Clwyd Pension Fund

Annual Report 2018 - 19

CLWYD PENSION FUND ANNUAL REPORT 2018/19

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REPORT STRUCTURE

Background and context

Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires the administering authorities of pension funds to produce an annual report. In Wales this includes the year-end financial statements as there is no longer a requirement for these statements to be included as part of the administering authorities' own statements.

The regulation specifies the annual report contents, and this is enhanced by the 2019 CIPFA guidance "Preparing the Annual Report". This annual report has been written in accordance with the regulations and guidance.

Structure

The annual report is structured into a number of reports, each dealing with a significant element of the Fund's activity and performance. In this way the report ensures that it contains the information necessary to inform the reader of the way in which the Fund was managed and performed during 2018/19.

Section 1 is a report which covers the governance arrangements of the Fund, the way in which the training needs of those charged with governance are met and the way in which the Fund manages risk.

Section 2 is the annual report from the Fund's Independent Advisor, which identifies the key achievements of the Fund and key challenges going forward.

Section 3 is the annual report from the Fund's Pension Board, highlighting their role in monitoring the Fund's activities during 2018/19.

Section 4 is a report from the Fund's Investment Consultants focusing on the Fund's policy on investments and the way in which the Fund's investments performed during 2018/19.

Section 5 is a report from the Fund's Actuary, which covers the actuarial position of the Fund and also explains the position with regard to the flightpath, a long term strategy to ensure stability of funding and employer contribution rates.

Section 6 is a report covering the performance of the administration of the Fund, and identifying key administrative challenges that the Fund faces going forward.

Section 7 comprises the Funds accounts which show the Fund's actual financial activity in 2018/19 and its position at 31st March 2019, with Section 8 being a report explaining that financial activity and position in more detail. In addition, a copy of the Fund's Annual Governance Statement is included in Section 9.

The governance, management and activities of the Fund are framed by a number of Regulatory and Best Practice Documents. These are all held on the Fund's website and a list of those documents which relate to this report is included on the contents page, and they may be accessed on the Fund's website at the address shown.

In addition, the Fund is subject to a triennial actuarial valuation, and the most recent of these, as at March 2016, may also be found on the website.

Introduction

2018/19 Overview

Welcome to the Clwyd Pension Fund (the Fund) Annual Report for 2018/19. Last year's Annual Report identified the big challenges for the Fund for 2018/19:

- Dealing with any changes in investment markets which might impact on the cost of the Clwyd Pension Scheme (the Scheme) for employers;
- Managing the transition of the Fund's assets into the Wales Pension Partnership (WPP);
- Considering and measuring the social impact of the Fund's investments and
- Making more progress in achieving the objectives of the Fund's Administration and Communication Strategies.

The investment return for the year was again positive, helping to further reduce the gap between assets and pension liabilities. During 2018/19 we took action to protect some of the gains made over recent years whilst still taking sufficient investment risk to achieve the Fund's target investment returns. Details of the innovative work undertaken on investment is outlined in this Annual Report. This approach minimises the risk of increases to contribution rates for employers if there are significant falls in financial markets. The results of the next actuarial valuation are implemented on 1st April 2020 and will be presented by the Actuary at our Annual Meeting on 12th November 2019.

Flintshire County Council as the Administering Authority for the scheme has signed an agreement to formally enter into the WPP with the seven other Welsh LGPS funds. The aim of the WPP is to reduce costs, increase efficiencies and further improve governance over the Welsh LGPS pension funds' investments. The Fund will continue to decide the type of asset we want to invest in, whilst a professional organisation appointed by the WPP decides which asset manager will be used for each type of investment. In late 2018/19, the Fund's global equity assets were transitioned to the WPP's asset managers and further asset transfers are scheduled for 2019/20. The Fund is represented on the WPP Officer Working Group and Joint Governance Committee.

During 2018/19 we measured our allocation to private markets - 25% of our Fund - against a selection of the United Nations Sustainable Development Goals (SDGs). The results showed that about 35% of our investments achieved a positive social impact, which we aim to increase to 50% over time. We have already made investments in funds which specifically target companies in Wales. Although we have always had a Sustainability Policy and acted with conscience, this policy requires review given the greater emphasis on climate change and responsible investment. The WPP will also be publishing a policy.

Our Administration and Communications Strategies launched in March 2016 contained aspirational objectives based on providing a high quality customer focussed service. In 2018/19 further progress has been made with the roll out of our i-Connect system to improve accuracy, timeliness and efficiency in transferring data between employers and the Fund, and Member Self Service (MSS), an on-line facility where members can view their individual pension information. It is still taking us longer than we would hope to process some member cases and in recognition of a significant increase in the volume of cases and increased complexity in the scheme's regulations, additional resources have been recruited in 2018/19. Valuable assistance was provided throughout the year by the Pension Board and progress continues to be monitored by the Pension Committee.

Overall, we can look back on 2018/19 as a positive year as we continued to meet most of the Fund's objectives within a challenging environment, and made steady progress in introducing a number of improvements to benefit the Fund and its stakeholders in the future.

2019/20 and beyond

Looking to the future, in addition to business as usual, our business plan for the next three years has several key themes and tasks:

- A review of the Funding Strategy as part of the 2019 Actuarial Valuation;
- A review of the Investment Strategy, including responsible investment and climate change;
- Managing the ongoing transition of assets into the Wales Pension Partnershipl;
- Making further progress in achieving the objectives of the Fund's Administration and Communication Strategies;
- Implementing any required changes to the benefit structure or scheme member contribution rates as a result of the national LGPS cost control mechanism or changes to legislation; and
- Considering any improvements to our governance resulting from the LGPS Good Governance Consultation in 2019/20.

This Annual Report

In this annual report you will find much more detail relating to the points raised above, as well as where to find all of our main strategy and policy statements. More information about the Fund can be found on our pension fund web-site http://mss.clwydpensionfund.org.uk/. We welcome any comments or questions on the content of this report or on any aspect on the management of the Fund. The Fund's Mission Statement is shown on the page following this introduction.

We would like to thank all those involved with the management and administration of the Fund for their continuing hard work and dedication, especially, the previous Committee Chair, Cllr Dave Hughes, who guided the Fund through 2018/19.

Aaron Shotton
Chair of Pension Fund Committee

Colin Everett
Chief Executive

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

Section 1: Governance, Training and Risk Management

Introduction

This report covers the way in which the Fund is governed, which includes how the training needs of those charged with governance and senior officers training needs have been met. It also details the key partners of the Fund and how the Fund deals with Risk Management.

Governance Structure

Background

In May 2014 the Fund's governance arrangements were reviewed and Flintshire County Council as administering authority established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. Additionally, the representation of stakeholders on the Committee with full voting rights was widened. In performing its role the Committee takes advice from an advisory panel of officers and professional advisors. The Committee has a scheme of delegation to officers to ensure efficient management and receives monitoring reports at each quarterly Committee against the governance, funding, investment, administration and communication strategies and progress against the 3 year Business Plan. The minutes of each Committee are available on the Flintshire County Council website. The membership of both the Committee and Advisory Panel are shown below.

The Public Service Pensions Act 2013, which has been incorporated into the Local Government Pension Scheme (LGPS) regulations, include the establishment of Local Pension Boards. The role of these Boards as defined in Regulation is to secure compliance with regulation and legislation and ensure effective and efficient governance. The minutes of Clwyd Pension Board (the Board) meetings are included in the Committee agenda papers and Board members attend Committee, making an important contribution to debates and discussion. The Board annual report is included within this Annual Report.

The protocol for the Local Board can be found on the Fund's web-site, mss.clwydpensionfund.org.uk.

Clwyd Pensions Fund Committee

Committee Members		
Flintshire County Council	Cllr Dave Hughes (Chair)	To June 2019
	Cllr Haydn Bateman (Vice Chair)	
	Cllr Billy Mullin	To June 2019
	Cllr Ralph Small	
	Cllr Ted Palmer	To June 2019
	Cllr Aaron Shotton (Chair)	Appointed June 2019
	Cllr Adele Davies-Cooke	Appointed June 2019
	Cllr Kevin Hughes	Appointed June 2019
Denbighshire County Council	Cllr Huw Llewelyn Jones	
Wrexham County Borough Council	Cllr Nigel Williams	
Scheduled Body Representative	Cllr Andrew Rutherford	
Member Representative	Mr Steve Hibbert	

Advisory Panel

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

Clwyd Pension Fund Local Board

Local Board Members			Voting Rights
Independent Chair	Karen McWilliam		X
Employer Representatives	Mark Owen		✓
	Steve Jackson		✓
Scheme Member Representatives	Gaynor Brooks	Left June 2018	✓
	Paul Friday	Appointed June 2018	
	Phil Pumford		✓

Investment Managers

The Fund has a number of investments with managers investing in Property, Private Equity, Infrastructure, Timber & Agriculture which are listed in the Investment Policy & Performance section of this report.

Investment Managers	Address
BlackRock	12 Throgmorton Avenue, London
Insight Investment	160 Queen Victoria Street, London
Investec Asset Management	2 Gresham Street, London
Man FRM	Riverbank House, 2 Swan Lane, London
Pyrford International Ltd	95 Wigmore Street, London
Stone Harbor Investment Partners (UK), LLP	48 Dover Street, London
Wellington Management International Ltd	Cardinal Place, 80 Victoria Street, London
Russell Investments	Rex House, 10 Regent Street, London.

Other key partners

Service	Address
Custodian: **Bank of New York Mellon**	160 Queen Victoria Street, London
Actuary: **Mercer Ltd**	Old Hall Street, Liverpool
Consultant: **Mercer Ltd**	7 Charlotte Street, Manchester
Independent Advisor: **Aon Hewitt**	122 Leadenhall Street, London
External Auditors: **Wales Audit Office**	24 Cathedral Road, Cardiff
Bank: **National Westminster Bank plc**	48 High St., Mold
AVC Providers: **Prudential** **Equitable Life**	 121 King's Road, Reading Walton Street, Aylesbury, Buckinghamshire
Legal Advisors: **This varies depending on the issue and can include the Flintshire County Council in-house legal team as well as organisations listed on the National Framework Agreement.**	

Clwyd Pension Fund Contact Details

Name	Post	Contact details
Philip Latham	Clwyd Pension Fund Manager	(01352) 702264
Debbie Fielder	Deputy Head Clwyd Pension Fund	(01352) 702259
Karen Williams	Pensions Administration Manager	(01352) 702963
Pensions Administration	pensions@flintshire.gov.uk	(01352) 702761
Pensions Finance	pensionsinvestments@flintshire.gov.uk	(01352) 702812

Training

Clwyd Pension Fund Training Policy 2018/19

There is a growing need for LGPS Pension Committee members, Pension Board members and officers to have an appropriate level of knowledge and skills. This need is being driven by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Pensions Regulator (TPR) and legislation

The Fund has a well-developed Training Policy which details the proposed training strategy for members of the Pension Fund Committee, Pension Board and senior officers responsible for the management of the Fund. It has been created to provide a formal framework and greater transparency on the training regime in accordance with the national requirements. It will aid existing and future Pension Fund Committee members, Pension Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the Clwyd Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills. Details of how to access the Training Policy are included in Section 10 of this Annual Report.

Training Performance 2018/19

In order to monitor the knowledge and skills and identify whether we are meeting the objectives of this policy, we monitor and report on attendance at training events based on the following:

a) Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
b) Hot Topic Training – targeting attendance of at least 80% of the required Pension Fund Committee members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.
c) General Awareness – each Pension Fund Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
d) Induction training – ensuring areas of identified individual training are completed within six months.

The following table details all the training provided to Members of the Committee to satisfy the requirements of the Training Policy. This includes committees attended and relevant training sessions, conferences and seminars. Local Board Members also received and completed relevant training in line with the Policy, details of which are included in the Pension Board annual report. The Fund has a Training Plan which is provided to both Committee and Local Board Members and details all the training to be covered during the year.

In line with the Training Policy the follow measures relate to 2018/19 in relation to the Pension Committee.

a) Individual Training Needs – all have completed at least 2 of the required training key elements in the last three years.

b) Hot Topic Training - Of the 2 additional training sessions offered, the attendance was as follow:
   - 1 sessions 67%
   - 1 sessions 56%

c) General Awareness – Out of the total of 9 Committee members 8 of them completed at least one general awareness day in accordance with the policy.

The table overleaf identifies the attendance at Committees and specific training undertaken during 2018/19 by the Committee during that year.

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
Committees (3hrs)									
June 2018	✓	✓	✓	✓		✓	✓	✓	✓
September 2018	✓	✓	✓	✓		✓	✓	✓	✓
November 2018	✓	✓	✓	✓	✓	✓		✓	✓
February 2019	✓	✓	✓		✓	✓	✓		✓
CIPFA Framework Requirements 2017/18 – 2019/20 Refreshers									
Governance (0.5 day)	✓	✓	✓	✓		✓	✓		✓
Administration (day)									
Funding & Actuarial (0.5 day)	✓	✓	✓	✓		✓	✓		✓
Investments (1 day)	✓	✓	✓	✓	✓	✓	✓	✓	
Additional Training & Hot Topics									
Statement of Accounts (June Committee)	✓	✓	✓	✓		✓	✓	✓	✓
CPF Annual Employer Admin Meeting (am)	✓				✓	✓			
CPF AJCM (pm)	✓				✓	✓			✓
Administration (March Committee)		✓	✓		✓	✓	✓		✓
Responsible Investment (March Committee)		✓	✓	✓	✓	✓			

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
Conferences (Restricted spaces)									
PLSA 21-23 May 2018									✓
LGC Investment Summit (1.5 days) Sept 2018	✓	✓		✓					
AON Governance (1 day) July 2018	✓								
AON Investments (1 day) July 2018	✓								✓
LGC Fundamentals Day 1 (Oct 218)									
PIRC Responsible Investing for WPP (1 day Oct 2018)	✓		✓	✓		✓			✓
LGC Fundamentals Day 2 (Nov 2018)						✓	✓		
LGA Infrastructure (1 day Nov 2018)	✓								
LGC Fundamentals Day 3 (Dec 2018)						✓	✓		
LAPFF Annual Conference (1.5 days) Dec 2018	✓								
LGA Annual Conference 1.5 days (Jan 2018)	✓		✓			✓			✓
LGC Seminar (1.5 days) March 2019	✓	✓	✓	✓	✓	✓			✓

Risk Management

Background

Risk management is embedded into the governance of the Fund. The Committee has approved a Risk Management Policy and a detailed Risk Register is maintained. Changes to the level of risk are reported at each Committee.

Given that many pension fund risks are outside our control, our risk management focusses on measuring the current risk against the Fund's agreed target risk (which may still be relatively high) and identifying the further controls and actions that can be put in place. This risk management process is integral in identifying actions that are then included in the Fund's Business Plan.

On the whole the next few years will be challenging for those involved in the governance, management and operation of the Fund. The risks discussed below are documented in the Risk Register which will continue to be updated at each Committee meeting as circumstances change. The risks shown are those risks which are currently identified as amber i.e. with moderate consequences that are considered a possible occurrence, or higher, and where we are not currently meeting the target risk exposure.

Managing Third Party Risks

Risk

There are a number of risks the Fund must manage as a result of working with third parties, such as the employers that participate in the Fund, and our external suppliers and fund managers.

Employer risk falls into two distinct areas:

- Employers not carrying out their administrative responsibilities.
- Employers not paying their contributions. Late payment of contributions could, if the contributions paid late were significantly large, directly put a strain on the Fund. However, more importantly, this may also be an indication of underlying problems, such as an employer that is going through financial difficulties. Should this lead to employers ceasing to participate in the Fund due to financial difficulties, this may result in unpaid liabilities which can then have implications on other employers in the Fund.

Action

- Monitoring receipt of contributions and taking action to quickly pursue arrears. Late payments are captured as part of our monitoring of breaches in the law and our administration strategy so we quickly identify any trends which may indicate underlying problems. Late payments for 2018/19 are shown in the Section 8.
- Considering the strength of covenant of our employers as part of the triennial valuation exercise, ensuring funding plans are appropriately set, which in turn dictate the amount of contributions due and when. Most employers in the Fund

have a strong covenant, however, improvement in the procedures for monitoring employer risk was included in the 2016/17 Business Plan.

- Our external suppliers are wide ranging and include fund managers, custodian, consultants and information system suppliers. We carry out ongoing monitoring of all our suppliers appropriate to the type of service they provide, such as:
    - ensuring that all their fees are in line with the agreed contract
    - performance measuring against agreed objectives or benchmarks
    - regular review of their contracts generally through tender processes
    - review of fund manager annual reports and internal control reports which our custodian and fund managers provide us with

Investment Risk

Note 17 in the Fund accounts describes in more detail the way in which investment risk is managed. In particular it explains that the Fund has an Investment Strategy which is reviewed annually and through which the management of investment risk is achieved

Significant Risks

The table below shows those risks in the risk register which currently (as at 4th September 2019 Clwyd Pension Fund Committee) have red or amber status in the current or target risk.

Key:

Risk Exposure	Impact/Likelihood
Black	Catastrophic consequences, almost certain to happen
Red	Major consequences, likely to happen
Amber	Moderate consequences, possible occurrence.
Yellow	Minor consequences, unlikely to happen.
Green	Insignificant consequences, almost very unlikely to happen.

Governance

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
Risk is not identified and/or appropriately considered (recognising that many risks can be identified but not managed to any degree of certainty)	Losses or other detrimental impact on the Fund or its stakeholders			None
Externally led influence and change such as scheme change and asset pooling	The Fund's objectives/legal responsibilities are not met or are compromised - external factors			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)
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.	Services are not being delivered to meet legal and policy objectives			1. Recruit to vacant governance and business role (PL) 2 - Ongoing consideration of succession planning (PL)

Funding & Investment

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
An appropriate funding strategy cannot be set	Employer contributions are unaffordable and/or unstable			1 - Finalise employer covenant monitoring and ill health captive (DF)
Movements in assets and/or liabilities in combination	Funding level reduces, increasing deficit			1 - Equity Protection Strategy to be kept under review (PL)
-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.	Investment targets are not achieved therefore reducing solvency / increasing contributions			1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG) (DF)
Market factors impact on inflation and interest rates	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions			1 -The level of hedging will be monitored and reported regularly via FRMG
Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit, MIFIDII and other funding and investment related requirements - ultimately this could increase employer costs	Investment and/or funding objectives and/or strategies are no longer fit for purpose			1 - Ensure proactive responses to consultations etc.

Administration & Communication

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues			1- Ongoing training (SB/JT) 2 - Ongoing consideration of resource levels post recruitment of new posts (KW) 3 - Review structure of Technical team (AH)
Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues			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)
Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	Unable to meet legal and performance expectations due to external factors			1 - Ongoing consideration of resource levels post recruitment of new posts (KW) 2 - Ongoing consideration of likely national changes and impact on resource (KW)
Communications are inaccurate, poorly drafted or insufficient	Scheme members do not understand or appreciate their benefits			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)
Systems are not kept up to date or not utilised appropriately, or other processes are inefficient	High administration costs and/or errors			1 - Ongoing roll out of iConnect 2 - Ongoing identification of data issues and data improvement plan 3 - Review of effectiveness of new website/iConnect planned for 2019/20 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)

Section 2: Annual Independent Adviser's Report

Introduction

This is my fifth annual report in my role as Independent Adviser to the Clwyd Pension Fund (the Fund), focussing on the year 2018/19.

My role

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

This is my fifth annual report, and it sets out my views on the management and administration of the Fund and, in particular, how it this has evolved during 2018/19 (April to March), but also touches on some developments that have taken place after March 2019. I also highlight some of the ongoing challenges Flintshire County Council will face in the future, in its role as Administering Authority to the Fund, both in the short term and in the longer term.

Overview

2018/19 has been another year where there have been significant challenges to the management and operations of the Fund. Some challenges have been driven by national changes to the LGPS (particularly around court judgements affecting benefit payments), whereas others are Fund specific (a data issue that arose and resourcing and workload challenges). As in previous years, my view is that a significant amount has been achieved in an extremely short period of time, which continues to be of great credit to all involved, and the overall management and governance of the Fund appears to be in a very good position.

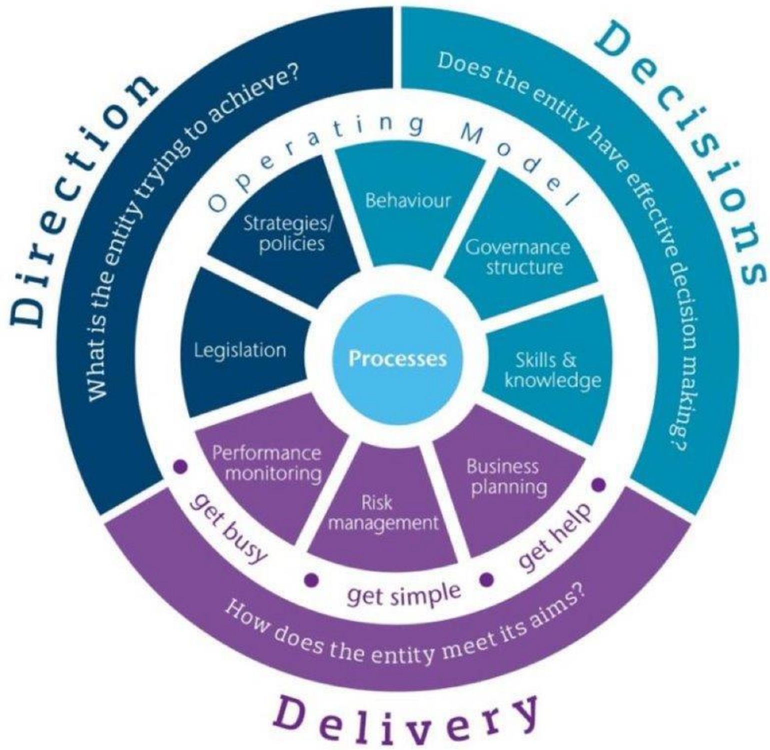
Effective Governance

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

- Robust risk management that can assist in avoiding issues arising or at least reducing their impact
- Ensuring resources and time are appropriately focussed
- Timely decision making and implementation of change
- A clear view of how the Fund is being operated for the Pension Fund Committee (or equivalent).

