.

2.00	**RESOURCE IMPLICATIONS**
2.01	The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the 2019/20 budget. The estimated Operator costs are also included within that budget.
2.02	There has been considerable time allocated by the 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.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None.

4.00	**RISK MANAGEMENT**
4.01	How the Wales Pension Partnership operates is key in enabling the Fund to implement its investment strategy. 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.

5.00	**APPENDICES**
5.01	Appendix 1 – Agenda WPP JGC 9th December 2019

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

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the

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

Mae'r dudalen hon yn wag yn bwrpasol

Wales Pension Partnership Joint Governance Committee,
Democratic Services Unit,
Chief Executive's Department,
Carmarthenshire County Council,
County Hall,
Carmarthen SA31 1JP.

FRIDAY, 29 NOVEMBER 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 **CHAMBER, COUNTY HALL, CARMARTHEN. SA31 1JP. AT 10.00 AM, ON MONDAY, 9TH DECEMBER, 2019** FOR THE TRANSACTION OF THE BUSINESS OUTLINED ON THE ATTACHED AGENDA

Wendy Walters

CHIEF EXECUTIVE
CARMARTHENSHIRE COUNTY COUNCIL

PLEASE NOTE*: THIS MEETING WILL BE FILMED FOR LIVE OR SUBSEQUENT BROADCAST. THE IMAGES AND SOUND RECORDING MAY ALSO BE USED FOR TRAINING PURPOSES.*

Democratic Officer:	**Jessica Laimann**
Telephone (direct line):	**01267 224178**
E-Mail:	**JMLaimann@carmarthenshire.gov.uk**
Webcast Link:	**https://carmarthenshire.public-i.tv/core/portal/home**

WALES PENSION PARTNERSHIP
JOINT GOVERNANCE COMMITTEE
8 MEMBERS
(1 Member from each Constituent Authority)

CARMARTHENSHIRE COUNTY COUNCIL

COUNCILLOR ELWYN WILLIAMS

CITY & COUNTY OF SWANSEA

COUNCILLOR CLIVE LLOYD

CITY OF CARDIFF

COUNCILLOR CHRISTOPHER WEAVER

FLINTSHIRE COUNTY COUNCIL

COUNCILLOR AARON SHOTTON

GWYNEDD COUNTY COUNCIL

COUNCILLOR JOHN PUGHE ROBERTS

POWYS COUNTY COUNCIL

COUNCILLOR PETER LEWIS

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

COUNCILLOR MARK NORRIS

TORFAEN COUNTY BOROUGH COUNCIL

COUNCILLOR GLYN CARON

A G E N D A

1.	**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 20 SEPTEMBER 2019**	5 - 10
4.	**HOST AUTHORITY UPDATE**	11 - 18
5.	**WPP TRAINING PLAN 2019/20**	19 - 24
6.	**WPP COMMUNICATION PLAN**	25 - 36
7.	**WPP BELIEFS STATEMENT**	37 - 42
8.	**WPP GOVERNANCE MATRIX**	43 - 48
9.	**LINK/RUSSELL UPDATE**	49 - 60
10.	**PERFORMANCE REPORT AS AT 30 SEPTEMBER 2019**	61 - 88
11.	**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.

12.	**WPP OVERSIGHT ADVISOR**	89 - 102

Mae'r dudalen hon yn wag yn bwrpasol

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 11th February 2020
Report Subject	Governance Update
Report Author	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:

- The Pension Board's response in relation to the Investment Strategy consultation and its questions relating to cybercrime
- Scheme Advisory Board's (SAB) Good Governance project – the phase three work developing a national compliance statement template and national key performance indicators.

The Committee are also asked to:

- Consider and approve some updates to the Fund's Governance Policy and Compliance Statement, and remind themselves of their responsibilities as Committee members as contained within the Policy
- Return their self-assessment training needs analysis forms by 19 February 2020
- Note the CPF training day for Committee and Board members on 18 March (full day event) and the WPP training day for Committee and Board members on 21 February at Llandrindod Wells.

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
- The latest changes to our breaches of the law register
- Information to note on training and other events.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments. The Committee are asked to return their self-assessment training needs analysis forms by 19 February as referred to in paragraph 1.07.
2	That the Committee approve the Governance Policy and Compliance Statement, including the new objective relating to cybercrime, referred to in paragraph 1.06 and attached in Appendix 2.

REPORT DETAILS

1.00	**GOVERNANCE RELATED MATTERS**
  1.01	**Business Plan 2019/20 Update** Appendix 1 shows progress with this quarter's work in the 2019/20 business plan. Good progress is being made with all actions. The Committee should note the following: • The business continuity plan (G1) is still behind schedule and work is currently expected to be completed during 2020/21. • Work has also commenced on the review of the Investment Consultant and Independent Adviser contracts (G3). As agreed at the last Committee, due to the timing of Committee meetings, the appointments will 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)). The results of the procurement process will be emailed to Committee members in early April. • A number of Pension Board and Pension Fund Committee representative appointments are due for review during 2020/21 (G4). These relate to the two Pension Board Scheme Employer representatives and the Pension Committee trade union scheme member representative and other Scheme Employer representative.. Unfortunately the existing members cannot be reappointed without carrying out a process which would allow other persons to nominate themselves or be nominated. However existing members can put themselves forward for reappointment. The Head of Clwyd Pension Fund will carry out the appointments process in accordance with the steps laid out in the Constitution. • The Fund’s Governance Policy is subject to triennial review by the Committee (G5). The proposed amendments to the Policy are explained later in the report.
1.02	The Committee is asked to note the contents of the business plan.
  1.03	**Current Developments and News** *Pension Board update* There have been no meetings of the Pension Board since October 2019, and an update on that meeting was included at the last Committee meeting. The next meeting is on the 25th February 2020. However, in the meantime, the Board has communicated on a number of matters including: a) <u>Consultation on investment strategy and responsible investment (RI) policy</u> This consultation was also shared with the Board for comments. Given the Board’s role is focussed on governance and administration, they agreed it was not appropriate to comment on the

	intricacies of the investment related elements in the document. Instead they focussed on whether the governance around the review of the strategy was appropriate, and they confirmed that they had no concerns about how the officers and Committee reached the proposals relating to the change in the Strategy. However, in relation to the responsible investment matters, the Board fed back the following: “We support the development of the Fund’s responsible investment policy and we are particularly pleased to see that the ultimate aim to act in the best interests of the Fund’s members and employers is incorporated into the RI principles, as it is important that the move to a more responsible investment strategy is done without adding the risk of reduced investment returns. Given that, we are supportive of the RI policy as drafted and note the beliefs, principles and priorities in the policy are well articulated and they appear sensible in our view.” b) <u>Cybercrime</u> The Pension Board continues to be interested in how the Fund’s cybercrime risk is being managed. The Board is aware that the current assumption is that the two greatest potential areas of risk relate to the systems that are owned or managed by Flintshire County Council and also Heywood who provide the administration systems holding scheme member data. The Board has emailed the Head of Clwyd Pension Fund asking him to properly pursue gathering sufficient information from Flintshire County Council, Heywood and any other parties where they consider there are probably cyber threats, to allow them to fully determine if there are appropriate controls in place.
1.04	*National LGPS Scheme Advisory Board (SAB) Update* There have been no meetings of the LGPS SAB since the one 6 November 2019 and an update on that was reported at the last Committee meeting. The next meeting of the SAB is being held on 3rd February. A verbal update will be provided should a summary of the SAB meeting have been shared ahead of the Committee meeting.
1.05	*SAB Good Governance Project – Phase 3* Information relating to this project has been reported to the Committee on several occasions. As reported at the last meeting, the phase 2 report included a number of recommendations to improve the governance of LGPS funds. These related to areas such as knowledge and skills (particularly Committee members and Section 151 officers), conflicts of interest and ensuring appropriate resourcing of pension fund services. It is likely this will result in new statutory governance guidance from the Ministry for Housing Communities and Local Government (MHCLG) to effectively implement the proposals from this project. In addition, it is expected that administering authorities will be required to report on a “comply or explain” basis, which will be subject to a biennial independent governance review which will be further assessed by a SAB panel of experts.

	The third phase of the project is now taking place which relates to the development of the template compliance statement, which is expected to feed into new statutory governance guidance, and some national key performance indicators. The outcomes are expected to be reported to the SAB in May 2020.
1.06	**Policy and Strategy Implementation and Monitoring** *Governance Policy and Compliance Statement* Each LGPS administering authority is required to formulate and publish a written statement outlining how pension related functions are delegated within their authority, including matters such as whether representatives of scheme members and employers are involved. This information is included in the Clwyd Pension Fund Governance Policy which is subject to review every three years. The updated version is included in Appendix 2. The Committee's attention is drawn to the compliance statement which shows that the Fund continues to be fully compliant in all areas within the Secretary of State's existing governance guidance. The main change is to add a new objective around the safeguarding of systems, data and processes, to recognise the increased risk of cybercrime. The other changes include: • Updating to be consistent with recent minor changes to the Constitution • Some additional measures or clarity on existing measures which will assist in determining whether the governance objectives are being met • Adding a section to explain the Fund's approach to risk management. The Committee are asked to approve the updated Governance Policy and Compliance Statement, including the new objective. **<u>All PFC members are asked to remind themselves of the contents of the policy, and particularly their responsibilities as set out in Appendix B of the Policy.</u>**
1.07	*Training Policy* The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to: • have training on the key elements identified in the CIPFA Knowledge and Skills Framework • attend training sessions relevant to forthcoming business and • attend at least one day each year of general awareness training or events. *Self-assessment training needs analysis* Fund officers are committed to providing the appropriate training to ensure the objectives to the Training Policy can be met. It is therefore important to regularly asses the level of knowledge and expertise, and any gaps in knowledge, so that a training plan can be developed as part of the 2020/21

	business plan that will be considered at the March Committee meeting. A self-assessment training needs analysis has been issued to all Committee and Board members and it must be **completed and returned by 19th February**. Any Committee or Board member who needs further assistance in relation to this should contact the Head of the Clwyd Pension Fund. Questions can also be answered before or after the Committee meeting on the 11th February. As always, Committee members are encouraged to highlight any training requirements to the officers of the Fund. A comments box is included at the foot of the training needs analysis which can be used by members to highlight any such training requirements. *Training events* Appendix 3 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. Several members of the Committee and Board attended the recent LGA Governance Conference on 23 and 24 January. Those members are asked to share observations from the event. Members attention is drawn to the next Committee meeting on 18 March which will be a full day event including training for all Committee and Board members. In addition, WPP are hosting a training event for all Committee and Board members on 21 February in Powys Council Chamber, Llandrindod Wells, from 10am until 3.30pm. Members who are able to attend this event should notify Debbie Fielder, the Deputy Head of Clwyd Pension Fund.
1.08	*Recording and Reporting Breaches Procedure* 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 4 details the current breaches that have been identified. It is positive to note that there continues to be no new breaches relating to contribution payments or late submission of remittance advice, and there are no outstanding breaches in that area. The breaches relating to missing administration legal timescales are very similar to last quarter.
1.09	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to governance matters.
1.10	**Calendar of Future Events** Appendix 5 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates.

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

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

4.00	**RISK MANAGEMENT**
4.01	Appendix 6 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 (risk 5). This is mainly due to the ongoing uncertainty around the cost cap process and the McCloud judgement. The description in this risk has been updated to clarify that this risk also incorporates cybercrime risk. As a result of McCloud and cybercrime, the target date for this risk has been moved to March 2021. Otherwise, the only changes to the risks relate to target dates.

5.00	**APPENDICES**
5.01	Appendix 1 – Business plan progress 2019/20 Appendix 2 – Clwyd Pension Fund Governance Policy and Compliance Statement Appendix 3 – Training plan Appendix 4 – Breaches Appendix 5 – Calendar of future events Appendix 6 – Risk register

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

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

Mae'r dudalen hon yn wag yn bwrpasol

Business Plan 2019/20 to 2021/22 – Q4 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
Opening Cash	(13,623)	(21,188)	(3,599)	(5,764)		
Payments						
Pensions	57,452	59,447	61,600	47,223	63,000	1,400
Lump Sums & Death Grants	13,500	14,708	15,000	12,532	16,500	1,500
Transfers Out	5,600	6,791	6,000	3,370	4,500	(1,500)
Expenses	3,935	4,263	4,600	2,897	4,600	0
Tax Paid	0	0	0	97	97	97
Support Services	120	265	140	0	140	0
Total Payments	80,607	85,474	87,340	66,119	88,837	1,497
Income						
Employer Contributions	(34,617)	(39,554)	(40,000)	(31,028)	(41,000)	(1,000)
Employee Contributions	(15,259)	(14,794)	(14,400)	(11,733)	(15,500)	(1,100)
Employer Deficit Payments	(52,612)	(18,811)	(19,800)	(18,862)	(19,000)	800
Transfers In	(4,813)	(4,220)	(4,000)	(4,948)	(6,000)	(2,000)
Pension Strain	(1,057)	(1,644)	(1,200)	(151)	(1,200)	0
Income	(29)	(45)	(48)	(71)	(80)	(32)
Total Income	(108,387)	(79,068)	(79,448)	(66,793)	(82,780)	(3,332)
Cashflow Net of Investment Income	(27,780)	6,406	7,892	(674)	6,057	(1,835)
Investment Income	(3,540)	(7,990)	(6,000)	(6,297)	(8,000)	(2,000)
Investment Expenses	3,035	3,593	3,000	3,014	4,000	1,000
Total Net of In House Investments	(28,285)	2,009	4,892	(3,957)	2,057	(2,835)
In House Investments						
Draw downs	73,893	91,883	77,019	91,137	115,874	38,855
Distributions	(52,294)	(58,348)	(77,930)	(44,842)	(63,292)	14,638
Net Expenditure /(Income)	21,599	33,535	(911)	46,295	52,582	53,493
Total Net Cash Flow	(6,686)	35,544	3,981	42,338	54,639	50,658
Rebalancing Portfolio	(879)	(20,120)	(10,000)	(72,001)	(72,000)	(62,000)
Total Cash Flow	(7,565)	15,424	(6,019)	(29,663)	(17,361)	
Closing Cash	(21,188)	(5,764)	(9,618)	(35,427)	(23,125)	

Operating Costs

	2017/18	2018/19	2019/20			
	Actual	Actual	Budget	Actual	Projected for full year	Projected under/ over
	£000s	£000s	£000s	£000s	£000s	£000s
Governance Expenses						
Employee Costs (Direct)	229	193	299	**211**	**287**	(12)
Support & Services Costs (Internal Recharges)	23	23	22	**0**	**22**	0
IT (Support & Services)	5	0	5	**1**	**5**	0
Other Supplies & Services)	69	64	70	**79**	**105**	35
Audit Fees	39	39	40	**0**	**40**	0
Actuarial Fees	217	407	435	**285**	**435**	0
Consultant Fees	511	598	664	**408**	**664**	0
Advisor Fees	202	436	179	**105**	**179**	0
Legal Fees	37	57	40	**15**	**40**	0
Pension Board		58	69	**33**	**69**	0
Pooling (Consultants & Host Authority)	0	85	109	**3**	**109**	0
Total Governance Expenses	1,332	1,960	1,932	**1,140**	**1,955**	23
Investment Management Expenses						
Fund Manager Fees*	20,539	21,218	21,000	**2,801**	**23,000**	2,000
Custody Fees	31	31	31	**19**	**31**	0
Performance Monitoring Fees	67	60	66	**36**	**66**	0
Pooling (Operator / Manager)			186	**0**	**186**	0
Total Investment Management Expenses	20,637	21,309	21,283	**2,856**	**23,283**	2,000
Administration Expenses						
Employee Costs (Direct)	649	777	893	**694**	**933**	40
Support & Services Costs (Internal Recharges)	105	113	66	**0**	**66**	0
Outsourcing	227	394	900	**183**	**500**	(400)
IT (Support & Services)	286	364	424	**402**	**424**	0
Other Supplies & Services)	139	86	63	**79**	**105**	42
Miscellaneous Income	0	0	0	**0**	**0**	0
Total Administration Expenses	1,406	1,734	2,346	**1,358**	**2,028**	(318)
Employer Liaison Team						
Employee Costs (Direct)	163	205	213	**168**	**225**	12
Total Costs	**23,538**	**25,208**	**25,774**	**5,522**	**27,491**	**1,717**

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		
G4	Review appointment of Pension Fund Committee Representatives and Local Board Members				x	x	x
G5	Review of Governance Related Policies				x	x	x

Governance Task Descriptions

G1 – Develop business continuity plan

What is it?

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

Timescales and Stages

Develop business continuity plan	2019/20 Q2 & Q3

Resource and Budget Implications

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

G2 - Review administration system contract

What is it?

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

Timescales and Stages

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

Resource and Budget Implications

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

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.

G4 - Review appointment of Pension Fund Committee Representatives and Local Board Members

What is it?

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

- Two scheme employer representatives – July 2020 (five year point)
- Scheme member representative (trade union) – October 2020 (three year point)
- Scheme member representative (non-trade union) – July 2021 (assumed three year point)

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

Timescales and Stages

Review and recruit current Pension Board representatives (2 x employer plus trade union scheme representative)	2019/20 Q4 & 2020/21 Q1/2
Review existing Pension Fund Committee representatives	2019/20 Q4 & 2020/21 Q1/2
Review Pension Board scheme member representative (non-trade union)	2021/22 Q1/2

Resource and Budget Implications

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

G5– Review of Governance Related Policies

What is it?

The Fund has several policies focussing on the good governance of the Fund, all of which are subject to a fundamental review, usually at least every three years. The policies and the due dates for their reviews are as follows:

Policy	Last reviewed	Next review due
Governance Policy and Compliance Statement	March 2017	March 2020
Risk Policy	September 2017	September 2020
Conflicts of Interest Policy	September 2018	September 2021
Procedure for Recording and Reporting Breaches of the Law	November 2018	As and when deemed appropriate
Training Policy	November 2018	November 2021

Timescales and Stages

Governance Policy and Compliance Statement	2019/20 Q4
Risk Policy	2020/21 Q2
Conflicts of Interest, Breaches and Training Policies	2021/22 Q2/3

Resource and Budget Implications

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

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for CLWYD PENSION FUND

GOVERNANCE POLICY and COMPLIANCE STATEMENT

February 2020~~September 2018~~

GOVERNANCE POLICY

Introduction and Legal Requirements

Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund on behalf of its stakeholders; the scheme members and employers participating in the Fund. These responsibilities are primarily set out in Local Government Pension Scheme (LGPS) Regulations.

Flexibility is provided for each Administering Authority to determine their own governance arrangements. However the LGPS Regulations require each Administering Authority to prepare, publish and maintain a governance policy and compliance statement setting out whether the Administering Authority delegates its functions, or part of its functions to a committee, a sub-committee or an officer of the authority, and if so:

a) the terms, structure and operational procedures of the delegation,

b) the frequency of any committee or sub-committee meetings,

c) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights

d) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying, and

e) details of the terms, structure and operational procedures relating to the local pension board.

The regulations require Administering Authorities to consult such persons as it considers appropriate when preparing the policy and compliance statement.

This document is the Governance Policy and Compliance Statement for Clwyd Pension Fund that has been prepared to meet the requirement of the LGPS Regulations. The compliance statement required by point (d) is included as Appendix A.

Aims and Objectives

Flintshire County Council recognises the significance of its role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- around 46,900~~46,700~~ current and former members of the Fund, and their dependants
- around 47~~43~~ employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:

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

In relation to the governance of the Fund we will aim to:

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

Background to Governance Arrangements

Flintshire County Council reviewed its Governance arrangements for the Clwyd Pension Fund in 2014. Prior to this date, the responsibility for the Clwyd Pension Fund rested with the Head of Finance who reported to the Clwyd Pension Fund Panel made up of elected members from Flintshire County Council, Denbighshire County Council and Wrexham County Borough Council. In addition the panel had non-voting members including an independent adviser and a scheme member representative.

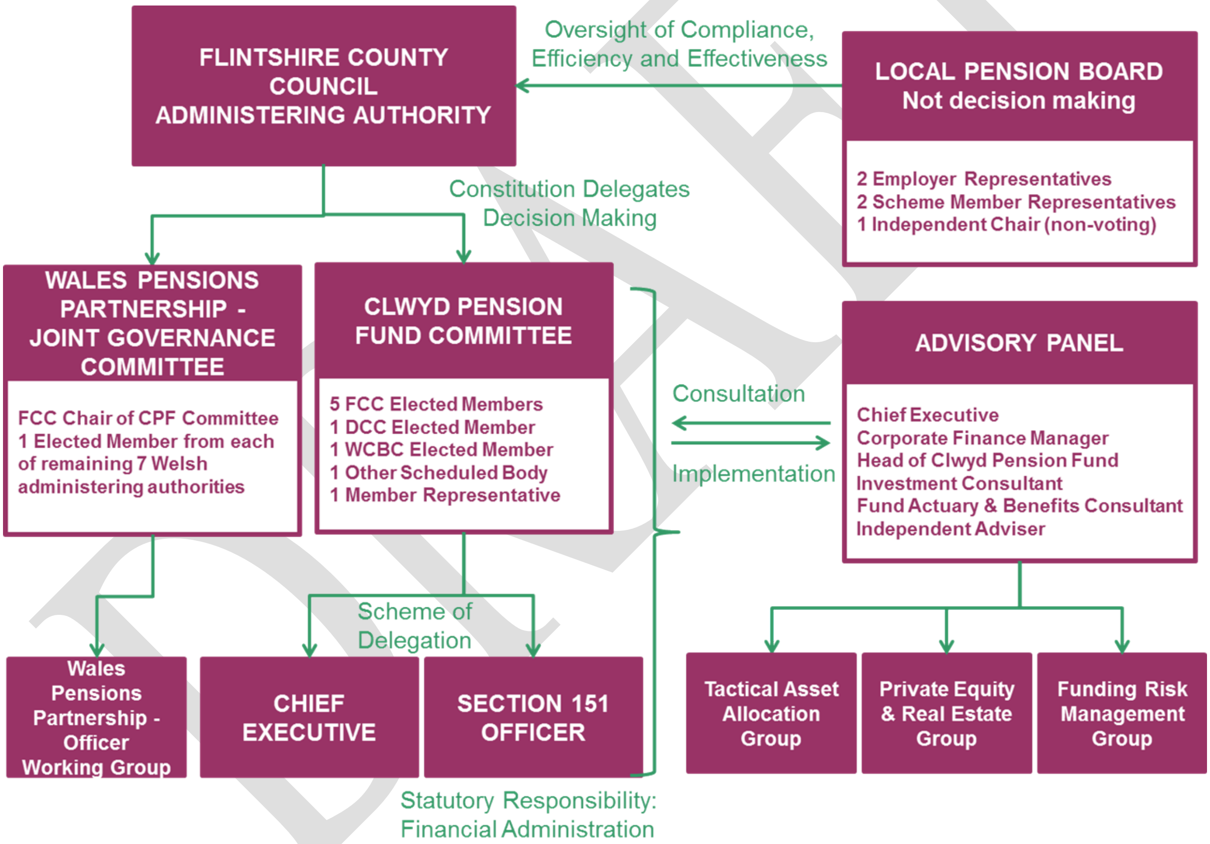
An independent review by CIPFA in 2010 found the governance of the Fund to be very good but recognised that this governance structure did not meet best practice, in particular they recommended:

- Responsibility for the management of the Clwyd Pension Fund should be transferred from the Head of Finance to a newly constituted Committee
- There should be wider representation of stakeholders on the newly constituted committee with voting rights extended to all committee members.

As a result, in May 2014, the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. The Corporate Finance Manager is the Section 151 Officer and has a statutory responsibility for the proper financial affairs of Flintshire County Council which include Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Executive.

This governance structure was expanded in early 2015 as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. It was then further expanded in March 2017 to establish the Wales Pension Partnership Joint Governance Committee and Officer Working Group and facilitate the move to pooling of pension fund assets across the eight LGPS Pension Funds in Wales.

The Council's governance structure for pension fund matters is as shown below:



Clwyd Pension Fund Committee

The Pension Fund Committee's principal aim is to carry out the functions of Flintshire County Council as the Scheme Manager and Administering Authority for the Clwyd Pension Fund in accordance with LGPS legislation.

The members on the Clwyd Pension Fund Committee are not trustees of the Fund, however, they do have a duty of care which is analogous to the responsibilities of trustees in the private sector and they could be more accurately described as 'quasi trustees'. The management of the Clwyd Pension Fund is Non-Political.

The Committee's specific roles as outlined in the Council's Constitution are shown in Appendix B. The Committee may also delegate a limited range of its functions to one or more officers of Flintshire County Council.

No matters relating to Flintshire County Council's responsibilities as an employer participating within the Clwyd Pension Fund are delegated to the Pension Fund Committee.

The Pension Fund Committee meets at least quarterly and is composed of nine members as follows:

- Five Councillors of Flintshire County Council, determined by the Council.
- Four co-opted members comprising:
  - One Councillor of Wrexham County Borough Council, determined by that Council.
  - One Councillor of Denbighshire County Council, determined by that Council.
  - One Representative of the other Scheme Employers (not admission bodies) in the Clwyd Pension Fund as defined by Schedule 2 of the Local Government Pension Scheme 2013, as amended from time to time, appointed in accordance with procedures agreed by the Chief Executive in consultation with the members of the Pension Fund Advisory Panel.
  - One Representative of the scheme members of the Clwyd Pension Fund, appointed in accordance with procedures agreed by the Chief Executive ~~in consultation with the members of the Pension Fund Advisory Panel~~.

The Council's Constitution permits named substitutes for Flintshire County Council members only, providing they satisfy the knowledge and skills policy of the pension fund. Councillors of Flintshire County Council are appointed annually. Otherwise, the terms of reference for the members range from four to six years. ~~, and~~ Members may be reappointed for further terms.

All members have equal voting rights.

Chief Executive

Under the Council's Constitution, the Chief Executive is responsible for the following matters:

- The day to day management of Clwyd Pension Fund matters including ensuring arrangements for investment of assets and administration of contributions and benefits, excluding matters delegated to the Pension Fund Committee.
- Establishing and Chairing a Clwyd Pension Fund Advisory Panel consisting of officers of the Council and advisors to the Clwyd Pension Fund, to provide advice and propose recommendations to the Pension Fund Committee, and to carry out

such matters as delegated to it from time to time by the Pension Fund Committee.

Section 151 Officer – Corporate Finance Manager

Under the Council's current operating model, the Chief Finance Officer (S151) role is designated to the Corporate Finance Manager. The Corporate Finance Manager therefore has a statutory responsibility for the proper financial administration of the Clwyd Pension Fund, in addition to that of Flintshire County Council.

Clwyd Pension Fund Advisory Panel

The Clwyd Pension Fund Advisory Panel has been established by the Chief Executive to provide advice and propose recommendations to the Pension Fund Committee, and to carry out such matters as delegated to it from time to time by the Pension Fund Committee.

Its membership consists of:

- The Chief Executive of Flintshire County Council
- The Chief Finance Officer of Flintshire County Council
- The Head of Clwyd Pension Fund ~~Manager~~
- Investment Consultant
- Fund Actuary
- Independent Adviser

Wales Pension Partnership Joint Governance Committee

To satisfy the Government's requirements to reduce investment related costs, the eight LGPS administering authorities in Wales, including Flintshire County Council, have entered into an Inter Authority Agreement to pool pension fund assets, a key part of which will be done by appointment of an Authorised Contractual Scheme Operator to make the investments on behalf of the administering authorities. This was agreed at the Flintshire County Council meeting on 1st March 2017. The report and appendices can be found here.

As part of this pooling arrangement, the authorities have also established a Joint Governance Committee with a number of responsibilities including the following:

- Monitoring the performance of the Operator
- Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight Funds
- Providing accountability to the participating Funds on the management of the Pool
- Reporting on the Pool to the UK Government and other stakeholders
- Having oversight of an Officer Working Group

Flintshire County Council has determined that the Clwyd Pension Fund representative on the Joint Governance Committee will be the Chair of the Pension Fund Committee. In his or her absence, the Vice Chair will act as the Deputy.

The Pension Fund Committee will determine which officers of Clwyd Pension Fund will represent the Fund on the Officer Working Group.

The Joint Governance Committee meets at least four times each year and is composed of one elected member from each Administering Authority responsible for maintaining an LGPS Pension Fund in Wales. These are:

- Carmarthenshire County Council
- City & County of Swansea Council
- City of Cardiff Council
- Flintshire County Council
- Gwynedd Council
- Powys County Council
- Rhondda Cynon Taff County Borough Council
- Torfaen County Borough Council.

Each member present at the Joint Governance Committee is entitled to a vote and all members have equal voting rights.

Carmarthenshire County Council acts as Host Council in relation to the Wales Pension Partnership Inter Authority Agreement. This role includes the following in relation to the management of the pooling arrangements:

- Acting as the main point of contact
- Providing administrative resources and facilities, and governance and administrative services
- Entering into contracts for supplies and services
- Liaising with the Operator.

Wales Pension Partnership Officer Working Group

The Wales Pension Partnership Officer Working Group has been established as part of the Wales Pension Partnership Inter Authority Agreement to support and advise the Joint Governance Committee on such matters as the Joint Governance Committee may reasonably request or any matters relating to the pooling agreement which are raised by any of the authorities' Section 151 Officers or Monitoring Officers.

