

Public Document Pack



Contact Officer:
Maureen Potter 01352 702322
maureen.potter@flintshire.gov.uk

To: Members of the Clwyd Pension Fund Committee

Co-opted Members:

Steve Hibbert, Councillor Huw Llewelyn Jones, Councillor Andrew Rutherford and Councillor Steve Wilson

18 May 2016

Dear Councillor

You are invited to attend a meeting of the Clwyd Pension Fund Committee which will be held at 10.00 am on Tuesday, 24th May, 2016 in the Delyn Committee Room, County Hall, Mold CH7 6NA to consider the following items

A G E N D A

1 APPOINTMENT OF CHAIR

To confirm the appointment of a Chair for the Committee.

2 APPOINTMENT OF VICE-CHAIR

To appoint a Vice-Chair for the Committee.

3 APOLOGIES

To receive any apologies.

4 DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)

To receive any Declarations and advise Members accordingly.

5 MINUTES (Pages 5 - 16)

To confirm as a correct record the minutes of the meetings held on 22 March 2016 and 28 April 2016.

GOVERNANCE

6 RISK MANAGEMENT POLICY 2016/7 (Pages 17 - 36)

To provide Committee Members with the Clwyd Pension Fund Risk Policy for 2016/17 for discussion and approval.

7 POOLED INVESTMENTS (Pages 37 - 46)

To provide Committee Members with an update on the progress of the Working Together in Wales Project for discussion.

8 GOVERNANCE UPDATE (Pages 47 - 78)

To provide Committee Members with an update on governance related issues.

ADMINISTRATION AND COMMUNICATIONS

9 LGPS UPDATE (Pages 79 - 90)

To provide Committee Members with current issues affecting the management of the LGPS.

10 PENSION ADMINISTRATION/COMMUNICATIONS UPDATE (Pages 91 - 106)

To update Committee Members on the Pensions Administration Section.

INVESTMENT AND FUNDING

11 INVESTMENT AND FUNDING UPDATE (Pages 107 - 120)

To provide Committee Members with an update of investment and funding matters for the Clwyd Pension Fund

12 ECONOMIC AND MARKET UPDATE (Pages 121 - 138)

To provide Committee Members with an economic and market update.

13 INVESTMENT STRATEGY AND MANAGER SUMMARY (Pages 139 - 156)

To update Committee Members on the performance of the Fund's investment strategy and Fund Managers

14 FUNDING AND FLIGHT PATH UPDATE (Pages 157 - 166)

To update Committee Members on the funding position and liability hedging undertaken as part of the Flight Path strategy for managing liability risks.

15 **2016 ACTUARIAL VALUATION PROGRESS** (Pages 167 - 174)

To update Committee Members on the progress of the actuarial valuation project, including key milestones, communications with employers and other events.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Peter Evans', with a long horizontal flourish extending to the right.

Peter Evans
Democracy & Governance Manager

This page is intentionally left blank

CLWYD PENSION FUND COMMITTEE **22 MARCH 2016**

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Tuesday, 22 March 2016.

PRESENT: Councillor Alan Diskin (Chairman)

Councillors: Haydn Bateman (Vice Chair), Brian Dunn, Ron Hampson, and Matt Wright

CO-OPTED MEMBERS: Steve Hibbert (Scheme Member representative), Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Andrew Rutherford (Other Scheme Employer Representative) and Councillor Steve Wilson (Wrexham County Borough Council)

ALSO PRESENT (AS OBSERVERS): Mark Owen (Employer representative Clwyd Pension Fund Board), Gaynor Brooks (Member representative Clwyd Pension Fund Board) and James Duffy (Member representative Clwyd Pension Fund Board)

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Mr. Paul Middleman (Fund Actuary – Mercers), Mr. Kieran Harkin and Mr Joseph Peach (Fund Investment Consultants – JLT Group)

Officers/Advisers comprising: Alwyn Hughes (Pensions Finance Manager), Debbie Fielder (Pensions Finance Manager), Helen Burnham (Pensions Administration Manager) and Committee Officer

Prior to the start of the meeting the Chair welcomed the members of the Clwyd Pension Fund Board and the Committee agreed that they could contribute to the meeting.