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

- Direction – having clear strategies and policies that also meet legislative requirements are fundamental
- Delivery – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management ensure effective and efficient delivery
- Decisions – having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is critical.



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

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

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

Observations

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

Governance

Key achievements:

- major review of Pension Fund Team organisational structure and recruitment to new roles.
- excellent standard of general governance, including business planning and monitoring and risk management.

The Fund went into 2018/19 in a strong position with governance arrangements that were well established and operating well including an experienced Pension Fund Committee, a Pension Board providing invaluable assistance and a proactive Advisory Panel. In May 2017, the Welsh local authority elections resulted in a ***major change in membership of the Pension Fund Committee*** with five new members (out of a total of nine). In addition, one of these new members, Councillor Dave Hughes, was appointed as Chair to the Committee, a role which requires a large time commitment and a high level of understanding in the subject matters. During 2018/19 it was evident that the new Committee members, despite the amount of changes, had settled in well and are able to deal with the large amount of business on the agenda.

Last year I highlighted my concerns about ***resource levels***, both within the Fund's Finance Team and the Administration Team, as well as the need for workforce planning given the age profile of some senior members of staff. Major progress has been made during 2018/19 including a review of the structure of the teams and a large recruitment drive. It is pleasing to note that, at the point of writing (summer 2019), all but 1 post within the team of approximately 40 has now been recruited to. It is also pleasing to see the progression of a number of existing team members with promotion to more senior roles, including Mrs Debbie Fielder to the new Deputy Head of Clwyd Pension Fund position and Mrs Karen Williams to the Pensions Administration Manager position. This is clearly excellent news but Pension Fund management are now facing the challenge of ensuring that all team members in new positions are fully trained as quickly as possible. Even though this will take a number of months, the performance standards are already showing the benefit of the increased resource. Credit has to be given to the hard work of the existing members of staff during the difficult period where they were operating under lower resources, particularly given the challenges during that time including the high workloads in administration and the introduction of asset pooling.

The majority of the work relating to the implementation of ***asset pooling in Wales*** through the Wales Pension Partnership (WPP) was carried out in the years up to 2017/18. During 2018/19, the focus has been on determining the investment funds to be established, and then getting these up and running for the Wales LGPS funds. It is my understanding that the investment sub-funds being established are meeting the requirements of the Clwyd Pension Fund, in that they are suitable alternatives to existing assets being held. However, during 2018/9 I continued to be concerned around the lack of focus on the governance of the WPP, an area I have mentioned in my previous reports. Much of this had been due to lack of resources in the Host Authority. Earlier in 2019 WPP introduced more detailed work planning which includes a greater focus on areas such as objective setting, business planning and developing some key strategies and policies (including responsible investment). I therefore hope that next year I will be reporting some positive progress having been made in this area.

More generally:

- I feel that the current ***governance structure is well established*** and is working as intended. The structure seems to allow decisions to be made urgently where required.

- ***Attendance at Committee, Board and Advisory Panel*** meetings has been excellent throughout the year too.
- The ***Pension Board*** continues to play an integral part in the governance of the Fund (recognising my role as Chair of the Board). During 2018/19, the Board had a change in membership, with Phil Pumford taking over from Gaynor Brooks who retired. The Board have produced a separate report (which can be found in the Fund's annual report and accounts) which outlines the work they have undertaken, and which I believe demonstrates the excellent partnership they have with the Committee and officers of the Fund, and the benefits that they bring to the overall management of the Fund.
- I continue to be extremely impressed by the ***engagement and involvement of the Council in the Wales Pension Partnership***, and particularly the officers who have ensured that they have been on the front foot in the development of the Partnership, and also at a national level. It would be extremely risky for the Council to take a back seat in these discussions given the impact asset pooling could have on the ongoing performance of the Fund.
- I was pleased to see all those involved in the governance of the Fund demonstrating a strong understanding of the potential ***conflicts of interest*** that can arise, and following the requirements of the Fund's Conflicts of Interest Policy. A number of potential conflicts were highlighted during meetings and they were managed appropriately.
- The ***risk management framework*** is now well bedded in, and risk management across all areas of Fund responsibilities is considered regularly and forms a standard part of all Committee reports. I believe those involved with the governance of the Fund have a good appreciation of the key risks and are working hard to develop more robust internal controls where feasible.
- A wide range of ***performance measures*** are in place across the Fund including the areas of administration, investments and funding. Again, these are integral to the day to day management of the Fund and provide assurance that issues can and will be identified in a timely manner, as well as enabling the Fund to evidence strong performance in many areas.
- ***Business planning*** continues to be integral to the day to day running of the Fund. The 2018/19 business plan was agreed by the Pension Fund Committee in March 2018 and was monitored throughout the year. The plan continues to be robust, with very little need to adapt it mid-year, and the officers of the Fund have done a tremendous job in delivering the projects and tasks highlighted within it.

My opinion is that the governance of Clwyd Pension Fund continues to compare well to the Aon Governance Framework. The Council identifies and sets out good clear objectives in all areas, measures itself effectively against these objectives, and has a good attitude to Business Planning and to Risk Management. The Council's governance structure for Fund matters works well, as mentioned above, and the individuals charged with managing the Clwyd Pension Fund are well engaged, committed to their roles and well trained (or in the process of being trained).

Looking to the future:

There are three matters relating to governance that I will be particularly interested in during 2019/20:

Monitoring the impact of the new resources and team structure and ensuring that the training has been effective. I hope that there will be some strong improvements against the Fund's service standards by the end of the year (subject to any unexpected additional projects that might put a strain on day to day business processes). I also will be keen to monitor the retention of staff over the next few years.

- As mentioned above, there has been significant progress in establishing the ***Wales Pension Partnership*** for asset pooling and also creating appropriate investment sub-funds. The Clwyd Pension Fund has a very different investment strategy to many other Funds, so they need to be assured that both the Operator and the pooling arrangements themselves can deliver the Fund's requirements and that the governance arrangements, as outlined in the Inter-Authority Agreement, are put into practice. Some of the ***governance requirements are still not in place*** but are now on the WPP work plan, and so I would expect these to be delivered during 2019/20. I will also be particularly interested in observing whether the Clwyd Pension Fund receives ***robust reporting and monitoring information*** in relation to the sub-funds set up by WPP, including at the Joint Governance Committee involving all the administering authorities and at Clwyd Pension Fund Committee.
- Unfortunately, during May 2019, there were ***three unexpected changes to the Clwyd Pension Fund Committee membership*** due to Council changes. This included the loss of the existing Chairman, Councillor David Hughes. The introduction of new Committee members is always a risk to pension fund management, but I know the Clwyd Pension Fund Manager is already planning training for the new members. Luckily the Committee has a further six members who are continuing and who have excellent experience and therefore will provide good continuity. I am sure the new members will settle in quickly.

Funding and Investments (including accounting and financial management)

Key achievements:

- Transferring some Fund assets to WPP.
- The funding plan continuing to be ahead of the target agreed at the 2016 actuarial valuation.
- Implementation of a revised equity protection strategy.

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

- As mentioned previously, some of the ***Fund's assets have been moved to sub-funds in WPP***. The process for developing and implementing the sub-funds appears to have been robust.
- With ongoing advice from the Fund Actuary and Investment Consultant, the Fund continues to monitor and look for opportunities in relation to its investments and liability management, including:
  - The Fund Actuary has been providing regular information monitoring progress against the funding targets set at the last actuarial valuation, and it is pleasing to see the Fund is in a ***positive position against its funding target,*** with the March 2019 reporting showing an estimated funding level approximately 10% above the anticipated funding level at that point. The other five key areas that the Fund Actuary monitors against were all shown to be equal or above expectations on the March 2019 monitoring report.
  - The revised ***equity protection strategy*** being put in place provides a more dynamic level of protection of the Fund's assets against significant falls in equities.

My general opinion is again that governance of the Clwyd Pension Fund compares well to the Aon Governance Framework in the area of funding and investments. The Council identifies and sets out clear objectives, and has a good attitude to Business Planning and to Risk Management. The Council's governance structure works well, with appropriate delegations allowing the Pension Fund

Committee to spend their time focusing on strategy. The Council makes good use of pension consultants as appropriate, but the knowledge and understanding of individuals within the Pension Fund Team continues to be excellent, allowing the Fund to benefit from the best ideas from all sources.

Looking to the future:

- This year (2019/20) is a critical year for the Fund given the ***actuarial valuation*** which will establish future employer contribution rates, and the review of the Fund's ***investment and funding strategies***. However:
  - a recent legal judgement (***McCloud/Sargeant***) found that some public sector pension scheme protections that had been put in place were unlawful on the grounds of age discrimination. As a result, some LGPS protections are being reviewed which are likely to impact on the cost of the scheme to employers.
  - the ***national cost management process*** has also been undertaken, and it has also found that there should be changes to the scheme benefit structure, which will also have an impact on the cost of the scheme to employers.

  Communications with scheme employers will be fundamental to dealing with the cost impact of the valuation, McCloud/Sargeant review and cost management process.
- As mentioned previously, a significant focus next year will continue to be on asset pooling and ensuring that the Fund's investment strategy can continue to be delivered through the WPP. In 2019/20, key areas will include ensuring:
  - ***appropriate sub-funds continue to be put in place*** to align with the Clwyd Pension Fund's strategy
  - the ***smooth transition of assets*** to those sub-funds
  - ongoing ***reporting arrangements*** continue to provide sufficiently specific information for the Clwyd Pension Fund to satisfy the needs of the officers, advisers and the Committee and Board.
- The Fund and WPP are separately considering their ***Responsible Investment (RI) Policies***. The Fund has had an RI/Sustainability Policy for a number of years, and it is pleasing to see it is being reviewed. I look forward to seeing how this develops given the much greater focus on responsible investment, and particularly climate change, whilst ensuring the Fund continues to meet its fiduciary responsibility to its scheme members.

Administration and Communications

Key achievements:

- Commitment of team members during period of high workloads
- Successfully rectifying a major employer data error in a timely manner
- Ongoing roll out of the i-Connect data collection system for use by employers being ahead of schedule
- Excellent standard of performance monitoring.

I have already mentioned the resourcing challenges faced by the Pensions Administration Team during 2018/19. This, together with a number of other unexpected tasks, and the fact that there has been a ***substantial increase in the quantity and complexity of work*** in recent years, has meant that there have been ongoing delays in processing scheme member benefits and correspondence. However, during the year, the team has been working hard to reduce delays, including using external consultants to assist in clearing backlogs that have accumulated. I am pleased to see that all options are being considered to turn this challenging situation around.

One of the biggest challenges for the Pensions Administration Team during 2018/19 was ***rectifying an error in scheme members' data that was caused by an employer*** providing incorrect pensionable pay figures. The Clwyd Pension Fund officers worked extremely closely with the employer, very much in a partnership spirit, to resolve this issue that impacted a number of scheme members. This included a major amount of work by the Fund's Employer Liaison Team, which carries out pensions work on behalf of some of the Fund's employers. I was closely monitoring this situation and I have a number of observations:

- Clearly everyone involved would have preferred it if this issue had not occurred, but the nature of the error involved an extremely complex area of scheme administration which I know causes challenges for a number of employers in the wider LGPS. The Administration Team have put in place a number of further controls to try to avoid similar errors from other employers, as well as more checks to try to pick up where this may be happening.
- The partnership working between the parties involved was very positive and resulted in a high level of confidence in how the cases were being resolved, as well as allowing them to be carried out in a timely manner (given how significant this issue was).
- There was significant focus on ensuring the proper treatment of scheme members throughout the project, including very careful consideration of how the difficult messages were communicated to the scheme members. There were no formal complaints received as a result of the errors.
- The officers of the Fund, the employer and the supporting advisers all worked extremely hard to ensure the project was finalised as quickly as possible.
- The Fund, and separately the employer, reported the issue to the Pensions Regulator and it appeared that the Regulator was satisfied with how the issue was resolved.

Overall, I was extremely encouraged with the professionalism, commitment and effectiveness of the Fund officers, management, Committee and Board in dealing with what was an extremely difficult situation.

In the meantime, the team have continued to work hard to implement systems and efficiencies which will not only vastly improve accessibility to pension fund information for scheme members and employers, but will also introduce efficiencies that will ultimately help manage these increases in workloads. This includes:

- The ongoing marketing of the ***on-line Member Self Service*** facility. Currently approximately 35% of active scheme members are registered to use the facility (and approximately 26% of all scheme members). The Fund's Communications Strategy aims to continually move to digital communications (apart from where members specifically opt for paper communications), so it is important that the proportion of members enrolled on Member Self Service continues to increase.
- The roll out of ***i-Connect, which is an online administrative module*** that allows information to be submitted by employers more directly and efficiently into the pension administration system from their own payroll systems, commenced in 2017/18. During 2018/19 the system was launched to more employers and this is resulting in much more timely and accurate information, including a significant reduction in the number of queries at year-end.

Other significant points that I would highlight include:

- The Council issued the majority of its ***annual benefit statements*** by the legal timescale of 31st August 2018. There were a small number that were held back to ensure they were accurate (as they were impacted by the employer data issue mentioned above) but I consider that to be a sensible approach.
- The team have been required to implement a number of ***scheme changes***, mainly to do with changes in dependents' pensions as a result of overriding legal judgements.
- There is increasing focus on ***data quality and improvement*** and the team have been working on a number of areas of data cleansing, as well as developing a formal data improvement plan.

My general opinion is that the Clwyd Pension Fund compares well to the Aon Governance Framework in the areas of administration and communication. The Council identifies and sets out clear objectives, has an excellent level of performance measurements in place and demonstrates robust Business Planning and Risk Management. The knowledge and understanding of the existing individuals within the Fund is excellent, and the Pension Fund Committee's engagement on administration is also excellent (as is the Board's).

Looking to the future:

- Two years ago, I highlighted that the improvements that are being implemented would, in my view, take another two years or so to fully bed in such that the benefits can be clearly evidenced. I am now seeing evidence of this, both in terms of the ***quality of data and the improvements in performance standards***. I expect that we will see further improvements throughout 2019/20. A key part of the success of this will be the ongoing training of the administration team and ensuring the retention of existing staff, as well as the implementation of i-Connect to the remaining employers in the Fund.
- The ***McCloud/Sargeant legal judgement and the cost management process***, referred to in my previous section, are likely to result in a review of some scheme benefits. As well as the operational impact on the Administration Team, it will be critical that ***scheme members*** are kept up to date with the developments, and any revision to scheme benefits is communicated in a timely and clear manner.
- More and more scheme members are being impacted by the Annual and Lifetime Allowances; these are tax thresholds that originally affected just a small number of higher earning scheme members. The Administration Team are already adapting how they administer and communicate the impact of the Annual and Lifetime Allowance rules to members of the Fund,

but they are extremely complex to administer and communicate. I will be interested to see how effective the planned changes are.

Final Thoughts

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

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About Aon

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Section 3: Clwyd Pension Fund Board Annual Report 2018/19

Introduction

This is the fourth annual report of the Clwyd Pension Fund Board based on the financial year from 1 April 2018 to 31 March 2019.

Role and Membership of the Clwyd Pension Fund Board

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

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

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

Membership, meetings, training and attendance

Our Board membership during 2018/19 is as shown in the table below. Gaynor Brooks, one of our Member Representatives retired from her role in June 2018 and we wish her all the best in her retirement. Gaynor had been a key contributor to the Board since its inception. Following an application and interview process Paul Friday was appointed to replace Gaynor and we were pleased to welcome him to his first official Pension Board meeting in October 2018 (although he had attended Gaynor's final meeting, in June 2018 in an observational capacity).

During 2018/19 we held three Pension Board meetings (in June 2018, October 2018 and February 2019). Attendance was as follows:

		February 2019	October 2018	June 2018
Mrs Gaynor Brooks (to June 2018)	Member Representative	N/A	N/A	✓
Mr Paul Friday (from June 2018)	Member Representative	✓	✓	✓
Mr Phil Pumford	Member Representative	✓	✓	✓
Mr Steve Jackson	Employer Representative	✓	✓	✓
Mr Mark Owen	Employer Representative	✓	✓	✓
Mrs Karen McWilliam	Independent Chair	✓	✓	✓

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

As members of the Pension Board, we have all committed to following the requirements of the Clwyd Pension Fund's Training Policy and attending a range of events and training in 2018/19 to complement the induction training we undertake on appointment. In addition, we are invited to attend the Pension Fund Committee meetings and their training events. Our full record of attendance at those meetings, training and events is shown below:

Event	Mark Owen	Steve Jackson	Paul Friday	Phil Pumford
Committees				
June 2018	✓			✓
September 2018				
November 2018				✓
February 2019	✓			✓
CIPFA Framework				
Governance			✓	✓
Funding & Actuarial			✓	✓
Investments & Accounting				✓
Additional & Hot Topics				
Statement of Accounts	✓			✓
Annual Employer Meeting				
Annual Joint Consultative Meeting	✓	✓		
Conferences				
CIPFA Local Board Autumn Seminar			✓	✓
Aon Investments Seminar			✓	
LGC Investment Seminar		✓		

What has the Pension Board done during 2018/19?

Our meetings include a number of standing items, such as consideration of the latest Pension Fund Committee papers, reviewing the Fund's risk register, receiving updates on all compliments and complaints, and monitoring of our allocated budget. Other key areas of discussion for us during the year included:

- Continuing to work closely with the Pension Fund's Administration Team to better understand the challenges that they face in providing services to scheme members, often due to the complexity of the scheme's benefit structure. The ongoing management information that we see at the Pension Board has been helpful in highlighting major increases in workloads in recent years, most of which has been driven by the introduction of the new Career Average Revalued Earnings (CARE) LGPS in 2014. Resourcing for scheme administration is monitored by the Board and we are pleased to note that there has been recruitment into a number of positions in 2018/19. At the point of writing this report (summer 2019) all vacant positions in the Pensions Fund's Administration Team have been filled, and the focus is on ensuring that all team members were appropriately trained.

- Following recent improvements in data collection, such as implementation of the i-Connect employer data portal and the introduction of the Member Self-Service facility, the Fund is introducing a Data Improvement Plan. The Fund has a responsibility to ensure records are kept up to date with high quality data and efforts to achieve this have been refocused by the Pension Fund Administration Team. This includes areas identified as a result of the common and scheme specific data checks that are required by the Pensions Regulator (TPR). The Data Improvement Plan sets out priorities within various categories and also allocates ownership of those areas appropriately. The Board is now receiving updates on the Data Improvement Plan as a standard agenda item for future Board meetings.

- We have taken a keen interest in the rapidly developing area of Cybercrime (and its avoidance). At our October meeting we heard from two external speakers on this issue (a presenter from Flintshire County Council (FCC)'s Information Governance team, and a presenter from Aquila Heywood). We learnt that there is no silver bullet in how to be completely cyber compliant and that an organisation is only as strong as their weakest link. We also heard that there is a fine balance between the risks you are prepared to tolerate (for example, offering on-line systems) and those that you are not prepared to tolerate, and we discussed a number of the key controls that are / can be in place to mitigate the risk of Cybercrime for the Clwyd Pension Fund.

- We also discussed the wider application of cyber security in respect of other advisers to the Fund including asset managers and the Welsh asset pool known as the Wales Pension Partnership (WPP). It was agreed that Cybercrime is considered on an ongoing basis going forward given the continual changing environment in this area.

- Throughout the year we received ongoing updates on the progress of the WPP. The main focus of our involvement and where significant discussions took place, was around the Board's concerns regarding WPP's lack of business plan/policies, a lack of clarity over decision making and report papers not being prepared in adequate time in advance of meetings and being presented on the day. This culminated in our Chair, alongside the Chairs of other Wales Pension Boards, attending a meeting with the Host Authority of WPP, Carmarthenshire Council, and other Wales LGPS representatives on 2 April 2019. The outcome of the meeting was extremely positive and progress in many of the areas of our concern was evidenced at that meeting. Further meetings are to be arranged twice a year.

- On a related note, Responsible Investments (RI) is now very much on the WPP agenda. The Board are pleased that the Clwyd Pension Fund already has a RI Policy in place and this continues to be a key area of focus for the Fund.

- A large proportion of our time at the meetings during the year was spent considering an issue which emerged during the year about an employer's use of incorrect data when calculating assumed pensionable pay (which relates to the calculation of pensionable pay during periods of absence such as child-related and some sickness). This matter was reported to the Pensions Regulator by the Clwyd Pension Fund Manager as well as the employer involved, given the serious nature of it. The Board were kept up to date with the plans for communicating the errors with the affected scheme members and ensuring that the impact on the Administration Team of the increased workloads was managed appropriately. We also had conversations with the officers of the Fund around minimising the risk of similar breaches arising again in future. Overall, we were very pleased with how this difficult situation was managed by the Fund. We were also pleased that, following engagement between the Fund and TPR, TPR seemed satisfied with how the Fund managed the situation.