Each authority delegates to officers to the Officer Working Group. In relation to Clwyd Pension Fund, the Pension Fund Committee determines which of its officers sit on the Officer Working Group. Each authority's Section 151 Officer and Monitoring Officer are entitled to attend the Officer Working Group.

The full list of responsibilities and procedures relating to the Joint Governance Committee, Officer Working Group and Host Council are included in the Inter Authority Agreement.

Pension Board

Each LGPS Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Flintshire County Council does not apply to the Pension Board unless it is expressly referred to in the Board's Protocol. The Clwyd Pension Board was established by Flintshire County Council in March 2015 and the full Protocol of the Board can be found within the Council's Constitution. The key points are summarised below.

The Pension Board provides oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pension Fund Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers. The Pension Board operates independently of the Pension Fund Committee.

The Pension Board consists of five members as follows:

- Two Employer Representatives
- Two Scheme Member Representatives, one of whom is nominated by the joint trade unions, and one who is a member of the Clwyd Pension Fund
- One Independent Member who acts as chair of the Pension Board.

All Pension Board members, excluding the Independent Member, have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only considered quorate when at least three of the five members are present, including at least one Employer Representative, one Scheme Member Representative and the Independent Member.

Members of the Pension Board are required to declare, on appointment and at each meeting, any interests that may lead to conflicts of interest in relation to Pension Fund matters or agenda items.

The Pension Board meets a minimum of twice and a maximum of four times in each calendar year in the ordinary course of business. Additional meetings may be arranged, subject to approval by the Chief Executive, to facilitate its work.

Training

Flintshire County Council recognises that effective management, administration and decision making can only be achieved where those involved have the requisite knowledge and skills. Accordingly, in relation to the management of the Clwyd Pension Fund, we adopt the key recommendations of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

This means we will ensure that we have formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant LGPS and related knowledge and skills for those responsible for management, administration and decision-making relating to the Fund. These policies and practices will be guided by reference to the framework of knowledge and skills defined within the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Clwyd Pension Fund's Training Policy can be found on the Fund's website – https://mss.clwydpensionfund.org.uk/.

We will report on an annual basis how well this Policy has been adhered to throughout the financial year as part of the Fund's Annual Report and Accounts.

The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Chief Executive, who will act in accordance with the Fund's Policy.

In addition, in accordance with the Wales Pension Partnership Inter Authority Agreement, the Joint Governance Committee is required to prepare, maintain and adhere to a Training and Competence Policy. All members are required to undertake the training that is provided.

Conflicts of Interest

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

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

Clwyd Pension Fund's Conflict of Interest Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Fund whether directly or in an advisory capacity. The Policy is established to guide the Pension Fund Committee members, Pension Board members, officers and advisers. It aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

The Policy can be found on the Fund's website – https://mss.clwydpensionfund.org.uk/

In addition, in accordance with the Wales Pension Partnership Inter Authority Agreement, the Joint Governance Committee is required to prepare, maintain and adhere to a Conflicts of Interest Policy.

Risk Management

Flintshire County Council recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

Clwyd Pension Fund's Risk Policy details the risk management strategy for the Clwyd Pension Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

We recognise that it is not possible or even desirable, to eliminate all risks. Pension Fund risks are often driven by external factors which are totally or partially out of our control. These include national changes to the Scheme and financial market conditions. Accepting and actively managing risk is therefore a key part of our risk management strategy for Clwyd Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

We also recognise that risk management is not an end in itself. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

The Policy can be found on the Fund's website – https://mss.clwydpensionfund.org.uk/

Welsh Language Standards

Flintshire County Council has adopted the principle that in the conduct of public business it will treat the Welsh and English languages on a basis of equality. These standards therefore also apply to the governance arrangements for the Clwyd Pension Fund. More information can be found on the Council's website or by contacting the Head of Clwyd Pension Fund ~~Manager~~.

Monitoring Governance of the Clwyd Pension Fund

The Fund's governance objectives will be monitored as follows:

Objective	Monitoring Arrangements
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	• The Independent Adviser undertakes an annual review of the effectiveness of the Clwyd Pension Fund's governance arrangements, the findings of which are reported to the Committee and published. • The Pension Board prepares and publishes an annual report. • In line with the Regulations this document will be filed with the MHCLG.

Objective	Monitoring Arrangements
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	• A Training Policy is in place together with ~~annual~~ monitoring and reporting of all training by Pension Committee members, Pension Board members and key officers in accordance with the Training Policy. • The Joint Governance Committee has a Training Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	• A Conflicts of Interest Policy is in place together with ongoing reporting and monitoring of the register of conflicts in accordance with the Conflicts of Interest Policy. • The employers within the Fund, together with union representatives, are invited to an Annual Joint Consultative Meeting. Attendees receive presentations and have the opportunity to ask questions on the governance of the Fund. • The Pension Fund Committee includes representatives from scheme members and most employers in the Fund. • The Pension Board includes representatives from scheme members and employers in the Fund. • The Pension Board prepares and publishes an annual report which may include comment on decision making. • The Joint Governance Committee prepares an annual business plan which is brought to the Clwyd Pension Fund Committee for agreement.in accordance with the Inter Authority Agreement
Understand and monitor risk	• A Risk Policy and register in place and monitoring and reporting of risks is carried out in accordance with the Risk Policy. • Ongoing consideration of key risks at Pension Fund Committee meetings.

Objective	Monitoring Arrangements
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	• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee. • The Fund has an Independent Adviser and their annual report includes reference to compliance with key requirements. • The Fund carries out a compliance check, at least annually, against the relevant The Pension Regulator's Code of Practice. • The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure which is reported on and monitored as outlined in that procedure. • The Pension Board prepares and publishes an annual report which may include comment on compliance matters. • The Joint Governance Committee has a Breaches and Error Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.
Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success	• All strategies and policies include reference to how objectives will be monitored. • Ongoing monitoring against key objectives at Pension Fund Committee meetings. • Ongoing monitoring of business plan targets at Pension Fund Committee meetings. • Quarterly and annual updates against the Joint Governance Committee's business plan and objectives are provided in accordance with the Inter Authority Agreement.
Ensure the confidentiality, integrity and accessibility of the Fund's data, systems and services is protected and preserved.	• All information security breaches relating to data being issued insecurely by the Fund are recorded and reviewed. • All other incidents affecting confidentiality, integrity and accessibility of data, systems or services are recorded and reviewed. • The Fund has a cyber incident response plan in place. • The Fund has a business continuity plan and a testing schedule (including cyber incident testing) in place which is adhered to. • All Fund staff undertaken GDPR training in accordance with FCC's training programme.

Key Risks

~~The key risks to the delivery of this Strategy are outlined below. The Pension Fund Committee members, with the assistance of the Clwyd Pension Fund Advisory Panel, will monitor these and other key risks and consider how to respond to them.~~

These are the main governance risks that Pension Fund Committee members, with the assistance of the Clwyd Pension Fund Advisory Panel, monitor on an ongoing basis.

- The potential for changes in Pension Fund Committee membership, Pension Board membership, Joint Governance Committee and/or key officers, a poor level of knowledge, poor engagement or poor oversight to impact the quality of decisions that are made.
- If potential or actual conflicts of interest are not appropriately managed, they could influence decision making, meaning decisions are not in the best interests of our fund members and employers, and our fiduciary duties are not met
- If policies are not in place or not regularly monitored, then the Fund's objectives may not be clear or appropriate
- A breakdown in risk management would result in risks not being identified or not appropriately considered, resulting in losses or other detrimental impact to the Fund or its stakeholders
- The potential for externally led influence and changes (such as scheme changes, national reorganisation, cybercrime and asset pooling) to result in the Fund's objectives and legal responsibilities not being met or being compromised
- If, for reasons such as sickness, resignation, retirement or inability to recruit, staff numbers become insufficient, then this could result in services not being delivered to meet legal and policy objectives
- If appropriate training is not provided to those tasked with managing the Fund, or they do not understand their responsibilities, then there is the risk that legal requirements or guidance may not be complied with.

- ~~Changes in Pension Fund Committee membership, Pension Board membership, Joint Governance Committee and/or key officers resulting in loss of continuity and potentially diminishing knowledge and understanding~~
- ~~Lack of resource within the Pension Fund Management Team resulting in inability to deliver the appropriate standard of governance~~
- ~~Lack of resource or lack of buy in to deliver the governance requirements relating to the Welsh Pension Partnership~~
- ~~Changes in government / legislative requirements meaning insufficient time allocated to ongoing management, either at Pension Fund Committee meetings or as part of key officers' duties~~
- ~~Ineffective delegation of duties and/or presentation of Pension Fund Committee items resulting in insufficient time spent on key matters~~
- ~~Insufficient monitoring of the Joint Governance Committee responsibilities~~
- ~~Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members, Joint Governance Committee members, Advisory Panel members and/or other key officers resulting in a poor standard of decision making and/or monitoring~~
- ~~Conflicts of interest not being appropriately managed by Committee members,~~

~~Board members, Joint Governance Committee and/or key officers.~~

Best Practice Compliance Statement

As required by Local Government Pension Scheme Regulations the statement below compares Clwyd Pension Fund's current governance arrangements with the best practice guidance issued by the Secretary of State for Housing, Communities and Local Government. The statement provides an explanation where the Fund is not fully compliant.

Approval, Review and Consultation

The governance structure of the Clwyd Pension Fund was reviewed in 2014. The employers of the Fund were consulted prior to that review. Employer and scheme member representatives have also been party to proposed changes to the structure including the arrangements for entering into the Wales asset pooling arrangement.

This version of the Governance Policy and Statement was approved at the Clwyd Pension Fund Committee on 11 February 2020 ~~21 March 2017 and then amendments approved using officer delegations in September 2018~~. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Governance Policy and Statement, please contact:

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

Further information about the Fund can be found on its website - https://mss.clwydpensionfund.org.uk/
Further information about the Wales Pension Partnership can be found on its website - https://www.walespensionpartnership.org/.

Appendix A - Clwyd Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
A. STRUCTURE		
a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**COMPLIANT**	The majority of elements of administration of benefits and strategic management of fund assets are delegated by the Council to Pension Fund Committee. The Wales Pension Partnership Joint Governance Committee has responsibility for some elements of management of the Wales Pension Partnership.
b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	**COMPLIANT**	Representatives covering most employers and scheme members are Co-opted Members of the Pension Fund Committee. The Pension Board, although not a formal secondary committee, also includes representatives of scheme members and employers. The Wales Pension Partnership Joint Governance Committee is required to liaise with scheme member and employer representatives.

Best Practice	Compliant or not?	Explanatory Note
c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**NOT APPLICABLE**	There is no formal secondary committee or panel. However it is worth noting that the Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate. All Pension Board minutes are circulated around Pension Fund Committee members are soon as they are available as well as being included in Pension Fund Committee reports.
d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**NOT APPLICABLE**	
B. REPRESENTATION		

Best Practice	Compliant or not?	Explanatory Note
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	**PARTIALLY COMPLIANT**	The Pension Fund Committee includes the following Co-opted Members: • employer representatives covering all employers with the exception of admission bodies (as admission bodies make up just a small proportion of the liabilities of the Fund) • a scheme member representative covering all categories of scheme member. In addition, an independent adviser, Fund's actuary and investment consultant attend~~s~~ all Pension Fund Committee meetings.~~ and the Fund's actuary and investment consultant regularly attend meetings on an ad-hoc basis.~~ The Pension Board, although not a formal secondary committee, also includes representatives of scheme members and employers. The Wales Pension Partnership Joint Governance Committee is required to liaise with scheme member and employer representatives.

Best Practice	Compliant or not?	Explanatory Note
b. That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**COMPLIANT**	All Pension Fund Committee members, including Co-opted Members, are treated equally with full opportunity to contribute to the decision making process and with unrestricted access to papers and training, and with full voting rights. There is no formal secondary committee or panel. However it is worth noting that the Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate.
C. SELECTION AND ROLE OF LAY MEMBERS		
a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**COMPLIANT**	This is highlighted via regular training and also when presenting this Governance Policy and Compliance Statement for approval.

Best Practice	Compliant or not?	Explanatory Note
b. That at the start of any meeting committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**COMPLIANT**	This is no longer a legal requirement but we recognise that potential conflicts of interest can arise between existing roles (e.g. as employer representatives or scheme members) and accordingly we still carry out this practice. The Fund has a Conflicts of Interest Policy outlining the process for identifying and managing actual and potential conflicts of interest.
D. VOTING		
a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**COMPLIANT**	The Council's Constitution and the Fund's Governance Policy and Compliance Statement make it clear that all Pension Fund Committee members have equal voting rights. The Wales Pension Partnership Joint Governance Committee voting arrangements are outlined in the Inter Authority Agreement with one vote per authority.
E. TRAINING / FACILITY TIME / EXPENSES		

Best Practice	Compliant or not?	Explanatory Note
a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**COMPLIANT**	The Fund has a Training Policy that applies to all Pension Fund Committee members, Pension Board members and officers. Training is delivered through several avenues including: • An initial induction for new Pension Fund Committee and Pension Board Members • On-going training through written reports or presentations at Committee meetings • Conferences and seminars. The actual costs and expenses relating to approved training are met directly or can be reimbursed from the Clwyd Pension Fund. The co-opted members of the Pension Fund Committee and members of the Pension Board may receive payments for attendance at meetings (including training events) as detailed within the Flintshire County Council Members' Remuneration Scheme and the Pension Board Protocol. The Wales Pension Partnership Joint Governance Committee is required to prepare, maintain and adhere to a Training Policy.

Best Practice	Compliant or not?	Explanatory Note
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**COMPLIANT**	
c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**COMPLIANT**	A log of individual Member training is maintained. In addition, the Fund has adopted the CIPFA Knowledge and Skills Framework and has a Fund specific Training Policy.
F. MEETINGS (FREQUENCY/QUORUM)		
a. That an administering authority's main committee or committees meet at least quarterly.	**COMPLIANT**	
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**NOT APPLICABLE**	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	**NOT APPLICABLE**	Even though we do have lay members on our Pension Committee, we also have an Annual Joint Consultative Meeting (AJCM) for employing bodies and scheme members. The Pension Board also provides a forum for stakeholders to be represented.
G. ACCESS		

Best Practice	Compliant or not?	Explanatory Note
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**COMPLIANT**	All Members of the Pension Fund Committee have equal access to papers. In addition, all Pension Board members have access to the same papers. The Joint Governance Committee is a public meeting so all papers (except those classified as exempt) are available to Committee and Board members, as well as members of the public.
H. SCOPE		
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	**COMPLIANT**	The remit of the Pension Fund Committee covers all Fund matters, including administration, communications, funding, investments and governance. The Pension Board provides further opportunity for these matters to be considered.
I. PUBLICITY		

Best Practice	Compliant or not?	Explanatory Note
a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	COMPLIANT	The Fund publishes a detailed Annual Report, newsletters for active and pensioner members, road shows, drop in sessions and an Annual Meeting for Employers and representatives of stakeholders (AJCM). In addition all Pension Fund Committee reports are available to view on the Flintshire County Council website (other than exempt items). Arrangements relating to the Joint Governance Committee are available via this policy, with some information included in Pension Fund Committee papers. All Joint Governance Committee reports are available to view on the Carmarthenshire County Council website (other than exempt items). In addition the Joint Governance Committee will liaise with scheme member and employer representatives.

Appendix B – Delegated Roles and Functions of the Clwyd Pension Fund Committee

The Pension Fund Committee will have the following specific roles and functions, taking account of advice from the Chief Executive and the Fund's professional advisers:

a) Ensuring the Clwyd Pension Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Regulations, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.

b) Ensuring robust risk management arrangements are in place.

c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non statutory best practice guidance in relation to its management of the Clwyd Pension Fund.

d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:

   i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Flintshire County Council and making recommendations to Flintshire County Council about any changes to that framework.

   ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.

   iii) 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.

   iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.

   v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.

   vi) Discretions – determining how the various administering authority discretions are operated for the Fund.

e) Monitoring the implementation of these policies and strategies on an ongoing basis.

f) In relation to the Wales Pension Partnership Collaboration arrangements:

i) Undertaking the following matters reserved to Flintshire County Council as outlined in the Inter-Authority Agreement:

- Appointment, termination or replacement of the Operator following the making of a recommendation by the Joint Governance Committee.
- Approval of additional expenditure not included within the Business Plan which exceeds 30 % of the approved budget in the Business Plan in any one Financial Year.
- Formulation, approval or revisions of each respective Constituent Authority's investment strategy for the purposes of regulation 7 of the Investment Regulations.
- Admitting a new administering authority within the LGPS to the Investment Pool as a Constituent Authority.
- Amendment of the Agreement which is not significant to the operation of the arrangements.
- Material change to the nature of the Operator Contract.
- Approval of the initial strategic objectives to allow preparation of the first Business Plan (which objectives shall reflect the objectives set out in the procurement of the Operator).
- Approval of any evaluation or scoring criteria for any procurement of a replacement Operator.
- Approval of the Business Plan which shall include approval of the ongoing strategic objectives of the Investment Pool.
- Determination of the timing of the transition of the assets held by Clwyd Pension Fund into the Pooling Collaboration and the funds or sub-funds operated by the Operator.

Note the Council shall retain the power to terminate the Inter-Authority Agreement or make amendments to the Inter-Authority Agreement that may be significant to the operation of the arrangements.

ii) Delegating powers to Flintshire County Council's own officers and the Host Council where required.

iii) Nominating Flintshire County Council's officers to the Officer Working Group.

iv) Monitoring of the performance of the Wales Pooling Collaboration and its Operator and recommending actions to the Joint Governance Committee, Officer Working Group or Host Council, as appropriate.

g) Approving the Fund's annual report including the Fund's financial statements ~~Considering the Fund's financial statements prior to approval by the Council and agreeing the Fund's annual report.~~

h) Selection, appointment, dismissal and monitoring of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.

i) 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.

j) Agreeing the terms and payment of bulk transfers into and out of the Fund.

k) Agreeing Pension Fund business plans and monitoring progress against them.

l) 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.

m) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.

n) Receiving ongoing reports from the Chief Executive and Pensions Advisory Panel in relation to delegated functions.

Mae'r dudalen hon yn wag yn bwrpasol

Clwyd Pension Fund

Training Plan 2019/ 20 - as at 31 January 2020

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 pf 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	Y
LAPFF, Bournmouth	Various topical presentations around the work of the LAPFF	4-6/12/2019	2 days	Committee, Officer	Y
LGA Annual Conference	Various	23 - 24 Jan 2020	2 day	Committee, Pensions Board and Officers	Y
CIPFA Local Pension Board Seminars	Annual Event	17/02/2020 Leeds	1 day	Pension Board	
CIPFA Local Pension Board Seminars	Annual Event	19/02/20 London	1 day	Officers	
CIPFA Local Pension Board Seminars	Annual Event	20/02/2020 London	1 day	Pension Board	
CIPFA Local Pension Board Seminars	Annual Event	21/02/2020 Bristol	1 day	Pension Board	
LGC Investment Seminar, Carden Park	Various	27 -28/02/2020	2 days	Committee, Pensions Board and Officers	
Cash and Risk Management	Fund "FlightPath " Strategy	11/02/2020	During Committee	Committee, Pensions Board and Officers	
WPP Training Day (Powys)	Asset classes/ Fund Wrappers/ illiquid assets	21/02/2020	1 day	Committee, Pensions Board and Officers	
Training Day	To be Determined	18/03/2020	1 day	Committee, Pensions Board and Officers	
CIPFA Local Pension Board Seminars	Annual Event	02/04/2020 Cardiff	1 day	Pension Board	
PLSA Local Authority Conference, Gloucestershire	Various	18-20/05/2020	3 days	Committee, Pensions Board and Officers	Y

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Ref	A1		**Date entered in register**	19/09/2017
Status	Open		**Date breached closed (if relevant)**	
Title of Breach	Late notification of joining		**Owner**	SB/JT
Party which caused the breach	CPF + various employers			
Description and cause of breach	Requirement to send a Notification of Joining the LGPS to a scheme member within 2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled. Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale. 14/8/19 General data cleansing including year-end is affecting whether legal timescale is met. Individual on long-term sick impacting this.			
Category affected	Active members			
Numbers affected	2017/18: 2676 cases completed / 76% (2046) were in breach. 2018/19: - Q1 - 1246 cases completed / 84%(1050) were in breach - Q2 - 551 cases completed / 87% (480) were in breach - Q3 - 1123 cases completed / 50% (563) were in breach - Q4 - 935 cases completed / 49% (458) were in breach 2019/20: - Q1 - 822 cases completed / 62% (507) were in breach - Q2 - 750 cases completed / 46% (380) were in breach - Q3 - 1086 cases completed / 55% (603) were in breach			
Possible effect and wider implications	- Late scheme information sent to member which may result in lack of understanding. - Potential complaints from members. - Potential for impact on CPF reputation.			
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of new joiners (ongoing). - Set up of Employer Liasion Team (ELT) to monitor and provide joiner details more timelessly. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 -Streamlining of aggregation cases with major employers. - Consider feasibility and implications of removing reminders for joining pack (agreed not to change). - Consider feasibility of whether tasks can be prioritised by date of joining (agreed not to change). 14/11/19 - Utilising FCC trainees to assist with this procedure. Joined early September. 30/01/2020 - backlog completed and addressed older case work			

Outstanding actions (if any)	- Ongoing roll out of i-Connect. - Bedding in of new staff/ training. - Carrying out backlogs of previous joiners (most of which are due to i-Connect roll out). - Contacting employers which are causing delays. 28/1/19: - Introduce process to analyse specific employers causing problems.
Assessment of breach and brief summary of rationale	29/1/19 Large proportion of joining members affected but business case has been put forward to increase resources. In the meantime, temporary resources are being requested to assist. 4/6/19 Reassessed - New resource put in place but may take a few months to see full impact. 14/11/19 - status reassessed and remains amber whilst training of new staff continues 30/1/2020 as per above, and backlog now complete so retain as amber.
Reported to tPR	No

Ref	A2		**Date entered in register**	19/09/2017
Status	Open		**Date breached closed (if relevant)**	
Title of Breach	Late transfer in estimate		**Owner**	JT
Party which caused the breach	CPF + various previous schemes			
Description and cause of breach	Requirement to obtain transfer details for transfer in, and calculate and provide quotation to member 2 months from the date of request. Breach due to late receipt of transfer information from previous scheme and late completion of calculation and notification by CPF. Only 2 members of team fully trained to carry out transfer cases due to new team structure and additional training requirements. 29/1/19 National changes to transfer factors meant cases were put on hold/stockpiled end of 2018/early 2019.			
Category affected	Active members			
Numbers affected	2017/18: 235 cases completed / 36% (85) were in breach. 2018/19: - Q1 - 60 cases completed / 42% (25) were in breach - Q2 - 66 case completed / 38% (25) were in breach - Q3 - 31 case completed / 32% (10) were in breach - Q4 - 56 cases completed / 62% (35) were in breach 2019/20: - Q1 - 51 cases completed / 59% (30) were in breach - Q2 - 56 cases completed / 29% (16) were in breach - Q3 - 53 cases completed / 21% (11) were in breach			
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/previous schemes. - Potential for impact on CPF reputation.			
Actions taken to rectify breach	- Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with in a more timely manner.			
Outstanding actions (if any)	- Completion of training of team members in transfer and aggregation processes. 29/1/19: - If KPIs don't improve, investigate how much of the delay is due to external schemes and look for ways to improve this.			

Assessment of breach and brief summary of rationale	29/1/19 Stockpiling will likely make KPIs worse in short term but then longer term additional training will result in improvements. 14/11/19 - whilst improvements have been made - this needs to be consistent and numbers reducing further prior to changing to green 30/1/2020 - further progress made and breaches are reducing on a quarterly basis. Retain as amber.
Reported to tPR	No

Ref	A4	**Date entered in register**	19/09/2017
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of retirement benefits	**Owner**	SB
Party which caused the breach	CPF + various employers + AVC providers		
Description and cause of breach	Requirement to provide notification of amount of retirement benefits within 1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age. Due to a combination of: - late notification by employer of leaver information - late completion of calculation by CPF - for members who have AVC funds, delays in receipt of AVC fund values from AVC provider.		
Category affected	Active members mainly but potentially some deferred members		
Numbers affected	2017/18: 960 cases completed / 39% (375) were in breach. 2018/19: - Q1 - 297 cases completed / 31% (91) were in breach - Q2 - 341 case completed / 26% (89) were in breach - Q3 - 357 case completed / 30% (108) were in breach - Q4 - 348 cases completed / 32% (112) were in breach 2019/20: - Q1 - 315 cases completed / 28% (87) were in breach - Q2 - 411 cases completed / 24% (99) were in breach - Q3 - 348 cases completed / 26% (93) were in breach		
Possible effect and wider implications	- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from members/employers. - Potential for impact on CPF reputation.		
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of retirees (ongoing). - Set up of ELT to monitor and provide leaver details in a more timely manner. - Prioritising of task allocation. - Set up of new process with one AVC provider to access AVC fund information. - Increased staff resources. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Improvements have been made and more should be made as staff are settled in and trained. Business case approved.		

Outstanding actions (if any)	- Further training of newly promoted team member to deal with volume of work. - Identifying which employers are causing delays. 14/11/19 Continuation of training. 30/1/2020 Ongoing liaison with employers
Assessment of breach and brief summary of rationale	4/6/19 New resource put in place but may take a few months to see full impact. 14/11/19 Number of retirements increased and those in breach reduced so improvements continue to be made, but remain as amber for now. 30/1/2020 - Retain as amber as 96% completed within CPF target so 3rd party delays are causing the legal percentage to lower to 74%, so focus is now on employer education.
Reported to tPR	No

Ref	A5		**Date entered in register**		20/09/2017
Status	Open		**Date breached closed (if relevant)**		
Title of Breach		Late estimate of benefits		**Owner**	SB
Party which caused the breach			CPF		
Description and cause of breach			Requirement to provide quotations on request for potential retirements as soon as is practicable, but no more than 2 months from date of request unless there is a previous request in the last year. Delays are due to: - late completion of calculation by CPF. - Increasing numbers of estimate requests being made by members.		
Category affected			Active members mainly but potentially some deferred members		
Numbers affected			2017/18: 487 cases completed / 37% (182) were in breach. 2018/19: - Q1 - 79 cases completed / 32% (25) were in breach - Q2 - 60 case completed / 22% (13) were in breach - Q3 - 123 case completed / 15% (18) were in breach - Q4 - 151 cases completed / 6% (4) were in breach 2019/20: - Q1 - 165 cases completed / 4% (6) were in breach - Q2 - 244 cases completed / 2% (4) were in breach - Q3 - 244 cases completed / 0.5% (1) was in breach		
Possible effect and wider implications			- Late notification of benefits/costs to member/employer. - Potential complaints from members/employers. - Potential for missed opportunities by members/employers. - Potential for impact on CPF reputation.		
Actions taken to rectify breach			- Introduction of MSS should alleviate the volume of requests received as member will be able to calculate own estimate through database. - Further training of team members also required. - Task allocation reviewed by team leader to ensure estimates are given a higher priority. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Additional staff training.		
Outstanding actions (if any)			-None		

Assessment of breach and brief summary of rationale	29/1/19 - Improvements have been made including from MSS and more should be made as staff are settled in and trained. Business case will also assist if approved. 3/6/19 Cases in breach now drastically reduced so moved from amber to green. But will review in next quarter. 14/8/19 Reassessed - Still minor breach but all reasonable actions have been taken. 14/11/19 Reassessed - Still minor breach but all reasonable actions have been taken and progress has been maintained. 30/10/2020 Still only one breach so remains green. Training ongoing.
Reported to tPR	No

Ref	A6		**Date entered in register**	20/09/2017
Status	Open		**Date breached closed (if relevant)**	
Title of Breach	Late notfication of death benefits		**Owner**	SB
Party which caused the breach	CPF			
Description and cause of breach	Requirement to calculate and notify dependant(s) of amount of death benefits as soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative). Due to late completion by CPF the legal requirements are not being met. Due to complexity of calculations, only 2 members of team are fully trained and experienced to complete the task.			
Category affected	Dependant members + other contacts of deceased (which could be active, deferred, pensioner or dependant).			
Numbers affected	2017/18: 153 cases completed / 58% (88) were in breach. 2018/19: - Q1 - 53 cases completed / 32% (17) were in breach - Q2 - 26 case completed / 35% (9) were in breach - Q3 - 41 case completed / 39% (16) were in breach - Q4 - 64 cases completed / 22% (14) were in breach 2019/20: - Q1 - 33 cases completed / 24% (8) were in breach - Q2 - 41 cases completed / 34% (14) were in breach - Q3 - 49 cases completed / 26% (13) were in breach			
Possible effect and wider implications	'- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from beneficaries, particular given sensitivity of cases. - Potential for impact on CPF reputation.			
Actions taken to rectify breach	- Further training of team - Review of process to improve outcome - Recruitment of additional, more experienced staff. 3/6/19 - Review of staff resources now complete and new posts filled.			
Outstanding actions (if any)	Ongoing training of death calculations on the team			
Assessment of breach and brief summary of rationale	29/1/19 - Improvements have been made and more should be made as staff are trained. Business case will also assist if approved. 4/6/19 New resource put in place but may take a few months to see full impact. 14/11/19 Continuation of training to other Pension officers will hopefully reduce this further so retain as amber. 30/1/2020 Still small number of breach cases; training ongoing. Remain amber for now.			

Reported to tPR	No

Ref	A9	**Date entered in register**	29/08/2018
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of leaver rights and options	**Owner**	SB/JT

Party which caused the breach	CPF + various employers
Description and cause of breach	Requirement to inform members who leave the scheme of their leaver rights and options, as soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member). Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale.
Category affected	Active members
Numbers affected	2018/19: - Q1 - 437 cases completed / 40% (173) were in breach - Q2 - 1463 cases completed / 66% (963) were in breach - Q3 - 951 cases completed / 51% (481) were in breach - Q4 - 745 cases completed / 2% (17) were in breach 2019/20: - Q1 - 541 cases completed / 6% (34) were in breach - Q2 - 391 cases completed / 6% (23) were in breach - Q3 - 541 cases completed / 6% (36) were in breach
Possible effect and wider implications	- Late notification of benefits/costs to member/employer. - Potential complaints from members/employers. - Potential for missed opportunities by members/employers. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of leavers (ongoing). - Set up of Employer Liasion Team (ELT) to monitor and provide leaver details in a more timely manner. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time. 3/6/19 - Review of staff resources now complete and new posts filled. 14/8/19 - Ongoing streamlining of aggregation cases with major employers. - Consider feasibility of whether tasks can be prioritsed by date of leaving (no action taken). - Carrying out backlogs of previous leavers (most of which are due to i-Connect roll out).

Outstanding actions (if any)	- Ongoing roll out of i-Connect. - Bedding in of new staff/ training. - Contacting employers which are causing delays. 28/1/19: - Introduce process to analyse specific employers causing problems.
Assessment of breach and brief summary of rationale	29/1/19 Large proportion of leaving members affected but business case has been put forward to increase resources. In the meantime, temporary resources are being requested to assist. 3/6/19 Reassessed - Cases in breach now drastically reduced so moved from amber to green. But will review in next quarter. 14/8/19 Reassessed - Still minor breach but all reasonable actions have been taken. 15/11/19 Reassessed - Still green whilst progress is maintained. 30/01/2020 - Higher numbers completed and maintained the 6% breach percentage through streamlined procedure, so retain green.
Reported to tPR	No

Ref	A11	**Date entered in register**	29/05/2019
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Scheme Changes Disclosure	**Owner**	KAM
Party which caused the breach	CPF		
Description and cause of breach	Amendment Regulations disclosure communication to members. This was sent in error to members who were categorised as "gone away" from last known address. This will have resulted in a data breach as names and addresses would have been visible to people now living at those addresses.		
Category affected	Active members, status 2 (undecided) members and deferred members who are shown as "gone away"		
Numbers affected	921 members impacted		
Possible effect and wider implications	- Personal Details available to view by incorrect recipients - May result in complaints - Potential that same issue could occur in other communications if "gone away" status is not checked.		
Actions taken to rectify breach	- Followed Data Breach procedure 14/8/19 - Increased staff awareness / training for future distribution - Process put in place to ensure future mail shots to all members exclude this Category or are automatically redirected back to CPF		
Outstanding actions (if any)	-Still being considered by FCC to ensure change in processes are adequate 14/11/19 Contact FCC to find out if any further actions are required.		
Assessment of breach and brief summary of rationale	Large number of members impacted but no personal information other than name included in communications so low impact. 14/11/19 Maintain as green as no further action notified by FCC 30/1/2020 No change to above assessment.		
Reported to tPR	No		

Ref	A12	**Date entered in register**	29/05/2019
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	APC calculation due to revised factors	**Owner**	SB/JT

Party which caused the breach	CPF
Description and cause of breach	Recalculation of APC contracts due to GAD factor change not communicated within required timescales
Category affected	Active members with APC contracts
Numbers affected	<10 members 14/11/19 Now confirmed as only 1 member affected.
Possible effect and wider implications	- Late notification to members of change to APC contracts / recalculation of benefits - May result in complaints
Actions taken to rectify breach	- Re-calculation of APC contracts underway with explanation to those affected by the change. 14/11/19 Initial work completed and determined only 1 member requires a recalculation.
Outstanding actions (if any)	Re-calculation and notification to members required
Assessment of breach and brief summary of rationale	Low number of cases impacted and remedial action likely to be complete by 30 June 2019 14/8/19 Reassessed - Low number of cases however remedial action delayed due to other workloads by 31 October 2019. 14/11/19 Reassessed - remain green as only 1 member is affected. 30/1/2020 No change to above assessment.
Reported to tPR	No

Ref	A13	**Date entered in register**	14/11/2019
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late transfer out estimate	**Owner**	JT/KCW

Party which caused the breach	CPF
Description and cause of breach	Requirement to provide details of transfer value for transfer out on request within 3 months from date of request (CETV estimate). 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.
Category affected	Active and deferred members
Numbers affected	2019/20 - Q2 - 3 members in breach Q3 - 86 cases completed / 0% were in breach
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/new schemes. - Potential for impact on CPF reputation.
Actions taken to rectify breach	14/11/19 - Better prioritisation of workload and any additional tasks that are not KPI driven
Outstanding actions (if any)	None
Assessment of breach and brief summary of rationale	14/11/19 As only a small number of members were affected the risk is considered minimal 30/1/2020 Retained on log to ensure issue does not reoccur next quarter.
Reported to tPR	No

Ref	A14	**Date entered in register**	01/12/2019
Status	Closed	**Date breached closed (if relevant)**	09/12/2019
Title of Breach	Late AVC payment schedules	**Owner**	SB
Party which caused the breach	FCC		

Description and cause of breach	AVC schedules were not sent to the AVC provider, Prudential, by FCC which meant Prudential did not know which AVC amounts to allocate to which members' accounts. FCC Payroll Manager confirmed in an email 05/12/2019 that AVC credits for August to October had not been allcoated to members' accounts as schedules had not been provided to Prudential. August had been delayed due to a remittance discrepancy, September was submitted on time and October was delayed (no reason provided). FCC and Prudential were aware of the problem but this was not communicated to CPF until Dec 2019.
Category affected	Active members including 3 who have since left/retired.
Numbers affected	Approximately 104 active scheme members including 3 who have since left/retired.
Possible effect and wider implications	- Active members who were retiring were not being given their full AVC fund value as part of their retirement figures. This meant that when the AVCs for these months were allocated to their AVC account, they had already retired and received their pension and lump sum. The member who had already received their AVC benefits instead had to have a refund of these AVC contributions and they did not form a part of their pension benefits. - Potential for all active members to have lost potential investment income (but this was resolved so it was not the case).
Actions taken to rectify breach	30/1/2020 CPF meetings with FCC Payroll to understand the problem. Missing schedules have now been sent by FCC to Prudential. CPF gave feedback to both FCC and Pru about not being communicated with them when the issue originally arose. All members had their AVCs deposited at original payment date (so no financial detriment). A refund of the relevant AVCs was paid to the one scheme member who had already retired. Procudures have been put in place by both FCC and Prudential to ensure the issue does not arise again and they have confirmed CPF would be notified immediately in the future.
Outstanding actions (if any)	None
Assessment of breach and brief summary of rationale	30/1/2020 Minimal amount of members affected and problem now resolved.
Reported to tPR	No

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Month	Date	Day	Committee	Training	Pension Board	Location
2020						
January						
	23 - 24 Jan	Thur - Fri		LGA Annual Governance Conference		York
February						
	11-Feb	Tue	9.30am - 1pm			County Hall
	21-Feb	Fri	10am - 4pm	Wales Pension Partnership		Powys
	25-Feb	Tue			9.30am - 12.30pm	County Hall
	27 - 28 Feb	Thur - Fri		LGC Investment Seminar		Carden Park Chester
March						
	18-Mar	Wed	9.30am - 4.30pm			County Hall
May						
	18 - 20 May	Mon - Wed		PLSA Local Authority Conference		Gloucestershire
June						
	10-Jun	Wed	9.30am - 1pm			County Hall
	30-Jun	Tue			9.30am - 12.30pm	County Hall

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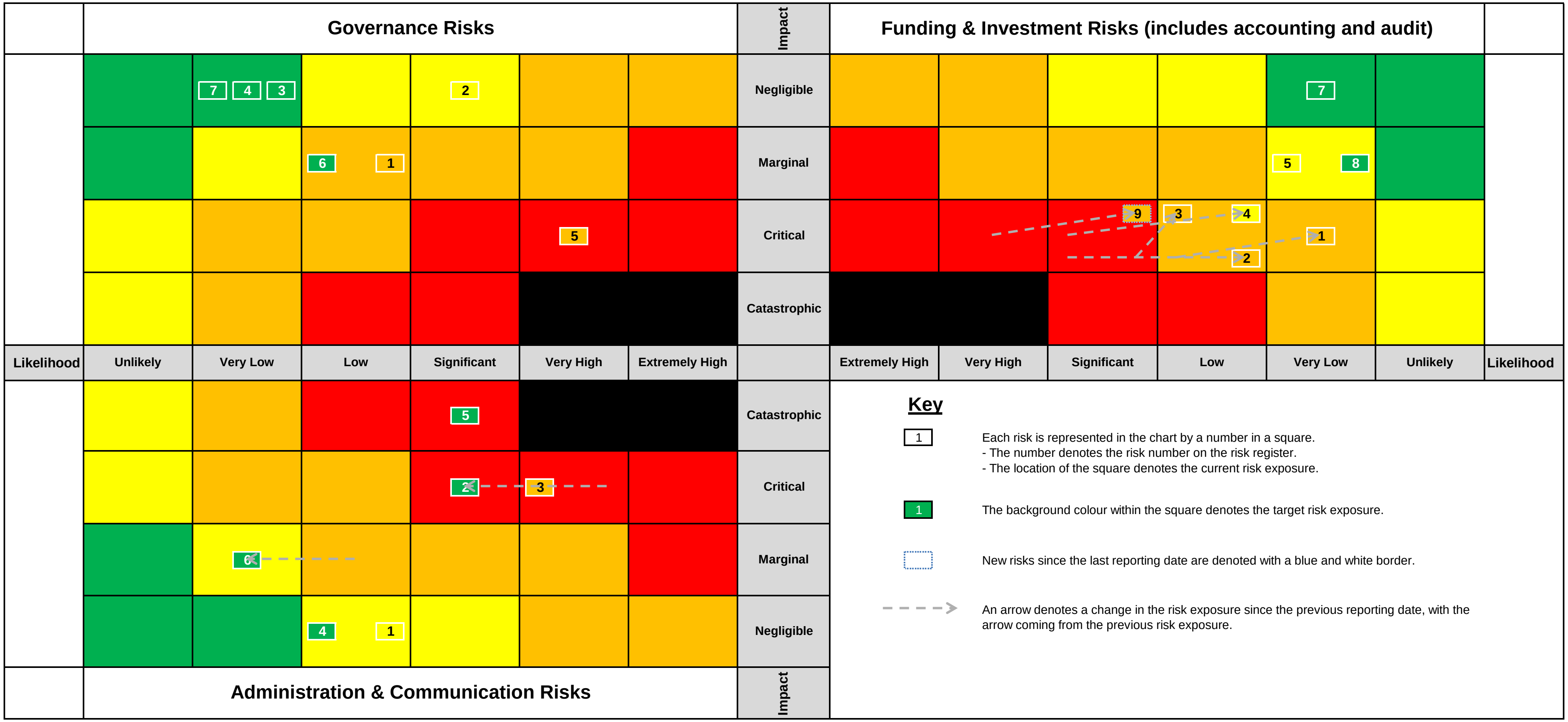
All Fund Risk Heat Map and Summary of Governance Risks



03 February 2020

Clwyd Pension Fund - Control Risk Register

Governance Risks

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

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

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Losses or other determintal impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognishing that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low		1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to each PFC 3 - Advisory panel meets at least quarterly discussing changing environment etc 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Marginal	Low					None	Head of CPF	31/05/2020	27/01/2020
2	Inappropriate or no decisions are made	Governance (particularly at PFC) is poor including due to: - short appointments - poor knowledge and advice - poor engagement /preparation / commitment - poor oversight	G1 / G2 / G3 / G4 / G5 / G6 / G7	Negligible	Significant		1 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Annual check against TPR Code 4 - Training Policy, Plan and monitoring in place for PC and PB members 5 - Training Needs self assessment carried out (January 2018) and training programme reviewed based on results 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. 7 - Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed.	Negligible	Low		Current likelihood 1 too high	03/06/2019	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)	Head of CPF	31/03/2020	27/01/2020
3	Our legal fiduciary responsibilities are not met	Decisions, particularly at PFC level, are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers	G1 / G2 / G4 / G6 / T2	Negligible	Very Low		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						Head of CPF	31/05/2020	27/01/2020
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low		1- Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored	Negligible	Unlikely		Current likelihood 1 too high	01/07/2016	Mar 2020	1- Ensure work relating to annual monitoring is completed and included in PFC papers (PL)	Dep. Head of CPF	31/03/2020	27/01/2020
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such scheme change, national reorganisation, cybercrime and asset pooling	G1 / G4 / G6 / G7	Critical	Very High		1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Involvement of CEO / links to WLGA and WG 3 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 4 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OWG 7 - Ongoing monitoring of cybercrime risk by AP	Marginal	Low		Current impact 1 too high Current likelihood 2 too high	28/02/2017	Mar 2021	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)	Head of CPF	31/03/2020	27/01/2020
6	Services are not being delivered to meet legal and policy objectives	Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	G3 / G6 / G7 / T1	Marginal	Low		1 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restrcuture commenced (2017/18) 4 - Quarterly update reports consider resourcing matters 5 - Advisory Panel provide back up when required 6 - Additional resources, such as outsourcing, considered as part of business plan 7 - Staff reviews implemented and most vacant positions now recruited to (admin and finance)	Negligible	Very Low		Current impact 1 too high Current likelihood 1 too high	01/07/2016	Mar 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)	Head of CPF	31/03/2020	27/01/2020
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		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					1 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure (DF)	Head of CPF	31/05/2020	27/01/2020

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 11 February 2020
Report Subject	Administration and Communications Update
Report Author	Pensions Administration Manager

EXECUTIVE SUMMARY

On each Committee agenda LGPS administration and communication matters and the impact on the Clwyd Pension Fund (CPF) are provided for discussion, along with updates on the Clwyd Pension Fund's administration and communication strategies and policies for information.

Key items to note this quarter include:

- the expected impact on the administration team as a result of the McCloud determination
- progress being made on implementing iConnect with the Fund's employers
- the involvement of CPF in discussions on the proposed national Pensions Dashboard
- the continuing increase in the use of Member Self Service by scheme members.

The report incorporates updates on the implementation of the Fund's administration and communications for monitoring, including:

- Business Plan 2019/20 update – this includes an update on the GMP reconciliation project and the implementation of qualifying survivor benefits.
- Key performance indicators and case numbers
- Internal dispute resolution procedures
- Communications – including engagement sessions held with Employers and Members
- The latest changes to the risk register.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.

REPORT DETAILS

1.00	**ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS**
	Business Plan 2019/20 Update
1.01	Progress against the business plan items is as illustrated in Appendix 1. Key items to note relating to this quarter's work are as follows: • 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 had hoped to complete this upon receipt of information from Equiniti in November. Unfortunately, due to a number of outstanding issues with Equiniti (see A8) work is now currently expected to extend into 2020/21. • 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. Deceased members who may have a surviving partner entitled to a benefit under the new rulings have been identified. Processes and letters have been drafted and it is expected that letters will be sent by the end of February. The next step, once responses to these letters are received will be to calculate any benefits due. • A7 Member Tracing – ATMOS Data Services have completed the address tracing and mortality screening exercise. A report has been received showing a number of amendments to addresses, members who are no longer at the existing address and potentially deceased members has been received. Work is underway to update any records and communicate to members if required. This is expected to be completed by the end of March. • A8 GMP Reconciliation – This exercise was outsourced to Equiniti. The reconciliation part of the exercise is now complete with extract files to update affected active and defer member records being uploaded to the administration system shortly. Due to the complexity of the scheme, Equiniti have experienced delays configuring certain calculations of annual pensions and GMPs in line with LGPS regulations. As such, the over and underpayment amounts previously estimated may change as we approach the final stages of the project. Equiniti have provided details in relation to those members and a thorough checking exercise is being undertaken by the Administration team. These changes are not expected to be significant, but they have impacted on timescales. It had been hoped that this exercise would be completed prior to the application of the annual Pensions Increase, however due to the above-mentioned delays and to ensure accuracy this is now expected to be completed in June. As previously agreed, any decisions in relation to this exercise are to be agreed using the urgency delegation process. • A10 Data Improvement Plan Development/Implementation – The majority of this project has now been completed: o the Fund developed a data improvement plan which captures data cleansing required as a result of the common and scheme specific data measures (as required by The Pensions Regulator),

	as well as other elements of inaccurate or missing data that they identified. - A vast amount of the data cleansing on the plan was completed during 2019/20. This will continue as business as usual, including updating the data improvement plan with any new data improvements as and when they are identified. - The requirements in relation to a national LGPS scheme specific measure have not yet been agreed by the LGPS Scheme Advisory Board so it has not been possible to develop this. This will be included on the Fund's business plan for 2020/21 • A11 LGPS Legal Timescales Analysis – A full review of our workflow processes continues to be undertaken with some procedural changes already having been implemented. It is anticipated that the additional KPI reporting will commence in April and shared with Committee during 2020/21.
1.02	The Committee is asked to note the progress with the 2020/21 business plan tasks.
1.03	**Current Developments and News** The following details additional developments and news that are not covered in the Business Plan section: • The Pension Administration Manager has recently attended an LGA Governance Seminar in addition to other meetings with fellow Pension Administration Managers and Industry Specialists. A main agenda item for these meetings has been the impact upon administration that the McCloud ruling will have. It is not clear what the details of the remedy will be but there is certainty there will be a significant impact on administration teams implementing the remedy. LGA officials have likened the impact to administering the implementation of a new scheme. Discussions are underway to consider future resource implications to action potential remedies whilst maintaining business as usual. • The administration software framework is now open to tender and the OJEU Contract Notice for this framework has been published. The Pension Administration Manager along with other Founder Members are currently working towards launching this Framework in April/May 2020 for LGPS Funds to use. • As part of the ongoing plan for successful on-boarding of all employers onto iConnect, work is continuing with Wrexham payroll managers and CPF representatives. It is hoped that Wrexham will be fully integrated by the end of March 2020. Coleg Cambria and Glyndwr University are also engaged and the data cleansing has commenced in preparation for on-boarding them in Q1 of 2020/21. • Testing has been completed and members can now upload their retirement option forms directly within Member Self Service (MSS), rather than returning them via post. This will significantly speed up the retirement process. Other areas are now being looked at to roll out this functionality. • The Pension Administration Manager recently attended a steering group meeting to assist with the development of the national Pensions Dashboard. The Pensions Dashboard is a Government initiative first

<table>
<tr><td></td><td>announced in the 2016 Budget. The idea behind the Dashboard is to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. It is intended that meetings are to be held monthly providing which will provide CPF with vital input into the content and viability of this Government led national initiative.</td></tr>
<tr><td>

1.04</td><td>Policy and Strategy Implementation and Monitoring

Administration Strategy
The latest monitoring information in relation to administration is outlined below:
Day to day tasks – Appendix 2 provides the analysis of the numbers of cases received and completed on a monthly basis to December 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 had dropped in November and December. This is due to the complexity of some of the old aggregation cases and due to the Christmas holidays. The focus remains on completing a high level of ongoing business as usual cases whilst completing older, more complicated cases by the more experienced staff members. The testing of calculations for the GMP Reconciliation Project has also had a short-term impact on current workload. Part of the Data Improvement Plan going forward is to focus on outstanding older cases.
Key performance indicators – Appendix 3 shows our performance against the key performance indicators that are measured on a monthly basis up to December 2019. The charts illustrate that improvements are continuing to be made, or high performance maintained, 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 and this will include informing the employer if they have achieved/not achieved the agreed timescales as stipulated in their SLA. As mentioned in 1.01, a review of additional areas of reporting has been undertaken as part of the workflow review project and these will start to be measured in April.</td></tr>
<tr><td>1.05</td><td>Internal dispute resolution procedures

In relation to the cases outstanding for 2018/19:
There are no longer any cases outstanding for 2018/19. All have now been reviewed and determinations made. The last 2 outstanding IDRP’s against employers have been rejected. These were both in respect of the non-award of ill health benefits.
In relation to the cases outstanding for 2019/20:
There are 5 Stage One appeals against the employer for non-award of ill health benefits (1 has been rejected and 4 are ongoing), 2 Stage One appeals against the employer relating to the tier of ill health retirement that was awarded (both are ongoing), and 1 Stage One appeal against the employer regarding their process for determining the non award of flexible retirement (this has been rejected).
There are 2 Stage One appeals against Clwyd Pension Fund. One is regarding the process we used to determine who should be the beneficiary of a death grant for one of our deceased members. This</td></tr>
</table>

	appeal was rejected. The other appeal is regarding the handling of an historic transfer out to the NHS. This appeal is still ongoing. • There is 1 Stage Two appeal against the employer for non-award of ill health benefits. This is currently ongoing.

	2019/20			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	8		2	6
Stage 1 - Against Administering Authority	2		1	1
Stage 2 - Against Employers	1			1
Stage 2 - Against Administering Authority	0			
	2018/19			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	10	3	7	
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: • Six emails have been sent to all employers providing information in relation to McCloud, an updated approved medical practitioner list for ill–health determinations and details of videos produced by the LGA entitled Pensions Made Simple. • Numerous 1-2-1 sessions for members have taken place. • Meetings with FCC to discuss the TUPE transfer process have taken place with more due later this month.
1.07	Other key points in relation to communications include: • Preparations are under way to procure a company to complete a website audit according to new legislative requirements. • The additional 1-2-1 sessions that were offered to scheme members as part of the Annual Benefit Statement communication have proved really popular and are now coming to an end. Positive feedback from members has been received. • A Good Governance webinar and a Contracts Course have also been attended by the Communications team.
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 220 members since the last meeting with over 32% of members now registered to use this on-line facility. It is pleasing to see that the number of retirement projections calculated using the benefit projector is remaining at a high number with 7,481 in this last period. There have also been 193 changes to member's Expression of Wish details using

	the on-line facility. This evidences the increased engagement with and interest in pensions that scheme members are having.
1.09	**Delegated Responsibilities** No delegations have been used since the last Committee.

2.00	**RESOURCE**
2.01	Following a previous promotion, a full-time pensioner officer role became vacant. This post has been filled following recruitment procedures resulting in an external appointment. A full analysis of the Technical and Payroll team is currently being undertaken. This is to ensure that the current resource levels in that team are adequate taking into consideration the additional workload in relation to Pensioner Payroll, iConnect, MSS and website. Staffing levels will be continuously reviewed, and consideration now needs to be made in relation to the increased workloads that will arise as a result of the McCloud case.

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

4.00	**RISK MANAGEMENT**
4.01	Appendix 5 provides the dashboard and the extract of administration and communications risks. The key risks continue to relate to: • Employers not understanding or meeting their responsibilities which could lead to us being unable to meet our legal or performance expectations. • The Fund not meeting legal and performance expectations due to external factors such as unexpected work increase due to regulation changes. With the imminent impact of McCloud, current risk levels have remained very high and we do not expect this to reduce anytime soon. • High administration costs and/or errors due to systems are not kept up to date or not utilised appropriately. This risk relates to potential for our administration system being impacted as a result of poor engagement of Heywood (software supplier). It is hoped that they will shortly sign-up to a framework providing long term contracts which will give confidence in their commitment going forward. This risk should then reduce.
4.02	Since the last update, the following risks have been updated, showing where outstanding actions have now been completed and new actions added: • Risk number 2 – unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues: employers

	don't understand or meet their responsibilities and also don't allocate sufficient resources to pension matters. The current likelihood of this happening has been reduced from very high to significant. This is as a result of more employers using i-Connect therefore supplying their member data in a more accurate and timely manner. • Risk number 6 – service provision is interrupted: System failure or unavailability, including as a result of cybercrime. The current likelihood has reduced from low to very low following a successful disaster recovery day. All business as usual tasks were performed including a pensioner payroll bulk payment.

5.00	**APPENDICES**
5.01	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 – Risk register update

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

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

	(e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of. (f) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF. (g) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (h) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation.

Business Plan 2019/20 to 2021/22 – Q4 Update

Administration and Communications

Key Tasks

Key:

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

Administration (including Communications) Tasks

Ref	Key Action -Task	2019/20 Period Q1	Q2	Q3	Q4	Later Years 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	
A15	Consider success of website, on-line tools and interactive functionality				x		
A16	National Pensions Dashboard				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 member's 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	2019/20 Q1 & Q2
(Active Members) Benefit correction and system updates	2019/20 Q2 & Q3

Resource and Budget Implications

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

A9 – Aggregation Project

What is it?

When members move/leave employments there are a number of options available to them and all of these options need to be conveyed to the members concerned. There are approximately 2,000 records where members need to either be informed that their records have been aggregated or be provided with their respective options. Software providers have developed calculations to accommodate these changes. The recent recruitment to the Aggregation Team has facilitated procedures to be put in place to address backlogs and maintain these cases as "business as usual" going forward. Some of the historical cases were outsourced to Mercer for the initial deferment with approximately 500 still outstanding to be returned to the Aggregation Team for completion.

Timescales and Stages

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

Clear cases and eliminate backlog	2019/20 Q1 – Q3

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Mercer who are carrying out some of the work. The rest of the work is to be carried out by the Pensions Administration Team.

A10 – Data Improvement Plan Development and Implementation

What is it?

From 2018/19, the Pension Regulator (TPR) expected all pension schemes to review their common and conditional (now called scheme-specific) and score the quality of that data. To assist customers in undertaking this practical assessment of their data, both common and /scheme specific Aquila Heywood provided a Data Quality service. This serviced was used during 2018/19 to identify potential issues with the Fund's data. The LGPS Scheme Advisory Board will also be providing guidance on what LGPS scheme specific data should be (to provide consistency in checks between administering authorities).

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

Timescales and Stages

Develop initial data improvement plan	2019/20 Q1
Research and correct any data anomalies	2019/20 Q1 – Q4
Review scheme specific data checks based on national LGPS requirements	2019/20 Q1 - Q4

Resource and Budget Implications

To be carried out by the Pensions Administration Team. This may also require input/information from the employers (subject to findings). The data reports are part of the system costs included within the budget.

A11 – LGPS Legal Timescales Analysis

What is it?

Following the implementation of monitoring performance against the seven key legal timescales (as part of the monthly Key Performance Indicators (KPIs) reporting), a full review is being undertaken of our workflow systems and data quality to enable monitoring against a wider range of legal deadlines such as those relating to refunds and divorce. This review will also coincide with the CIPFA Benchmarking KPI review.

Timescales and Stages

Develop further legal timescales reporting process	2019/20 Q1 - Q4

Resource and Budget Implications

All internal costs are to be met by existing budget. It may be effective to outsource some of the development work to Aquila Heywood but this is not expected to be a material cost, and it is not included in the budget.

A12 - iConnect

What is it?

iConnect is the on-line computer module that allows information to be submitted by employers more directly and efficiently into the pension administration system (Altair). This is being implemented on a phased basis by employer. We have currently on-boarded 25% of our employers including Denbighshire County Council and Flintshire County Council. Data cleansing work is currently being undertaken to prepare for Wrexham CBC to on-board.

Timescales and Stages

Onboard Wrexham CBC	2019/20 Q1- Q3
Onboard other employers	2019/20 & 2020/21

Resource and Budget Implications

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

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

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.

A15 – Consider success of website, on-line tools and interactive functionality with employers and scheme members

What is it?

Consider the success of new systems that have been implemented, including the new website, Member Self Service, iConnect and TEC (the Technical Education Centre which provides on-line training), and decide if any further development or systems should be put in place.

Timescales and Stages

Identify outcomes and any further development	2019/20 Q4

Resource and Budget Implications

To be completed by the Communications Principal Pensions Officer. Internal costs are being met from the existing budget.

A16 – National Pensions Dashboard

What is it?

The Pensions Dashboard is a Government initiative first announced in the Budget 2016. The idea behind the Dashboard is to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. A consultation was undertaken by Government in early 2019 which sought views on the potential phasing of the introduction of the pensions dashboards as well as how the architecture, funding and governance arrangements would work. The expectation is that Master Trust DC schemes will be invited to voluntarily participate with the Pensions Dashboard in 2019. It is predicted that legislative requirements to participate in the Pension Dashboard for schemes (including public sector schemes) will be forthcoming and the consultation proposed that all schemes should be onboarded to the Pensions Dashboard in the next 3-4 years. Ongoing engagement with public sector schemes as well as the need for the Government's response to the consultation means that the timescales below are estimated.

Timescales and Stages

Development and testing of software	2019/20 Q4 & 2020/21
Potential target launch	2021/22

Resource and Budget Implications

Resource and budget implications cannot be determined until more detail is available.

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

E2 – Ongoing development of workflow reporting

What is it?