- We took part in a successful “Board Swap” exercise with the Cheshire Pension Fund. Firstly, Mr Pumford (along with the Clwyd Pension Fund Manager / Secretary to the Board) attended a Cheshire Pension Fund Board meeting in July 2018, which was found to be extremely beneficial. This was then followed by the Operations Manager from the Cheshire Pension Fund attending our October 2018 Board meeting as an observer. It was noted that it would be helpful for both sides to share observations following these meetings, and Clwyd and Cheshire Pension Fund officers agreed to set up discussions to share observations with the respective Chairs and with those who attended.

The Pension Board's budget and final spend for 2018/19 are summarised below:

Item	**Budget 2018/19**	**Actual 2018/19**	**Variance**
	£	£	£
Allowances and Expenses	3,322	1,143	(2,179)
Training	23,884	11,558	(12,326)
Advisor Fees	28,930	41,010	12,080
Other Costs	2,664	4,015	1,351
Total	58,800	57,726	(1,074)

What will the Pension Board do in the future (in particular in 2019/20)?

We have a number of items on our forward plan for 2019/20, although the exact agendas and timescales will necessarily remain flexible to consider any further matters that may arise. The following are already on our work plan for the forthcoming year:

- The (potential) impact of the Cost Cap mechanism / McCloud judgement on the Fund.
- The (potential) impacts / risks of Brexit on the Fund.

- The impact of changes to Pension Fund Committee membership in May 2019 (a new Chairman and two further new Committee members)
- Ongoing further consideration of a number of the areas noted above, including:
    - Data improvement, which is an area of particular interest for TPR.
    - Disaster recovery testing.
    - Cybercrime and the resilience of the Fund's systems.
    - Governance of the WPP's operations and decision-making structure.
    - Administration team resources and monitoring how current resources are improving performance against service standards and key performance indicators.

A budget for 2019/20 has been agreed as follows:

Item	£
Allowances and Expenses	2,136
Training	18,432
Advisor Fees	44,420
Other Costs	4,200
Total	**69,188**

Conclusion and final comments

In our view 2018/19 has been a successful and productive year for the Board, and we are pleased with the work we have completed, which has covered a wide range of fund management areas. We continue to have an excellent working relationship with the Pension Fund Committee and the Fund’s officers and are grateful for the way they have all embraced our involvement and for their openness in their interaction with us. In particular, we would like to thank the Committee for welcoming us to their meetings, which helps us put the challenges and successes of the Fund much more easily into context. We look forward to continuing that relationship.

Phil Pumford, Member Representative
Paul Friday, Member Representative
Steve Jackson, Employer Representative
Mark Owen, Employer Representative

Clwyd Pension Fund Board

E-mail address – PensionBoard@flintshire.gov.uk

Section 4: Investment Policy and Performance Report

Report from the Fund's Investment Consultant

Introduction

I am pleased to provide an update from an investment perspective on the activities of the Clwyd Pension Fund (CPF) during 2018/19. As the Fund's Investment Consultant I provide advice to the Fund on how to manage various investment risks. I also have a specific role in guiding the overall direction of the Fund via my seat on the CPF Advisory Panel.

Investment Strategy Statement (ISS)

When considering the Fund's investments it is appropriate to start with the overall investment objectives, which are set out in the ISS, which replaced the Statement of Investment Principles with effect from 1 April 2017. The Strategy sets out the funding and investment objectives for the Fund (see section 9 for how to access the ISS). The specific investment objectives are:

- Strike an appropriate balance between long-term consistent investment performance and the funding objective to maintain assets equal to 100% of liabilities within the 15 year timeframe.
- Ensure net cash outgoings can be met as and when required.
- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

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

Summary of 2018/19

Market Commentary

Investors, consumers and businesses were swayed by the geopolitical concerns over trade, notably between the US and China during the year ending 31 March 2019. Retaliatory actions between the two countries aggravated concerns over the possibility of a ripple effect on the global economy. The US tariffs on steel and aluminium were not confined to China, but were also imposed on the EU, Canada and Mexico. While the economic impact of this was not ascertained, the markets viewed this as an indication of increased possibility of a trade war.

Q4 2018 marked the turning point when risk assets underperformed. Market volatility spiked in October and December 2018 driven by concerns over the monetary policy stance of the US Federal Reserve amidst weak economic data and trade conflicts; additionally, the US government shutdown weighed on markets in December 2018. Technology stocks were driving major indices; however, it drove the markets on the downside as investors measured the implications of the US-China trade conflict.

Most of the developed markets' central banks shifted from their hawkish rhetoric to being dovish or accommodative towards their monetary stance, given the alteration of the economic data and sentiments. Downward revisions of expected economic growth and inflation by the central banks seemed to be the obvious consequence. Companies' outlook for revenue and earnings turned grim towards the end of the year from the positive and robust data at the start of the year. Nonetheless, the accommodative stance of major central banks and signs of abating US-China trade conflicts led to a rebound in the markets.

Negotiations over Brexit were the predominant driver of the UK economy and markets. Many signs pointed the markets towards a higher possibility of a ‘no-deal’ Brexit: a number of ministers resigned in protest at the draft European Union (EU) Withdrawal Agreement that triggered concerns over political stability; the UK Prime Minister failed to gather sufficient support from parliament for the agreement in its initial form; the parliamentary vote had to be rescheduled to another date on three instances. The Bank of England (BoE) had raised interest rates by 25 bps to 0.75% in August 2018, before the uncertainty intensified. Given this backdrop, business sentiment fell and consequently, business investment plans were stalled. Nonetheless, the labour market grew tighter and nominal wages picked up resulting in a positive growth in real wages as inflation remained subdued. However, the impact of higher wages on consumption spending was delayed as consumers preferred to save rather than spend amidst the uncertainty. Citing these concerns, the BoE, in its February 2019 inflation report, cut its 2019 GDP growth projection from 1.7% (projected in its November report) to 1.2%.

European economic growth suffered as its major economies witnessed a slowdown. German car production was the main driver of the lacklustre economic growth in the country as there were worries over the possibility of US tariffs on cars. Slower demand and delays to the new emission tests also weighed on the economy. The announcement by Angela Merkel that she would not seek re-election as Germany’s Chancellor when her term ends in 2021 raised question regarding Germany’s future.

In France, given the upcoming elections in May 2019, political risks rose with the on-going anti-government yellow vest protests, lowering consumption spending and business investments. Italy entered into recession at the end of 2018, while its austerity took a grip on the budget, leading to the EU’s contention with Italy with regards to their spending patterns and potential budget deficit. The Italian government lowered its budget deficit for 2019 from 2.40% to 2.04% of the GDP to comply with the EU rules. Italy’s Five Star Movement that advocates populism continued to add to the political risk.

The European Central Bank (ECB) announced that it would leave interest rates at the current low levels for the rest of 2019. Earlier, the ECB intended to keep the interest rate at the current level only till mid-2019. Additionally, the ECB offered new monetary stimulus by providing cheap financing to the Eurozone banks to support the economy. The ECB cut its Eurozone growth forecasts sharply for 2019 from 1.7% (projected in its December meeting) to 1.1%. Political risks and weak economic data in the Eurozone weighed on the equity markets, while the recent corporate earnings reported provided some support.

The US Federal Reserve raised interest rates three times from 1.75% to 2.50% owing to continued stability in economic data with robust data during Q2 2018 and Q3 2018. However, during the latter half of the year, it reduced its expectations on the number of interest rate hikes for 2019 from three to two and then to zero over the year ending 31 March 2019. The central bank lowered its GDP growth projections from 2.3% (projected in its December meeting) to 2.1% and its inflation projection from 1.9% (projected in its December meeting) to 1.8% for 2019. This transition was marked by weak economic data that had fuelled concerns over monetary policy stance amidst the on-going trade conflicts. The US government shutdown owing to conflicts over the funding of the Mexico wall added to the political concerns during the year.

Yields on long-term US Treasury bonds fell as its safe-haven appeal were burnished, leading to a yield curve inversion. A yield curve inversion is when the yield on long-term bonds is lower than the yield on short-term bonds. Historically, the yield curve inversion has helped signal a recession-like condition. Consequently, market participants feared that this time would not be different. However, in the past recession, the yield curve inversion has been due to a rise in short-term yields, while in the current situation the yield curve inverted with a fall in long-term yields.

Japan’s domestic economy showed improvement, while the global landscape continued to weigh on the export-driven economy. The Japanese Yen depreciated over the year, which supported corporate earnings for most of the year. Profitability margins of the Nikkei 225 companies rose to a multi-year high, raising concerns over the sustainability of rising profit margins by various analysts and investors at large. Downward revisions to corporate earnings for the fiscal year provide another reason to question the sustainability of this profitability. During the year, the Bank of Japan (BoJ) had introduced an objective in its monetary policy i.e. allow the yield on Japanese 10-year government bonds to fluctuate more (as much as 0.2% up from 0.1% around zero) before it steps in to intervene. The BoJ has upgraded its GDP forecast for 2019 from 0.8% (in its October 2018 meeting) to 0.9%, while it downgraded its inflation forecast from 1.6% to 1.1%.

Emerging markets (EMs) were adversely affected by the strong US dollar, the US-China trade conflict and certain idiosyncratic risks. The Chinese economy witnessed a slowdown. Its central bank and the government continued to provide support to its economy. China A-shares were supported by the MSCI announcement to quadruple China’s weight in the index between May and November 2019. During the latter half of the year, Brazilian equities had rallied on the back of hopes from the market-friendly election outcome that raised expectations for implementation of pension reforms. Turkey and Argentina continued to negatively impact the EMs on the back of its subdued economic activities and growing geopolitical tensions. The MSCI EM index generated a return of -9.63% over the year, in USD terms.

The Bloomberg Commodity Index fell over the year as a stronger US dollar weighed on dollar-denominated commodities. Additionally, the slowdown in China and weak business sentiment, globally, led to a fall in the price of industrial metals. In contrast, the price of precious metals rose, led by palladium, on account of decline in its mining supply. Further, the dovish stance by the US Federal Reserve and concerns of global growth put upward pressure on prices. Price of Brent crude oil marginally increased over the year but was swayed by the OPEC and non-OPEC oil production cuts, and geo-political tensions.

Clwyd Pension Fund Investment Performance 2018/19

The Fund returned +5.0% in 2018/19, behind the expected return assumption of CPI +4.0% as quoted in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS). The return of +5.0% compared with a composite benchmark (of the underlying manager benchmarks) of +5.4% and a composite target of +5.7%. Whilst the returns for the year were below the required rate, this needs to be seen in context of the longer term performance; over three years to the 31 March 2019 the Fund achieved a return of +9.9% per annum compared with a composite benchmark of +8.5% per annum and the composite target of +8.9% per annum. This performance is also well ahead of the Actuarial target of CPI +2.0%.

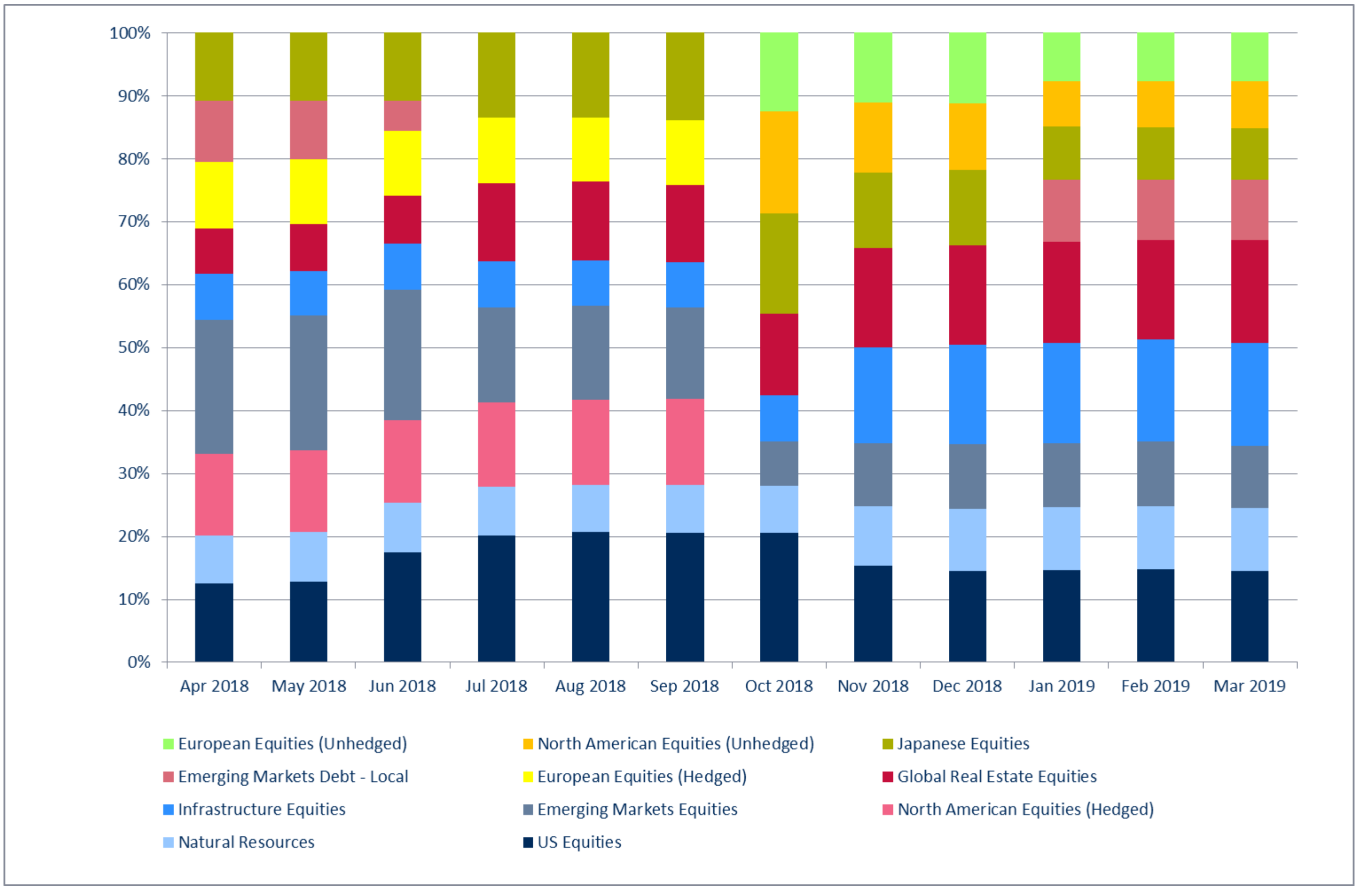
The Equity portfolio that includes Global and Emerging Market Equity exposures returned +1.7% with the market volatility and falls in market values resulting in poor performance in both areas. Both Wellington Emerging Markets Core and Local portfolios underperformed their targets over the 12 months. During the first quarter of 2019 the Fund transferred its Global Equity assets from Investec to the WPP Global Opportunities fund as part of the on-going pooling agenda. The Fund invested in the BlackRock ACS World Multifactor Equity fund in November 2017 and over twelve months the fund outperformed its target by 1.7%.

The Multi-Asset Credit portfolio produced a small negative return of -0.3% underperforming its target. During 2017/18 the Fund appointed two Private Credit managers; BlackRock and Permira to manage North American and European portfolios respectively. Whilst it will take some time to drawdown the full commitment, initial performance for the Permira portfolio for the twelve months shows some outperformance against its target.

In a year which saw significant volatility in the final quarter of 2018, the two elements of the Tactical Allocation Portfolio saw mixed performance; at a headline level there was performance of +3.3% which was under the benchmark. However, the portfolio comprises two elements; a Diversified Growth

Portfolio which returned +0.9% and a Best Ideas Portfolio that produced a return of +5.4%. Within the Diversified Growth Portfolio both of the managers underperformed their benchmarks; Investec had a negative return of -1.6% and Pyrford returned +3.4%.

Throughout the year under review a number of positions have been taken within the underlying composition of the Best Ideas portfolio as demonstrated in the chart below. There is a monthly meeting of the Tactical Asset Allocation Group where JLT monitor and review the portfolio and make recommendations to Fund Officers. A robust process has been put in place with a transparent audit trail (including minutes of all meetings) documenting any changes and decisions together with their rationale.



The chart demonstrates the diversified nature of the holdings within the Best Ideas Portfolio which has included regional Equities, Commodities, Emerging Market Debt as well as liquid alternatives in the form of listed Infrastructure and Global REITS. It also shows how the underlying holdings have changed following decisions that have been taken by the Tactical Asset Allocation Group over the year.

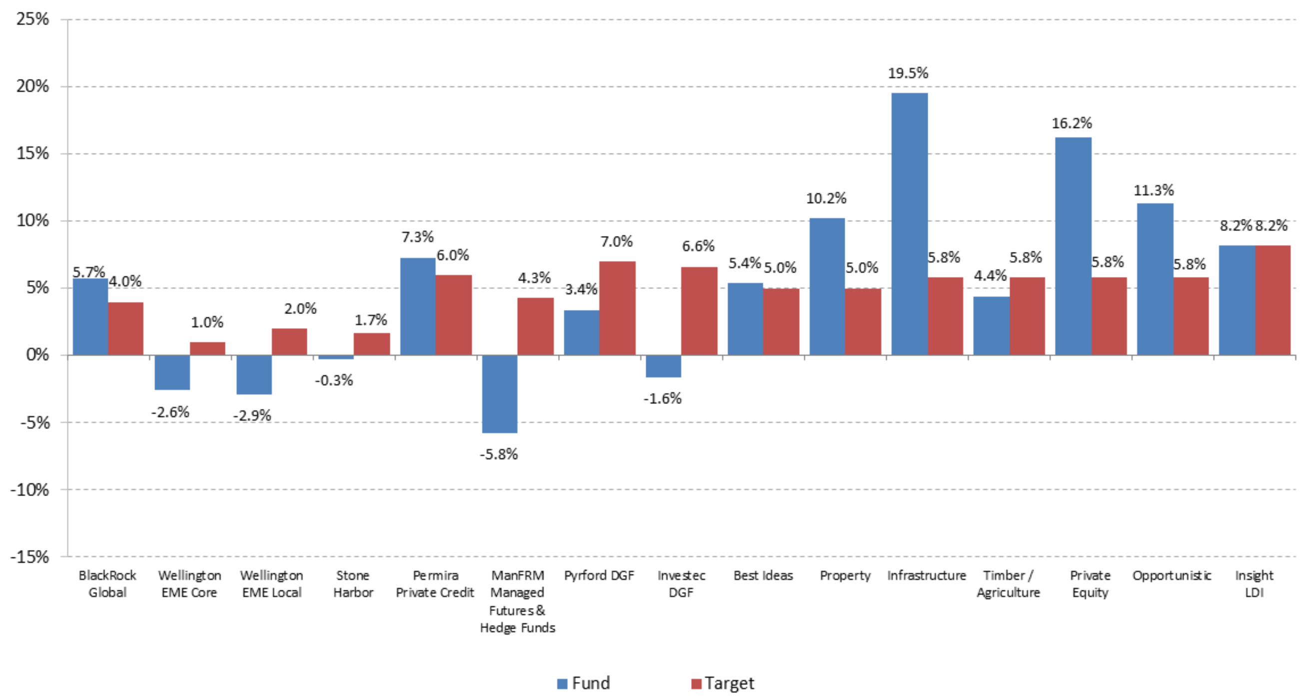
The Managed Account Platform with ManFRM contains a Managed Futures & Hedge Funds portfolio which produced a negative absolute return of -5.8%. In addition the residual balances of the Fund's illiquid legacy Hedge Funds holdings are contained on the Platform which reduced the overall return of the Managed Account Platform to -7.9%. The performance of the portfolio has been disappointing over one and three years and the Fund is keeping it under review.

In the 12 months under review the Private Markets portfolio achieved a strong positive return of +15.2% and the Real Assets portfolio +11.9%.

Within the Private Markets portfolio Private Equity performed best returning +16.2%. Opportunistic investments also achieved a strong absolute performance with a return of +11.3% over the year. Within the Real Assets portfolio Infrastructure investments produced a positive return of +19.5% in the year, and were the Fund's best performing asset class. Property assets also produced strong positive returns (+10.2%).

The Liability Driven Investment portfolio (a key component of the Flightpath/De-Risking Framework) which consists of regional Global Equity, Gilt and inflation exposures returned +8.2% in 2018/19. However the performance of this portfolio over the short term is less relevant due to its risk management characteristics.

The following charts below summarise the 12 month performance against the target for each of the Fund's asset classes and managers together with the total Fund. It should be noted we have only included those funds/asset classes that have a full 12 month return.



The following chart summarises the performance of the key components of the Fund's investment strategy versus their target.

Summary of Investment Performance

2018-19

The market conditions for the first six months of 2018/19 were beneficial for the Fund with most of the major asset classes producing strong positive returns in particular Equity markets. However in October 2018 markets suffered significant volatility and in the quarter to the 31st December 2018 the Total Fund returned -5.1%.

In the first quarter of 2019 markets bounced back from this period of volatility and whilst the positive market environment didn't completely erase the negative performance seen in the quarter ended 31 December, the total Fund return of +4.5% did mitigate it somewhat. As a result the performance of the Fund for the twelve months under review was +5.0%. Since the end of the 2018/19 financial year markets have continued in a positive vein and the Fund's has performed similarly.

The diversification within the Fund's investment strategy was exemplified with the performance of the In-House Real Assets portfolio which weathered a lot of the negative performance in the last quarter of 2018 and was the Fund's best performing asset class. The In-house Private Markets investments also added value and were the next best performing element of the Fund's portfolio. This diversification of sources of return is expected to position the Fund well in the future.