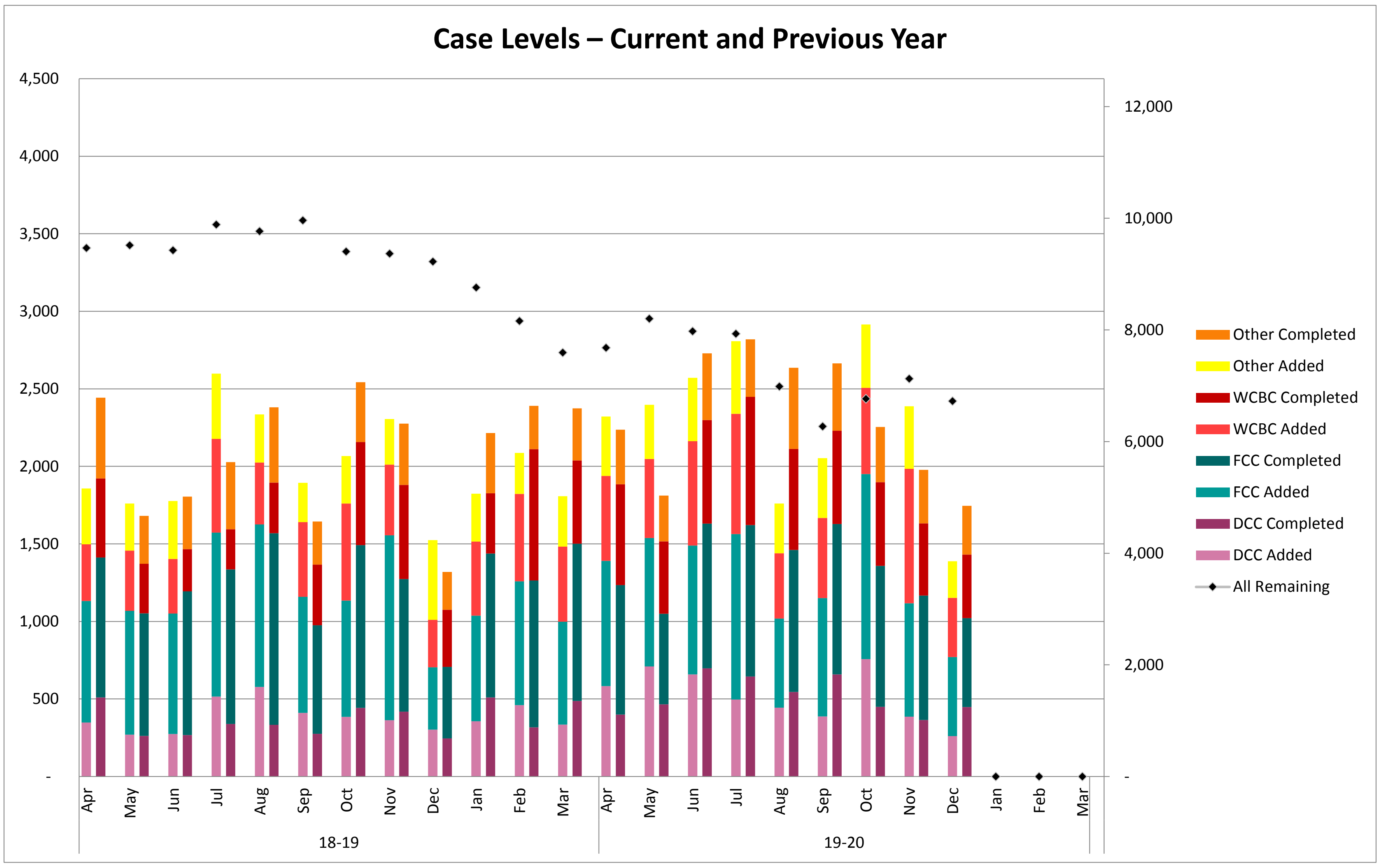
Making sure processes for recording completed work, are accurate and meet the legal requirements and service standards within the ELT Agreement and provide appropriate monthly and annual reporting for employers and internal workflow management purposes.

Measuring the outstanding cases and reviewing the progress, as follows:

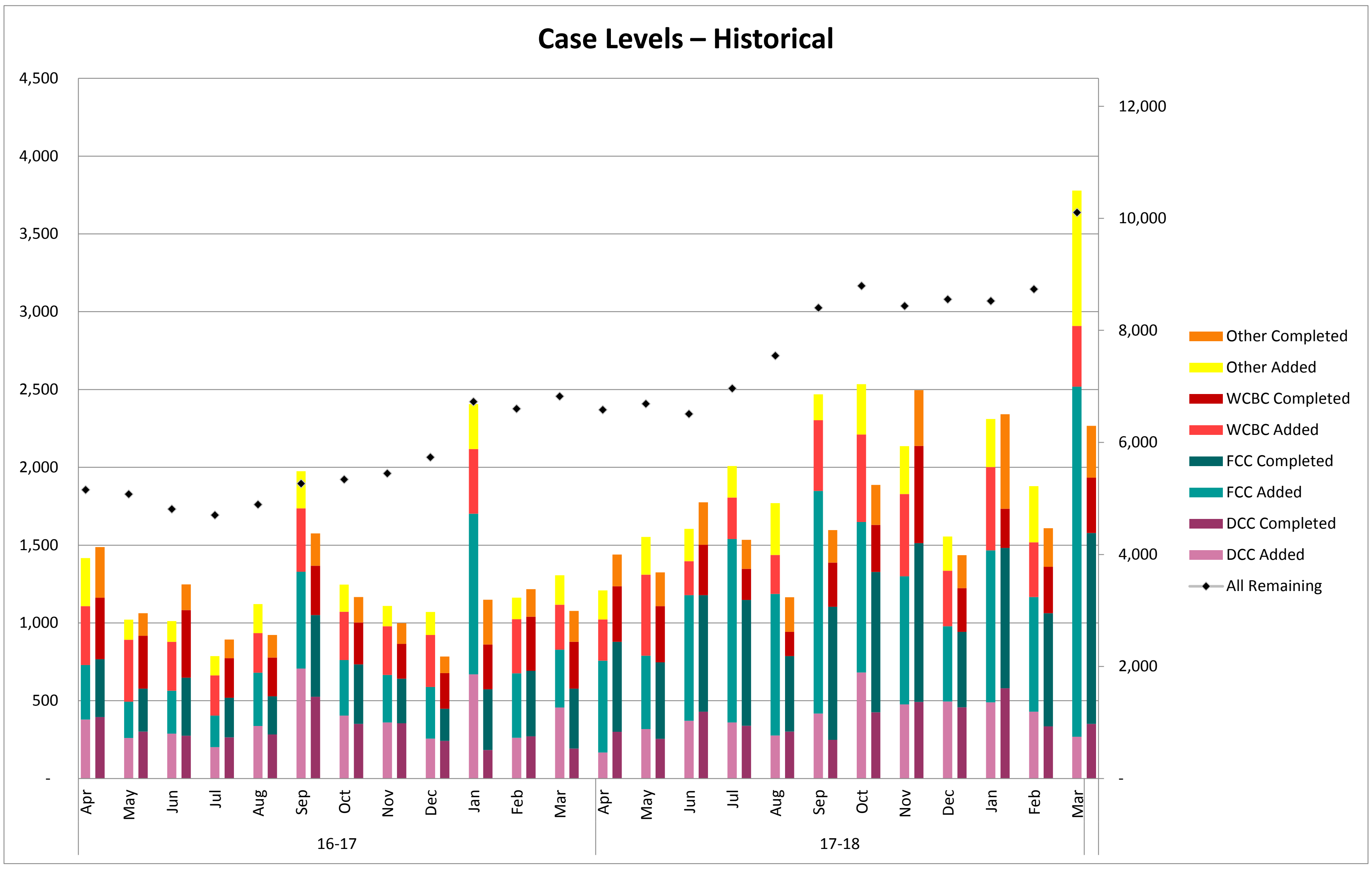
- Proportion of outstanding cases completed per employer against service standards
- Volume of cases completed and any recording and/or reporting of breaches of the law

Timescales and Stages

Review and recommend updates	2019/20 Q1
Review updated procedures	2019/20 Q4



Case Levels – Current and Previous Year
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
10,000
8,000
6,000
4,000
2,000
-
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
18-19
19-20
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining



Case Levels – Historical
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
10,000
8,000
6,000
4,000
2,000
-
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
16-17
17-18
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining

Mae'r dudalen hon yn wag yn bwrpasol

Key Performance Indicators

The following pages show the performance against the key performance indicators (KPIs) which have been agreed within Clwyd Pension Fund's Administration Strategy. They cover seven areas of work, and for each there is a KPI for each of the following:

- The legal timescale that must be met
- The overall timescale for the process (including any time taken by employers and/or scheme members)
- The timescale relating to the Clwyd Pension Fund administration team only

The KPIs are specific to each process (as set out in the Administration Strategy) and illustrated by the graphs are as follows:

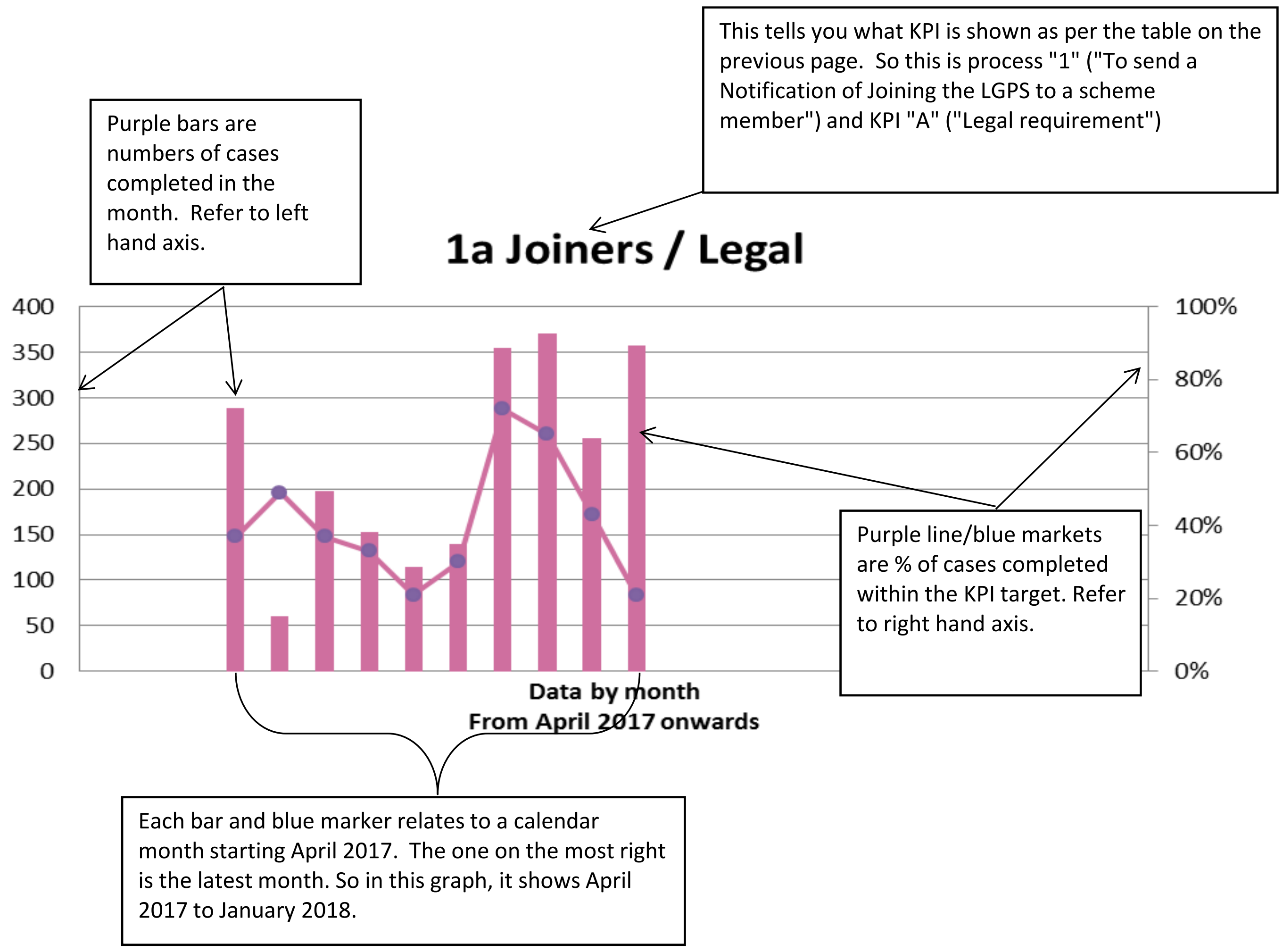
		A	B	C
	Process	**Legal Requirement**	**Overall**	**CPF Administration element target**
1	To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	46 working days from date of joining (ie 2 months)	15 working days from receipt of all information
2	To inform members who leave the scheme of their leaver rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	46 working days from date of leaving	15 working days from receipt of all information
3	Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	46 working days from date of request	20 working days from receipt of all information
4	Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	46 working days from date of request	20 working days from receipt of all information
5	Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age[4]	23 working days from date of retirement	10 working days from receipt of all information
6	Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	46 working days from date of request	15 working days from receipt of all information
7	Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative)	25 working days from date of death	10 working days from receipt of all information

Interpretation of graphs

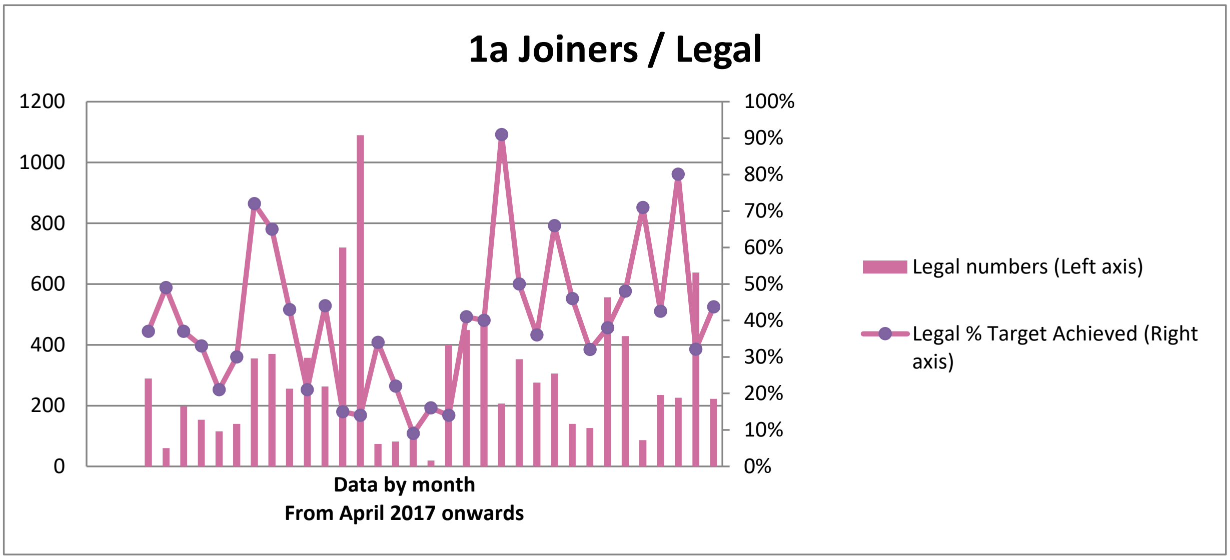
One graph has been provided for each KPI in the table above. Each graph shows month by month:

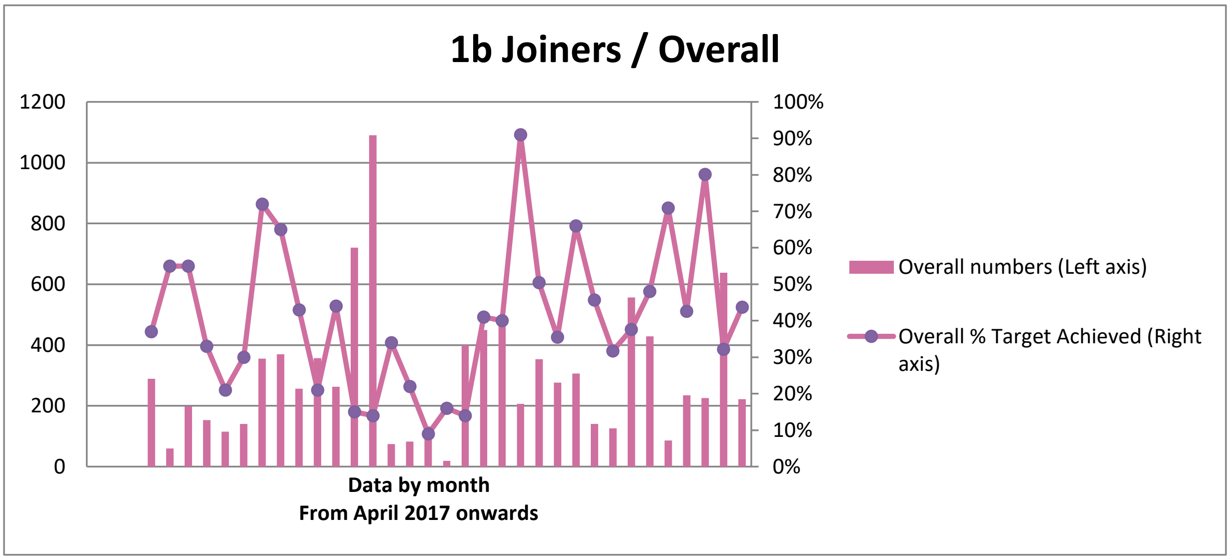
- The number of cases which have been completed each month
- The percentage of those cases completed that were completed within the KPI target

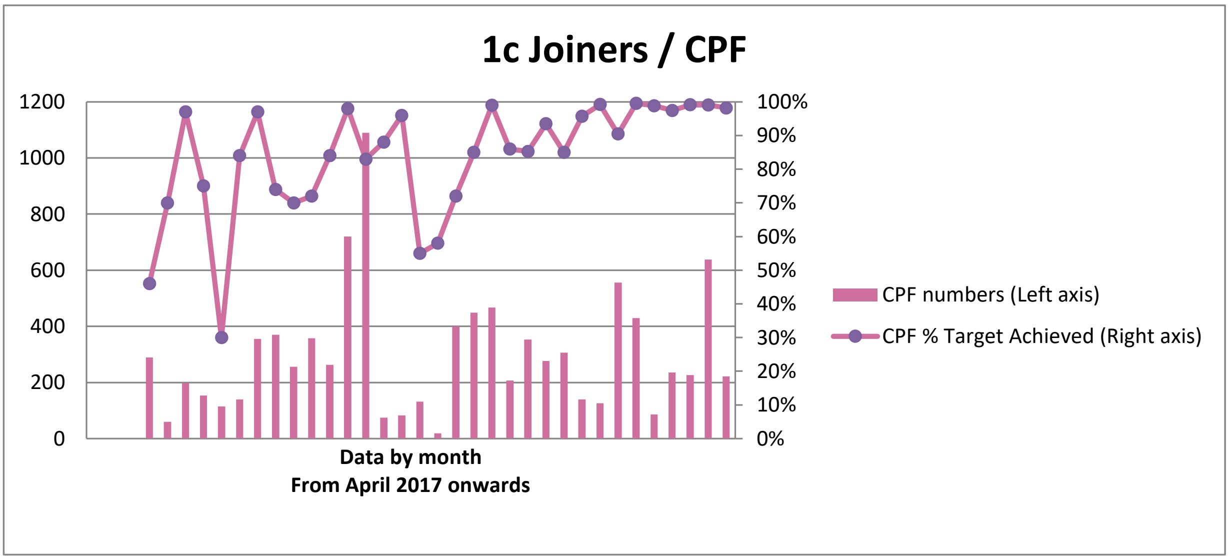
This is illustrated further below.



Key Performance Indicators - relating to 31 December 2019







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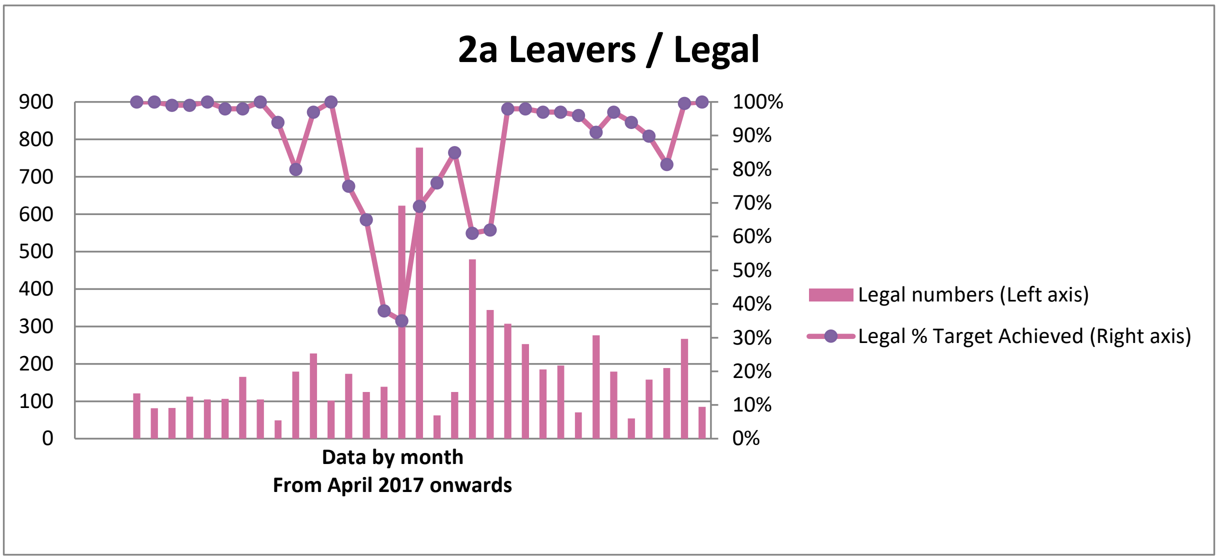