Whilst the Fund will not have produced a return as high as an investment strategy more heavily weighted to Equities, which is seen when comparing to the average local authority, it is important to bear in mind that the Fund is investing for the long term and has a diversified portfolio which aims to achieve a targeted balance between return and risk. However this is not to say that we are not cognisant of shorter term market conditions – as commented in previous years the Fund's Best Ideas Portfolio (within the Tactical Allocation Portfolio) is evidence of this.

Investment Strategy

The Fund's Investment Strategy was last reviewed in 2016/17 in conjunction with the Actuarial Valuation and the implementation of the new strategy has been progressing over the last two years. The next Actuarial assessment of the Fund is being undertaken as at 31 March 2019, and linked to this we will be undertaking a review of the Investment Strategy. At the time of writing it is too early to comment on the outcomes of this review and this will be reported in next year's Annual Report.

The key features of the Fund's current strategy are outlined in the following paragraphs.

The Fund's investment strategy continues to be more diversified than most LGPS Funds and incorporates a Flight-path/De-Risking Framework which differentiates the Fund from many other LGPS Funds. The aim of the Fund's strategy is to reduce the volatility of returns, in line with the objective of stabilising employer contribution rates. Although history suggests that in the long term Equities should out-perform other asset classes, these returns can be very volatile and the asset class can under-perform for many years. It does appear that other LGPS funds are moving to more diversified strategies as the average LGPS fund has 55% allocated to equity, compared to 62% as at 31 March 2017. However, this is still significantly higher than the Clwyd Fund.

In the first quarter of 2019 the Fund's allocation to active Global Equity was moved from Investec to the Wales Pension Partnership's (WPP) Global Opportunities Fund. This is the first investment that the Fund has made through the WPP structure, which was established to meet the Government's Investment pooling agenda. Over the coming years it is anticipated that most of the Fund's assets will move to the WPP with a second commitment, to a Multi-Asset Credit Fund also having been agreed.

As part of the previous review a 3% allocation to Private Credit was introduced within the Fund's Credit Portfolio. Permira were appointed as European Private Credit manager in September 2017, and BlackRock were appointed to manage a North American portfolio. Due to the nature of this asset class it will take some time for the commitments to be fully drawn.

The ManFRM Managed Account Platform (MAP) includes Managed Futures and Hedge Funds. In addition the legacy illiquid Hedge Fund holdings were incorporated onto the MAP pending their full redemption, given the illiquid nature of some of the underlying positions in these funds.

The Tactical Allocation Portfolio includes a Diversified Growth Portfolio comprising two DGF managers (Investec and Pyrford) and a Best Ideas Portfolio. The Best Ideas Portfolio is a short term (12 month horizon) tactical allocation based upon JLT's suggested "best ideas". Aside from the decisions being made on a tactical (short term) basis, the basic premise of the decisions within this portfolio is that any asset allocation implementation should be liquid (to enable speed of action should it be required) and cost efficient. Given the increase in the Fund's strategic allocation to the Best Ideas Portfolio, and the material size of this allocation (11% of total Fund assets) further details is provided in the Performance section of this report.

The Fund's current strategic asset allocation, strategic and conditional ranges (established following the 2016 review), are shown below. As part of the 2019 review these will be reviewed and potentially revised:

Strategic Asset Class	Strategic Allocation	Strategic Range (%)	Conditional Range (%)
Global Equity	8.0%	5.0 – 10.0	0 – 30
Emerging Markets Equity	6.0%	5.0 – 7.5	0 – 15
Credit Portfolio	15.0%	10.0 – 20.5	0 – 25
Multi Asset Credit	*12.0%*	*10.0 – 15.0*	*5 – 20*
Private Credit	*3.0%*	*2.0 – 5.0*	*0 – 10*
Managed Account Platform	9.0%	7.0 – 11.0	5 – 15
Tactical Allocation Portfolio	21.0%	15.0 – 25.0	10 – 30
Diversified Growth	*10.0%*	*8.0 – 12.0*	*5 – 15*
Best Ideas Portfolio	*11.0%*	*9.0 – 13.0*	*5 – 15*
Private Markets	10.0%	8.0 – 12.0	8 – 12
Real Assets	12.0%	10.0 – 15.0	5 – 20
Property	4.0%	*2.0 – 6.0*	*0 – 10*
*Infrastructure**	8.0%	*5.0 – 10.0*	*2 – 12*
Liability Hedging	19.0%	10.0 – 30.0	10 – 30
Cash	0.0%	0.0 – 5.0	0 – 30

* Infrastructure includes exposure to Agriculture and Timber

The following table shows the strategic allocation compared to the actual asset allocations as at 31 March 2019 and 31 March 2018.

Manager	Mandate	Strategy 17/18	Actual 31/03/18	Strategy 18/19	Actual 31/03/19
	Equities				
Investec Asset Management (1)	Global Equity	4.0%	4.2%	N/A	N/A
WPP Global Opportunities(1)	Global Equity	N/A	N/A	4.0%	4.2%
Wellington Management International Ltd	Emerging Markets Equity	6.0%	6.9%	6.0%	6.4%
BlackRock	Global Equity	4.0%	3.8%	4.0%	3.8%
	Credit				
Stone Harbor Investment Partners	Multi-Asset Credit	12.0%	11.5%	12.0%	10.9%
Permira (2)	Private Credit	1.8%	0.9%	1.8%	1.4%
BlackRock (2)	Private Credit	1.2%	0.0%	1.2%	0.3%
	Managed Account Platform				
ManFRM	Managed Futures & Hedge Funds	9.0%	8.1%	9.0%	7.4%
ManFRM	*Hedge Funds (Legacy)*		0.4%		0.1%
	Tactical Allocation Portfolio				
Pyrford International	*Diversified Growth*	5.0%	4.5%	5.0%	4.5%
Investec Asset Management	*Diversified Growth*	5.0%	4.8%	5.0%	4.5%
Consultant	*Best Ideas Portfolio*	11.0%	10.6%	11.0%	10.7%
	In-House - Real Assets				
Various	Property	4.0%	6.4%	4.0%	6.6%
Various	Infrastructure	6.0%	2.3%	6.0%	3.6%
Various	Timber/Agriculture	2.0%	1.4%	2.0%	1.3%
	In-House – Private Markets				
Various	Private Equity	8.0%	8.7%	8.0%	8.9%
Various	Opportunistic	2.0%	1.7%	2.0%	2.6%
	Liability Hedging				
Insight	Liability Driven Investments	19.0%	22.5%	19.0%	22.7%
	Cash		1.2%		0.3%

1) The Global Developed Equity Portfolio allocation transitioned from Investec to WPP Global Opportunities in February 2019. 2) The Credit Portfolio has a 3.0% allocation to Private Credit, which was established in 2017. Draw down will take some time.

Responsible Investment

The Fund's ISS includes its policy on Responsible Investment which is implemented through a Sustainability Policy. These policies are being reviewed in conjunction with the 2019 reviews of the Fund's Investment Strategy. The ISS shows the Fund's compliance with the Financial Reporting Council's UK Stewardship Code and in March 2018 the Fund became a Tier One signatory to the Code. The Fund continues to be a member of LAPFF and PLSA who both act on behalf of its members on stewardship matters.

Although the Fund is invested in pooled vehicles, and therefore does not own individual shares, the fund managers still report on how they voted the shares held within the vehicle. In particular if corporate governance concerns are raised by LAPFF, these are reported to fund managers and an explanation is received from fund managers on how they voted and the engagement undertaken with the managers of the company.

A summary of the voting activities of the managers for 2018/19 is shown in the following table.

Manager	Annual/Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/Withheld
BlackRock	3,403	3,228	2,932	239	10	47
Investec	142	1,889	1,715	42	23	109
Pyrford	56	912	835	60	1	16
Wellington	312	2,875	2,423	248	168	36

The Fund invests in property, private equity, infrastructure, timber and agriculture. A list of these investments is attached with commitments to those with a particular environmental or social objective separately identified.

Investments regulations now allow for LGPS funds to consider social impact where some part of financial return is forgone in order to generate a social impact and there is no significant risk of financial detriment. The Fund's approach to Social Investments is included in the ISS but no investments have been made to date where financial return has been foregone, although many of the investments do have a social impact. The Fund is working on how this can be effectively measured and reported to stakeholders.

United Nations Principles for Responsible Investment

The Fund engages with all of its asset managers to ensure that they are fully aware of their responsibilities with regard to Sustainability, and one of the ways in which the fund management industry can demonstrate that it takes its responsibilities seriously is to become a signatory to the UN Principles for Responsible Investment (UN PRI). Firms that are signatories to the UN PRI are required to commit to a set of six principles promoting and incorporating Environmental Social and Governance (ESG) principles into all aspects of its work. It is pleasing to report that all of the Fund's major asset managers (listed below) are UN PRI signatories.

BlackRock	Insight
Investec	MAN Group
Pyrford	Russell Investments
StoneHarbor	Wellington

LGPS Code of Transparency

In 2017, the LGPS Scheme Advisory Board introduced a Code of Transparency for asset managers, to encourage transparent reporting of costs. The Code is voluntary but is being widely adopted across the LGPS including within the developing pools. The Scheme Advisory Board is monitoring and reporting on those managers that have committed to the Code, and it is pleasing to note that all of the Fund's major managers (shown below) have signed up.

BlackRock	Insight
Investec	MAN Group
Pyrford	Russell Investments
StoneHarbor	Wellington

Summary of the Longer Term

The market value of the Fund has increased from approximately £697m in 2009 to £1,866m in 2019. This is detailed in the Management and Financial Performance section of this report.

The table below shows a summary of the annualised investment performance over the last 20 years compared with the Fund's benchmark and local government pension funds.

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa
1	+5.0	+5.4	+6.6
3	+9.9	+8.5	+10.5
5	+8.6	+7.6	+8.8
10	+9.6	+8.7	+10.7
20	+5.6	+5.8	+6.4

Source: JLT Benefit Solutions, PIRC

The following table documents the changes in investment strategy since 2001. As can be seen the asset allocation is very different from that of the average local government pension fund. The Fund has been particularly active and very early in its commitments to alternative assets through a broad range of specialist managers. The current weightings were reviewed and agreed in 2016/17 as part of the "light touch" investment strategy review and will be reviewed and potentially revised further in 2019, and as such the strategy shown for 2019 is the same as the previous year.

Investments	2001 (%)	2004 (%)	2007 (%)	2011 (%)	2015 (%)	2019 (%)	LGPS Average
Equities							
Global Unconstrained	-	-	5.0	5.0	8.0	4.0	
Global Developed (Smart Beta)	-	-	-	-	-	4.0	
Global High Alpha/ Absolute	-	-	-	5.0	-	-	
UK Active (Traditional)	35.0	29.0	15.0	-	-	-	
UK Active (Portable Alpha)	10.0	10.0	12.0	-	-	-	
US Active	7.0	8.0	5.0	-	-	-	
Europe (ex UK) Active	11.0	9.0	6.0	-	-	-	
Japan Active	4.0	4.0	4.0	-	-	-	
Far East (ex UK) Active	2.5	3.0	4.0	7.0	-	-	
Emerging Markets Active	2.5	3.0	4.0	7.0	6.5	6.0	
Frontier Markets Active	-	-	-	-	2.5	-	
Developed Passive	-	-	-	19.0	-	-	
	72.0	**66.0**	**55.0**	**43.0**	**17.0**	**14.0**	**55.0**
Fixed Interest							
Traditional Bonds	10.0	9.5	-	-	-	-	
High Yield/ Emerging	1.5	2.0	-	-	-	-	
Unconstrained	-	-	13.0	15.0	15.0	12.0	
Private Credit (illiquid)	-	-	-	-	-	3.0	
Cash/ Other	2.5	0.5	-	-	-	-	
	14.0	**12.0**	**13.0**	**15.0**	**15.0**	**15.0**	**19.0**
Liability Driven Investment	-	-	-	-	**19.0**	**19.0**	-
Alternative Investments and Cash							
Property	5.0	7.0	6.5	7.0	7.0	4.0	
Infrastructure	0.5	5.0	1.5	2.0	2.0	6.0	
Timber/ Alternatives	-	-	1.5	2.0	2.0	2.0	
Commodities	-	-	2.0	4.0	-	-	
Private Equity & Opportunistic	4.5	4.5	6.5	10.0	10.0	10.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	-	-	
Hedge Fund Managed Account Platform	-	-	-	-	9.0	9.0	
Currency Fund	-	4.0	4.0	-	-	-	
Tactical Asset Allocation (TAA)	-	2.0	5.0	12.0	-	-	
Tactical Allocation (Diversified Growth)	-	-	-	-	10.0	10.0	
Tactical Allocation (Best Ideas)	-	-	-	-	9.0	11.0	
	14.0	**22.0**	**32.0**	**42.0**	**49.0**	**52.0**	**26.0**

IN HOUSE PORTFOLIO

REAL ASSETS

Property Open Ended Holdings	Number of Fund	Environmental/Social Impact	Number of Funds
Schroders	1		
Hermes	1		
LAMIT	1		
Legal & General	1		
BlackRock	1		
Property Closed Ended Holdings			
Aberdeen Property Asia Select	2	Bridges Property	2
BlackRock US Residential	1	Igloo Regeneration	1
Darwin Leisure Property	1	Threadneedle Low Carbon	1
Franklin Templeton	2		
InfraRed Active Property	3		
North Haven Global Real Estate	2		
Paloma Real Estate	2		
Partners Group Global Real Estate	2		
Schroders – Columbus UK Real Estate	1		
Timber			
		BGT Pactual Timberland	2
		Stafford Timberland	3
Agriculture			
		Insight Global Farmland	1
		GMO	1
Infrastructure			
Arcus European Infrastructure	2	InfraRed Environmental	1
Base Camp	1		
Carlyle Global Infrastructure	1	Impax Infrastructure	2
GSAM West Street Infrastructure	1		
HarbourVest Real Assets	1		
Hermes Infrastructure	1		
InfraRed	2		
Innisfree	1		
North Haven Global Infrastructure	2		
Pantheon	1		
Partners Group Direct Infrastructure	1		
Total Funds	**35**		**14**

PRIVATE MARKETS

Private Equity Direct Funds	Number of Funds	Environmental/Social Impact	Number of Funds
Access Capital	1	Bridges Ventures	2
Apax	5	Environmental Technologies	3
August Equity	3	Ludgate Environmental	1
Candover	1		
Capital Dynamics	3		
Carlyle	2		
Charterhouse	4		
ECI	3		
Granville Baird	2		
Parallel Ventures	3		
Partners Group Direct	2		
Unigestion	1		
Private Equity Fund of Funds			
Access Capital	4	HarbourVest Cleantech	1
Capital Dynamics	7	Hermes Environmental	1
HarbourVest	5		
Partners Group	10		
Standard Life	2		
Unigestion	2		
Opportunistic			
BlackRock European Property	1	Foresight Regional Investment	1
Carlyle	2		
Dyal	1		
JP Morgan Secondary’s	1		
Marine Capital	1		
Marquee Brands	1		
NB Credit Opportunities	1		
Pinebridge Structured Capital	1		
Total Funds	**69**		**9**

Private Debt	
Permira	1
BlackRock	1
Total Funds	2

Kieran Harkin

Director & Head of LGPS Investments – JLT Benefit Solutions Limited

Section 5: Actuarial Funding and Flightpath Report

Report from the Fund Actuary

Introduction

I am delighted to provide my update from an actuarial perspective on the activities of the Clwyd Pension Fund (CPF) during 2018/19. As the Fund's Actuary, I provide advice to the Fund and its employers in relation to managing and monitoring the many financial and demographic risks they face. I also have a specific role in guiding the overall direction of the Fund via my seat on both the CPF Advisory Panel and the Funding and Risk Management Group (FRMG) which was established to specifically manage the "Flightpath" strategy. The Advisory Panel provides an opportunity for all of the Fund's professional advisors to collaborate, in conjunction with the Fund Officers, to help the CPF achieve its long term objectives. I feel that, as a group, we have continued to make excellent progress over the year with a number of important enhancements made to the Flightpath framework.

Risk management

Flightpath Strategy

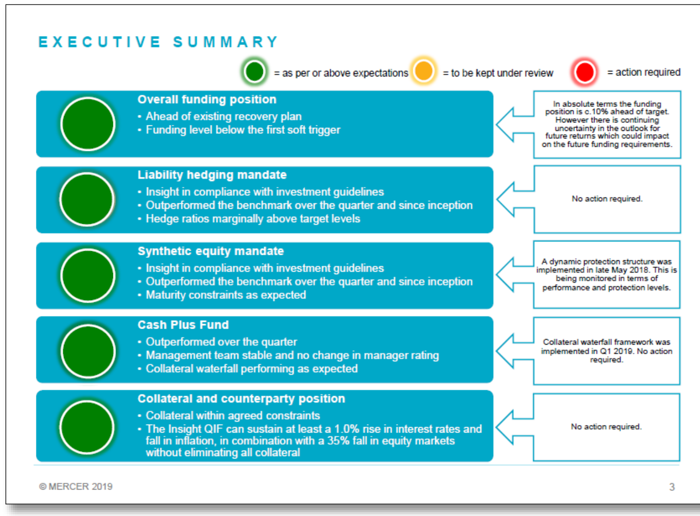
A critical aspect of managing risk relates to the Flightpath strategy which is central to providing stability of funding and employer contribution rates in the long term. This strategy has been in operation for 5 years now and there has been big strides forward in achieving the objectives of reaching full funding by 2026. The various triggers built into the Flightpath strategy were reviewed alongside the actuarial valuation and the updated triggers are now incorporated into the operation of the strategy.

Over the 2018/19 accounting year, the level of risk hedging (the "hedge ratio") within the framework did not change (remaining at approximately 20% for interest rates and 40% for inflation rates) as the market yields and the funding level remained below the relevant trigger points. This is a reflection of the low interest rate environment meaning the cost of increasing the hedge ratio is prohibitive at the current time.

The funding plan was ahead of the target set as part of the 2016 valuation as at 31 March 2019. Overall using consistent actuarial assumptions, the funding position was estimated to be 90% as at 31 March 2019 which was 10% ahead of the expected funding level under the deficit recovery plan (compared with a funding level of 76% as at 31 March 2016). The 2018/19 year was a particularly volatile period for markets. However, the Equity Protection element of the investment strategy, which was implemented on 24th May 2018, has remained in place throughout the year in order to protect the Fund and employers.

The CPF is also in a relatively unique position as the Flightpath strategy has provided protection given the level of risk hedging in place.

Whilst monitoring the funding position is central to my role, it is also important that we ensure other operational aspects of the Flightpath run by Insight Investment Management (Insight) are working correctly, as this is vital to the success of the strategy. Therefore, we monitor on a monthly basis using a red/amber/green ("RAG") rating system and the summary at March 2019 is shown. It can be seen that all aspects were in line with expectations.



Implementation of Equity Option Protection

In order to protect the Fund's current strong position, the CPF insures itself against potential falls in the equity markets via the use of an Equity Protection strategy. The aim is to provide further certainty in employer contributions (all other things equal) in the event of a significant equity market fall. The Fund implemented a new "dynamic" Equity Protection strategy with effect from 24th May 2018. This was after rigorous analysis and value for money considerations by the FRMG. The strategy protects against falls of 15% or more of the average market position over the previous 12 months. This protection level will vary depending on market movements and the main benefit compared to a static strategy is that the protection level will increase if markets rise. This will be financed by giving up some potential upside return on a monthly basis.

The strategy is implemented on a daily rolling basis to best capture changes in market conditions. Given this complexity however, it was agreed that a single counterparty bank would package and deliver the strategy, implemented via Insight. Mercer went through a process of determining the most cost effective counterparty bank and it was agreed that JP Morgan would deliver the strategy.

The strategy will be monitored monthly alongside the Flightpath (above) and any changes made will be reported next year.

Collateral restructure

The collateral was restructured during February 2019, following an opportunity to increase its efficiency. This will generate a higher expected yield (estimated to be £3m p.a. although this is not guaranteed) whilst still providing adequate security that the collateral position is managed effectively in a low governance manner. This does not impact on the overall risk management profile of the Flightpath strategy.

Implementation of currency hedging

Currency risk is a 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. The Fund therefore implemented a currency hedge on part of the equity portfolio with effect from 8 March 2019. This will provide the Fund with broadly a 50% strategic hedge ratio. Given the market value of the hedged equity portfolio is relatively small at implementation, the currency hedge has only had a small impact initially. However, as the market value increases, the Fund is at greater risk of adverse currency movements negatively impacting the market value. This approach future-proofs this element of the equity portfolio from a risk perspective. The level of currency hedging will now form part of the overall Flightpath strategy.

2019 Actuarial Valuation

The Fund's next triennial actuarial valuation has an effective date of 31 March 2019 and will give us an opportunity to formally review the financial health of the Fund and refresh the objectives. I am currently working with Fund Officers to complete this and the outcome will be covered in next year's annual report. The assessment will take into account the experience of the Fund since the previous valuation including demographic factors such as changes in life expectancy and changes in the membership profile. It will utilise the employer risk management framework set up by the Fund which considers an employer's ability to support their obligations to the Pension Fund by reviewing their covenant. Individual results will be provided to employers which will take into account their own circumstances and membership changes. The results may therefore vary significantly between employers and the reasons behind this will be clearly explained to employers at the time. Details of how employer rates can vary are shown in my formal report on the 2016 valuation and also the parameters applied to arrive at each employer's contribution are shown in the Funding Strategy Statement which was last updated in 2018. We also will see some major changes in the governance around valuations as we move towards a four-year cycle as well as having the ability to change employer contribution rates via interim review powers being introduced. The Fund will need to develop policies to deal with this as part of the 2019 valuation.

It is therefore my continued confidence in the strong governance structure within the Fund which means we are well placed to navigate any uncertainty and volatility that arises.