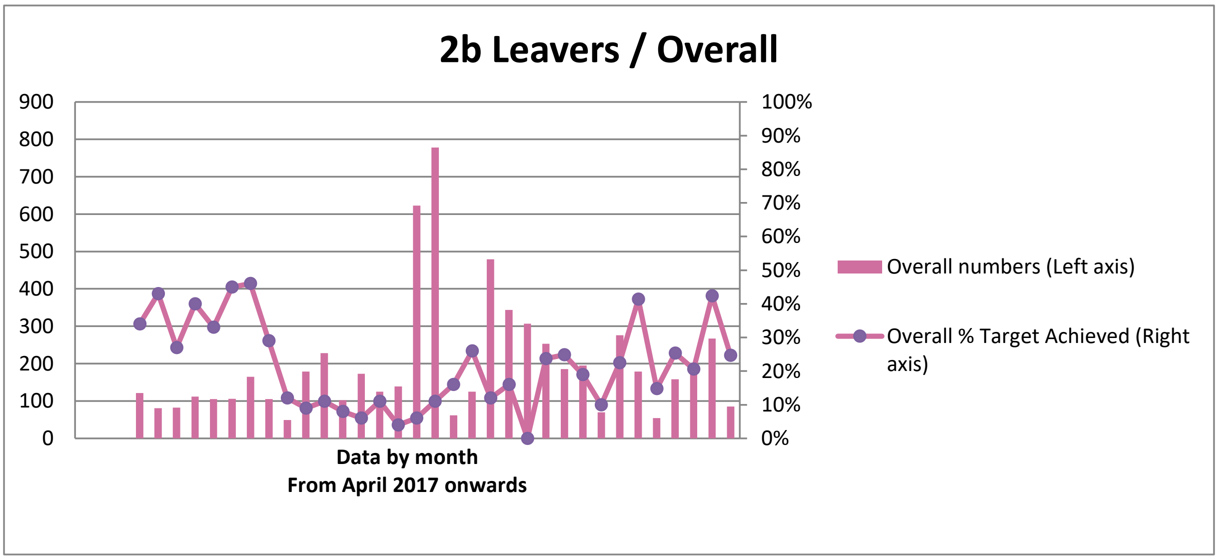

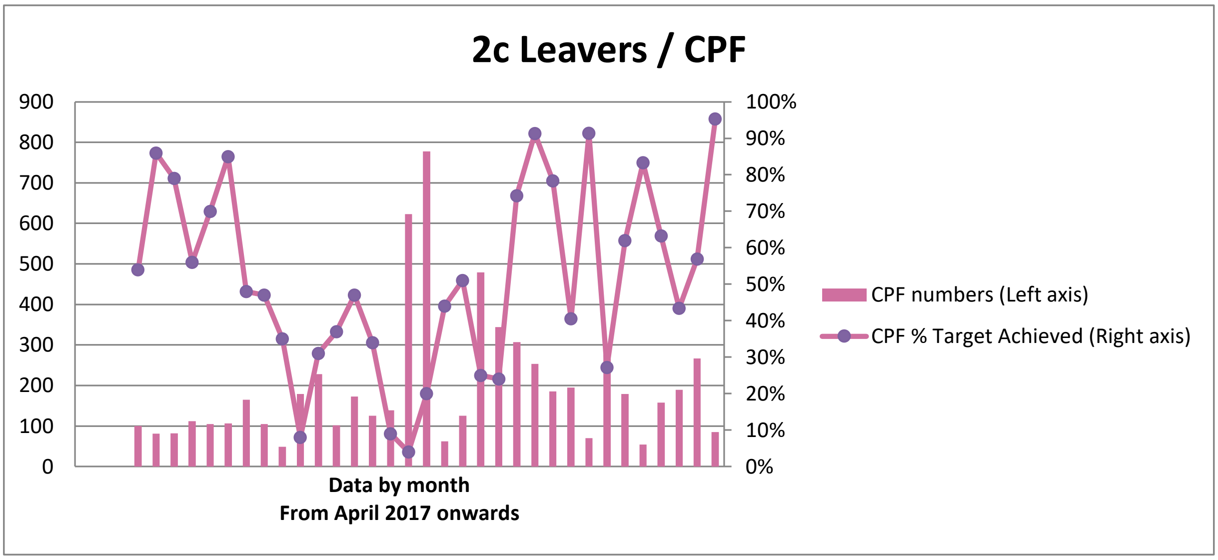

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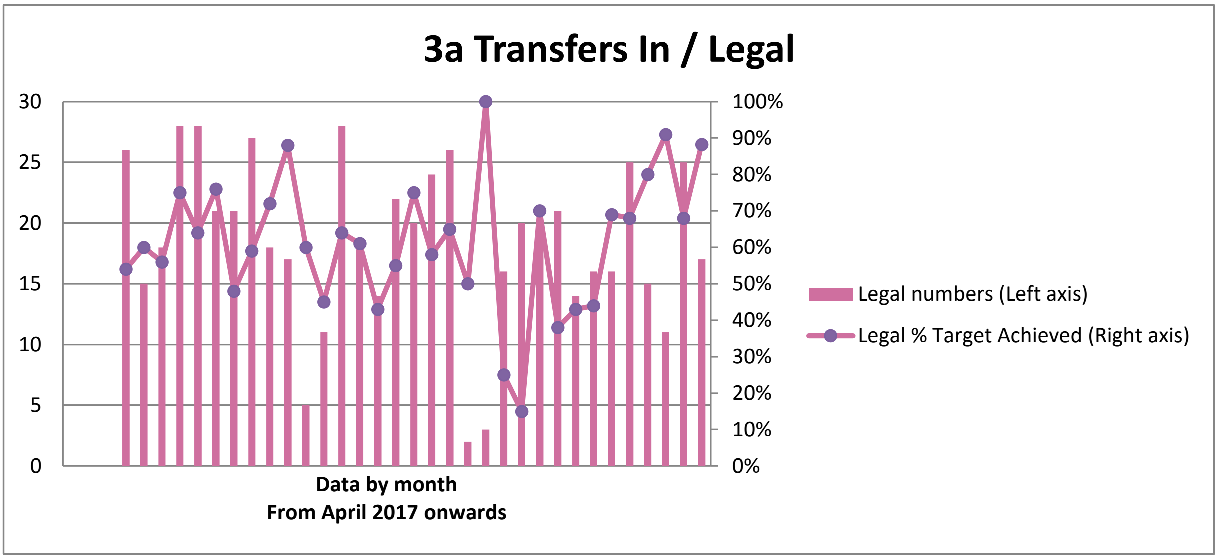
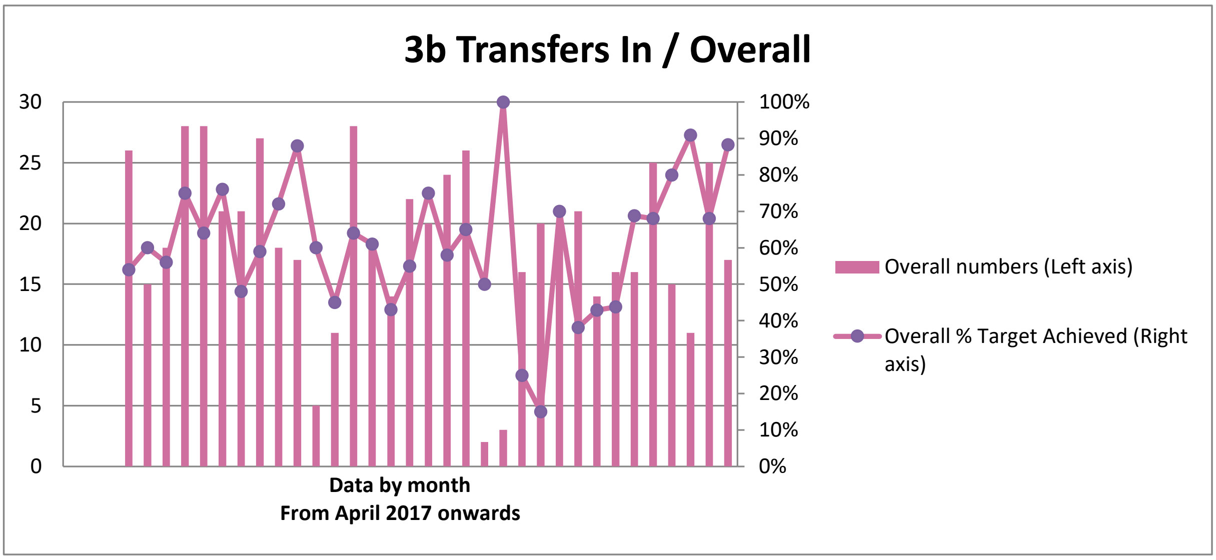
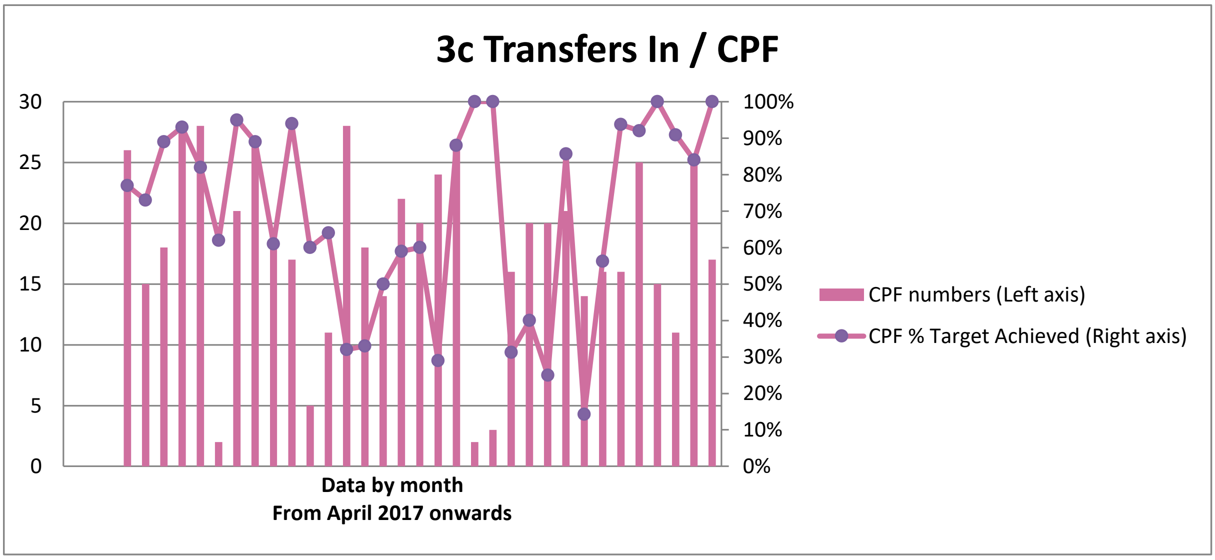
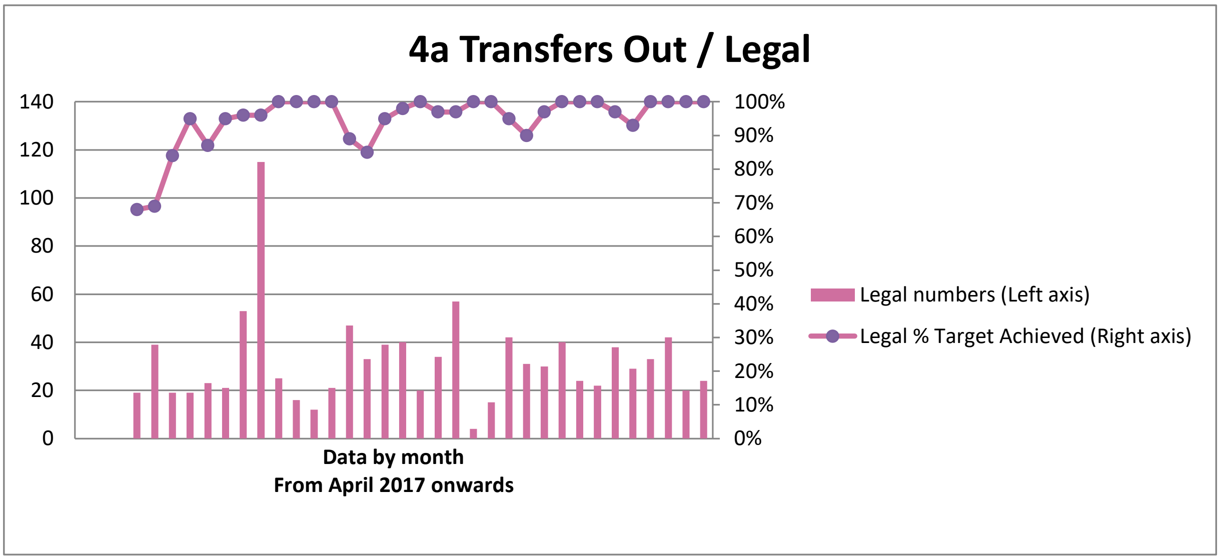
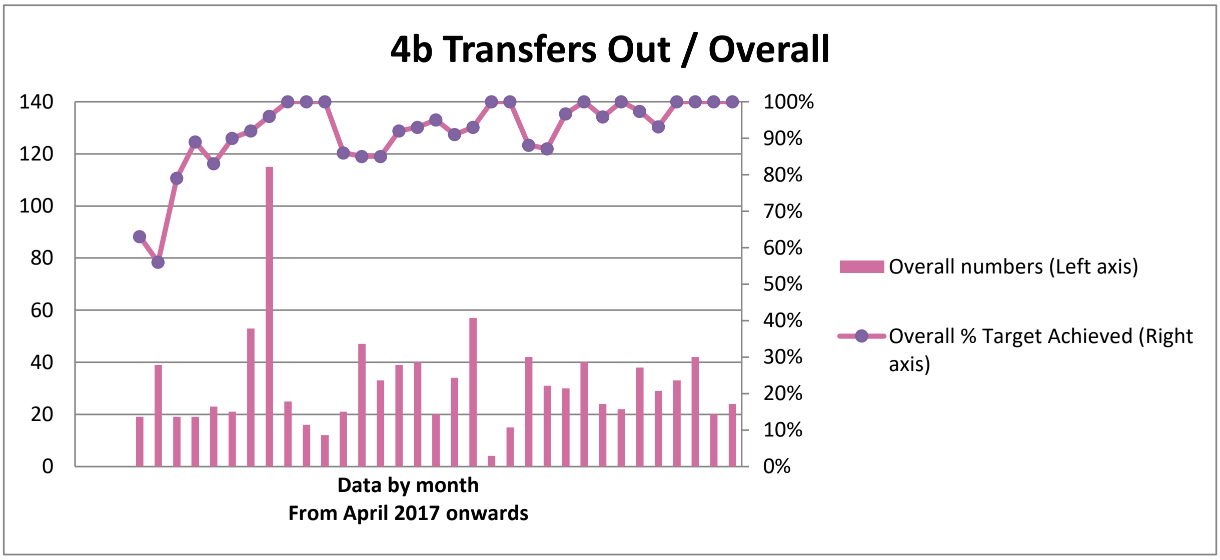


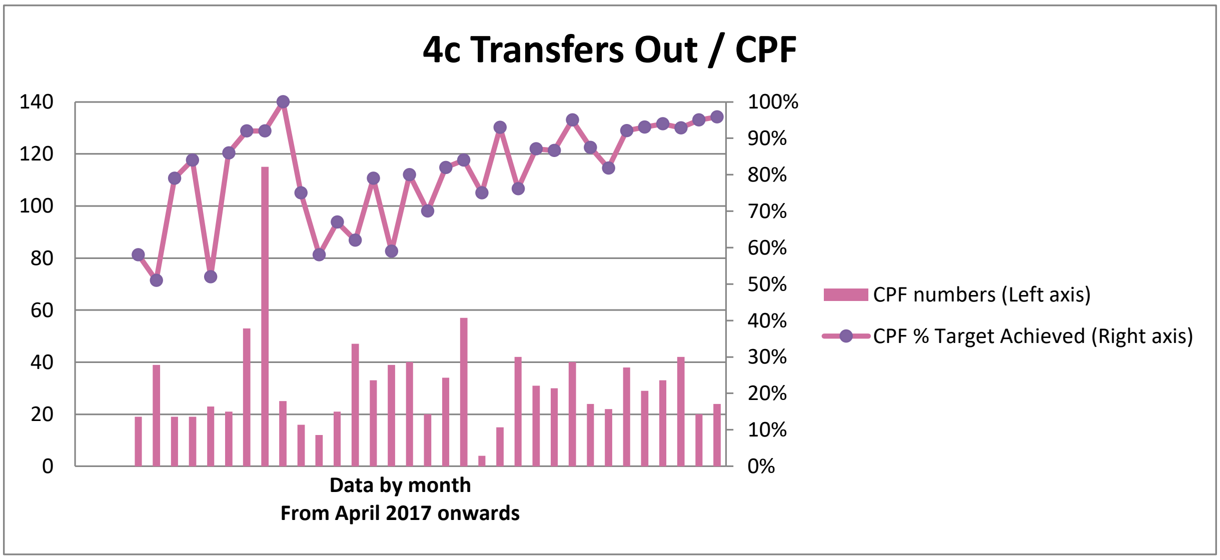




Key Performance Indicators - relating to 31 December 2019







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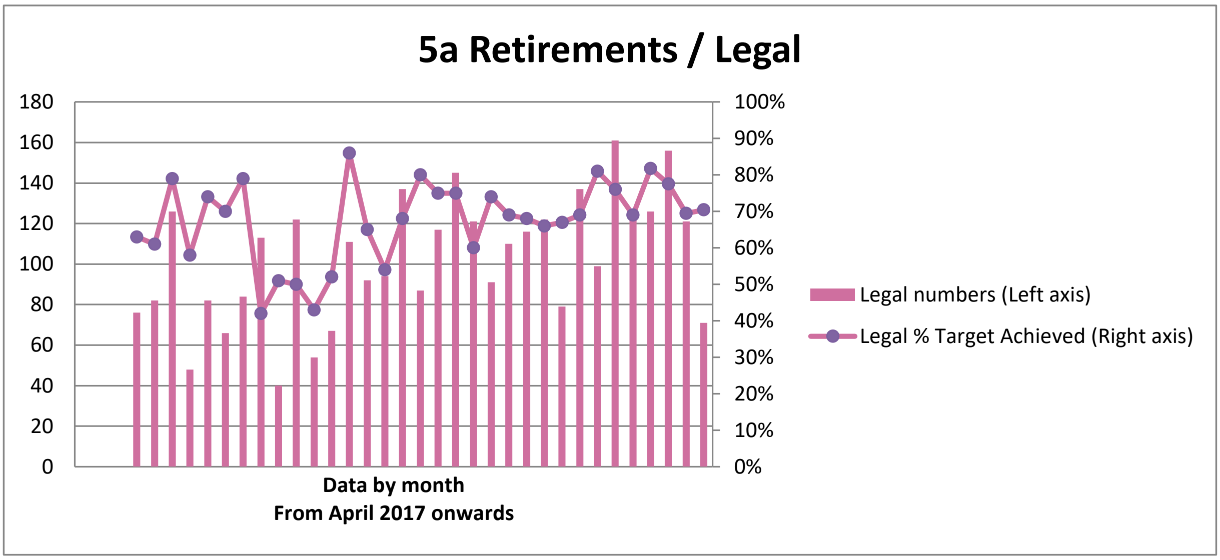
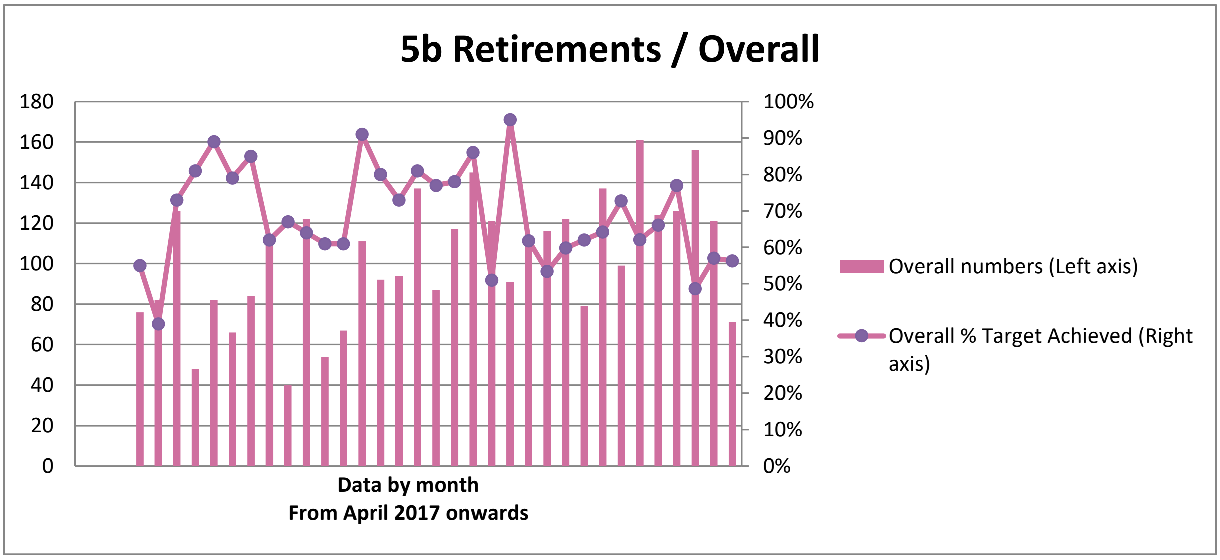
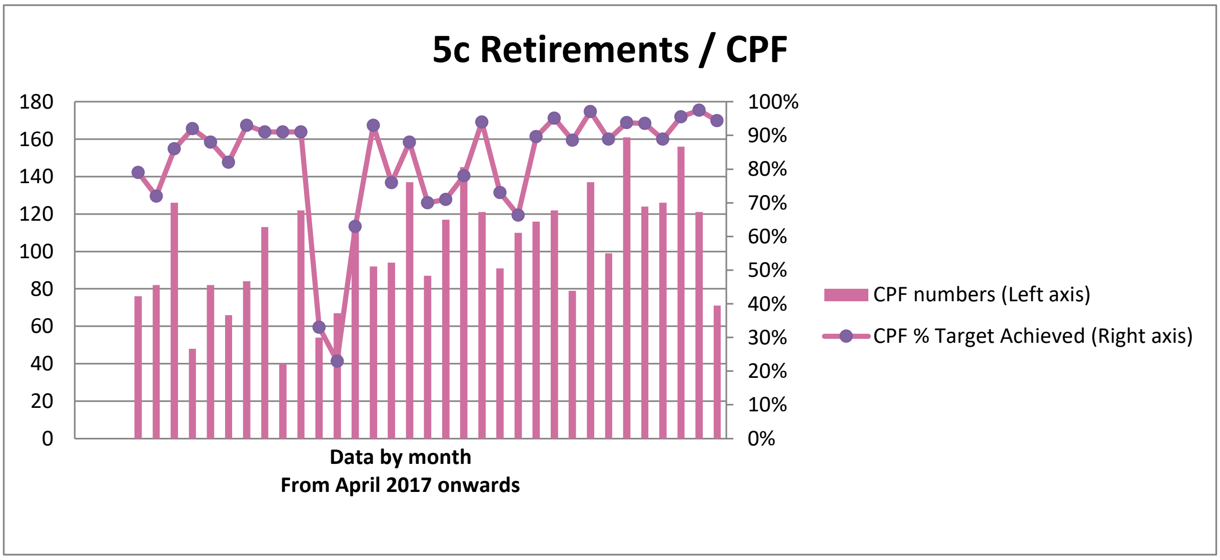
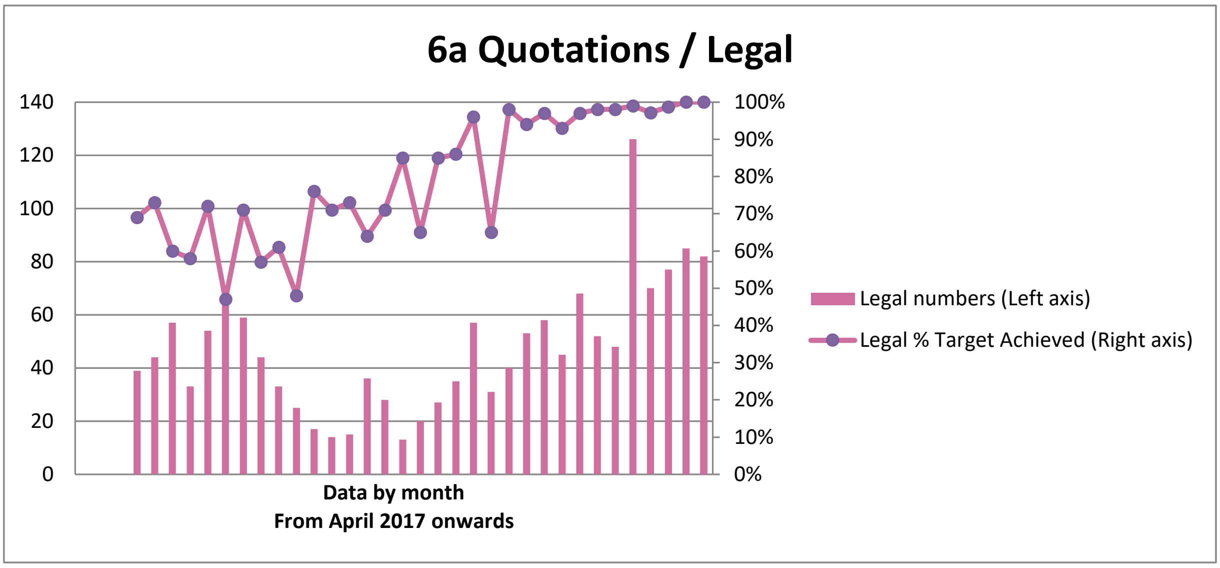
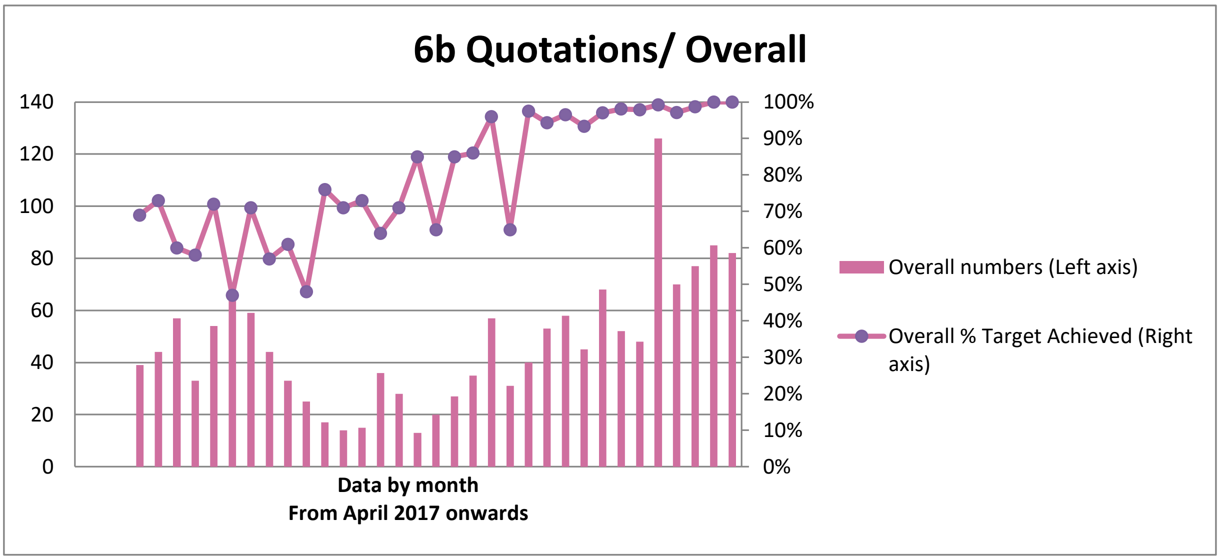


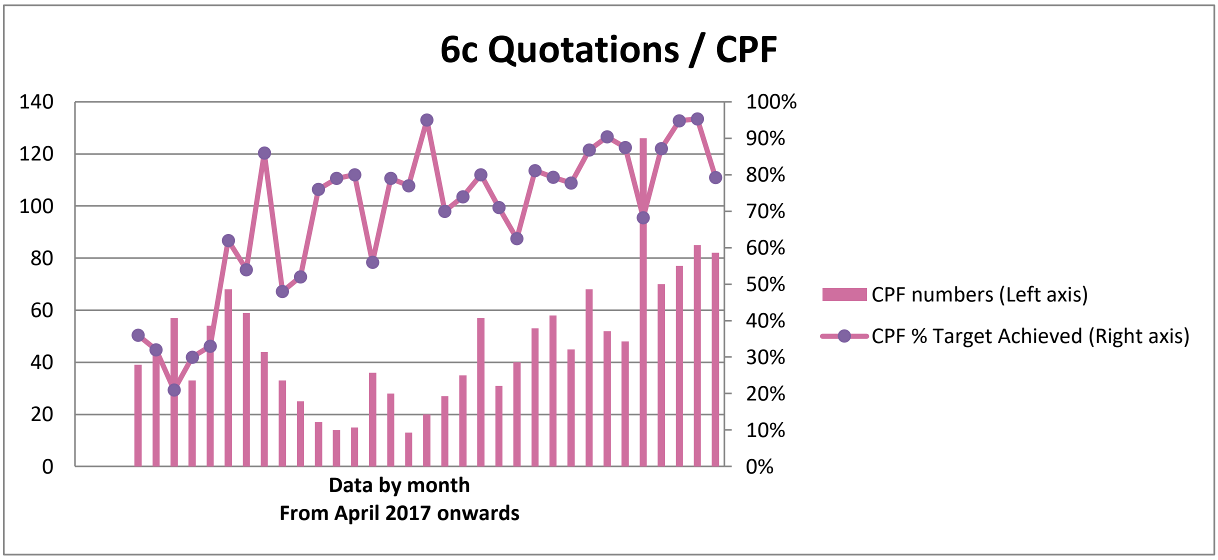




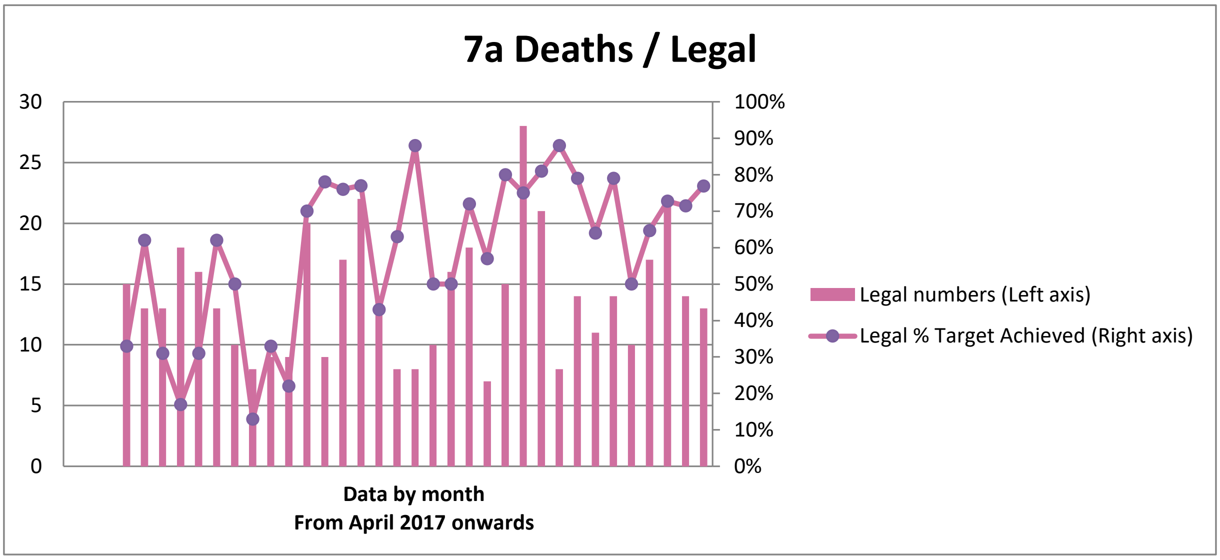
Key Performance Indicators - relating to 31 December 2019

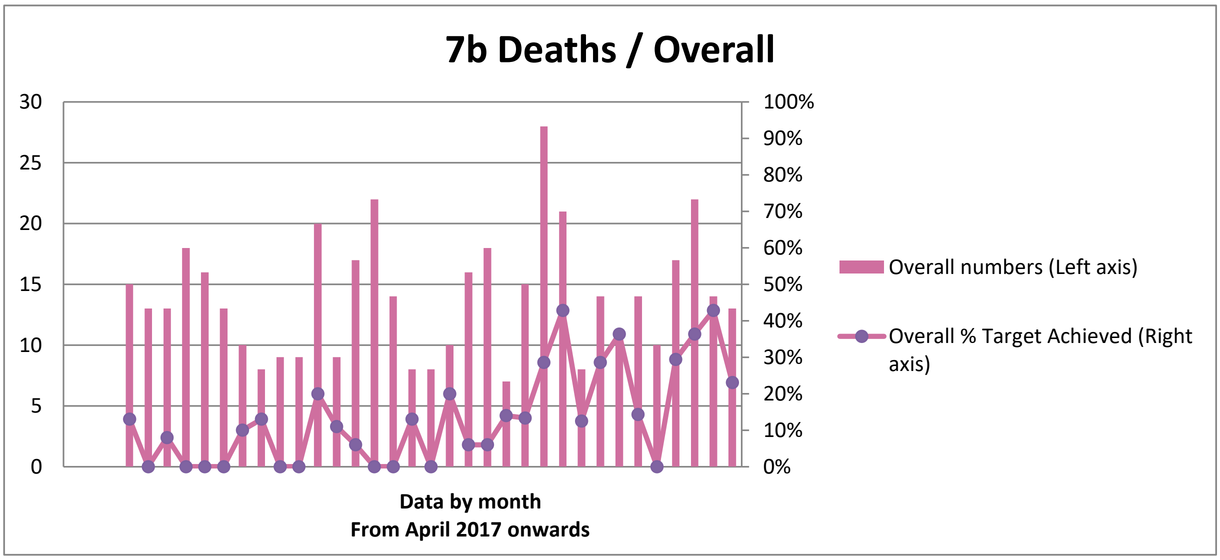


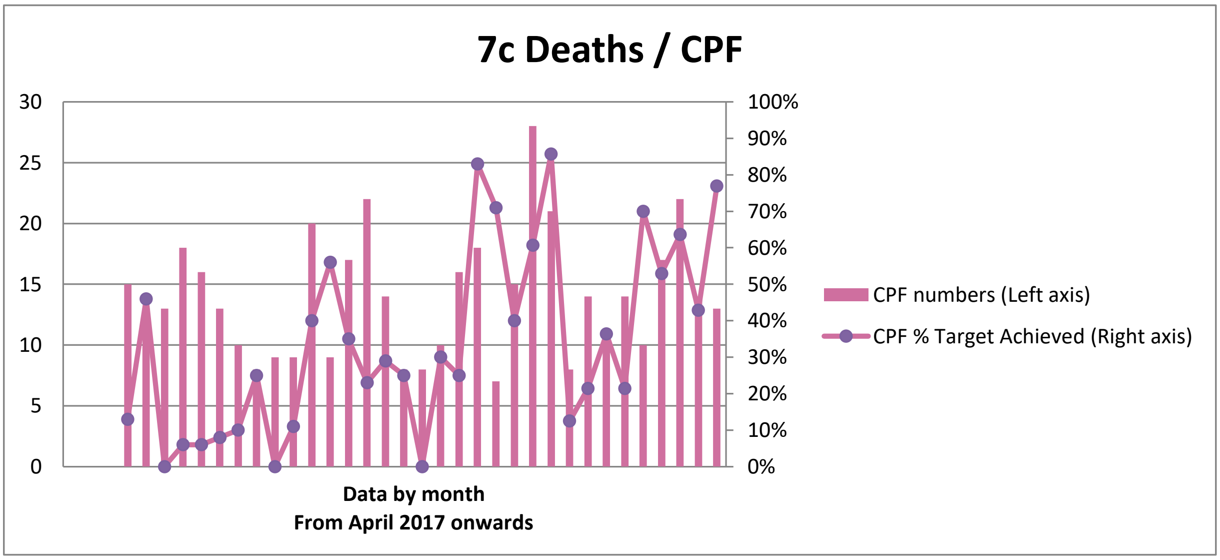




Key Performance Indicators - relating to 31 December 2019



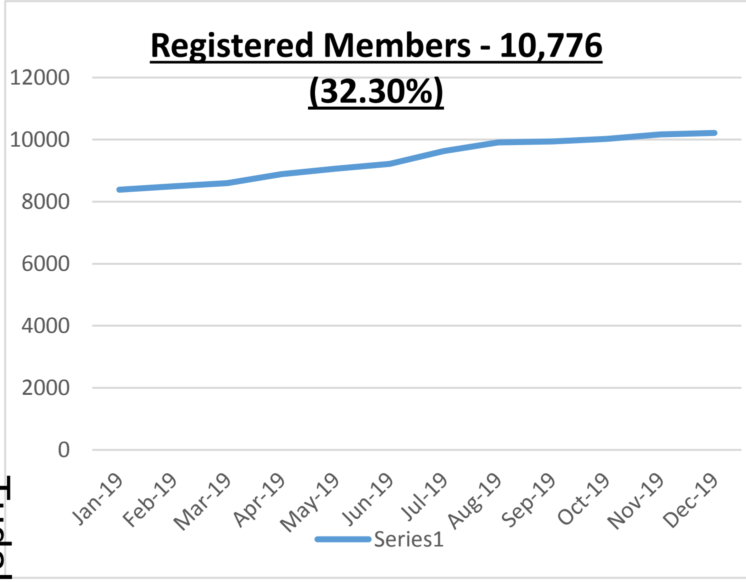


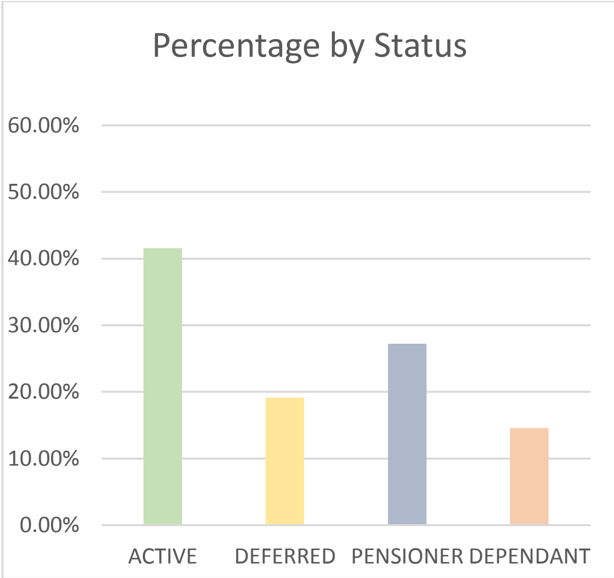


Mae'r dudalen hon yn wag yn bwrpasol

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

MEMBER SELF SERVICE – 21/01/2020



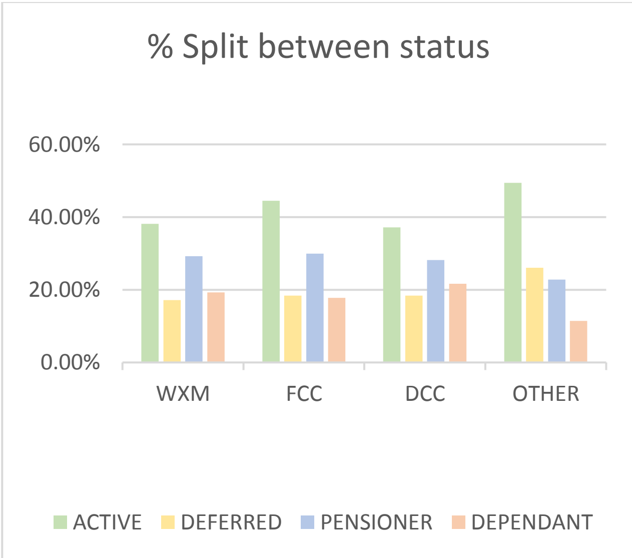


Update from November 2019 to January 2020

32.30% of the Clwyd Pension Fund's membership has registered to use Member Self-Service since we went live with this facility in November 2017. Within the last 2-3 month period, this has increased by an additional 224 users so the numbers are steadily rising.