In addition to the valuation process, the Government Actuary's Department ('GAD') will carry out a review of the actuarial valuations of LGPS funds as at 31 March 2019, this is pursuant to Section 13 of the Public Service Pensions Act 2013. The GAD will compare a number of key factors including the assumptions and recovery periods adopted, and funding levels and contribution rates reported. The results will be published once the review is complete.

The GAD carried out a similar review of the 2016 LGPS valuations and the comparisons between LGPS funds can be found here. All checks on the funding plan applied by the GAD showed as "green" so there were no concerns on the funding plan put in place. For information, the key assumptions adopted for the 2016 valuation of the Clwyd Pension Fund are set out within the formal 2016 valuation report and the Funding Strategy Statement which can be found on the Fund's website.

Looking forward

Of course, the political and economic landscape remains uncertain due to Brexit, especially in light of the possibility of a 'No Deal' scenario. This could have a material effect on the level of UK inflation and also the expected asset returns, both of which are crucial to the financial health of the Fund and the contributions required from the employers. It should be highlighted that the Flightpath strategy will continue to provide protection to the funding position against these potential challenges relative to other LGPS Funds. We will also continually monitor the operation of the strategy to identify ways of improving its performance whilst maintaining the overall risk management objectives. Any changes in the strategy will be reported in future reports.

The 2019 valuation will determine employer contributions rates from 1 April 2020 and will be crucial for employers with their continued budgetary pressures. A critical aspect of deadline with this valuation will be the impact on all public sector schemes of the McCloud judgment where changes to all schemes made in 2014 or 2015 have been deemed age discriminatory so a remedy needs to be found to address this. This will result in benefit changes for some members of the LGPS and likely some increased costs for employers once the remedy is determined. The timescale for this is currently unknown but is unlikely to be before the valuation is complete so consideration on how to provide for it will be a key part of the discussions.

P Middleman

Paul Middleman FIA

Section 6: Administration Report

Introduction

This report describes the way in which the Fund delivers its services to members and employers. It also identifies current and potential future challenges, and explains the way in which the Administration Team is meeting them. The report also includes KPI information and some information on the members of the scheme.

How our service is delivered

Clwyd Pension Fund's (the Fund) day to day administration service is provided by the Pension Administration Team which consists of a total of 30.7 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager.

It is split between

- an Operational Team
- a Technical and Payroll Team
- a Regulations and Communication Team and
- an Employer Liaison Team

It is separate from the Finance Team which manages the Fund's investment portfolio and maintains the Fund's accounts.

The Operational Team delivers a pensions service for over 48,000 scheme members. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team implements and maintains the pension software systems, reconciles employer records and provides a pensioner payroll service for over 12,000 pensioners and dependents paying more than £6m per month. The Employer Liaison Team provides assistance to fund employers in providing accurate and complete notifications to the Fund and the Regulations & Communications Team provides regulatory support to all stakeholders and a communication service for members and employers.

The Fund measures Value for Money by achieving its objectives set out in both the Administration Strategy and the Communication Strategy. This incorporates our Mission Statement, which is to be known as forward thinking, responsive, proactive and professional, providing excellent customer focussed, reputable and credible service to all customers. Value for money is also measured by utilising technology appropriately, and guaranteeing the administration of the Fund is achieved within budget in a cost effective and efficient manner. To successfully measure these objectives there is a robust Business Plan and Data Improvement Plan in place, incorporating a Risk Register and a Breaches Register. Progress updates on each of these are regularly reported to the Pension Board and Pension Committee. The objectives within these strategies, such as methods of communication with our stakeholders, and quality of service, are detailed within this report.

Flintshire County Council (FCC) is required by law to administer the LGPS in Flintshire. It is accountable to the Pensions Committee, the Pensions Board, participating employers, and scheme members. The responsibilities for scheme administration are met in-house by the Pensions Administration Team based within the Chief Executive's Department within FCC. The Pension Administration Team functions include the collection of employee and employer contributions and member data from all fund employers, the calculation of member benefits and payment of pension benefits to retired members, as well as looking after the benefits for deferred members who have not yet taken payment. The scheme not only provides pensions for members but also survivor benefits to spouses, civil and cohabiting partners and children.

Summary of Activity

In addition to this day to day work during 2018/19 the Pension Administration Team has been addressing a number of significant challenges as described below.

GMP Reconciliation

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 sets of data held by HMRC and the Fund, 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.

The Fund outsourced this exercise to a company called Equiniti and the project commenced during 2017/18. The timescales are subject to change depending on the magnitude of the work and changes to deadlines by HMRC. Monthly update meetings are held in order to monitor progress of this project against the deadlines. Any decisions needed in order to continue progress are reported during these meetings.

Assumed Pensionable Pay Issues

Unfortunately, during the year the Fund had to deal with an issue with incorrect scheme members' pay data from one of the Fund's employers. It was discovered that the Assumed Pensionable Pay (APP) figure reported from the employer's payroll system was incorrect for some members. The issue dated back to the introduction of APP in April 2014. This then meant that the benefits calculated by the Fund's officers for the affected members were incorrect and had to be rectified.

The Clwyd Pension Fund Manager made a formal report to The Pensions Regulator on 10 July 2018 regarding this breach of the law by the Fund which referred to the incorrect calculation of benefits. Similarly, the Employer also reported the breach to The Pensions Regulator relating to their role in notifying incorrect pay data.

The employer's payroll system software error was fixed and all affected cases recalculated and communicated with the scheme members where necessary. Throughout the project, officers of the Fund were required to share project plan updates and Committee reports with The Pensions Regulator. In addition there were a total of five conference call updates with The Pensions Regulator.

On 8 May 2019, the Pensions Regulator confirmed that they had considered all the information provided to them during the project, no regulatory action would be taken and they would be closing their file. The following text was included in the letter from the Regulator:

"*We would like to take this opportunity to thank you for the open and transparent way in which you have dealt with The Pensions Regulator (TPR). We find this collaborative way of working helps resolve matters and improve member outcomes more efficiently.*"

Regulation and Factor Changes

Since the regulation change allowing all deferred members to access their reduced benefits from age 55 regardless of when they left the scheme, the Fund has experienced an increase in both enquiries and payments of benefits. This is ongoing.

The Chancellor of the Exchequer announced a change to the SCAPE discount rate in his Budget statement on 29 October 2018. The SCAPE discount rate affects all sets of factors based on the valuation of public sector schemes. A stop on calculating transfers out was imposed whilst awaiting updated factors. New factors were received in mid-January and work was undertaken to process the backlog.

Valuation Data Preparation

In preparation for the 2019 valuation, the Fund's actuary, Mercer, completed a data quality check and has provided the results. Work was undertaken within the Administration Team to correct mismatches of data and clarify reported member queries. Many of the cases were completed in time for the valuation data submission deadline which was mid-July. The cases being completed also form part of the Data Improvement Plan.

Admission Agreements

The legal document that is signed when a new body applies to join the Fund has been amended by our legal advisers to ensure compliance with the 2018 amendment regulations. This has introduced areas such as the potential for a refund of surplus funds when an admission agreement ends. This updated version is now in use.

Additional payroll functionality

An additional facility allowing the Administration Team to process its own lump sum payments through the current internal payroll has now been implemented. This ensures members receive payment in a more efficient manner.

Testing Working Party

As part of the Testing Working Party (TWP) working with the Fund's software supplier Heywoods, the Pension Administration Team gained an early insight into forthcoming software changes which enabled testing on the impact of the Welsh rate of Income Tax from April 2019.

LGA Communications Working Group (CWG)

The Fund is a member of the CWG and meets other communication professionals from LGPS funds as a collaborative forum, on a quarterly basis, to develop items of communication primarily for scheme members in the LGPS. The group was created and is run by the Local Government Pensions Committee Secretariat (LGPC) (as part of the Local Government Association).

The CWG share knowledge and experience to then assist the LGPC secretariat in the development and provision of centrally devised communications resources. It is considered a strong example of collaboration in action across the LGPS.

The CWG priorities include the identification of best practice within pension communications generally and the LGPS specifically, exploring the areas where centrally produced communications would save individual LGPS funds financial resources and staff time.

Framework

The Fund is part of an LGPS Framework working party focusing on software providers. As a founder member the Fund will have valuable insight and input into the provision of a framework to facilitate a more robust procurement process for vital administration software. The founder members of the LGPS National Framework for the provision of a software supplier have agreed to proceed with the framework.. The Pension Administration Manager will continue to work with the other founder members over the next 12-14 months to establish the framework.

Looking ahead

GMP Equalisation

A recent high court judgement has been made on GMP equalisation. The impact on the LGPS remains uncertain but it is likely to result in additional costs to the Fund due to increases in the indexation of pensions to remove the inequality between males and females. If recalculation of pensions already in pay is required, there is a risk that this could result in significant work for the Pension Administration Team.

National Pensions Dashboard

The Government announced in the Autumn 2018 Budget Statement that funding has been allocated for 2019/20 to ensure this national project is delivered. The Fund may need to develop its systems to meet the new requirements.

Other Expected National Changes

Cost Management Process

The cost management process will result in either a benefit improvement or contribution reduction for scheme members (or a combination of both). This will be effective from April 2019, albeit the details of the changes are still to be agreed.

McCloud Case

Recently a case was brought to the High Court by members of the Judicial and Firefighters' pension schemes which is generally known as the McCloud case. It related to the transitional protection that was offered to members of final salary arrangements when public sector schemes were reformed. Their complaint was that the transitional protection was unlawful on the grounds of age discrimination, as some members who were within 10 years of their Normal Pension Age remained in the final salary arrangement while others transitioned into a new arrangement.

In December 2018 the Court of Appeal ruled in the members' favour and agreed that the changes were discriminatory based on age and that the government had not been justified in its decision. In June the

Supreme Court ruled that the Government does not have grounds to appeal the decision and consequently an Employment Tribunal will need to identify a suitable remedy.

£95k Exit Cap

This proposal has now been consulted on with the intention of limiting the amount of lump sum payments paid to public sector workers on termination of employment to £95k. However, within the LGPS this is expected to include the value of the "strain on the Fund" where a scheme member is paid a pension with any reduction for early retirement effectively being waived. This will primarily impact on members where a termination of contract has occurred with the ability to receive a full unreduced pension, often alongside a redundancy payment.

This is likely to result in a major communication exercise for the Pensions Administration Team advising scheme members and employers of the changes. It will also be likely to require changes to current processes and the administration system, Altair.

Communications and Administration Strategies

Our Communication Strategy follows Regulation 61 of the LGPS Regulations 2013 and has been updated this year following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders. The policy outlines the type of communications the administering authority would like to provide to scheme members, scheme employers and prospective scheme employers, the Pension Fund Committee, Pension Board and Advisory Panel, Fund staff and other interested organisations.

The chosen methods of communication are monitored and reviewed to ensure they are effective. The main means of communication with the above stakeholders are outlined in the Strategy and include using more technology to provide quicker and more effective communication.

The Communications Team attend a regional communication group on a quarterly basis, to ensure continuity and share ideas about the development of communication for the scheme members. The Local Government Association (LGA) also hosts a national communications group which of which the Fund is a member.

The Administration Strategy ensures that both the Administering Authority and the employers are fully aware of their responsibilities under the scheme and outlines the performance standards they are expected to adhere to, to ensure the delivery of a high-quality, timely and professional administration service.

Following the review of the Administration and Communication Strategies this year, an Employer Compliance Certificate has been introduced within the current year end process. This is an additional checklist for employers to complete in order to clarify their responsibility for supplying correct and verified member data.

The Communication Strategy and Administration Strategy are available on the Fund website. The addresses are included in Sections 9 and 10.

Employer Liaison Team (ELT)

Recognising the continuing pressure on resources and budgets for employers and the administering authority, the Fund offers assistance to employers in providing accurate and complete notifications to the Fund (and other employer duties) in a timely manner. The ELT mainly assists in providing notifications regarding new starters, personal/employment changes and leavers/retirements in the LGPS by extracting the data from the employers’ payroll systems. It undertakes outstanding requests for information in order to cleanse pension records. The ELT is monitored and progress reported on a regular basis. All costs are met by the employers through their employer contribution rate, based on a case reporting process.

General Data Protection Regulation (GDPR)

GDPR is an EU regulation which came into force on 25th May 2018, building on the existing Data Protection Act. This new regulation introduces stricter compliance requirements and much higher fines for non-compliance.

The main areas affecting the LGPS include the need to keep records of processing activities; enhanced privacy notices for members; privacy impact assessments where there is a high risk to the rights and freedoms of individuals; and the need to redraft any service level agreements to take into account the new mandatory provisions. Funds have also put in place data breach handling procedures as the new rules require reporting any breach within 72 hours. Further information is available from the website of the Information Commissioner's Office.

All members of the Pensions Administration Team have completed data protection online training and FCC is fully compliant with the standards set out in the Public Services Network.

Cyber Security

The fund has strong internal controls in place to ensure the security of the personal data it holds. Systems, processes, and people are all used to build cyber resilience.

With large volumes of personal and financial data processed within a relatively less sophisticated security environment by comparison to other financial institutions, pension scheme are an increasingly attractive target for cybercriminals. LGPS funds predominantly rely on the processes and security of their parent local authorities due to the IT systems sitting on the local authority infrastructure. FCC currently have a programme of work considering the risk of cybercrime. It is planned that the Pension Administration Team will be part of this work and expand it as required, to give appropriate assurances on the security of the pension systems and a better understanding of any ongoing work required to ensure the appropriate level of security is in place.

Data Quality

Data quality requirements are embedded in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations in 2014 and The Pensions Regulator now has oversight of the LGPS. The Fund measures two types of data, common and scheme-specific data. When the Fund takes measurements of both types of data, it checks that the data is present and accurate. An annual data score is required by The Pension Regulator from the Fund in respect of common and scheme specific data, and a calculation is carried out to determine the data score, based on the percentage of members that have fully present and accurate common and scheme specific data. The statutory requirement is for 100% accurate and complete data.

The Fund's data quality was measured in 2018/19 and the scores are 96.8% for common data and 92.7% for scheme specific data.

A data improvement plan has been put in place and sets out the steps that the Fund will be taking to ensure that the data is present and correct. Reviewing the plan regularly will ensure that objectives are met and will help towards the improvement of the Fund's data scores.

Member and Employer Feedback 2018/2019

Every year the Fund carries out a satisfaction survey with members and employers to supply feedback on whether it is achieving its aims and objectives as set out within the Fund's Administration and Communication Strategies. The results for 2018/19 are shown in the table below.

	The Fund.....	2018 Agreed	2019 Agreed	Target
Administration	… offers documentation, guidance and information in a professional manner?	88%	81.4%	90%
	… is proactive in its approach to provide a service to members?	85%	70.1%	
	… gives an appropriately timed service with regular updates?	85%	65.9%	
	… is customer focused and meets the needs of its members?	83%	70.1%	
	… has provided a high quality service throughout to its members?	81%	69%	
Communications	… promotes the scheme as a valuable benefit and provides sufficient information so you can make informed decisions about benefits?	88%	65.9%	
	… communicates in a clear and concise manner?	86%	64.9%	
	… uses the most appropriate means of communication?	85%	72.1%	
Employer Survey	...offers documentation, guidance and information in a professional manner?	95%	100%	90%
	...is proactive in its approach to provide a service to employers?	95%	87.5%	
	...gives an appropriately timed service with regular updates?	100%	87.5%	
	...is customer focused and meets the needs of its employers?	100%	87.5%	
	...has provided a high quality service to you in your role as employer?	-	87.5%	
	... ensures you are aware of your LGPS employer related roles and responsibilities for the administration of the Fund?	100%	75%	
	... communicates in a clear and concise manner?	100%	100%	
	... uses the most appropriate means of communication?	100%	100%	

As a result of the feedback from the survey which was carried out in April, the Fund is sending out more communications to members which will keep them up to date with scheme changes, along with reviewing the language being used.

Some Member Survey comments:

The Pension's online system is fantastic

Staff are always informative and helpful

In my opinion Clwyd Pension Fund provides a good service

I can't say I have had any information sent to me it is up to members to go on the website and be pro-active.

Use of Technology

Clwyd Pension Fund Website

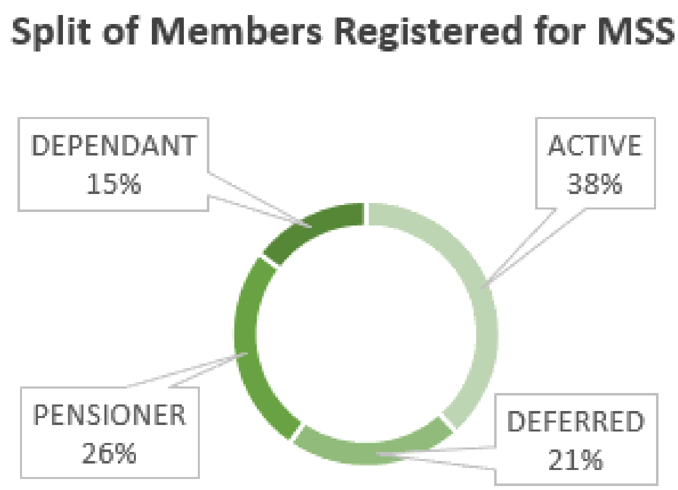
The website contains information about the Fund and LGPS for both current and prospective members along with information for Fund Employers. The website address is www.mss.clwydpensionfund.org.uk

During 2019/20, there will be a major review of the Fund's website. This will ensure that the website is continuing to adhere to national standards regarding accessibility.

Within the website there are multiple sections to help users navigate their way around and to find the information which they are looking for. Users are able to download scheme literature and forms from the website. All policies, strategies and information on the investments of the Fund are also available.

Member Self Service (MSS)

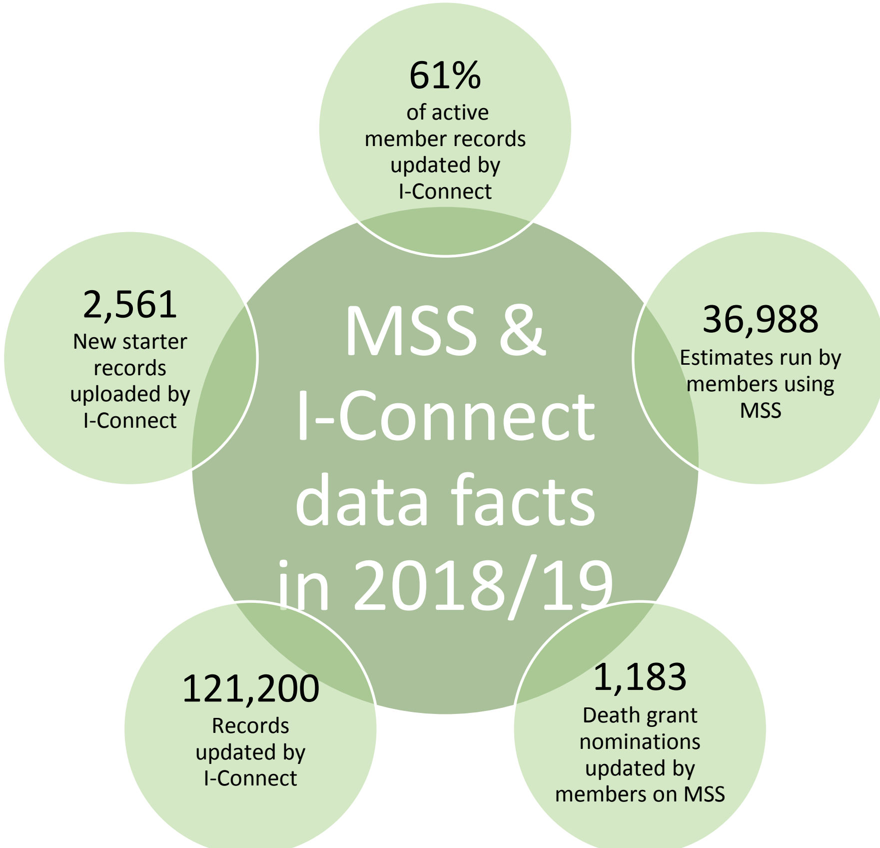
MSS has been available to scheme members since 2017. It allows members to log into a secure web area to view the information which is held on their account.



The facilities available to our members include:

- updating personal details
- running estimates for retirement using their chosen retirement dates
- updating their death grant expression(s) of wish, and
- viewing all member specific documents

Members who use MSS receive their correspondence electronically, automatically uploaded to their account. They are notified by email each time information is uploaded.



I-Connect

The Fund continues to use the electronic data system I-Connect for working with employers, with the first employer going live in 2017. The system transfers member details from their employer's payroll system directly to the Funds pension's administration system on a monthly basis.

The Technical and Payroll and Regulations and Communications teams liaise with employers to ensure their data is of good quality, accurate and completed in a timely manner.

The Fund provides training to any new employers who wish to supply their data through the I-Connect system.

Complaints Procedure

The complaints procedure is officially known as the Internal Dispute Resolution Procedure (IDRP) and the procedure is outlined in regulation 72 of the Local Government Pension Scheme (LGPS) regulations 2013.

The Fund operates a two stage IDPR. Where a complaint is raised by a member, the Pensions Administration Manager or Principal Pension Officers will attempt to resolve the complaint and confirm this in writing where possible.

If the member is dissatisfied with the response they may appeal. Written appeal applications must be made within six months.

Stage One of the appeals process requires the Fund's 'nominated person' to investigate the complaint. For Stage One, this nominated person is Mr Yunus Gajra, who works for West Yorkshire Pension Fund. He reviews the dispute and makes a determination as to whether the decision reached was made in line with the scheme regulations. Should the member remain dissatisfied with the outcome they can make an application under Stage Two which can be forwarded to the Fund. Stage Two appeals are heard by Mr Robert Robins (FCC).

If still dissatisfied, members may take their dispute to the Pension Advisory Service and then onto the Pension Ombudsman. The table below summarises the IDRP requests the fund received in 2018/19.

2018/19	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	**10**	**3**	**5**	**2**
Stage 1 - Against Administering Authority	**2**	**0**	**2**	**0**
Stage 2 - Against Employers	**3**	**2**	**1**	**0**
Stage 2 - Against Administering Authority	**1**	**0**	**1**	**0**

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

Scheme Membership details

Details of the number and type of employers and of new pensioners during 2018/19 and member trends may be seen below.

Summary of Employers as at 31st March 2019

Employers	Active	Ceased	Total
Admission Bodies	15	12	27
Scheme Employers	27	7	34
Total	**42**	**19**	**61**

27
Admission Bodies

34
Scheme Employers

61
Total Employers

2018/19 New Pensioners

Retirement Type	Number of Cases
Ill Health	16
Early	609
Normal Retirement Age (NRA)	2
Late	110
Redundancy/Efficiency	48
Flexible	16
Total	**801**

Member Trends:

Year	Contributors	Deferred Members	Pensioners	Dependent Pensioners	No. of Enhanced Benefits (Other)	No. of Ill Health Enhanced Benefits
2014/15	15,941	9,026	9,272	1,591	162 Members	11 Members (tier 1 only)
1015/16	15,989	10,271	9,862	1,616	111 Members	18 Members (tier 1 only)
2016/17	15,748	15,679	10,314	1,671	62 Members	27 Members (tier 1 only)
2017/18	16,543	17,822	10,596	1,700	63 Members	34 Members (tier 1 only)
2018/19	16,528	18,583	11,249	1,732	64 Members	15 Members (tier 1 only)

National Fraud Initiative (NFI)

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

The Auditor General is responsible for carrying out data matching exercises under his powers under the Public Audit (Wales) Act 2004. As the use of data by the Auditor General for Wales in a data matching exercise is carried out with statutory authority (Part 3A of the Public Audit (Wales) Act 2004), it does not require the consent of the individuals concerned under the Data Protection Act 1998.In addition to this, the Fund uses a mortality screening service provided by Atmos.

Analysis of Pension Overpayments and Write Offs

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

	2018/19	2017/18	2016/17	2015/16	2014/15
Amounts under £100	6,270	6,164	4,694	6,062	4,228
Number of cases	154	150	109	146	108
Overpayments Recovered	39,685	51,265	30,095	28,126	21,612
Number of cases	90	102	81	77	40
Overpayments Written Off	2,742	990	1,741	1,284	5,647
Number of cases	4	3	5	5	10

Key Performance Indicators (KPI)

Process	Legal Requirement	No.	%	CPF Administration element target	No.	%
		2018/2019			2018/2019	
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	3855	36%	15 working days from receipt of all information	3855	85%
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)	3593	67%	15 working days from receipt of all information	3593	30%
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	213	55%	20 working days from receipt of all information	213	47%
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	392	93%	20 working days from receipt of all information	392	77%
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]	1343	70%	10 working days from receipt of all information	1343	80%
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	413	85%	15 working days from receipt of all information	413	75%
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)	184	69%	15 working days from receipt of all information	184	46%

Review of the task management system and work processes is a continuous exercise undertaken to achieve and report accurate KPI data. Seven processes are currently reported on, however, the Fund is developing further measurements of service provision in order to increase the transparency of performance. The KPI requirements can be found in the Fund's Administration Strategy.

The volume of cases completed this year has risen significantly compared to previous years, which has affected the performance levels achieved. Whilst some performance levels increased or maintained, even with increased numbers, additional resource and developments in technology have been put in place to address where the levels have dropped. In order to satisfy legal requirements the KPI's are measured at a specific point within the case. These numbers will therefore, not match the completed cases shown below.

Other performance information

25.4 Full time equivalent staff in the Pension Administration Team	Total Fund members **49,139**	Ratio of staff to members of Fund **1/1935**	Average cases completed per total members of staff **988**

Completed Cases 2018/19

Case Type	Cases
New Starters	4155
Address changes. Inc. MSS	1630
Defers	2981
Refunds	735
Retirements (all types)	1343
Estimates (all types)	413
Deaths (deferred, active and pensioners)	404
Transfers In	192
Transfers Out	133
Divorce Quote	141
Divorce Share	7
Aggregation	1170

2017/18
Total cases completed
20,868

2018/19
Total cases completed
25,100

Contact Details

For further information on this section of the Annual Report please contact:

Mrs Karen Williams, Pensions Administration Manager
Clwyd Pension Fund, County Hall, Mold, CH7 6NA.
Email: Karen.williams@flintshire.gov.uk

Tel: 01352 702963

CLWYD PENSION FUND ACCOUNTS

for the year ended 31st March 2019

FUND ACCOUNT

2017/18 £000		Note	2018/19 £000
	Dealings with members, employers and others directly involved in the Fund		
(105,079)	Contributions	**7**	(74,327)
(4,839)	Transfers in		(4,379)
(109,918)			**(78,706)**
	Benefits payable :		
56,739	Pensions	**8**	59,825
12,058	Lump sums (retirement)		11,910
1,800	Lump sums (death grants)		1,891
70,597			**73,626**
5,689	Payments to and on account of leavers	**9**	6,625
76,286			**80,251**
(33,632)	**Net (additions)/withdrawals from dealings with members**		**1,545**
23,538	Management expenses	**10**	26,770
(10,094)	**Net (additions)/withdrawals including fund management expenses**		**28,315**
	Returns on Investments		
(10,060)	Investment income	**11**	(14,413)
0	Tax on investment income		
(77,179)	Change in market value of investments	**12**	(95,178)
(87,239)	**Net return on investments**		**(109,591)**
(97,333)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(81,276)**
(1,688,166)	**Opening net assets of the scheme**		(1,785,499)
(1,785,499)	**Closing net assets of the scheme**		**(1,866,775)**

NET ASSETS STATEMENT

2017/18 £000s		Note	2018/19 £000s
1,781,826	**Investment Assets**	**13**	1,862,743
1,781,826	**Net Investment Assets**		**1,862,743**
29	**Long-term debtors**	**18**	29
6,225	**Debtors due within 12 months**	**18**	5,817
(2,581)	**Creditors**	**19**	(1,814)
1,785,499	**Net assets of the fund available to fund benefits at the end of the reporting period**		**1,866,775**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the actuary's report at page 31.

NOTE 1 - THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

Clwyd Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Flintshire County Council. The County Council is the reporting entity for the pension fund.

The LGPS is a contributory defined scheme established by statute, which provides pensions and other benefits to employees and former employees of Flintshire County Council and the scheduled and admitted bodies in North East Wales. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The fund is overseen by a Pension Committee which is a committee of Flintshire County Council.

The LGPS is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013, as amended;
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, as amended; and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is financed by contributions and investment earnings from the Fund's investments. Contributions are made by active members in accordance with the LGPS Regulations 2013, as amended, and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2019. Employers also pay contributions to the Fund based on triennial funding valuations. The last valuation was at 31st March 2016, the findings of which became effective on 1st April 2017. The valuation showed that the funding level increased from the previous valuation (31st March 2013) from 68% to 76%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over a 14 year period from April 2018. Currently employer contribution rates range from 8.0% to 30.5% of pensionable pay.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable pay	Each year worked is worth 1/60 x final pensionable pay
Lump sum	Automatic lump sum of 3 x pension.In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum.Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

In addition Clwyd Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from the pension fund. The Fund uses Prudential and Equitable Life as its AVC providers. AVCs are paid to the AVC providers by employers and provide additional benefits for individual contributors.

Governance

Flintshire County Council, as the pension fund administering authority, has delegated management of the Fund to the Clwyd Pension Fund Committee (the “Committee”). The Committee comprises five elected Members from Flintshire County Council and four co-opted members comprising two elected Members from unitary authorities, one other scheme employer representative and one scheme member representative, each with equal voting rights, access to training and to information. The Committee is responsible for both the administration and investment policy of the Fund.

In accordance with the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance of the Pension Fund. The Board met three times in 2018/19 and has its own Terms of Reference. Board members are independent of the Pension Fund Committee.

Investment Strategy

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Committee approved the Investment Strategy Statement on 21 March 2017. The Statement shows the Fund’s compliance with the Myners principles of investment management.

The Committee has delegated the management of Fund’s investments to ninr core investment managers appointed in accordance with the 2016 Regulations, and whose activities are specified in detailed investment management agreements and are monitored on a quarterly basis.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. Organisations participating in the Clwyd Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies which participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 42 employer bodies within the Fund with active members (including Flintshire County Council) and over 48,000 members are detailed below.

2017/18 No.		2018/19 No.
43	Number of employers with active members	**42**
16,543	Active members	16,528
12,296	Pensioners receiving benefits	12,981
17,822	Deferred Pensioners	18,583
46,661		**48,092**

The scheduled bodies which contributed to the Fund during 2018/19 are:

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

The admitted bodies contributing to the Fund are:

Aramark Ltd	Chartwells	Holywell Leisure Ltd
Aura Leisure & Libraries Ltd	Civica UK	Home Farm Trust Ltd
Bodelwyddan Castle Trust Careers Wales	Denbigh Youth Group	Newydd Catering & Cleaning Ltd
Cartref y Dyffryn Ceiriog	Freedom Leisure	Wrexham Commercial Services
Cartref NI	Glyndwr Students' Union	

NOTE 2 - BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year end as at 31st March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 26 basis, is disclosed in the actuary's report at page 31 of these accounts.

The accounts have been prepared on a going concern basis.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- Amendments to IAS 40 Investment Property - provides further explanation of the instances in which a property can be reclassified as investment property.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration - clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering goods or services.
- IFRIC 23 Uncertainty over Income Tax Treatments - provides additional guidance on income tax treatment where there is uncertainty.
- Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation - amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest.
- IFRS 16 Leases - will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

These changes are unlikely to have any material impact on the Fund's financial statements.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In summary, accounting policies adopted are detailed as follows:

Fund Account – Revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013. Individual transfer values received and paid out have been accounted for on a cash basis.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Investment income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Fund Account – expense items

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold.

As Flintshire County Council is the administering authority for the Fund, VAT input tax is recoverable from all Fund activities including expenditure on investment expenses.

Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Fund discloses its administration, governance and investment management expenses in accordance with the CIPFA Guidance *Accounting for Local Government Pension Scheme Management Expenses* (2016).

Administration, oversight and governance expenses are also accounted for on an accruals basis. All Flintshire County Council staff costs are charged direct to the Fund and management, accommodation and other support service costs are apportioned to the Fund in accordance with Council policy.

Investment management expenses are accounted for on an accruals basis and include the fees paid and due to the fund managers and custodian, actuarial, performance measurement and investment consultant fees. Where fees are netted off quarterly valuations by investment managers, these expenses are included in note 10A and grossed up to increase the change in the value of investments.

Net Assets Statement

Financial instruments

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

Financial liabilities are recognised at fair value on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund as part of the Change in Value Investments.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 15). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash held in current accounts is kept to a minimum, all other cash deposits are included as part of investment balances in the net assets statement.

Actuarial present value of promised future retirement benefits

The actuarial value of promised future retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the Code and IAS 26. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a report from the actuary.

Additional Voluntary Contributions (AVCs)

The Clwyd Pension Fund provides an AVC scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016, but are disclosed as a Note only (see Note 20).

NOTE 4 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net pension fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and set out in the actuary's report shown at the end of these accounts. These actuarial re-valuations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

NOTE 5 - ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items in the Net Assets Statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 10% decrease in future investment returns would reduce the current funding level of 76% to 68%. A 10% increase in the current valuation of estimated future pension liabilities would reduce the funding level to 70%, and a combination of the two would reduce the funding level to 60%.
Value of investments at level 3	The Pension Fund contains investments in private equity, hedge funds and pooled funds including property, infrastructure, timber and agriculture, that are classified within the financial statements as level 3 investments in note 15 to these accounts. The fair value of these investments is estimated using a variety of techniques which involve some degree of tolerance around the values reported in the Net Assets Statement	Note 15 summarises the techniques used, the key sensitivities underpinning the valuations and the sensitivity or tolerance around the values reported.
Britain leaving the European Union	There is a high level of uncertainty about the implications of Britain leaving the European Union. Because it is not presently possible to predict any impact, it has been assumed that there will be no significant impairment of the Fund's assets or changes to the discount rate. This assumption will be regularly reviewed.	Higher impairment of assets and/or a discount rate change leading to a change in the value of retirement benefits.

NOTE 6 - POST BALANCE SHEET EVENTS

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2019. Performance of global financial markets since this date may have affected the financial value of pension fund investments as reported in the Net Asset Statement, but do not affect the ability of the Fund to pay its pensioners.

NOTE 7 - ANALYSIS OF CONTRIBUTIONS RECEIVABLE

By employer

2017/18 £000s		2018/19 £000s
(27,479)	Administering Authority - Flintshire County Council	(27,244)
(74,495)	Scheduled bodies	(43,575)
(3,105)	Admitted bodies	(3,508)
(105,079)	**Total**	**(74,327)**

By type

2017/18 £000s		2018/19 £000s
(14,829)	**Employees contributions**	(15,519)
	Employers contributions:	
(36,175)	Normal contributions	(38,370)
(52,570)	Deficit contributions	(18,885)
(1,505)	Augmentation contributions	(1,553)
(90,250)	**Total employers' contributions**	**(58,808)**
(105,079)		**(74,327)**

The decrease in deficit contributions was a result of three employers paying three year deficit contributions in full in 2017/18.

NOTE 8 – BENEFITS PAYABLE

By employer

2017/18 £000s		2018/19 £000s
27,066	Administering Authority - Flintshire County Council	26,877
42,330	Scheduled bodies	45,611
1,201	Admitted bodies	1,138
70,597		**73,626**

By type

2017/18 £000s		2018/19 £000s
56,739	Pensions	59,825
12,058	Lump sums (retirement)	11,910
1,800	Lump sums (death grants)	1,891
70,597		**73,626**

NOTE 9 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18 £000s		2018/19 £000s
5,316	Transfer values paid (individual)	6,257
101	Refunds of contributions	149
272	Other	219
5,689	Total	**6,625**

NOTE 10 – MANAGEMENT EXPENSES

2017/18 £000s		2018/19 £000s
1,399	Oversight and Governance	2,020
20,570	Investment Management Expenses (see Note 10A)	22,811
1,569	Administration costs	1,939
23,538	**Total**	**26,770**

The Oversight and Governance costs include the fees payable to the Wales Audit Office for the external audit of the Fund of £39k for 2018/19 (£39k in 2017/18).

Note 10A – INVESTMENT MANAGEMENT EXPENSES

2017/18 £000s		2018/19 £000s
941	Transaction costs	2,264
15,761	Fund Management Fees	14,181
31	Custody Fees	31
3,837	Performance related fees	6,335
20,570	**Total**	**22,811**

The increase in transaction costs are due to the cost transparency initiative.

NOTE 11 - INVESTMENT INCOME

2017/18 £000s		2018/19 £000s
(4,593)	Private equity income	(4,559)
(2,509)	Pooled Investments	(6,251)
(2,540)	Pooled property investments	(3,064)
(17)	Interest on cash deposits	(38)
(401)	Other income	(501)
(10,060)	**Total**	**(14,413)**

NOTE 12 – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 1 April 2018 £000s	Purchases £000s	Sales £000s	Change in market value £000s	Market Value 31 March 2019 £000s
Bonds	204,372	0	0	(582)	203,790
Pooled investment vehicles	1,033,560	92,730	(100,274)	63,889	1,089,905
Pooled Property Funds	115,522	11,469	(12,957)	8,801	122,836
Infrastructure	42,125	23,630	(6,648)	7,497	66,604
Timber and agriculture	25,772	0	(3,874)	1,376	23,274
Private equity	188,399	39,137	(41,105)	25,153	211,584
Hedge Fund	150,885	0	(943)	(10,957)	138,985
	1,760,635	**166,967**	**(165,802)**	**95,178**	**1,856,978**
Other investment balances:					
Cash	21,191			0	5,765
Net investment assets	**1,781,826**			**95,178**	**1,862,743**

	Market Value 1 April 2017	Purchases	Sales	Change in market value	Market Value 31 March 2018
	£000s	£000s	£000s	£000s	£000s
Bonds	198,621	0	0	5,751	204,372
Pooled investment vehicles	980,438	470,807	(459,470)	41,785	1,033,560
Pooled Property Funds	114,714	4,701	(12,174)	8,281	115,522
Infrastructure	31,761	13,428	(2,691)	(373)	42,125
Timber and agriculture	29,103	173	(1,908)	(1,596)	25,772
Private equity	170,389	40,675	(41,418)	18,753	188,399
Hedge Fund	127,279	20,000	(972)	4,578	150,885
	1,652,305	**549,784**	**(518,633)**	**77,179**	**1,760,635**
Other investment balances:					
Cash	33,623			0	21,191
Net investment assets	**1,685,928**			**77,179**	**1,781,826**

NOTE 13A ANALYSIS OF INVESTMENTS

2017/18 £000		2018/19 £000
Restated	**Bonds - overseas**	
204,372	Corporate - unquoted	203,790
	Pooled investment vehicles	
122,182	Managed equity funds - quoted overseas	118,828
67,228	Managed equity funds - unquoted	149,723
400,005	Liability driven investments - unquoted	422,855
80,751	Multi strategy investments - quoted	83,524
348,017	Multi strategy investments - unquoted	282,233
15,378	Fixed income funds - unquoted	32,744
	Pooled property investment vehicles	
42,578	Open-ended - unquoted	43,748
72,944	Closed-ended - unquoted	79,088
	Infrastructure	
11,764	Limited Liability Partnerships - quoted	15,133
30,361	Limited Liability Partnerships - unquoted	51,471
	Timber & Agriculture	
25,772	Limited Liability Partnerships - unquoted	23,274
	Private equity	
	Limited Liability Partnerships:	
30,647	Opportunistic funds - unquoted	46,840
157,751	Private equity funds - unquoted	164,744
150,885	**Hedge funds unquoted**	138,985
1,760,635		**1,856,978**
21,191	**Cash**	5,765
1,781,826		**1,862,743**
0	**Total investment liabilities**	**0**

Included in Pooled investment vehicles is £78,673k (2017/18 Nil) invested with the Wales Pensions Partnership.

NOTE 13B – ANALYSIS BY FUND MANAGER

2017/18 £000	%		2018/19 £000	%
400,005	22.7	Insight	422,854	22.8
204,372	11.6	Stone Harbor	203,790	11.0
188,710	10.7	Mobius	198,871	10.7
159,306	9.0	Investec	83,362	4.5
	0.0	Russell Investments	78,672	4.2
150,885	8.6	MAN FRM	138,985	7.5
122,182	6.9	Wellington	118,828	6.4
80,751	4.6	Pyrford	83,524	4.5
67,228	3.8	Blackrock	77,034	4.1
15,378	0.9	Private Debt	26,760	1.4
157,752	9.0	Private Equity	164,744	8.9
115,522	6.6	Property	122,836	6.6
42,125	2.4	Infrastructure	66,604	3.6
30,647	1.7	Opportunistic	46,840	2.5
25,772	1.5	Timber/Agriculture	23,274	1.3
1,760,635	**100**	**Total**	**1,856,978**	**100**

The UK holdings as at 31st March 2019 account for 33% of total investments at market value.

2017/18 £000	%		2018/19 £000	%
554,152	31	UK	616,724	33
1,206,483	69	Overseas	1,240,254	67
1,760,635	**100**	**Total**	**1,856,978**	**100**

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK.

2017/18 £000	%	Manager	Holding	2018/19 £000	%
400,005	22.4	Insight	LDI Active 22 Fund	422,854	22.7
132,224	7.4	Stone Harbour	SHI LIBOR Multi Strategy No2 Portfolio	131,656	7.1

NOTE 14 – DERIVATIVES

No derivative instruments were held by Clwyd Pension Fund at 31 March 2019 or 31 March 2018.

NOTE 15 - FAIR VALUE OF INVESTMENTS

Fair Value – Basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Quoted Pooled Investment Vehicles	Level 1	Quoted market bid price on the relevant exchange	Not required	Not required
Infrastructure	Level 1	Published bid price ruling on the final day of the accounting period	Not required	Not required
Unquoted bond funds	Level 2	Closing bid-market price for the underlying assets in each sub-fund subject to any premiums or discounts	Net Asset value (NAV)-based pricing set on a forward pricing basis	Not required
Quoted Pooled Investment Vehicles	Level 2	Closing bid price where bid and offer prices are published. Closing bid price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted pooled investment vehicles	Level 3	Valued quarterly at NAV in accordance with *International Private Equity and Venture Capital Association Guidelines*	Valued net of unrealised gains/losses on hedging	Internal rate of return
Pooled property funds	Level 2	Bid market price	Existing lease terms and rentals, tenant’s covenant strength, lease length, transactional activity in the sector	Not required
Hedge Fund	Level 2	Valued monthly using closing bid price where bid and offer prices are published or closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Property Funds	Level 3	Valued quarterly at NAV in accordance with *International Private Equity and Venture Capital Association Guidelines*	EBITDA multiples, revenue multiples, discount for lack of market evidence, control premium	EBITDA achieved compared with forecast
Infrastructure	Level 3	Valued using discounted cashflow techniques to generate a net present value	Discount rate and cashflows used in the models	Rates of inflation, interest, tax and currency exchange
Timber and agriculture	Level 3	NAV of underlying funds using a mixture of cost, income and sales comparison approaches depending on the maturity of the investment. Valued annually, subject to quarterly adjustments based on harvest	Productive area, current and forecast prices and costs, marketing and harvest constraints, growth rates and discount rates	Market price for timber and agricultural product, land values and discount rates
Private equity and hedge fund	Level 3	Valued quarterly at NAV using the market approach using quarterly financial statements in accordance with *International Private Equity and Venture Capital Association Guidelines*	EBITDA multiples, revenue multiples, discount for lack of market evidence, control premium	Valuations could be affected by material events between the date of the financial statements provided and the pension fund’s reporting date, changes to cashflows and differences between audited and unaudited accounts

Investments have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1 - where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - where quoted market prices are not available, valuation techniques are used to determine fair value.