Looking over the last scheme year (1st April 2019 to current date), our MSS users have increased from 8,932 to 10,776. This is an overall increase of 1,844 members who have registered for MSS during the 2019/2020 scheme year.

The 1:1 pension appointments will continue until the end of February 2020 and will resume in approximately September of the same year. It is anticipated that more members will register to use the service during this last period of 1:1s.



Statistics between
05/11/2019 to 21/01/2020 (78 days)

CONTACT US TASKS

358	MSSKEY	Key requests
47	MSSENQ	Enquiry tasks
10	MSSEST	Estimate tasks
21	MSSRET	Retirement tasks
9	MSSTVT	Transfer tasks
87	**Contact Us (1.12 p/day)**	
132	**MSSADD Address update (new)**	
3	**Bank details updated**	

BENEFIT PROJECTIONS

7,481 BENEFIT PROJECTIONS CALCULATED

Avg 95.91 per day

EXPRESSION OF WISH

193 CHANGES OF EXPRESSION OF WISH

2.47 per day

ELECTED FOR POSTAL CORRESPONDANCE

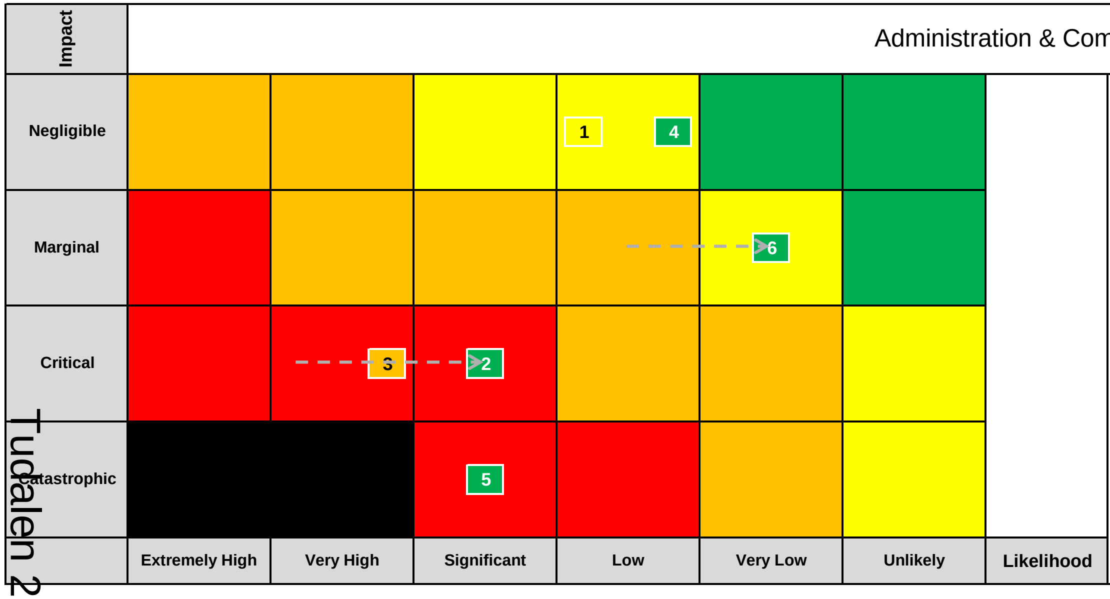
2,039 – 6.12% of overall members
211 have registered also

385	ACTIVE
74	DEFERRED
1,348	PENSIONER
232	DEPENDANTS

Mae'r dudalen hon yn wag yn bwrpasol

Administration and Communication Risks Heat Map and Summary **Appendix 2**

Administration & Communication Risks



Key

1 Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

1 The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

27 January 2020

Clwyd Pension Fund - Control Risk Register

Administration & Communication Risks

Objectives extracted from Administration Strategy (03/2017) and Communications Strategy (04/2016):

A1 Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
A2 Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
A3 Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
A4 Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
A5 Maintain accurate records and ensure data is protected and has authorised use only
C1 Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
C2 Communicate in a clear, concise manner
C3 Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
C4 Look for efficiencies in delivering communications through greater use of technology and partnership working
C5 Regularly evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	All	Negligible	Low		1 - Training Policy, Plan and monitoring in place 2 - BP 2017/18 improvements assist with staff engagement 3 - Benefit consultants available to assist if required 4 - Ongoing task/SLA reporting to management/AP/PC/LPB to quickly identify issues 5 - Data protection training, policies and processes in place 6 - System security and independent review/sign off requirements 7 - ELT established 8 - Temporary staff changed to permanent, and further resource increase/recruitment to new posts 9 - Ongoing monitoring of ELT and Ops resource/workload for backlogs 10 - Estabishment of aggregation team 11 - Ongoing training within the team	Negligible	Low		☺			1 - Ongoing consideration of resource levels post recruitment of new posts (KW) 2 - Review structure of Technical team (AH)	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	Significant		1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT 6 - Increased data checks/analsyis (actuary and TPR) 7 - Implemented further APP data checks to identify issues 8 - Updated Admin Strategy to include a compliance declaration	Negligible	Very Low		☹ Current impact 2 too high Current likelihood 2 too high	01/07/2016	Mar 2021	1 - Ongoing roll out I-connect (AH) 2 - Ongoing monitoring of ELT resource/workload (KR) 3 - Develop and roll out APP training - in house and employers (KM) 4 - Identify other employer data issues and engage directly with employers on these (KM/AH)	Pensions Administration Manager	31/03/2020	27/01/2020
3	Unable to meet legal and performance expectations due to external factors	Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Very High		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required 3 - Recruitment to new posts	Marginal	Low		😐 Current impact 1 too high Current likelihood 2 too high	27/08/2018	Oct 2020	1 - Ongoing consideration of resource levels post recruitment of new posts (KW) 2 - Ongoing consideration of likely national changes and impact on resource (KW)	Pensions Administration Manager	31/03/2020	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		1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed 4 - Website reviewed and relaunched (2017) 5 - Member self service launched (2017) 6 - Comms Officer recruited	Negligible	Very Low		😐 Current likelihood 1 too high	01/07/2016	Jun 2020	1 -Ongoing promotion of member self service (KM) 2 - Ongoing identification of data issues and data improvement plan (All) 3 - Review of effectiveness of new website/iConnect/member self-service planned for 2019/20 (KM)	Pensions Administration Manager	31/03/2020	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		1- Business plan has number of improvements (I-connect/MSS etc) 2 - Review of ad-hoc processes (e.g. deaths and aggregation) 3 - Participating as a founding authority on national framework for admin systems (if it proceeds) 4 - Procurement of Altair on business plan 5 - Joined latest Heywood Testing Party 6 - Implementation of other Altair modules including in-house lump sum payment facility	Negligible	Very Low		☹ Current impact 3 too high Current likelihood 2 too high	01/07/2016	Mar 2020	1 - Ongoing roll out of iConnect (AH) 2 - Ongoing identification of data issues and data improvement plan (All) 3- Review of effectiveness of new website/iConnect planned for 2019/20 (KM) 4- Increased engagement with Heywood about change in their business model (KW) 5 - Development of pension admin system national framework as a founder member (KW)	Pensions Administration Manager	31/03/2020	14/08/2019
6	Service provision is interupted	System failure or unavailability, including as a result of cybercrime	A1 / A4 / C2	Marginal	Very Low		1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented 3 - Implement lump sum payments via pensioner payroll facility	Negligible	Unlikely		😐 Current impact 1 too high Current likelihood 1 too high	08/11/2019	Jun 2020	1 - Ongoing checks relating to interface of recovery plan with non-pensions functions (KW) 2 - Develop business continuity policy for CPF (KW) 3 - Review of cybercrime risk controls (KW/PL)	Pensions Administration Manager	31/03/2020	27/01/2020

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 11 February 2020
Report Subject	Investment and Funding Update
Report Author	Deputy Head, Clwyd Pension Fund

EXECUTIVE SUMMARY

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

(a) The Business Plan 2019/20 update on progress. All tasks are complete or 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 7.

(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.

(d) Within the risk register (Appendix 3) overall, a number of investment and funding risks have moved towards target.

RECOMMENDATIONS	
1	That the Committee consider and note the update for delegated responsibilities and provide any comments.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Business Plan Update** Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plans for 2019/20. All projects are near completion and will be completed by the end of the financial year.
1.02	**Current Development and News** The National Frameworks are progressing with the procurement of the National Actuarial and Benefits Tender which is due for renewal in June 2020. The Clwyd Fund have agreed to be a Founder in the process and the Deputy Head of the Fund is involved in the full procurement process over the next few months.
1.03	**Policy and Strategy Implementation and Monitoring** The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, Mercer, which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 11. The Advisory Panel also receive reports from the following groups: • Tactical Asset Allocation Group (TAAG) • Funding and Risk Management Group (FRMG) • Private Equity and Real Assets Group (PERAG) Any delegations arising from these meetings are detailed in Appendix 2.
1.04	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting. To summarise: • Cashflow forecasting continued to identify low short term liquidity. This will be monitored through the Cash and Risk Management Strategy going forward. • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG) and are ahead of their target. • Within the Private Market portfolio, one investment has been agreed within the Private Equity portfolio which follows the strategy agreed by the Advisory Panel for this asset class.

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

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

4.00	RISK MANAGEMENT
4.01	Appendix 3 provides the dashboard and risk register highlighting the current risks relating to Investments and Funding matters.
4.02	There have been several changes to the register since the last Committee. There are now nine risks. F9 has been added which covers Responsible Investing including Climate Change and the risk that it may not be properly considered in the long term strategy. This is currently at an impact of critical and a likelihood or significant compared to a target of low. Four of the previous eight risks have decreased their current likelihood risk moving from significant to low or low to very low. This is following the completion of the Actuarial Valuation exercise and the improvement in funding position. In addition F6 which relates to Pooling and Brexit, has decreased from very high to significant. Risks F1, 3, 5 and 7 are all on target for both impact and likelihood. F2, 4 and 8 are either one step away from target on impact or likelihood and F6 is now one step away on both impact and likelihood.

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

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

7.00	GLOSSARY OF TERMS
7.01	(a) **The Fund - Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region

	(b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee - Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant. (e) **AP – Advisory Panel** – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor. (f) **PERAG – Private Equity and Real Asset Group** – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund's Investment Consultant and monitored by AP. (g) **In House Investments –** Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG. (h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (i) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund. (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (k) **Funding & Risk Management Group (FRMG)** - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the Committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor. (l) **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.

	(m) **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. (n) A full glossary of Investments terms can be accessed via the following link. **https://www.schroders.com/en/uk/adviser/tools/glossary/**

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Business Plan 2019/20 to 2021/22 – Q4 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	x		

Funding and Investments (including accounting and audit) Task Descriptions

F1 –Review CPF's Responsible Investment Policy

What is it?

The Fund has had in place a Responsible Investment policy/Sustainability Policy for several years, and this is contained within the Investment Strategy Statement. Responsible Investing or investing in a sustainable way has moved into the mainstream in recent years. It is now generally accepted that, at the very least considering Environmental, Social and Governance (ESG) factors/risks within the investment process is entirely appropriate for institutional investors. As the market has moved significantly in recent years, it is appropriate for CPF to review its existing policies to ensure they remain appropriate, and relevant. As part of the review CPF will need to consider, and input into, the policies being created by the Wales Pension Partnership, as this will be the implementation vehicle.

Timescales and Stages

Responsible Investing Training session for CPF Committee	2018/19 Q4
Work with consultants/advisers to review existing policies	2019/2020 Q1/2
Present revised policies to CPF Committee	2019/2020 Q2/3

Resource and Budget Implications

Costs and resources for the review are contained within existing plans/budgets. Officers will review with support from Investment consultant.

F2 –Cash Flow and Liquidity Analysis

What is it?

The Fund has a significant number of factors to consider when looking at cash-flow requirements. These include contributions from employees and employers, payments to pensioners and transfer values in and out. On the investment side this includes income/dividends receivable from investments, commitments to Private Markets require regular draw-downs and repayments of investments, and transition of existing investments can also require cash.

As a result of all of these moving parts it is to ensure that the Fund has sufficient cash flow to meet all its commitments, but without maintaining a significant balance in cash which would, potentially be a drag on investment returns.

This assessment of cash flow and liquidity therefore has a number of elements, including input from the Actuary's analysis of the Fund's assets and liabilities as at 31 March 2019. This process will form the basis of information for the Funding and Risk Management Group which will be working to assess how the cash flow requirements of the Fund can be best met through a designated asset allocation structure within the risk management framework.

In addition to this, the CPF's Investment Consultant, JLT is undertaking a review of the In-house Private Markets portfolio within the first few months of 2019, and this will include a significant focus on future cash flow requirements to meet existing and future commitments.

The final piece in the analysis will be incorporated into the review of the Fund's Investment Strategy. As part of the work on reviewing the strategy the Fund's Investment Consultant will review the liquidity of the asset portfolio versus the projected cash flow requirements.

All of these individual elements will ensure that CPF is well placed in terms of cash flow and will be able to design and implement an efficient mechanism to manage the demands/requirements going forward.

Timescales and Stages

Actuarial assessment of benefits cash flows (in conjunction with the 2019 valuation)	2019/20
Funding Risk Management Group	2019/20

Review of Private Markets cash flow requirements	Concluding Q2 2019/20
Review of Investment Strategy	2019/20

Resource and Budget Implications
The cost of this work is included within the Fund's budgets for 2019/20 and will include significant input from the Actuary and Investment Consultant.

F3 – Triennial Actuarial Valuation and associated tasks
What is it?
It is the formal actuarial valuation of the Fund detailing the solvency position and other financial metrics. It is a legal requirement of the LGPS Regulations. It determines the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement. The exercise will include cash flow projections.

Timescales and Stages
Effective date	31 March 2019
Initial whole Fund results (expected)	2019/20 Q2
Individual Employer results (expected)	2019/20 Q2&3
Deadline for agreement of all contributions and sign-off	31 March 2020

Resource and Budget Implications
Exercise will be performed by the Fund Actuary and it will determine contribution requirements for all participating employers from 1 April 2020. It is a major exercise for the Fund and will take a lot of input from the Administration and Finance teams. Employers will be formally consulted on the funding strategy as part of the process. The Fund Actuary's costs in relation to this exercise will be included in the 2019/20 budget.

F4 – Review of Investment Strategy
What is it?
This relates to the triennial review of the Investment Strategy once the Actuarial Valuation has been finalised and the Funding Strategy agreed. If required, there may be a need to undertake a light touch review (asset modelling scenarios) of the Fund's strategy and asset allocation position to feed into the actuarial valuation process.

Timescales and Stages
Triennial review	2019/20 Q1,2 & 3
Implement changes to Investment Strategy	2019/20 Q4 & 2020/21 Q1

Resource and Budget Implications
The majority of work will be carried out by JLT as Investment Adviser together with the CPF Manager and Deputy Head of Clwyd Pension Fund prior to final submission of proposals to Advisory Panel and Pension Fund Committee. Costs of the review are included within the budgets shown.

F5 –Asset Pooling Implementation

What is it?

To enable the Wales funds to pool assets an operator has been appointed to provide the investment infrastructure and advice for the Wales Pension Partnership ("WPP"). A plan will be developed in relation to what and when assets will transition. Then we will need to adapt internal processes and methods as assets transition, and ensure reporting received from the Operator and WPP. The timescales shown below are best estimates and subject to change when the WPP business plan and asset transition plan have been developed.

Timescales and Stages

Undertake and feed into discussions with the Operator regarding structure of underlying asset class options.	2019/20 & 2020/21
Ongoing development and approval of the asset transition plan (reserved matter)	2019/20 & 2020/21
Contribute to the development of the WPP RI Policy and ensure it enables implementation of the CPF RI Policy.	2019/20
Identify impact on and develop internal processes and resources	2019/20 & 2020/21
Approve the WPP's business plan (reserved matter)	2019/20 Q1 (to be confirmed)
Review and feed into suitability of reporting and performance monitoring templates (including meeting the Fund's Responsible Investment Policy and Cost Transparency requirements)	2019/20 Q1/2
Review of how accounts and finances relating to investments - recording, preparation and publishing	2019/20
Understand infrastructure opportunities	2019/20

Resource and Budget Implications

2019/20 and future budgets will include the cost of the Operator. For 2019/20 a provisional amount of £109k has been included for a proportion of the year. Along with budgeted WPP costs of £59k. The Consultant and Adviser budgets include an estimated amount of £42k for expected ongoing advice during the transitional period. The remaining costs will be covered within the internal resource budget.

F6 – Employer Risk Management Framework

What is it?

The Fund is subject to funding risks in respect of employers on an ongoing basis and in particular who cease to participate without being able to recover the full exit contributions due under the Regulations. The Fund is in the process of setting up a monitoring framework to capture any employers that pose a significant risk. The framework will categorise employers into different risk profiles based on their covenant and funding positions. This will allow officers to identify any potential risk of unrecoverable debt and affordability restraints on contribution requirements. Data requests will be sent to employers in advance of the 2019 valuation so that the latest covenant data can be considered alongside their funding results.

The framework will also consider the outcome of the tier 3 review performed by the Scheme Advisory Board which is expected during 2019 (tier 3 employers are those that do not have tax-payer backing; i.e. colleges, universities, housing associations, charities, admission bodies that do not have a guarantee from a Council, etc.). For the Fund, the potential impact is restricted to colleges and universities.

A dry run of the initial covenant data gathering phase of the framework has been completed as per previous business plans.

Timescales and Stages

Monitoring will be performed alongside the 2019 valuation	
Further development of risk framework (in conjunction with the 2019 valuation)	2019/20 Q2/3

Resource and Budget Implications

Managing employer risk will require support from the Fund Actuary. It will involve the officers gathering financial information from all employers regularly to monitor covenant strength and funding positions to inform on which employers pose the greatest risk to the Fund and the remedial actions necessary. The Fund Actuary costs in relation to this exercise have been included in the budget.

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DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.041	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 December 2019 the Fund redeemed £30m from the Insight cash collateral to cover upcoming 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 31st December 2019 was £35.4m (£10.8m at 30th September 2019). This includes the £30m redeemed from Insight in November 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 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.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
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 transactions agreed within the portfolio were:

- Partial redemption of LGIM Global REITS –£ 10.0m (crystallised +21.4%)
- Partial redemption of LGIM Infrastructure - £10.0m (crystallised +22.3%)
- Invest £20m in LGIM UK Equities
- Redeem total EM Equities - £17.5m (delegated after January TAG)
- Invest £17.5m in LGIM Liquidity Fund

The current allocations within the portfolio following the transactions are:

- US Equities (1.8%)
- Japanese Equities (0.8%)
- Commodities (1.0%)
- Real Estate (1.0%)
- Infrastructure (1.1%)
- Emerging Market Bonds (1.4%)
- Global Bonds (0.9%)
- High Yield Bonds (0.6%)
- UK Equity (1.0%)
- Liquidity Fund (1.4%)

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 December 2019, the Best Ideas portfolio 1 year performance was +19.5% against a target of +4.3% and the 3 year performance was +7.0% against a target of +5.2%.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
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.

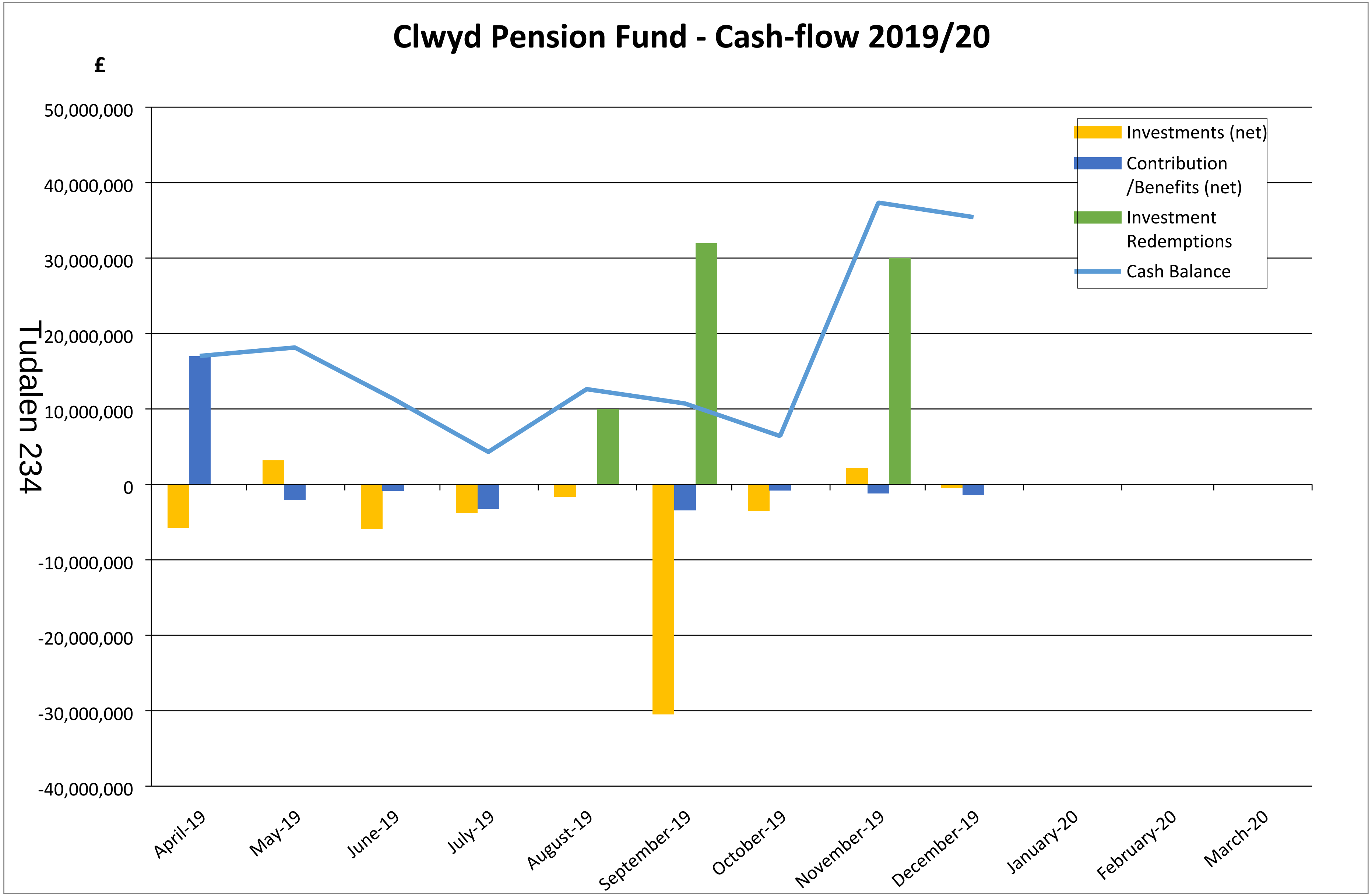
The Private Equity & Real Estate Group (PERAG) of officers and advisor meet quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular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

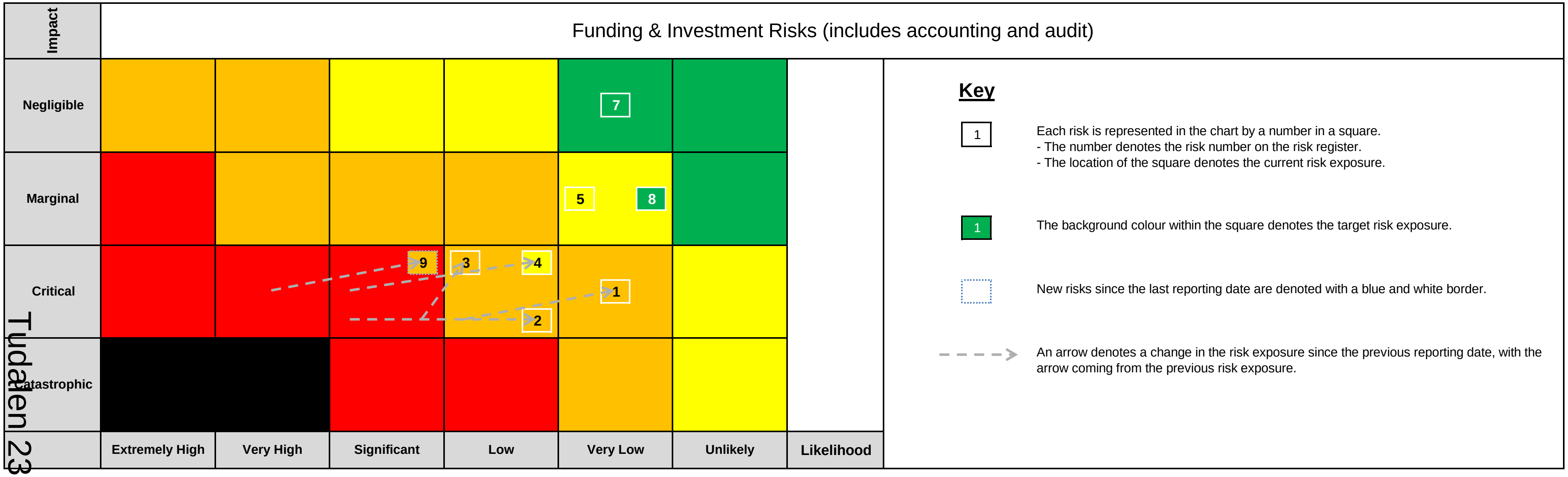
Action Taken

Due diligence has been undertaken on the following 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 following commitment has been made under delegated authority since the last Committee:

- £8 million to August Equity V (Private Equity Fund targeting 10% Net IRR)


Clwyd Pension Fund - Cash-flow 2019/20
£
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
-10,000,000
-20,000,000
-30,000,000
-40,000,000
Investments (net)
Contribution /Benefits (net)
Investment Redemptions
Cash Balance
April-19
May-19
June-19
July-19
August-19
September-19
October-19
November-19
December-19
January-20
February-20
March-20

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



03 February 2020

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement (3/2017) and Statement of Investment Principles (3/2017):

F1 Achieve and maintain assets equal to 100% of liabilities within the 15 year average timeframe whilst remaining within resonable risk parameters
F2 Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
F6 Ensure net cash outgoings can be met as/when required
F7 Minimise unrecoverable debt on employer termination.
F8 Ensure that its future strategy, investment management actions, governance and reportin gprocedures take full account of longer-term risks and sustainability
F9 Promote acceptance of sustainability principles and work tougher with others to enhance the Fund's effectiveness in implementing these.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Very Low		1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process and as part of the ongoing risk management framework.	Critical	Very Low		☺			1 - Finalise employer covenant monitoring (DF)	Head of CPF	31/03/2020	03/02/2020
2	Funding level reduces, increasing deficit	Movements in assets and/or liabilities (as described in 3,4,5) in combination	F1 / F2 / F3 / F4 / F5 / F7	Critical	Low		See points within points 3,4 and 5	Marginal	Low		😐 Current impact 1 too high	31/03/2016	Mar 2033	1 - Equity Protection Strategy to be kept under review (PL) - See points within points 3,4 and 5	Head of CPF	31/03/2020	03/02/2020
3	Investment targets are not achieved therefore materially reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	F1 / F2 / F3 / F4 / F7	Critical	Low		1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring of funding position versus flightpath targets 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of Investment opportunities available 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		☺			1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG) (DF)	Dep. Head of CPF	31/03/2020	03/02/2020
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Low		1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee. 5 - Consideration and understanding of potential Brexit implications.	Marginal	Very Low		😐 Current impact 1 too high Current likelihood 1 too high	31/03/2016	Mar 2033	1 -The level of hedging will be monitored and reported regularly via FRMG (DF)	Dep. Head of CPF	31/03/2020	03/02/2020
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Very Low		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low		☺			1 - Assumptions and experience are being reviewed as part of the 2019 valuation (DF)	Dep. Head of CPF	30/09/2020	03/02/2020
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	Significant		1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS 4 - Particiaption in National consultations and lobbying 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. Major employers agreed to include McCloud.	Marginal	Low		😐 Current impact 1 too high Current likelihood 1 too high	31/03/2016	Mar 2021	1 - Ensure proactive responses to consultations etc. (PL)	Dep. Head of CPF	31/03/2020	03/02/2020
7	Insufficient assets to pay benefits	Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs. Further risk presented with the introduction of Exit Credits for exiting employers in the 2018 Regulations update.	F1 / F6	Negligible	Very Low		1 - Cashflow monitoring to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding sufficient liquid assets as part of agreed cashflow management policy 4 - Monitor cashflow requirements 5 - Treasury management policy is documented	Negligible	Very Low		☺			1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place). (DF) 2 – Remind major employers to highlight the change and ensure any potential contract end dates are notified to the Fund in sufficient time so that the risk of large payments can be reduced (i.e. through a contribution rate review in advance of the contract end date) (DF)	Dep. Head of CPF	31/03/2020	03/02/2020
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Very Low		1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely		😐 Current likelihood 1 too high	31/03/2016	Jun 2020	1 - Employer risk management framework to be finalised including ongoing monitoring (DF)	Dep. Head of CPF	31/03/2020	31/03/2020
9	The Fund's long-term Investment Strategy could fail to deliver appropriate returns	Responsible Investment (including Climate Change) is not properly considered within the Fund's long-term Investment Strategy meaning it is not sustainable and does not address all areas of being a Responsible Investor	F1, F4, F8, F9	Critical	Significant		1. Fund has in place Responsible Investment (RI) Strategy 2. RI Policy has 5 Strategic RI Priorities 3. WPP has RI policy in place	Critical	Low		😐 Current likelihood 1 too high	03/02/2020	Mar 2023	1 - Implement Strategic RI Priorities, including analysing the Fund's carbon Footprint, Analyse impact of Climate Change at a Strategic level. Identify sustainable investment opportunities and improve disclosure and reporting	Dep. Head of CPF	31/03/2020	03/02/2020

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday 11th February 2020
Report Subject	Economic Update, Investment Strategy and Manager Summary
Report Author	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 31 December 2019

Key points to note:

Economy and Markets

- Positive returns across markets in quarter, and strong positive returns for calendar year.
- US/China trade war key driver for markets, although in December a trade started to look more likely.
- Brexit and new Prime Minister, and General Election remained key issues for UK and Europe.
- Since the end of 2019, the Coronavirus, now declared a global health emergency by the World Health Organisation, has affected markets in the short term.

Clwyd Fund Strategy and Performance

- Over the three months to 31 December 2019, the Fund's total market value increased by £3.8m to £2,000m.
- Fund Performance over 3 months, 12 months and 3 years; +0.5%, +11.6% and +6.5% respectively.
- Equities 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 31 December 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 31 December 2019.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Economic and Market Update** The economic and market update for the quarter from the Fund's Investment Consultant is attached at Appendix 1. The report contains the following sections: • **Market Background** – contains key financial markets data for the period under review, including performance of selected markets including equities, bonds inflation and currencies. • **Economic Statistics** – contains key economic statistics during the period under review, including Gross Domestic Product (GDP) Growth, Inflation Employment and Manufacturing. • **Market Commentary** – provides detailed commentary on the economic and market performance of major global regions and financial markets.
1.02	The quarter saw the continuation of the positive returns seen in the first nine months of 2019. The year produced, perhaps unexpected, positive returns from equities. The "rebound rally" after the market falls in the final quarter of 2018, and the relaxed policies from global central banks have helped. The US-China trade war was a continuing driver for markets for most of 2019, although in December phase one of a trade deal was agreed. In the UK, the subject of Brexit dominated the year, and it was not until the General election result in December gave the UK some certainty, volatility calmed within markets. The UK exited the European Union on 31 January, and the process of negotiating a trade deal now becomes the priority for politicians.
1.03	The outlook for markets appeared to be more positive in early 2020, although the outbreak of the Coronavirus in China has caused global concern, and it remains to be seen what the longer term impact will be. We anticipate that there will be shorter term volatility, particularly in the Emerging Markets.

	The Committee will be aware that this a fast-moving situation and a further update will be given at the meeting. The diversification within the Fund's Investment Strategy is designed to help manage some of the volatility that situations such as this create.
1.04	**Investment Strategy and Manager Summary 31 December 2019** Over the 3 months to 31 December 2019, the Fund's total market value increased by £3.8m to £2,000.3m, giving an overall increase of £216.2m since the start of the year. • Total Fund assets returned 0.5% over the quarter, behind the composite target which returned 0.8%. • Over the one-year period, Total Fund assets returned 11.6%, outperforming the composite target of 8.9%. • Over the last three years, Total Fund assets returned 6.5% p.a., ahead of the composite target of 6.4% p.a. The strongest absolute returns over the quarter came from the Fund's Equity investments and the Tactical Allocation portfolio. Equities returned 2.5%, and the Tactical Allocation portfolio 1.6%. Within the Equity Portfolio Emerging Markets(Core) were the strongest performer returning 5.4% in the quarter. In the Tactical Allocation portfolio there was continued strong performance from the Diversified Growth Funds which returned 2.4% in the quarter. 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. The review of the Fund's Strategic Asset Allocation revised the strategic weights within the portfolio, and these will be take effect from 1 April 2020.
1.05	At this time, there are no immediate concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates. The review of the Fund's Strategic Asset Allocation resulted in some changes which will be implemented in the coming months. 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.

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

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

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

5.00	APPENDICES
5.01	Appendix 1 - Economic and Market Update – 31 December 2019 Appendix 2 - Investment Strategy and Manager Summary – 31 December 2019

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update and Investment Strategy and Manager Summary 30 September 2019. **Contact Officer:** Philip Latham, Head of Clwyd Pension Fund **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.

	(e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** https://www.schroders.com/en/uk/adviser/tools/glossary/

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CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE
PERIOD ENDING 31 DECEMBER 2019

TABLE OF CONTENTS

1 MARKET BACKGROUND
PERIOD ENDING 31 DECEMBER 2019

MERCER

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	4.2	19.2	6.9
Overseas Developed	1.2	23.0	10.5
North America	1.4	26.5	12.4
Europe (ex UK)	0.9	20.5	8.7
Japan	0.2	14.8	6.7
Asia Pacific (ex Japan)	0.6	12.9	7.7
Emerging Markets	4.0	15.9	9.0
Frontier Markets	-0.6	3.8	1.8
Property	0.3	2.1	6.9
Hedge Funds[1]	2.4	9.3	4.3
Commodities[2]	7.8	14.8	0.4
High Yield[2]	2.5	12.3	4.9
Emerging Market Debt	-2.1	9.1	4.6
Senior Secured Loans[2]	1.9	8.5	2.7
Cash	0.2	0.9	0.6

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-6.6	12.0	5.1
Index-Linked Gilts (>5 yrs)	-9.4	6.8	2.9
Corporate Bonds (O15 yrs AA)	-2.7	16.0	6.0
Non-Gilts (>15 yrs)	-2.0	17.4	6.0

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	7.50	4.02	2.35
Against Euro	4.41	5.93	0.25
Against Yen	8.10	3.03	-0.04

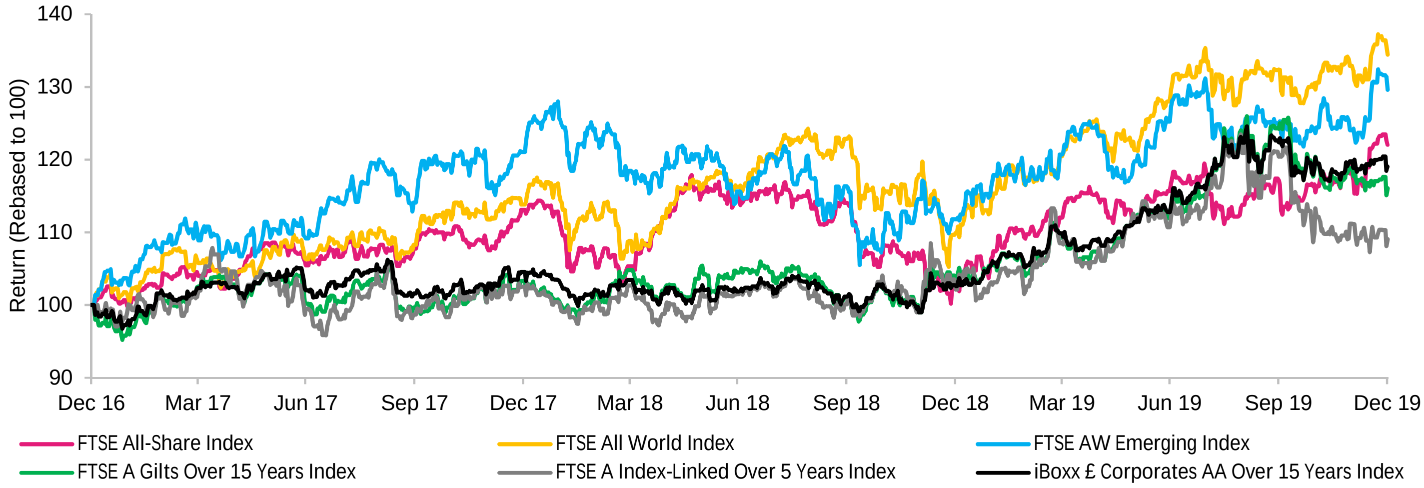
Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.3	2.2	3.0
Price Inflation – CPI	0.0	1.3	2.1
Earnings Inflation[3]	0.2	3.2	3.0

Yields	% p.a.
UK Equities	4.09
UK Gilts (>15 yrs)	1.25
Real Yield (>5 yrs ILG)	-1.84
Corporate Bonds (>15 yrs AA)	2.00
Non-Gilts (>15 yrs)	2.52

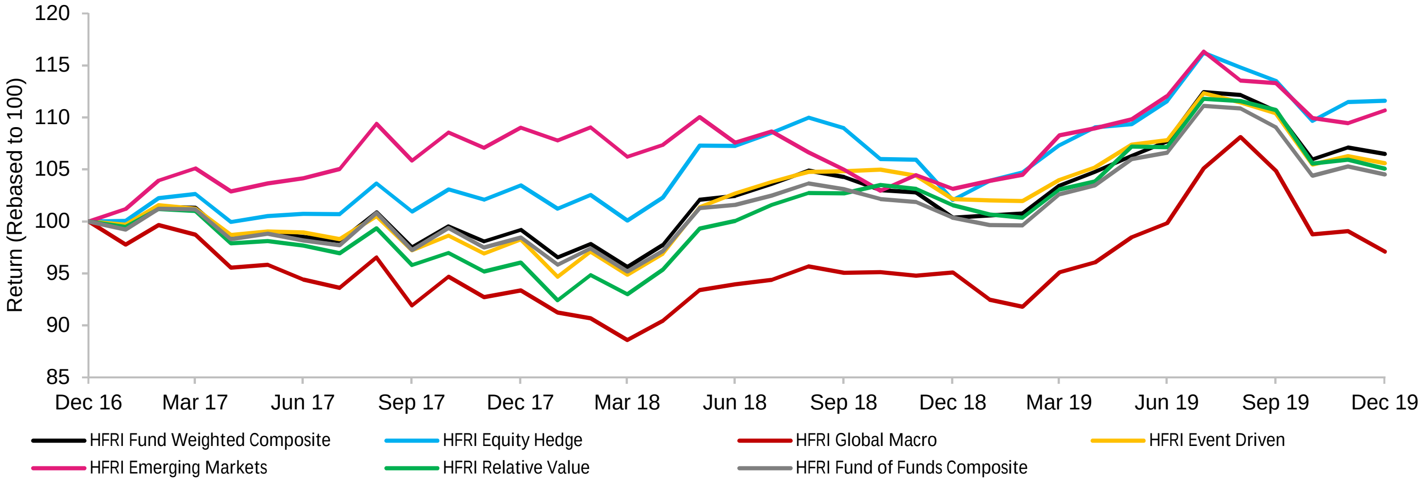
Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.12	-0.37	0.62
UK Gilts (>15 yrs)	0.34	-0.51	-0.51
Real Yield (>5 yrs ILG)	0.36	-0.26	-0.18
Corporate Bonds (>15 yrs AA)	0.19	-0.77	-0.62
Non-Gilts (>15 yrs)	0.18	-0.85	-0.50

Source: Refinitiv DataStream.
Notes: [1] Local Currency. [2] GBP Hedged. [3] Subject to 1-month lag.

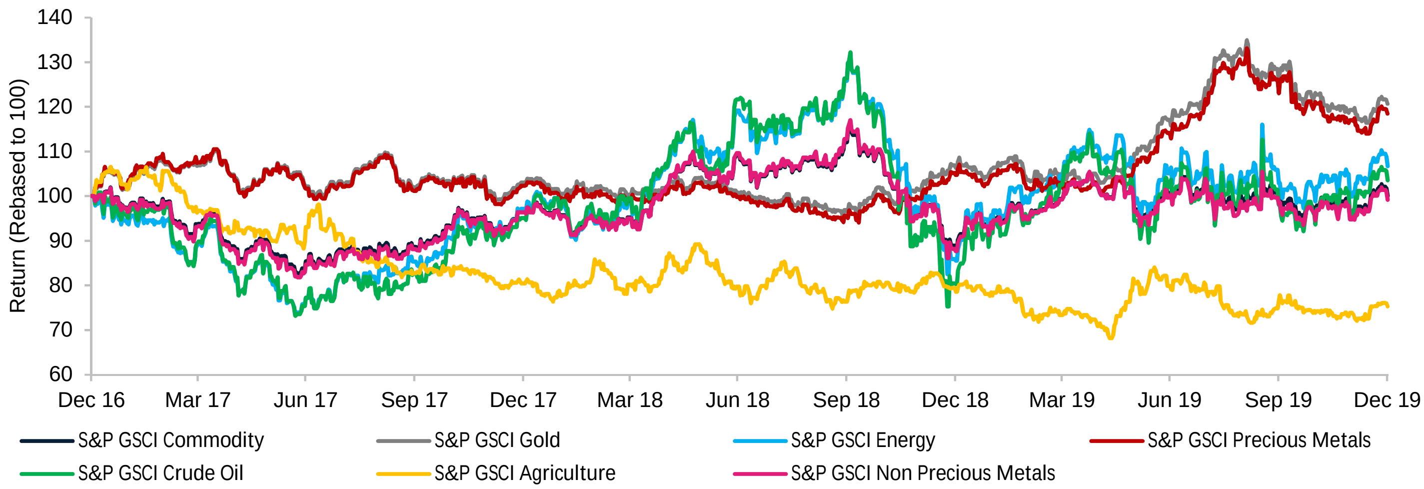
Market performance – 3 years to 31 December 2019



Hedge Funds: Sub-strategies performance – 3 years to 31 December 2019

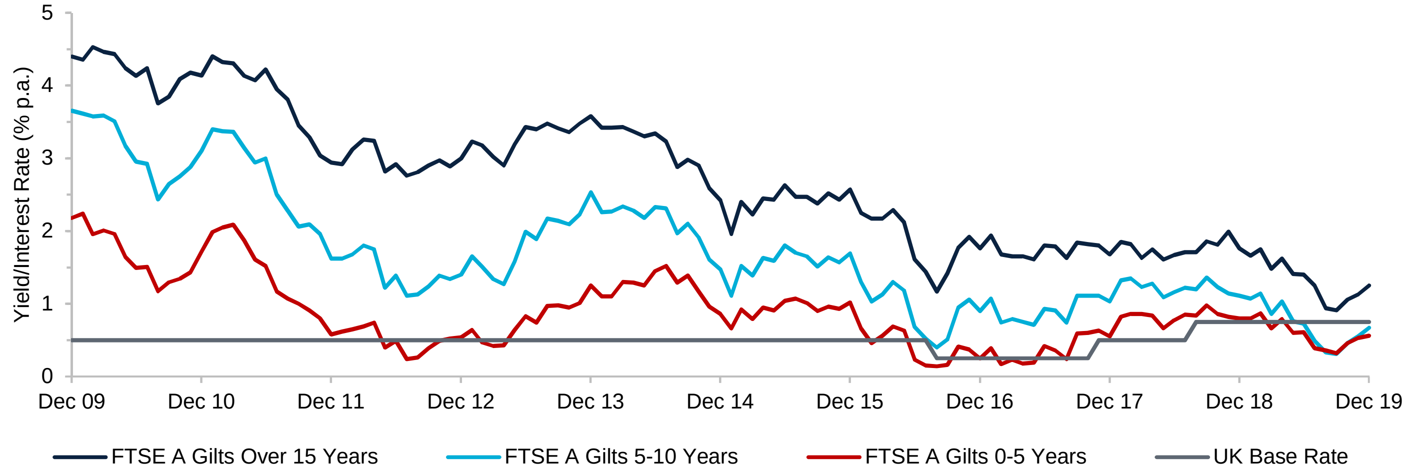


Commodities: Sector performance – 3 years to 31 December 2019

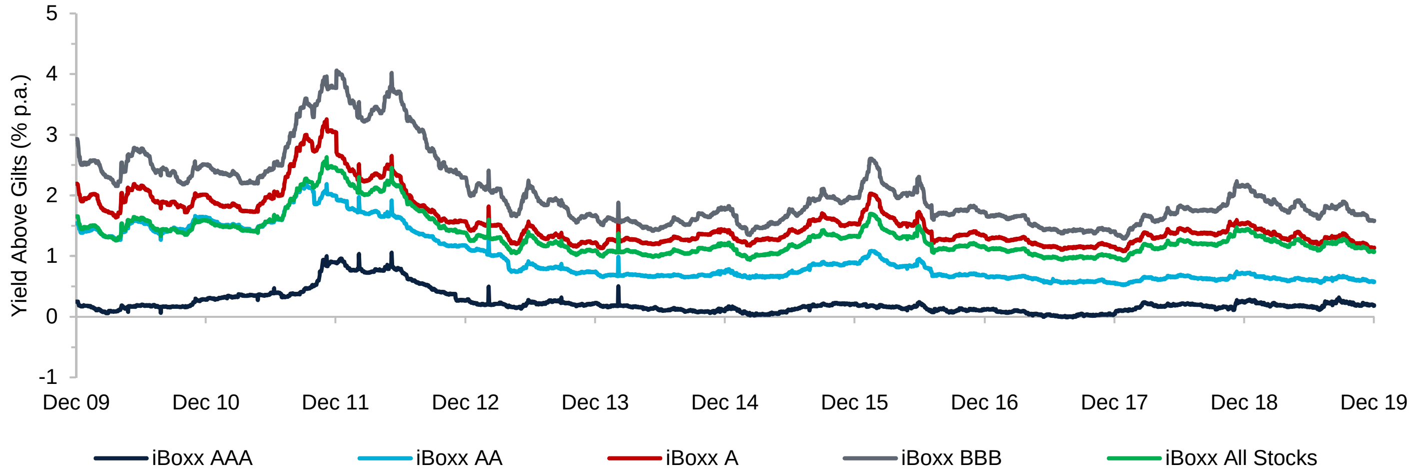


Source: Refinitiv DataStream

UK government bond yields – 10 years to 31 December 2019



Corporate bond spreads above government bonds – 10 years to 31 December 2019



Source: Refinitiv DataStream

2 ECONOMIC STATISTICS

Economic Statistics as at:	31 December 2019			30 September 2019			31 December 2018		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	1.1%	3.0%	2.1%	1.2%	2.9%	2.3%	1.6%	2.8%	3.1%
Annual Inflation Rate[3]	1.3%	1.3%	2.3%	1.7%	0.8%	1.7%	2.1%	1.5%	1.9%
Unemployment Rate[4]	3.8%		3.5%	3.9%	7.6%	3.6%	4.0%	7.9%	3.8%
Manufacturing PMI[5]	47.5	46.3	52.4	48.3	45.7	51.1	54.3	51.4	53.8

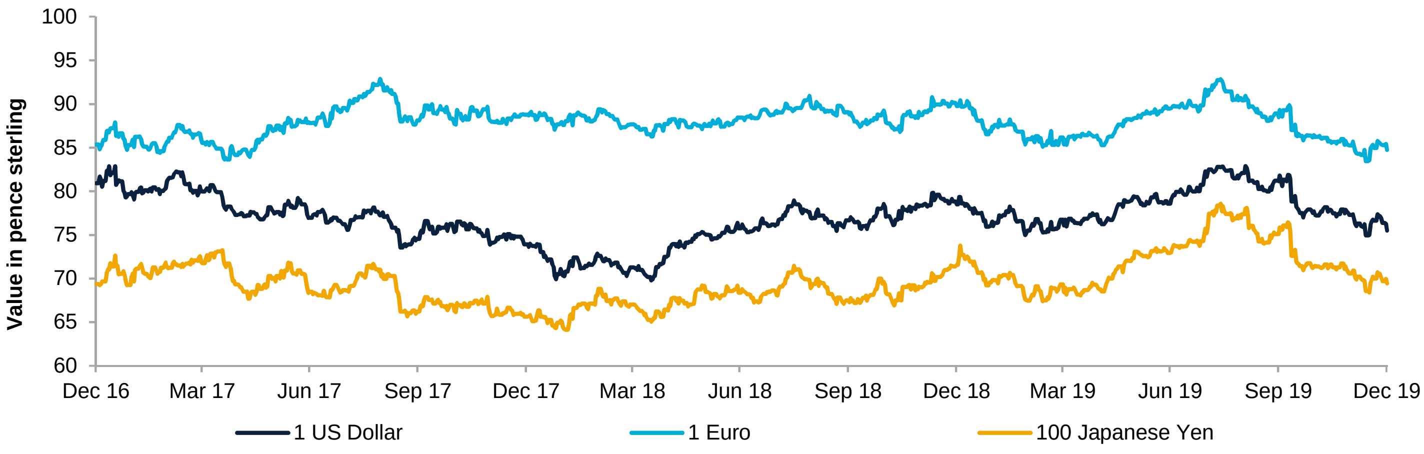
Change over periods ending:	3 months			12 months		
31 December 2019	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	-0.1%	0.1%	-0.2%	-0.5%	0.2%	-1.0%
Annual Inflation Rate[3]	-0.4%	0.5%	0.6%	-0.8%	-0.2%	0.4%
Unemployment Rate[4]	-0.1%		-0.1%	-0.2%		-0.3%
Manufacturing PMI[5]	-0.8	0.6	1.3	-6.8	-5.1	-1.4

Notes: 1.Euro Area 19 Countries. 2. GDP is lagged by 3 months. 3. CPI inflation measure. 4. UK unemployment is lagged by 1 month. 5. Headline Purchasing Managers Index.

EXCHANGE RATES

Exchange Rates:	Value in Sterling (Pence)			Change in Sterling	
	31 Dec 19	30 Sep 19	31 Dec 18	3 months	12 months
1 US Dollar is worth	75.49	81.15	78.52	7.5%	4.0%
1 Euro is worth	84.73	88.47	89.76	4.4%	5.9%
100 Japanese Yen is worth	69.46	75.09	71.57	8.1%	3.0%

Exchange rate movements – 3 years to 31 December 2019



Source: Refinitiv DataStream, Bloomberg.

3 MARKET COMMENTARY

INTRODUCTION

Equities performed better than anticipated in 2019. The majority of returns were a result of a ‘rebound rally’ from late 2018 when, in the span of three weeks, the S&P 500 Index dropped almost 16%. The ‘rebound rally’ paused in April when trade war tensions grew worse and has recently restarted in December as phase one of the trade deal was agreed between the US and China. Additionally, throughout the whole of 2019, global central banks have been shifting their stance from a tight interest rate policy to a more relaxed policy which has further supported equity prices.

Emerging market equities underperformed their developed market counterparts, posting 15.9% for the 12-month period to December. Emerging markets are more dependent on the manufacturing sector at the moment which, in turn, is heavily dependent on healthy supply chains. When supply chains come into question, amid trade war uncertainty and tariffs, the manufacturing sector suffers and so do the emerging economies (for example, Taiwan, South Korea and China).

UNITED KINGDOM

- With Brexit seemingly being cast aside following the decisive general election result in December, it was domestic stocks that benefited most, with the FTSE 250 outperforming the more internationally reliant FTSE 100 during the last few weeks of the year.
- Over the course of 2019 the Service sector held its own despite a slowdown in UK manufacturing. This helped the labour market remain in good shape with the unemployment rate close to a 50-year low and wage growth at c.4% p.a. which, in turn, helps consumption.
- This has translated to equity markets seeing a strong return from the FTSE All-Share Index. The majority of this however, came as part of the relief rally at the start of 2019 following the falls seen in the final quarter of 2018.
- Capital investment in the UK, by businesses, has been materially lagging global peers. The removal of some of the political uncertainties should allow for decision makers, who previously have been reluctant to commit, to push forward with investment.

NORTH AMERICA

- US equities produced a robust performance over the final quarter of 2019. During October, the Federal Reserve cut its interest rate for the third time in 2019 and signalled a likely monetary policy pause until data improved.
- Stocks also rose in both November and December on hopes of an initial ‘phase one’ trade deal with China.
- Investor sentiment was given further support over the period as economic data came in better than expected. Quarterly numbers showed that the US economy expanded at an annualised rate of 2.1%.
- Away from the improving geopolitical tensions, stocks were also boosted by Q3 earnings numbers as they beat expectations. Investors took encouragement that a c.75% of all businesses reporting exceeded analysts’ estimates.
- Information Technology was among the leading sectors together with cyclicals such as Industrials and Consumer Discretionary.

EUROPE (EX UK)

- Eurozone stocks entered a new dawn during the period as Christine Lagarde took over as president of the European Central Bank (ECB) from Mario Draghi. In her first speech of significance Lagarde signalled the need for governments to increase public investment, notably in sustainable projects, in order to boost economic activity. This message suggests that the ultra-loose monetary policy strategy, with ECB interest rates currently standing at -0.5%, may have reached its peak effectiveness.
- The ECB also resumed its quantitative easing programme (asset purchase programme) in November, with the purchase of €20bn a month, continuing for an indefinite period.

- European equities were elevated further in the final quarter of 2019, aided by a slightly improving economic picture. Notably the direction of travel in forward looking surveys, for both manufacturing and service, led sectors to improve from positions in the previous quarter.
- Economic growth in the Eurozone, having started to slow in mid-2018, disappointed further in 2019 as the global trade slowdown pushed German manufacturing into contraction.
- The slowdown is led by one subsector: German automakers, which came under intense pressure following the diesel emission scandal and the soft global economy. Eurozone, excluding German autos, is in reasonable shape, especially the Services sector.
- The labour market continues to improve as the economy continues to create jobs, keeping unemployment close to its lowest level in two decades, and wage growth is picking up.