Level 3 – where at least one input that could have a significant effect on the investment's valuation is not based on observable market data. Sensitivity analysis of Level 3 assets is shown below.

	Assessed Valuation Range (+/-)	Market at 31 March 2019	Value on Increase	Value on Decrease
	%	£000	£000	£000
Pooled investment vehicles (incl LDI)	10%	32,744	36,018	29,470
Pooled Property Funds	10%	56,165	61,781	50,548
Infrastructure	10%	51,471	56,618	46,324
Timber and agriculture	7%	23,274	24,904	21,645
Private equity (incl Opportunistic Funds	10%	211,584	232,743	190,426
Hedge Fund	10%	5,656	6,222	5,090
Total		**380,894**	**418,286**	**343,503**

	Assessed Valuation Range (+/-)	Market at 31 March 2018	Value on Increase	Value on Decrease
	%	£000	£000	£000
Pooled investment vehicles (incl LDI)	10%	15,378	16,916	13,840
Pooled Property Funds	10%	51,529	56,682	46,376
Infrastructure	10%	30,361	33,397	27,325
Timber and agriculture	7%	25,772	27,576	23,968
Private equity (incl Opportunistic Funds	10%	188,399	207,239	169,559
Hedge Fund	10%	6,645	7,310	5,981
Total		**318,084**	**349,120**	**287,049**

The following tables show the position of the Fund's assets at 31st March 2019 based on the Fair Value hierarchy:

2018/19	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Bonds	0	203,790	0	203,790
Pooled investment vehicles	202,352	854,809	32,744	1,089,905
Pooled Property Funds	0	66,671	56,165	122,836
Infrastructure	15,133	0	51,471	66,604
Timber and agriculture	0	0	23,274	23,274
Private equity	0	0	211,584	211,584
Hedge Fund	0	133,329	5,656	138,985
Total	**217,485**	**1,258,599**	**380,894**	**1,856,978**

2017/18	Quoted Market Price Level 1 £000 Restated	Using observable inputs Level 2 £000 Restated	With significant unobservable inputs Level 3 £000	Total £000
Bonds	0	204,372	0	204,372
Pooled investment vehicles	202,933	815,249	15,378	1,033,560
Pooled Property Funds	0	63,993	51,529	115,522
Infrastructure	11,764	0	30,361	42,125
Timber and agriculture	0	0	25,772	25,772
Private equity	0	0	188,399	188,399
Hedge Fund	0	144,240	6,645	150,885
Total	**214,697**	**1,227,854**	**318,084**	**1,760,635**

NOTE 15A: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2018	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Realised gains/ (losses)	Unrealised gains/ (losses)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI)	15,378	17,643	0			0	(277)	32,744
Pooled Property Funds	51,529	11,469	(11,662)			2,877	1,951	56,165
Infrastructure	30,361	23,341	(5,815)			3,456	128	51,471
Timber and agriculture	25,772	0	(3,291)			2,418	(1,624)	23,274
Private equity (incl Opportunistic Func	188,399	39,137	(37,577)			8,095	13,530	211,584
Hedge Fund	6,645	0	0			0	(989)	5,656
Net investment assets	**318,084**	**91,590**	**(58,345)**	**0**	**0**	**16,846**	**12,719**	**380,894**

The Fund holds no other assets or liabilities at fair value. There were no transfers between levels during 2018/19.

	Market Value 1 April 2017 £000	Purchases £000	Sales £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Realised gains/ (losses) £000	Unrealised gains/ (losses) £000	Market Value 31 March 2018 £000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI)	12,768	14,914			(12,768)		464	15,378
Pooled Property Funds	74,795	4,701	(12,174)		(21,415)	734	4,888	51,529
Infrastructure	18,718	13,059	(2,691)			1,989	(714)	30,361
Timber and agriculture	29,103	173	(1,908)			164	(1,760)	25,772
Private equity (incl Opportunistic Func	169,376	40,675	(41,418)			9,142	10,624	188,399
Hedge Fund	9,634						(2,989)	6,645
Net investment assets	**314,394**	**73,522**	**(58,191)**	**0**	**(34,183)**	**12,029**	**10,513**	**318,084**

NOTE 16 - FINANCIAL INSTRUMENTS

NOTE 16A - CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

Fair Value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Fair Value through profit £000	Loans and receivables £000	Financial liabilities at amortised cost £000
			Financial assets:			
204,372			Bonds	203,790		
1,033,560			Pooled investment vehicles	1,089,905		
115,522			Property	122,836		
42,125			Infrastructure	66,604		
25,772			Timber and agriculture	23,274		
188,399			Private equity	211,584		
150,885			Hedge Fund	138,985		
	21,191		Other investment assets - cash		5,765	
	314		Debtors		373	
1,760,635	**21,505**	**0**		**1,856,978**	**6,138**	**0**
			Financial liabilities:			
		(760)	Creditors		(513)	
0	**0**	**(760)**		**0**	**(513)**	**0**
1,760,635	**21,505**	**(760)**	**Total**	**1,856,978**	**5,625**	**0**

NOTE 16B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

2017/18 £000		2018/19 £000
	Financial assets:	
77,179	Designated at fair value through profit and loss	95,178
0	Loans and receivables	0
	Financial liabilities:	
0	Designated at fair value through profit and loss	0
0	Financial liabilities at amortised cost	0
77,179	**Total**	**95,178**

NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Procedures for Managing Risk

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows.

Responsibility for the Fund's risk management strategy rests with the Clwyd Pension Fund Committee (the Committee) and is set out in the Investment Strategy Statement (ISS), which is available on the Fund's website (www.clwydpensionfund.org.uk).

The ISS is subject to annual review and has been prepared taking into account advice from the fund's consultants. The Committee manages investment risks, including credit risk and market risk, within agreed risk limits, which are set after taking into account the fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the fund's investment managers and monitored by the Committee by regular review of the investment portfolio throughout the year.

The investment objective of the Committee is to achieve and maintain a portfolio of suitable assets of appropriate liquidity equal to 100% of liabilities within the 15 year average timeframe, whilst remaining within reasonable risk parameters.

The current strategy is to hold:

- 81% in return-seeking investments comprising UK and overseas equities pooled funds, investment property funds, hedge funds, private equity, venture capital and infrastructure;

- 19% in investments that move in line with the long-term liabilities of the fund. This is referred to as Liability Driven Investment (LDI) and comprises UK and overseas government and corporate bonds, and repurchase agreements which allow the fund to gain unfunded exposure to gilts.

Market Risk

Market risk is the risk of loss from general market fluctuations in equity and commodity prices, interest and foreign exchange rate and credit spreads. The fund is exposed to market risk in all its investment activities. The Committee seeks to manage this risk through diversifying investments across a range of asset classes and markets with low correlations with each other and across a selection of managers. In addition, the Committee sets a strategic benchmark in the ISS for each asset class subject to fixed tolerances which also seeks to diversity and minimise risk through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. The current benchmark is targeted to produce long-term returns of 6.5% with a volatility of around 12.6%.

Market risk is also managed through manager diversification with no single manager managing more than 23% of the fund’s assets. Currently the maximum holding within any one fund manager is 22.8% with Insight managing the LDI mandate, which is within this limit.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments.

The fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The fund’s investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments. The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by an average of 6.66%, which is the three-year price volatility as advised by the Fund’s consultants for the fund’s investment strategy.

Assets exposed to price risk	Value £000s	3 year volatility range %	Value on increase £000s	Value on decrease £000s
As at 31 March 2018	1,781,826	8.00%	1,902,970	1,618,300
As at 31 March 2019	**1,862,743**	**6.66%**	**1,986,728**	**1,738,758**

Interest Rate Risk

The fund invests in cash-based financial instruments for the primary purpose of obtaining a return on investments. Bonds and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The table below demonstrates the change in value of these assets had interest rates varied by 1%. It should be noted that the value of bonds varies inversely to interest rates.

Assets exposed to interest rate risk	Value £000s	Value on 1% increase £000s	Value on 1% decrease £000s
As at 31 March 2018	225,563	223,731	227,395
As at 31 March 2019	**209,554**	**207,574**	**211,535**

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The fund is exposed to currency risk because some of the fund's investments are held in overseas markets through pooled vehicles. The following table sets out the fund's potential currency exposure as at 31st March 2019:

Assets exposed to currency risk	Value £000s	Percentage change %	Value on increase £000s	Value on decrease £000s
As at 31 March 2018	1,204,394	8.85%	1,310,981	1,097,808
As at 31 March 2019	**1,240,254**	**8.20%**	**1,341,923**	**1,138,585**

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss.

The fund is exposed to credit risk because it invests in pooled investment vehicles and is therefore directly exposed to the credit risk in the pooled investment vehicle and indirectly exposed the credit risks arising on financial instruments held by the pooled investment vehicles.

The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash is held in financial institutions which are at least investment grade credit rated.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the fund. To mitigate this risk, the fund regularly monitors the financial position of its admitted bodies.

Liquidity Risk

Liquidity risk is the risk that the fund will not be able to meet its financial obligations as they fall due. The Committee monitors cashflows regularly during the year and as part of the triennial funding review and takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2019, liquid assets were £1,476m representing 80% of total fund assets (£1,462m at 31 March 2018 representing 82% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

NOTE 18 – DEBTORS

2017/18 £000s		2018/19 £000s
29	**Long-term debtors**	29
	Short-term debtors	
1,172	Contributions due - Employees	1,264
4,721	Contributions due - Employers	4,140
303	Prepayments	339
29	Sundry debtors	74
6,225	**Total Short-term debtors**	**5,817**
6,254	**Total**	**5,846**

NOTE 19 – CREDITORS

2017/18 £000		2018/19 £000
(18)	Contributions received in advance	(130)
(1,708)	Benefits payable	(1,082)
(531)	Administering authority	(98)
(324)	Sundry creditors	(504)
(2,581)	**Total**	**(1,814)**

NOTE 20 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Clwyd Pension Fund has engaged two additional voluntary contribution (AVC) providers: Prudential Assurance Company Ltd and Equitable Life Assurance Society. The value of the funds invested with both AVC providers are shown below. AVCs paid directly to the Prudential are shown below.

In accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

2017/18 £000		2018/19 £000
922	Contributions in the year	**1,270**
	Value of AVC funds at 31 March:	
5,213	Prudential	5,395
420	Equitable Life	408
5,633	**Total**	**5,803**

NOTE 21 – AGENCY SERVICES

Clwyd Pension Fund pays discretionary awards to former employees of the current unitary authorities and Coleg Cambria shown below together with former local authorities, current town and community councils and other bodies listed below under Other employers.

2017/18 £000s		2018/19 £000s
534	Conwy County Borough Council	519
1,778	Denbighshire County Council	1,733
3,136	Flintshire County Council	3,088
21	Powys County Council	20
2,190	Wrexham County Borough Council	2,150
57	Coleg Cambria	55
58	Other employers	49
7,774	**Total**	**7,614**

NOTE 22 - RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2019, four Members of the Clwyd Pension Fund Committee had taken this option.

The four Co-opted Members of the Pension Fund Committee receive fees in relation to their specific responsibilities as members of the Committee in the form of an attendance allowance that is in line with that adopted by Flintshire County Council.

Flintshire County Council

During the year Flintshire County Council incurred costs of £1.8m (£1.6m in 2017/18) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The costs have been included within Oversight & Governance costs and administration expenses at Note 10.

Key Management Personnel

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Flintshire Chief Executive and the Flintshire s.151 officer. Total remuneration payable to key management personnel is set out below:

2017/18 £000s		2018/19 £000s
26	Short-term benefits	26
6	Post-employment benefits	23
32	**Total**	**49**

NOTE 23 - MATERIAL ITEMS OF INCOME AND EXPENSE

For the purpose of this Note, the Council considers material items of income and expense to be those exceeding £19m. During the year the Fund incurred the following material transactions:

- Sold £74m from the Investec Global Equities Fund
- Invested £74m in the Wales Pension Partnership (Russell Investment Global Equities).

NOTE 24 - CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31 March 2019, the Fund has contractual commitments of £1,009m (£760m in 2017/18) in private equity, infrastructure, timber and agriculture, and property funds, of which £685m (£523m in 2017/18) has been deployed, leaving an outstanding commitment of £324m (£237m at 31 March 2018).

NOTE 25 – ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the pension fund liabilities, on an IAS basis, every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes.

2017/18 £m		2018/19 £m
2,629	Present value of promised retirement benefits	2,893
1,381	Fair value of scheme assets	1,381
1,248	**Net Liability**	**1,512**

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates. Other key assumptions used are:

	2018/19 %	2017/18 %
Inflation/pension increase rate assumption	2.20	2.10
Salary increase rate	3.45	3.35
Discount rate	2.40	2.60

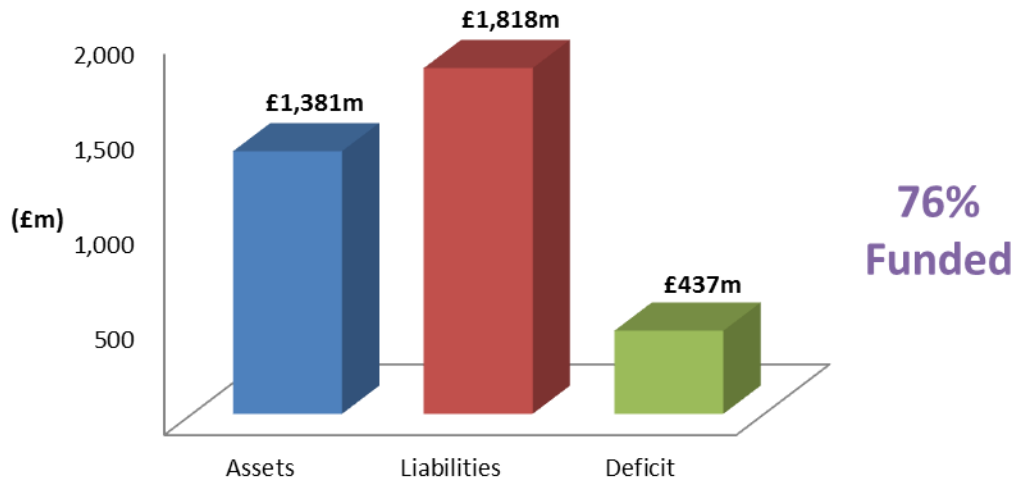
CLWYD PENSION FUND

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Clwyd Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,381 million represented 76% of the Fund's past service liabilities of £1,818 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £437 million.



The valuation also showed that a Primary contribution rate of 15.3% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At the most recent actuarial valuation the average deficit recovery period was 15 years, and the total initial recovery payment (the "Secondary rate") for the three years commencing 1 April 2017 is approximately £29.4 million per annum. For most employers, the Secondary rate will increase each year at the rate of 3.45%, except where phasing has been applied or where it was agreed with the employer to pay a flat contribution. With the agreement of the Administering Authority employers could also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years' contributions being paid in April 2017 or payment being made annually in advance each April.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

In practice, each individual employer's funding position is assessed separately and the resulting contributions required (Primary and Secondary rates) are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined and agreed through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	**For future service liabilities (Primary rate of contribution)**
Rate of return on investments (discount rate)	4.20% per annum	4.95% per annum
Rate of pay increases (long term)*	3.45% per annum	3.45% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4-year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of CPI Inflation / CARE revaluation	2.1% per annum	2.2% per annum
Rate of pay increases*	3.35% per annum	3.45% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.2% per annum	2.3% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £2,629 million. Interest over the year increased the liabilities by c£69 million, and net benefits accrued/paid over the period also increased the liabilities by c£21 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £23 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was an increase in liabilities of £151 million due to "actuarial losses" (i.e. the effect of changes in the assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £2,893 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain what the extent of any potential remedial action might be.

Following a request from the LGPS Scheme Advisory Board, the Government Actuary's Department (GAD) has carried out some costings of the potential effect of McCloud on the LGPS as a whole, which are set out in their paper dated 10 June 2019. For the LGPS as a whole, GAD's calculations indicate a potential balance sheet effect of additional liabilities of about 3.2% of active member liabilities (around 1% of overall liabilities), when measured on IAS26 actuarial assumptions as at 31 March 2019 assuming real pay growth of 1.5% p.a. above CPI. For the Clwyd Pension Fund, the default real pay growth assumption at the last valuation was 1.25% p.a. above CPI. We have adjusted GAD's calculation to allows for this, resulting in an adjustment of around 2.7% of active liabilities (or 0.8% of total liabilities). Applying this figure of 0.8% of overall liabilities to the Clwyd Pension Fund, the increase in the estimated total value of the Fund's promised retirement benefits at 31 March 2019 is approximately £23 million.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Paul Middleman

Fellow of the Institute and Faculty of Actuaries

July 2019

Mark Wilson

Fellow of the Institute and Faculty of Actuaries

July 2019

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE CLWYD PENSION FUND'S RESPONSIBILITIES

The Pension Fund is required to :-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Pension Fund, this is the Corporate Finance Manager as Chief Finance Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts .

Signed :

Cllr Aaron Shotton

Chair to the Clwyd Pension Fund

Date : **7th October 2019**

THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

The Chief Finance Officer is responsible for the preparation of the Pension Fund's statement of accounts in accordance with the proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code").

In preparing this statement of accounts, the Chief Finance Officer has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Chief Finance Officer has also :-

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The statement of accounts presents a true and fair view of the financial position of the Clwyd Pension Fund at 31st March 2019, and the amount and disposition at that date of its assets and liabilities.

Signed:

Gary Ferguson CPFA

Corporate Finance Manager (Chief Finance Officer)

Date: **7 October 2019**

RESERVED FOR AUDIT OPINION

Section 8: Financial Report

Introduction

This report includes financial monitoring reports for the year 2018/19 showing both cash flow and income and expenditure compared to budget. It also details the contributions from employers and employees, and shows further information on contributions, assets, investment income and management fees.

Cash Flow

Cash Flow 2018/19

2018/19		Estimate £000	Actual £000	Variance £000
Opening In House Cash		(20,916)	(21,188)	
Payments				
Pensions		59,280	59,447	167
Lump Suns & Death Grants		15,000	14,708	(292)
Transfers Out		3,200	6,791	3,591
Expenses (including In House)		3,400	4,263	863
Support Services		130	265	135
Total Payments		81,010	85,474	4,464
Income				
Employer Contributions		(35,200)	(39,554)	(4,354)
Employee Contributions		(14,000)	(14,794)	(794)
Employer Deficit Payments		(18,123)	(18,811)	(688)
Transfers In		(2,000)	(4,220)	(2,220)
Pension Strain		(1,200)	(1,644)	(444)
Income		(40)	(45)	(5)
Total Income		(70,563)	(79,068)	(8,505)
Cash Flow net of Investment Income		10,447	6,406	(4,041)
Investment Income		(3,000)	(7,990)	(4,990)
Investment Expenses		3,000	3,593	593
Total Net of In House Investments		10,447	2,009	(8,438)
In House Drawdowns		86,790	91,883	5,093
In House Distributions		(80,337)	(58,348)	21,989
Net Drawdown/Distributions		6,453	33,535	27,082
Rebalancing Portfolio		0	(20,120)	(20,120)
Total Cash Flow		16,900	15,424	(1,476)
Closing Cash		(4,016)	(5,764)	

The Fund operates a rolling three year cash flow which is estimated and monitored on a quarterly basis. There are several unknowns within the cash flow such as transfers in and out of the fund and also drawdowns and distributions across the Fund's Property and Private Equity portfolio for which the current allocation is 25% of the Fund. Cash flow predictions for the drawdowns and distributions are reassessed annually to incorporate the actuals for the year and any further commitments agreed during the period. The previous table shows a summarised final cash flow for 2018/19. This is purely on a cash basis and does not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals.

3 Year Cash Flow Forecast

	2019/20 £000	2020/21 £000	2021/22 £000
Opening Cash	(3,599)	(9,618)	(10,654)
Payments			
Pensions	61,600	62,800	64,000
Lump Suns & Death Grants	15,000	15,000	15,000
Transfers Out	6,000	6,000	6,000
Expenses (including In House)	4,600	4,600	4,600
Support Services	140	140	140
Total Payments	87,340	88,540	89,740
Income			
Employer Contributions	(40,000)	(41,100)	(42,500)
Employee Contributions	(14,400)	(14,690)	(14,400)
Employer Deficit Payments	(19,800)	(20,500)	(21,200)
Transfers In	(4,000)	(4,000)	(4,000)
Pension Strain	(1,200)	(1,200)	(1,200)
Income	(48)	(48)	(48)
Total Income	(79,448)	(81,538)	(83,348)
Cash Flow net of Investment Income	7,892	7,002	6,392
Investment Income	(6,000)	(6,000)	(6,000)
Investment Expenses	3,000	3,000	3000
Total net of In House Investments	4,892	4,002	3392
In House Drawdowns	77,019	78,208	74,897
In House Distributions	(77,930)	(83,246)	(74,326)
Net Drawdowns/Distributions	(911)	(5,038)	571
Rebalancing Portfolio	(10,000)		
Total Cash Flow	(6,019)	(1,036)	3,963
Closing Cash	(9,618)	(10,654)	(6,691)
Estimated Asset Valuation	1,971	2,085	2,206

The previous table shows the cash flow forecasts for the next three years to March 2022. These are purely on a cash basis and do not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals. An estimate of the asset valuation has been included at the end of the table and has been based on a targeted investment strategy which looks to produce an overall return of 5.8% per annum.

Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2018/19 compared to 2017/18. There were increases in management fees as a result of the drive towards greater transparency, advisor fees as a result of work on specific projects and actuarial fees as a result of preparatory work for the 2019 triennial valuation.

	2017/18 Actual £000	2018/19 Actual £000	Net change £000
Governance & Oversight Expenses			
Employee Costs (Direct)	229	193	(36)
Support & Service Costs (Internal Recharges)	23	23	0
IT (Support & Services)	5	0	(5)
Other Supplies & Services	69	78	9
Audit Fees	39	39	0
Actuarial Fees	217	407	190
Consultant Fees	458	598	140
Consultant Fees Pooling	53	85	32
Advisor Fees	202	480	278
Legal Fees	37	57	20
Performance Monitoring Fees	67	60	(7)
Total Governance Expenses	**1,399**	**2,020**	**621**
Investment Management Expenses			
Fund Manager Fees	15,761	14,048	(1,713)
Performance Related Fees	3,837	4,905	1,068
Transaction Costs	941	2,265	1,324
Custody Fees	31	31	0
Total Investment Management Fees	**20,570**	**21,249**	**679**
Administration Expenses			
Employee Costs (Direct)	812	982	170
Support & Service Costs (Internal Recharges)	105	113	8
Outsourcing	227	264	37
Outsourcing GMP	0	130	130
IT (Support & Services)	286	364	78
Other supplies & services	139	86	(53)
Total Administrative Expenses	**1,569**	**1,939**	**370**
Total Costs	**23,538**	**25,208**	**1,670**

The following table shows actual costs for 2018/19 compared to the budgeted costs along with the budget for 2019/20. The difference in manager fees compared to budget reflects the additional cost transparency from Managers, including Private Markets. Outsourcing costs for the GMP reconciliation were only partly implemented during the year. Advisor fees and actuarial fees reflect additional costs in respect of project work and the 2019 actuarial valuation.

	2018/19 £000 Actual	2018/19 £000 Budget	2018/19 £000 Variance	2019/20 £000 Budget
Governance & Oversight Expenses				
Employee Costs (Direct)	193	243	50	299
Support & Service Costs (Internal Recharges)	23	18	(5)	22
IT (Support & Services)	0	5	5	5
Other Supplies & Services	78	87	9	70
Audit Fees	39	40	1	40
Actuarial Fees	407	324	(83)	435
Consultant Fees	598	589	(9)	664
Consultant Fees Pooling	85	0	(85)	0
Advisor Fees	480	178	(302)	179
Legal Fees	57	24	(33)	40
Performance Monitoring Fees	60	66	6	66
Pension Board	0	0	0	69
Pooling	0	224	224	109
Total Governance Expenses	**2,020**	**1,798**	**(222)**	**1,998**
Investment Management Expenses				
Fund Manager Fees	21,218	16,593	(4,625)	21,000
Custody Fees	31	31	0	31
Pooling	0	50	50	186
Total Investment Management Fees	**21,249**	**16,674**	**(4,575)**	**21,217**
Administration Expenses				
Employee Costs (Direct)	777	776	(206)	893
Support & Service Costs (Internal Recharges)	91	66	(47)	38
Outsourcing	264	1,000	736	900
Outsourcing GMP	130	0	(130)	0
Premises	0	0	0	28
IT (Support & Services))	364	413	49	424
Other supplies & services	86	106	20	63
Total Administrative Expenses	**1,939**	**2,361**	**422**	**2.346**
Employer Liaison Team				
Employee costs (Direct)	**205**	**194**	194	**213**
Support & Service Costs (Internal Recharges)	**22**			
Total Costs	**25,208**	**21,027**	**(4,181)**	**25,774**

Participating Employers of the Fund at 31 March 2019

Contributions

42 bodies contributed to the Fund during 2018/19, 27 scheduled and 15 admitted. Contributions are paid to the Fund by the 19th of the month following the month they relate to. Employer and employee contributions, (including deficit payments) received during 2018/19 are shown below, as is the rate of contribution as a percentage of pensionable pay.

No additional bodies have been admitted to the Fund during 2018/19, and no bonds or any other secured funding arrangements have been facilitated.

We are able to charge interest on overdue contributions during the financial year. During the year the Fund encountered some issues with some of the smaller employers within the Fund. These were monitored for timeliness of contributions and the Fund liaised with employers to overcome any problems they were experiencing. The analysis below shows the number of late contributions made to the Fund, along with the amounts and occasions concerned. The Fund did not exercise its option to charge interest to any of the employers during the year but the occurrences were registered in the Fund's breaches register and reported to the Pension Fund Committee. The total of all late payments was £66,155 (0.09% of the total contributions).

Admitted Bodies	Employer Contribution	%	Employee Contribution	Avg %
`	£		£	
Newydd Catering & Cleaning Ltd	612,689	18.40	189,959	5.7
Aura Leisure & Libraries Ltd	650,433	18.10	213,819	6.0
Careers Wales	357,615	15.20	86,417	6.4
Civica UK	213,057	19.00	67,478	6.5
Wrexham Commercial Services	219,255	17.40	71,175	5.6
Freedom Leisure	134,144	18.60	44,456	6.2
Holywell Leisure Ltd	44,212	16.20	16,197	5.9
Home Farm Trust Ltd	170,579	20.70	48,357	5.9
Aramark Ltd	44,531	21.80	12,359	6.1
Cartref y Dyffryn Ceiriog	30,306	23.10	3,864	6.0
Cartref NI	17,384	19.90	5,885	6.7
Glyndwr Students Union	14,580	8.00	11,326	6.2
Bodelwyddan Castle Trust	6,821	19.40	3,671	5.7
Chartwells – Compass Group UK	5,697	21.10	1,882	5.7
Denbigh Youth Group	5,604	23.00	1,810	7.1

Scheduled Bodies	Employer Contribution	%	Employee Contribution	Avg %
	£		£	
Wrexham County Borough Council	10,542,379	15.40	4,237,665	6.3
Flintshire County Council	22,093,059	15.20	4,933,338	6.2
Denbighshire County Council	17,314,916	15.20	3,946,048	6.3
Coleg Cambria	1,843,408	14.80	777,978	6.3
North Wales Fire Service	737,121	14.70	337,060	6.8
Glyndwr University	1,890,910	15.00	431,250	6.3
North Wales Valuation Tribunal	55,796	16.80	10,180	8.1
Rhyl Town Council	42,293	15.50	8,341	7.4
Hawarden Community Council	37,584	20.20	8,740	6.4
Coedpoeth Community Council	30,738	24.40	5,387	5.9
Prestatyn Town Council	27,287	19.00	8,177	6.2
Caia Park Community Council	20,996	25.60	5,273	5.5
Buckley Town Council	17,819	23.60	4,785	6.3
Rhos Community Council	17,298	17.10	4,338	6.1
Mold Town Council	14,916	17.40	4,753	6.3
Shotton Town Council	7,286	27.70	1,757	6.5
Cefn Mawr Community Council	6,585	17.00	2,023	5.0
Argoed Community Council	5,345	29.30	1,157	5.8
Connah's Quay Town Council	3,020	16.20	5,255	5.6
Denbigh Town Council	5,136	16.60	1,965	6.4
Acton Community Council	4,210	19.60	1,273	5.9
Offa Community Council	3,534	23.00	1,852	6.3
Penyffordd Community Council	2,109	21.10	550	5.5
Gwernymynydd Community Council	1,389	30.50	251	5.5
Bagillt Community Council	1,174	13.30	485	5.5
Marchwiel Community Council	1,105	19.20	317	5.7
Hope Community Council	943	12.40	418	5.5

Employer	Late Occasions	Contributions (£)
A	3	54,208
B	4	9,247
C	2	1,167
D	7	830
E	3	436
F	1	267

Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2019.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	118,828	149,723	268,551
Alternatives	193,870	263,171	504,742	961,783
Bonds & LDI	422,854	0	203,790	626,644
Property (Direct)	0	0	0	0
Cash	5,765	0	0	5,765
Total	622,489	381,999	858,255	1,862,743

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

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

Investment Income

The table below provides an analysis of the Fund's investment income received as at 31 March 2019.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	0	0	0
Alternatives	6,339	8,036	0	14,375
Bonds & LDI	0	0	0	0
Property (Direct)	0	0	0	0
Cash	38	0	0	38
Total	6,377	8,036	0	14,413

Fund Manager Expenses (including underlying fees)

The fees which are disclosed in the statement of accounts within the Annual Report have been disclosed in accordance with the CIPFA guidance which states that fees and expenses should only be included where the Fund has a direct relationship with the investment manager. These fees include the annual management charge as well as additional costs such as operational, administrative and legal expenses. In addition any costs for performance and transaction fees are also disclosed. These are disclosed in Note 10 in the Fund's accounts.

Fees relating to underlying managers are not required to be disclosed in the accounting regulations, however the Fund believes we should provide our stakeholders with all fees relating to our investments.

The Fund has exposures to underlying managers through investments in alternative mandates including Hedge Funds, the "Best Ideas" Tactical Asset Portfolio and Private Equity.

The table below shows the fees and expenses which would have been disclosed if underlying fees and their performance fees were included.

The table also shows an average of the basis points charged for each category of fee for the valuation of core assets, non-core assets and total fund.

Fund Management Fees	Avg bps	2018 £000	Avg bps	2019 £000
CORE (75% of Fund)	**95**	**13,009**	**84**	**11,764**
Total expenses including AMC	41	5,652	37	5,141
Underlying Fees (includes performance)	53	7,239	35	4,917
Performance Fees	0	0	0	0
Transaction Fees	1	118	12	1,706
NON CORE (25% of Fund)	**479**	**18,538**	**438**	**20,022**
Total expenses including AMC	261	10,109	198	9,040
Underlying Fees (includes performance)	97	3,769	90	4,089
Performance Fees	99	3,837	132	6,335
Transaction Fees	21	823	12	558
TOTAL	**179**	**31,547**	**171**	**31,786**
Total Fees Excluding Underlying	117	20,539	123	22,780
Net Assets (Core)		1,373,439		1,399,935
Net Assets (Non-Core)		387,196		457,043
Total Net Assets (excluding cash)		1,760,635		1,856,978

Assets within the “Core” disclosure include: Active Equities, Unconstrained Fixed Income, Liability Driven Investment, Hedge Fund Managed Account Platform, Diversified Growth Funds and the Tactical Asset Portfolio. These account for 75% (78% in 2017/18) of the Fund assets but only 37% (41% in 2017/18) of the total fees. Assets within the “Non-Core” disclosure include: Private Equity (Direct and Fund of Funds), Property (Open and Closed ended), Infrastructure, Timber and Agriculture. Whilst these account for 25% (22% in 2017/18) of the Fund assets the proportion of fees amounts to 63% (58% in 2017/18). These figures include the underlying fees. In comparison, excluding underlying fees, the proportion of fees for core assets is 30% (28% in 2017/18) and non-core, 70% (72% in 2017/18). There continues to be increased cost transparency from the Hedge Fund and Private Market managers.

Section 9: Clwyd Pension Fund Annual Governance Statement 2018/19

Roles and Responsibilities

Flintshire County Council (the Council) is responsible for administering the Clwyd Pension Fund (the Fund), on its own behalf and on behalf of two other local authorities (Wrexham and Denbighshire) and 39 other large and small employers in North East Wales.

The main activities involved in managing the Fund are to make and manage investments and to administer the payment of scheme benefits. This is carried out in accordance with the requirements of the Local Government Pension Scheme (LGPS) Regulations and the Public Service Pensions Act 2013.

The Council is responsible for ensuring that all its business, including that of the Fund, is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and that there are proper arrangements to use money economically, effectively and efficiently. The Council is also required to ensure that the Fund is managed to deliver best value.

Delegation

The Council discharges its duty as administering authority by delegation to the Pension Fund Committee. The committee is made up of five of the Council's own councillors and four coopted members, representing the other two local authorities, other employers and the scheme members. There is further delegation for day to day management to the Council's Chief Executive and for proper financial administration to the Council's Section 151 Officer.

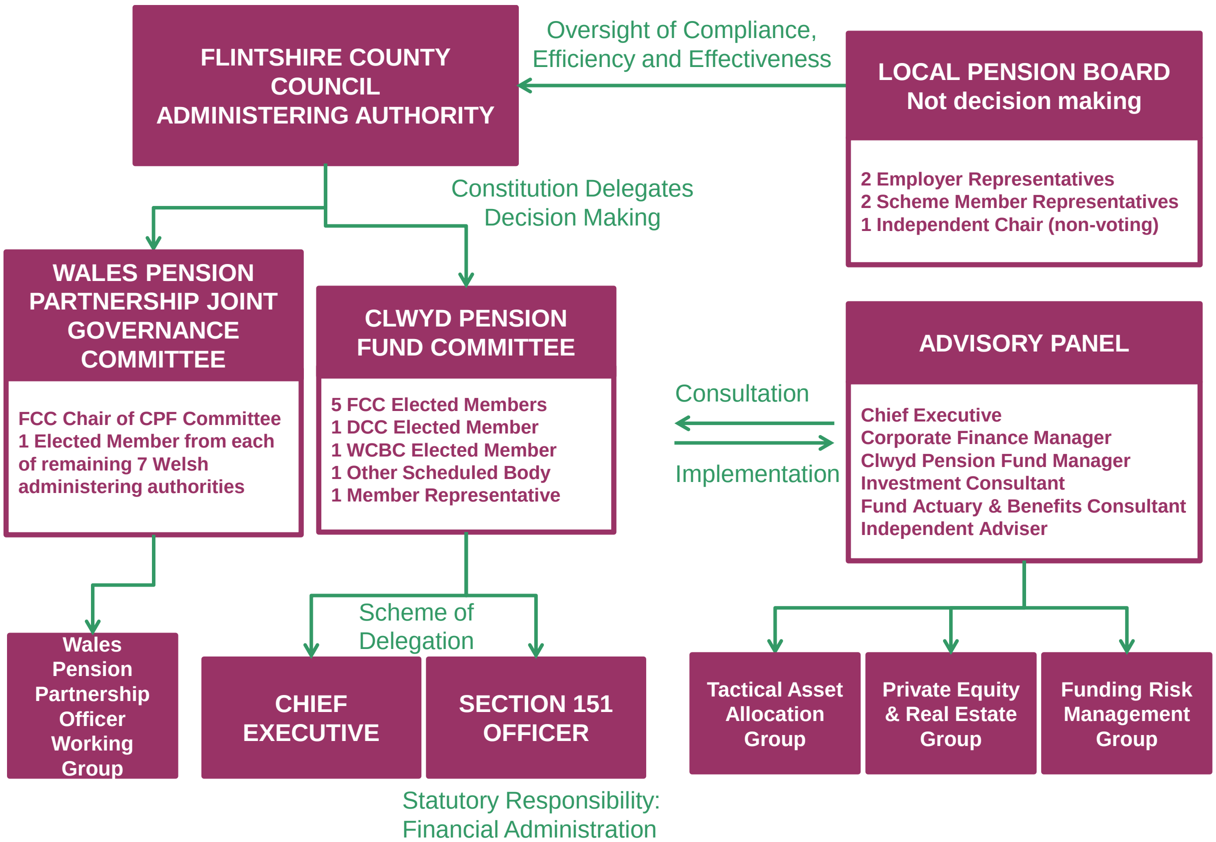
In addition under an inter-authority agreement there is delegation to the Wales Pension Partnership Joint Governance Committee to reflect the move to the pooling of pension fund assets across the eight Welsh LGPS pension funds.

Governance arrangements

The governance framework of the Council comprises an underlying set of legislative requirements, good practice principles and management processes, which supports the philosophy of the Council's operations, the standards it sets itself, the behaviours it expects of itself and the principles it follows.

To help ensure that the governance framework is robust, the Council has developed a Local Code of Corporate Governance (the Code) which defines the principles that underpin the governance of the organisation and is consistent with the principles of the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives Framework: Delivering Good Governance in Local Government. The Code forms part of the Council's constitution and is available on the Council's website. The operation of the Fund is governed by this code. The Council produces its own Annual Governance Statement which reviews the effectiveness of its control environment. The Fund has its own Governance Policy in place. This policy ensures that the Fund complies with its responsibilities under the LGPS Regulations. In accordance with the requirements of the Public Services Pensions Act 2013, the Fund has established a Local Pension Board to act as a partner in assisting the Fund to meet its statutory and regulatory requirements and in administering the fund effectively.

The Governance Structure for the Fund is shown below. The bodies to which responsibility is formally delegated are supported by the Local Pension Board, and also an advisory panel and a number of working groups.



The Council's Chief Executive is responsible for the day to day management of the Fund. This includes ensuring that the arrangements for the investment of assets, the receipt of contributions and the payment of benefits are properly managed. In addition the Chief Executive is responsible for establishing and chairing the Clwyd Pension Fund Advisory Panel, which includes officers of the Council and advisors to the Fund. The Panel advises the Pensions Committee and carries out matters delegated to it by the Pensions Committee from time to time.

The Council's Corporate Finance Manager as Section 151 Officer is responsible for arranging the proper administration of the financial affairs of the Fund. He is CIPFA qualified and is suitably experienced to lead the finance function.

The LGPS regulations require the Fund to maintain a number of strategy and policy documents which are available on its website. Key amongst these are the Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement, Communication Strategy Statement, and Administration Strategy. These documents describe the Fund's objectives together with the main risks facing the Fund and the key controls which mitigate them. In addition, the Fund has a Business Plan, Breaches Policy, Risk Policy, Conflicts of Interest Policy and Training Policy which support the governance framework.

Financial data is used and managed by the Fund in a number of different ways:

- There is a triennial actuarial valuation which determines long term cash flows, fund liabilities and contributions**.** In addition monthly funding projections are also produced by the actuary to help the Fund keep abreast of its funding position.
- Detailed investment records are held and maintained by external partner investment managers and the Fund's global custodian. There is quarterly performance reporting to the Fund of the position on investments.
- The Fund uses the Altair management system to manage the payment of benefits to beneficiaries. Payments to beneficiaries are made through the Council's bank account. Financial monitoring reports are prepared using the Council's Masterpiece financial ledger system.

Annual audit reports and Statements of Internal Control are obtained from the investment managers by the Fund and are reviewed by officers to provide assurance that the investments are managed in an adequate control environment. Any significant issues that these reports disclose are reported to the Pension Committee on an exception basis.

Risk Management

The Fund recognises that effective risk management is an essential element of good governance. The Fund has an effective policy and risk management strategy which:

- demonstrates best practice,
- improves financial management
- minimises the effect of adverse conditions
- identifies and maximises opportunities that might arise
- minimises threats

Risks relating to pension funds are often outside the Fund's control. The Fund's risk management focusses on measuring the current risk against the Fund's agreed target risk and identifying further controls and actions that can be put in place. These actions are then included in the Fund's Business Plan.

The risks currently identified as amber (defined as moderate consequence considered a

Review of effectiveness

The Pensions Committee is responsible for ensuring the continued effectiveness of the governance framework and system of internal control within which the Fund operates. In discharging this responsibility it relies on the assurances of officers, financial monitoring and other reports, the work of internal audit and the work of the external auditors.

The Pension Board assists the Council in securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the scheme, and with ensuring the effective and efficient governance of the Fund.

The Fund has in place an Independent Advisor, part of whose role is to carry out an annual review which is included in the Fund's Annual Report.

The Fund completes a governance policy and compliance statement as part of its annual report. This measures the extent to which the Fund's governance arrangements comply with best practice.

As part of his duties, the Corporate Finance Manager ensures that the Council receives an internal audit of the control environment of the Council and the Fund. The audit coverage reviews the control environment within which the Fund operates and helps to ensure that robust arrangements are in place to:

- Safeguard the contributions made by employees and employers used to fund the pension liabilities
- Ensure control is maintained over partner investment managers who are responsible for ensuring that funds are maximised in order to meet liabilities
- Ensure that accurate and timely payment is made to retired members of the fund.

Update on significant governance issues previously reported.

There were no significant governance issues in 2017/18 specific to the Fund.

Significant governance issues

The Head of Internal Audit has confirmed that there are no significant governance issues which need to be reported as a result of the work undertaken by Internal Audit on the control systems of either the Council or the Fund.

Internal Audit Opinion.

Based on the audit work undertaken for the Council and the assurances provided by the Chief Executive, the Corporate Finance Manager and the Clwyd Pension Fund Manager, it is the Head of Audit's opinion that reasonable assurance can be placed on the adequacy and effectiveness of the governance and control environment which operated during 2018/19.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance which operate on the Clwyd Pension Fund. Work undertaken by Internal Audit has shown that the arrangements in place are operating as planned. We consider the governance and internal control environment operating during 2018/19 to provide reasonable and objective assurance that any significant risks impacting the Fund's ability to achieve its objectives will be identified and actions taken to avoid or mitigate their impact.

Colin Everett	Councillor Aaron Shotton
Chief Executive	Chair Clwyd Pension Fund Committee
7th October 2019	7th October 2019