JAPAN

- The Japanese economy came under pressure from slowing external demand as its industrial production shrank and capital expenditure growth stalled. Although the Manufacturing sector slowed, Services remained in decent shape.
- The labour market is in excellent form, with unemployment at close to all-time lows. That, however, has not resulted in higher wages, which is one of the reasons core inflation has remained stubbornly low.
- Despite a strong labour market, consumer confidence is weak and business sentiment has deteriorated. Also weighing on Japanese growth is the recent increase in Value Added Tax from 8% to 10%.
- Relative to the previous hike in 2014, the larger package of countermeasures (such as rebates for cashless transactions) should lead to a less severe consumption demand slump but may result in demand simply being brought forward, worsening the outlook for consumption in the second half of 2020.
- That said, Japanese stocks produced excellent returns for the period. October was a particularly strong month when the Japanese market rallied by 5%. Companies' earnings appeared to have turned a tide with the majority of results coming in line with market expectations after a sustained period of downward revisions by analysts.
- Market estimates for earnings look to marginally improve in the near term. Nonetheless, a lot will depend on the movements of the Yen. The direction of the currency whipsawed several times over the last quarter as trade negations lingered and the Hong Kong unrest escalated.

ASIA PACIFIC (EX JAPAN) / EMERGING MARKETS

- The distortion of global supply chains by the trade war and the ongoing global manufacturing slowdown, particularly in this region, delivered a challenging 2019. Amongst those particularly hit were Taiwan, South Korea and China.
- Subdued inflation and a recently rediscovered appetite by countries to ease financial conditions, allowed interest rates to be cut without devaluing their currencies. This has proved a positive step and should help benefit domestic businesses.
- Given the returns by western developed equity markets, it is not surprising that both Asia and emerging market equities struggled to keep pace over 2019.
- However, the low cost of capital, a possible depreciation in the US dollar, a de-escalating trade war and stimulus measures from key economies, such as China, should help emerging economies recover to around (or even above) longer term trend growth rates.

FIXED INCOME

- Global government bonds rallied strongly in 2019 as global growth slowed, inflation edged lower and global central banks were broadly in easing mode.
- The US 10-year government bond yield, for example, started the year at 2.7% and fell to as low as 1.5% before picking up to 1.9% at the time of writing.
- Moves of similar magnitude were also witnessed in the rest of the developed world. Significantly, in the US, long-dated bond yields fell by more than short-dated, leading to a so-called 'curve inversion', a popular indicator of an upcoming recession. This is looked at in conjunction with a number of other economic indicators (for example, confidence surveys), which so far have not confirmed the recessionary narrative. Recently, the curve has flattened and subsequently turned upwards, removing, or at least quietening, these recessionary fears.

- In the Eurozone, the ECB has largely run out of monetary ammunition. Mario Draghi suggested that it is time for governments to step in with fiscal easing. This is true for some countries, such as Germany, who have plenty of room to increase spending without creating huge budgetary imbalances. If this was to materialise, European government bond yields would rise. The Bank of Japan is unlikely to do much more besides extending its current stimulus.

ALTERNATIVES

- Hedge Funds posted negative returns in Sterling terms over the quarter. Overall Hedge Funds returned -3.7% in Sterling terms and 3.5% in US dollar terms. Equity Hedge were the best performing strategies, returning -1.7% (Sterling) and 5.7% (US dollar). Global Macro were the worst performing strategies over the quarter, returning -7.4% (Sterling) and -0.5% (US dollar).
- Commodities had a positive fourth quarter, returning 0.7% in Sterling terms (8.3% in US dollar terms). Crude Oil was the best performing commodity returning 5.6% (Sterling) and 13.5% (US dollar). Gold was the worst performing sector, returning -3.9% (Sterling) and 3.3% (US dollar). Precious Metals and Agriculture also declined in Sterling Terms over the quarter.
- Property returned 0.3% in the 3 months to 31 December 2019. Capital Values fell by 1.0% but this was supported by Rental Income which returned 1.3%. Falling Capital Values were dominated by the Retail sector which contracted substantially (-4.4%), the Industrial sector grew by 0.7% whilst the Office sector grew, albeit modestly by 0.3%. On an annual basis, overall Capital Values have diminished by 3.1%, however, Rental Income delivered a yield of 5.3%, propping up a positive return of 2.1% for the year.

OUTLOOK

The outlook for equity prices ultimately depends on two things: the cost of capital and earnings growth. In 2020, the former is likely to pick up as inflation rises slightly and central banks, particularly the Fed, disappoint the market by keeping rates on hold. Earnings will be largely a function of whether the trade tensions ease and allow the global economy to recover.

If the global economy improves, so should earnings growth, but if further tariffs are applied and trade tensions escalate, earnings may deteriorate. Regardless of whether the trade tensions ease, rising wage growth should continue to put some pressure on profit margins in the US and elsewhere.

4 MARKET STATISTICS INDICES USED

Asset	Index
Growth Assets	
UK Equities	FTSE All-Share Index
Overseas Developed Equities	FTSE AW Developed Index
North America Equities	FTSE AW North America Index
Europe (ex UK) Equities	FTSE AW Developed Europe (ex UK) Index
Japan Equities	FTSE Japan Index
Asia Pacific (ex Japan) Equities	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets Equities	FTSE All Emerging Index
Frontier Markets Equities	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	ICE BofA 3 Month LIBOR Index
Bond Assets	
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (>5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index
Yields	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (>5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (>15 yrs AA)	iBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (>15 yrs)	iBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
Inflation	
Price Inflation – RPI	UK Retail Price Index (All Items NADJ)
Price Inflation – CPI	UK Consumer Price Index (All Items NADJ)
Earnings Inflation	UK Average Weekly Earnings Index (Whole Economy excluding Bonuses NADJ)
Exchange Rates	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

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

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CLWYD PENSION FUND

INVESTMENT STRATEGY AND MANAGER SUMMARY

PERIOD ENDING 31 DECEMBER 2019

TABLE OF CONTENTS

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 31 December 2019, the Fund’s total market value increased by £3.8m to £2,000,290,365.

Over the quarter, total Fund assets returned 0.5%, against a target of 0.8%. Total Fund (ex LDI) returned 1.0%, behind its target of 1.3%.

All strategies with the exception of In-House and LDI assets posted positive returns. Total Equities rose 2.5% followed by the Tactical Allocation Portfolio which gained 1.6%. Total Credit rose 1.5%, whilst the Managed Account Platform rose 1.0%. In-House assets detracted over the quarter returning -0.6%.

In relative terms, Total Fund assets were behind their target by 0.3%, mainly attributable to the In-House assets which underperformed its target by 1.8%, detracting 0.4% from total relative performance.

Total Equities returned 2.5% underperforming its target by 0.3%, whilst Total Credit beat its target by 0.9%, returning 1.5% against a target of 0.6%. Total Equities contribution was neutral whilst Total Credit added 0.1% to total relative returns.

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

In-House assets returned -0.6% against a target of 1.2%. All the sub-portfolios with the exception of Property, contributed negatively to total relative performance.

Insight’s LDI portfolio decreased by 1.5% over the quarter, primarily due to rising bond yields. Overall, the overweight allocation to the LDI portfolio detracted 0.1% from relative performance.

EQUITIES

Equity markets rose in the final quarter of the year, making it the fourth consecutive quarter for growth since the falls experienced in Q4 2018. US equities in particular benefitted from improved trade sentiment, declining recessionary fears, and accommodative monetary policy. Emerging Markets and Asian equities also rose amid renewed trade optimism as US and China came agreed on a phase one trade deal. European equities gained; the economy grew modestly despite expectations of a slowdown as a result of Brexit uncertainty and trade tensions. In the UK, stocks rallied as the General Election held in December saw the Conservatives win a majority of 80 seats, their biggest victory since 1987. Following the re-election of Prime Minister Boris Johnson, it was confirmed that the UK will exit the European Union (EU) on 31 January 2020.

In Developed Markets, UK Equities led performance (+4.2%) positively influenced by the outcome of the election. All other developed regions also posted gains including North America (+1.4%), Europe (ex UK) (+0.9%), Japan (+0.2%) and Asia Pacific (+0.6%).

Over the last 12 months, all Developed Equity Markets posted positive returns. North America gained the most increasing by 26.5% over the period, UK equities gained 19.2%. Japan remained the weakest performer, returning 14.8%.

Emerging Markets increased 4.0% whilst Frontier Markets declined -0.6% over the quarter. Over the last 12 months, both Emerging and Frontier Markets were positive, returning 15.9% and 3.8%, respectively.

Total Equity assets returned 2.5% compared to a composite target of 2.8%. Wellington Emerging Market (Core) outperformed its target returning 5.4% over the quarter against a target of 4.4%. Russell WPP Global Opportunities Fund exceeded its target by 0.3%, returning 2.2%. BlackRock World Multifactor returned 1.0%, in line with its target. Wellington Emerging Market (Local) underperformed its target returning 2.0% against a target of 4.6%.

In the Emerging Markets portfolio, stock selection in Brazil, Taiwan and South Korean and within the Financials sector, drove relative performance. Allocation to Information Technology was also beneficial. This was partially offset by stock selection in Indonesia and Mexico.

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

CREDIT

Credit markets declined over the quarter as US-China trade tensions softened, the risk of a disorderly Brexit reduced and signs of economic stabilisation in Europe and China. The US Federal Reserve's Open Market Committee (FOMC) cut its rates in October for the third time in 2019, moving the benchmark rate in the target range of 1.5% - 1.75%. The decision to cut rates once more was an attempt to keep growth continuing into 2020. The Bank of England (BoE) and the European Central Bank (ECB) kept interest rates unchanged over the quarter. However, the ECB resumed its quantitative easing programme at the start of November at a rate of €20billion a month, which will continue for an indefinite period.

Over the quarter, Long Dated Conventional Gilts, Index-Linked Gilts and UK Corporate Bonds decreased by -6.6%, -9.4% and -2.7%, respectively. Emerging Market Local Currency Debt and Emerging Market Hard Currency Debt returned -2.1% and -5.0%, respectively. Global High Yield increased by 2.5%.

Total Credit assets gained 1.5% over the quarter, outperforming its target of 0.6%. The Multi-Asset Credit sub-portfolio returned 1.9% against a target of 0.4%, whilst the Private Credit sub-portfolio (which remains in its commitment phase) delivered a return of -0.8% against a target of 1.7%.

Permira Credit Solutions III (European mandate) and BlackRock Middle Market Senior (North American mandate) were c.88% and c.51% funded respectively at the end of December as capital deployment continues for both funds.

In Investment Grade Credit, the best performing sectors were Wirelines, Refining and Tobacco, whilst the worst performing sectors were Home Construction, Industrial Other and Financial Other.

US High Yield generated a positive return over the quarter, due to a strong rally in latter end of the quarter that boosted returns by 2.1% in December alone. Gains were led by Energy which rallied following the phase one trade agreement between the US China.

In Emerging Market Debt, the top contributors to performance were the Russian duration overweight position and issue selection in Argentina and Mexico. The main detractors from performance were issue selection in Czech Republic, duration underweight in Malaysia and Chile foreign exchange overweight.

HEDGE FUNDS

Hedge Funds posted negative returns in Sterling terms over the quarter. Overall Hedge Funds returned -3.7% (in Sterling) and 3.5% (US dollar). Equity Hedge were the best performing strategies, returning -1.7% (Sterling) and 5.7% (US dollar). Global Macro were the worst performing strategies over the quarter, returning -7.4% (Sterling) and -0.5% (US dollar).

ManFRM's Managed Futures & Hedge Funds strategy grew by 1.1%, in-line with its target. ManFRM Hedge Funds (Legacy) assets, which now consists of the Liongate assets, returned -18.3% over the quarter, underperforming its target of 1.1%.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets increased by 2.4% over the quarter, outperforming the target of 1.3%.

Pyrford returned 0.6%, below its target by 0.8%. Currency hedging strategies were the largest contributor to performance as Sterling strengthened against the US Dollar, Canadian Dollar, Australian Dollar and Swiss Franc. Overall, the equities within the portfolio rose; UK equities rallied following the UK General Election result and offset the falls in overseas equities as a result of Sterling strengthening. Within bonds, the short duration positioning protected the portfolio as global bond yields rose. The UK bonds positioned at the short end fell marginally whilst overseas bonds fell to a larger extent.

Investec returned 4.1%, above its target by 2.9%. ‘Growth’ and ‘Uncorrelated’ strategies contributed to performance whilst ‘Defensive’ strategies detracted. Exposures to Chinese and Asian equities were the main contributors as they rose on the back of progression in the US-China trade discussions. Exposure to gold benefitted the portfolio as prices rose over the quarter. Defensive currency exposures such as long Japanese Yen and short Taiwanese Dollar sold off as a function of the positive risk environment and the Japanese Yen vs Swiss Franc position also detracted as the Yen weakened.

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio returned 0.9% over the quarter, ahead of its target of 0.8%. Portfolio returns over 12 months and 3 years were above the target by 15.2% and 1.8% p.a., respectively.

Performance within the sub-funds was mixed over the quarter. BlackRock Japanese equities led performance returning 7.8%, followed by BlackRock Emerging Market Equities which gained by 4.0%. LGIM Infrastructure Equities (+1.7%) and LGIM Global Natural Resources (+0.7) also gained over the period. Negative performance was generated by BlackRock US Opportunities and PIMCO Emerging Market Bonds which declined by 0.6% and 1.1%, respectively. LGIM Global Real Estate Equities and LGIM Corporate Bonds were the worst performers, generating returns of -5.9% and -4.2%.

In October, c. £14m was switched from the LGIM North American Equities Fund to the Hedged version of the same fund. The LGIM North American Equities Hedged Fund returned 9.7% from inception (2 October 2019) to the end of the quarter. Additionally, £11m was disinvested from the BlackRock Emerging Market Equities with proceeds invested in the LGIM High Yield Bond Fund.

In December, £10m was disinvested from both LGIM infrastructure Equities and LGIM Global Real Estate Equities with the proceeds totalling £20m being invested in the LGIM UK Equity Index Fund.

IN-HOUSE ASSETS

Total In-House assets returned -0.6% below its target of 1.2%. Overall this detracted 0.4% from total relative performance. The two sub-sections of the In-House assets; the Real Assets Portfolio and the Private Markets Portfolio returned -0.5% and -0.7%, respectively.

Within the Real Assets Portfolio, Property assets outperformed, returning 1.0% against a target of 0.3%. Infrastructure and Timber/ Agriculture underperformed, returning -1.2% and -4.9%, respectively against a target of 1.4%.

Within the Private Markets Portfolio, both Private Equity and Opportunistic assets underperformed their targets. Private Equity returned 0.2% against a target of 1.4%, whereas Opportunistic returned -3.8% against a target of 1.4%.

2 STRATEGIC ASSET ALLOCATION
31 DECEMBER 2019

Allocation by underlying asset class

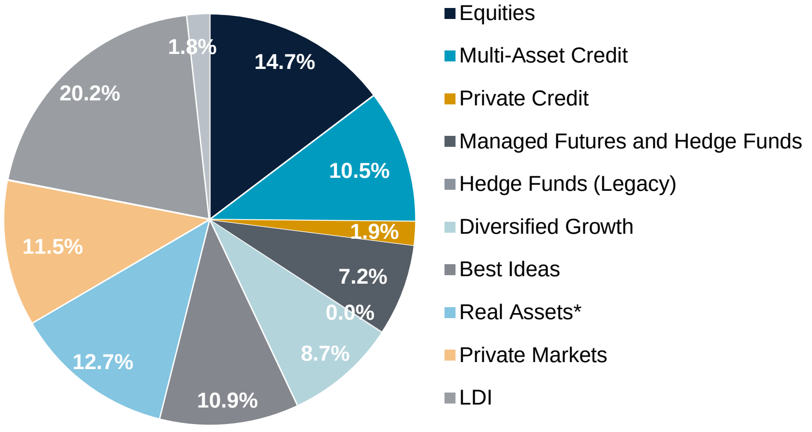
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	166,854,417	8.3	8.0	+0.3	5.0 – 10.0
Emerging Market Equities	126,959,389	6.3	6.0	+0.3	5.0 – 7.5
Multi-Asset Credit	209,224,134	10.5	12.0	-1.5	10.0 – 15.0
Private Credit[2]	37,327,235	1.9	3.0	-1.1	2.0 – 5.0
Managed Futures and Hedge Funds	144,004,254	7.2	9.0	-1.8	7.0 – 11.0
Hedge Funds (Legacy)[1]	456,411	0.0	0.0	0.0	–
Diversified Growth	175,005,093	8.7	10.0	-1.3	8.0 – 12.0
Best Ideas	218,562,211	10.9	11.0	-0.1	9.0 – 13.0
Property	122,279,989	6.1	4.0	+2.1	2.0 – 6.0
Infrastructure / Timber / Agriculture	131,022,783	6.6	8.0	-1.4	5.0 – 10.0
Private Equity / Opportunistic	229,934,122	11.5	10.0	+1.5	8.0 – 12.0
LDI & Synthetic Equities	403,234,517	20.2	19.0	+1.2	10.0 – 30.0
Cash	35,425,809	1.8	0.0	+1.8	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**2,000,290,365**	**100.0**	**100.0**	**0.0**	

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

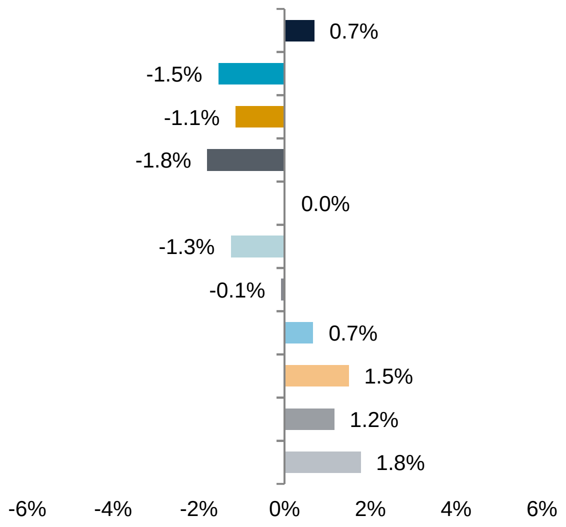
Points to note

- Permira Credit Solutions III (European mandate) and BlackRock Middle Market Senior (North American mandate) were c.88% and c.51% funded at the end of December 2019.
- The total allocation to LDI remains overweight by 1.2% relative to its strategic allocation.

Strategic Asset Allocation as at 31 December 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 31 DECEMBER 2019

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Russell	WPP Global Opportunities	88,944,417	4.4	4.0	5.0 – 10.0
BlackRock	ACS World Multifactor Equity	77,910,000	3.9	4.0	
Wellington	Emerging Markets (Core)#	63,002,825	3.1	3.0	5.0 – 7.5
Wellington	Emerging Markets (Local)#	63,956,566	3.2	3.0	
Total Equity		**293,813,806**	**14.7**	**14.0**	
Stone Harbor	LIBOR Multi-Strategy	134,424,612	6.7	12.0	10.0 – 15.0
Stone Harbor	Multi-Asset Credit	74,799,522	3.7		
Multi-Asset Credit Portfolio		**209,224,134**	**10.5**	**12.0**	**10.0 – 15.0**
Permira	Credit Solutions III	26,853,495	1.3	1.8	2.0 – 5.0
BlackRock	Middle Market Senior	10,473,740	0.5	1.2	
Private Credit Portfolio		**37,327,235**	**1.9**	**3.0**	**2.0 – 5.0(1)**
Total Credit		**246,551,370**	**12.3**	**15.0**	**10.0 – 20.0**
ManFRM	Managed Futures & Hedge Funds	144,004,254	7.2	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	456,411	0.0	0.0	–
Managed Account Platform		**144,460,665**	**7.2**	**9.0**	**7.0 – 11.0**
Pyrford	Global Total Return	85,731,067	4.3	5.0	8.0 – 12.0
Investec	Diversified Growth	89,274,026	4.5	5.0	
Diversified Growth Portfolio		**175,005,093**	**8.7**	**10.0**	**8.0 – 12.0**
BlackRock	US Opportunities	19,498,206	1.0	11.0	9.0 – 13.0
BlackRock	Emerging Markets Equities	17,481,576	0.9		
Investec	Global Natural Resources	20,940,107	1.0		
LGIM	Infrastructure Equities MFG (Hedged)	21,172,517	1.1		
LGIM	Global Real Estate Equities	19,012,388	1.0		
LGIM	Sterling Liquidity	10,071,883	0.5		
PIMCO	Emerging Market Debt Local	28,030,788	1.4		
BlackRock	Japanese Equities (Hedged)	16,168,495	0.8		
LGIM	Global Corporate Bonds	18,757,249	0.9		
LGIM	High Yield Bond Fund	11,199,347	0.6		
LGIM	North American Equities (Hedged)	15,340,759	0.8		
LGIM	UK Equities	20,888,896	1.0		
Best Ideas Portfolio		**218,562,211**	**10.9**	**11.0**	**9.0 – 13.0**
Tactical Allocation Portfolio		**393,567,304**	**19.7**	**21.0**	**15.0 – 25.0**
In-House	Property	122,279,989	6.1	4.0	2.0 – 6.0
In-House	Infrastructure	111,063,760	5.6	8.0	5.0 – 10.0
In-House	Timber / Agriculture	19,959,023	1.0		
Real Assets Portfolio		**253,302,772**	**12.7**	**12.0**	**10.0 – 15.0**
In-House	Private Equity	182,695,242	9.1	10.0	8.0 – 12.0
In-House	Opportunistic	47,238,880	2.4		
Private Markets Portfolio		**229,934,122**	**11.5**	**10.0**	**8.0 – 12.0**
Total In-House Assets		**483,236,894**	**24.2**	**22.0**	
Insight	LDI Portfolio	403,234,517	20.2	19.0	10.0 – 30.0
Total Liability Hedging		**403,234,517**	**20.2**	**19.0**	**10.0 – 30.0**
Trustees	Cash	35,425,809	1.8	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**2,000,290,365**	**100.0**	**100.0**	

Notes: * ManFRM Hedge Funds (Legacy) valuation includes the Liongate portfolios. # BlackRock Middle Market Senior, Wellington Emerging Markets Core and Local funds are converted from US Dollar to Sterling using WM/Reuters closing price exchange rates.[1] The Private Credit allocation is not yet fully funded.

4 PERFORMANCE SUMMARY
PERIODS ENDING 31 DECEMBER 2019

	Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance vs Objective
			Fund	Target	Fund	Target	Fund	Target	
n/a	**Russell**	WPP Global Opportunities	2.2	1.9	n/a	n/a	n/a	n/a	n/a
n/a	**BlackRock**	World Multifactor Equity Tracker	1.0	1.0	18.5	18.6	n/a	n/a	n/a
	Wellington	Emerging Markets (Core)[#]	5.4	4.4	19.4	15.4	10.4	10.5	Target not met
	Wellington	Emerging Markets (Local)[#]	2.0	4.6	13.5	16.6	9.4	11.6	Target not met
Total Equity			**2.5**	**2.8**	**19.0**	**19.2**	**9.9**	**11.0**	
	Stone Harbor	LIBOR Multi-Strategy	1.9	0.4	4.9	1.7	1.7	1.5	Target met
n/a	**Stone Harbor**	Multi-Asset Credit	1.9	0.4	9.0	1.7	n/a	n/a	n/a
Multi-Asset Credit Portfolio			**1.9**	**0.4**	**6.3**	**1.7**	**2.1**	**1.5**	
n/a	**Permira**	Credit Solutions III	0.2	1.5	5.2	6.0	n/a	n/a	n/a
n/a	**BlackRock**	Middle Market Senior[#]	-3.3	2.2	-2.8	9.0	n/a	n/a	n/a
Private Credit Portfolio			**-0.8**	**1.7**	**3.5**	**6.6**	**n/a**	**n/a**	
Total Credit			**1.5**	**0.6**	**5.9**	**2.4**	**2.4**	**1.9**	
	ManFRM	Managed Futures & Hedge Funds	1.1	1.1	4.8	4.4	0.8	4.1	Target not met
n/a	**ManFRM**	Hedge Funds (Legacy)*	-18.3	1.1	8.0	4.4	-44.2	4.1	n/a
Managed Account Platform			**1.0**	**1.1**	**4.8**	**4.4**	**-0.8**	**4.1**	
	Pyrford	Global Total Return	0.6	1.4	5.4	6.8	1.8	7.7	Target not met
	Investec	Diversified Growth	4.1	1.2	12.5	6.0	3.3	6.9	Target not met
Total Diversified Growth			**2.4**	**1.3**	**8.9**	**6.4**	**2.5**	**7.3**	
	Best Ideas Portfolio		**0.9**	**0.8**	**19.5**	**4.3**	**7.0**	**5.2**	**Target met**
Tactical Allocation Portfolio			**1.6**	**0.8**	**14.6**	**4.3**	**4.9**	**5.2**	
	In-House	Property	1.0	0.3	6.5	2.1	7.0	7.0	Target met
	In-House	Infrastructure	-1.2	1.4	2.8	5.9	7.3	5.7	Target met
	In-House	Timber / Agriculture	-4.9	1.4	-0.7	5.9	-0.6	5.6	Target not met
Real Assets			**-0.5**	**1.1**	**4.4**	**4.6**	**6.0**	**6.0**	
	In-House	Private Equity	0.2	1.4	7.3	5.9	12.5	5.6	Target met
	In-House	Opportunistic	-3.8	1.4	-4.4	5.9	5.9	5.7	Target met
Private Markets Portfolio			**-0.7**	**1.4**	**4.6**	**5.9**	**11.4**	**5.6**	
Total In-House Assets			**-0.6**	**1.2**	**4.5**	**5.2**	**8.6**	**5.8**	
n/a	**Insight**	LDI Portfolio	-1.5	-1.5	18.0	18.0	8.7	8.7	n/a
Total (ex LDI)			**1.0**	**1.3**	**9.8**	**7.0**	**5.8**	**5.9**	
TOTAL CLWYD PENSION FUND			**0.5**	**0.8**	**11.6**	**8.9**	**6.5**	**6.4**	
Strategic Target (CPI +4.1%)			**1.6**		**6.2**		**6.2**		
Actuarial Target (CPI +2.0%)			**1.0**		**4.1**		**4.1**		

Notes: 'n/a' against the objective is for funds that have been in place for less than three years. * ManFRM Hedge Funds (Legacy) valuation includes the Liongate portfolios.
[#] BlackRock Middle Market Senior, Wellington Emerging Markets Core and Local funds are converted from US Dollar to Sterling using WM/Reuters closing price exchange rates.
Strategic and Actuarial targets are derived from JLT Market Forecast Group assumptions (based on conditions at 31 December 2019). Current 10-year CPI assumption = 2.1% p.a.

Fund has met or exceeded its performance target   Fund has underperformed its performance target

5 STRATEGIC ASSET CLASSES
PERFORMANCE TO 31 DECEMBER 2019

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**2.5**	**19.0**	**9.9**
Composite Objective	2.8	19.2	11.0
Composite Benchmark	2.5	17.9	9.3
Total Credit	**1.5**	**5.9**	**2.4**
Objective	0.6	2.4	1.9
Benchmark	0.4	1.5	1.0
Managed Account Platform	**1.0**	**4.8**	**-0.8**
Objective	1.1	4.4	4.1
Benchmark	1.1	4.4	4.1
Total Hedge Funds (Legacy)	**-18.3**	**8.0**	**-44.2**
Composite Objective	1.1	4.4	4.1
Composite Benchmark	1.1	4.4	4.1
Total Diversified Growth	**2.4**	**8.9**	**2.5**
Composite Objective	1.3	6.4	7.3
Composite Benchmark	1.3	6.4	7.3
Best Ideas Portfolio	**0.9**	**19.5**	**7.0**
Objective	0.8	4.3	5.2
Benchmark	0.8	4.3	5.2
Total In-House Assets	**-0.6**	**4.5**	**8.6**
Composite Objective	1.2	5.2	5.8
Composite Benchmark	1.2	5.2	5.8
Total LDI Portfolio	**-1.5**	**18.0**	**8.7**
Composite Objective	-1.5	18.0	8.7
Composite Benchmark	-1.5	18.0	8.7
Total (ex LDI)	**1.0**	**9.8**	**5.8**
Composite Objective	1.3	7.0	5.9
Composite Benchmark	1.2	6.6	5.5
Total Clwyd Pension Fund	**0.5**	**11.6**	**6.5**
Composite Objective	0.8	8.9	6.4
Composite Benchmark	0.8	8.6	6.0

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

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

MERCER

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

Notes: [1] FTSE A Gilts All Stocks Index until 31 March 2014. [2] UK Retail Price Index +4.4% p.a. until 31 March 2015. [3] Strategic Allocation represents the composite benchmark for the Managed Account Platform. [4] Committed but uninvested element of the Private Credit strategic allocation is represented by 1 Month LIBOR Index +1.0% p.a.

MARSH & McLENNAN COMPANIES

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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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