33. DECLARATIONS OF INTEREST (including Whipping Declarations)

Councillor Stephen Wilson declared a personal interest as being a member of the Clwyd Pension Fund for all items.

34. MINUTES

The minutes of the meeting of the Committee held on 26 November 2015 were submitted.

Accuracy

Councillor Brian Dunn said he had submitted his apologies to the meeting and asked that the minutes be amended to reflect this.

Matters arising

Pooling Investments (National Picture)

Page 8 In response to a request from Steve Hibbert it was agreed that the Clwyd Pension Fund Manager would raise the matter of member representation within the governance structure of the Wales Pool as an agenda item for the next meeting of the Society of Welsh Treasurers.

RESOLVED:

That subject to the above amendment the minutes be received, approved and signed by the Chairman as a correct record.

35. BUSINESS PLAN 2016/17 TO 2018/19

The Clwyd Pension Fund Manager introduced a report on the draft Business Plan and advised that the Annual Business Plan covered a rolling three year period. He provided an overview of the draft Plan for the current period 2016/17 to 2018/19, which was appended to the report for consideration.

In response to a query raised by Steve Hibbert concerning underlying fees, the Clwyd Pension Fund Manager explained that there was no longer a need to reflect the cost of underlying funds in the Fund accounts following a change in the guidance issued by CIPFA. However, these costs will be reported in the Fund's Annual Report and Accounts to ensure full transparency.

The Chief Executive noted that Alternative Delivery Models are still an important part of the strategy for FCC which may pose some challenges for the Fund.

RESOLVED:

That the draft Business Plan 2016/17 to 2018/19 attached as Appendix 1 to the report be approved.

36. COMPLIANCE WITH THE PENSION REGULATOR'S CODE OF PRACTICE

Mrs McWilliam, Independent Advisor - Aon Hewitt, introduced a report to advise on compliance with the Pension Regulator's (TPR) Code of Practice (COP) number 14, for the governance and administration of public service pension schemes which came into force in April 2015. She reported that Aon Hewitt had undertaken an initial review of the management of Clwyd Pension Fund against the requirements and the results had been positive. Aon Hewitt had determined that the Fund was largely compliant with the COP and had

identified a number of areas where relatively small changes in processes or documentation practice would create greater compliance.

Mark Owen asked if an annual review was required and if so, could this be undertaken by the Authority using internal resources. Mrs. McWilliam recommended that an annual review was carried out and explained that this could be done 'in-house' with Officers and staff.

In response to a query by Councillor Haydn Bateman regarding an item of non-compliance in relation to the procedure for recording and reporting breaches of the law, Mrs. McWilliam explained that the process for recording breaches was work in progress at the time of the review but this was now in place.

RESOLVED:

- (a) That the Committee notes that Officers will consider the findings of the review and identify how and when improvements should be made; and
- (b) That the Committee notes that Officers will carry out a self-assessment against the compliance checklist on an annual basis which will be reported back to the Committee and Pension Board.

37. GOVERNANCE UPDATE

Alwyn Hughes, Pensions Finance Manager, introduced a report to provide an update on governance related issues. He reported on progress and developments, as detailed in the report, relating to the Business Plan 2015/16, the National Scheme Advisory Board (NSAB), Training Policy, and delegated responsibilities. He drew attention to the calendar of future events which was appended to the report. He referred to the meeting of the Local Pension Board which had been held on 1 March 2016 and reported on the items considered.

During discussions Debbie Fielder, Pensions Finance Manager, provided clarification in response to the query raised by Councillor Haydn Bateman concerning the Business Plan 2015/16 and the difference in the projected cash-flow for 2015/16. She explained the reason for the variance and advised that the figures had been included in the business plan and would be provided in more detail in the future.

Mark Owen commented on the issue of indemnity insurance and asked when this would be clarified. Mrs McWilliam explained that work was in hand and feedback would be provided to Flintshire in due course. Mrs. McWilliam also commented on the training events which were appended to the report and urged Members to attend some of the external conferences.

RESOLVED:

That the update be received.

38. POOLED INVESTMENTS

The Clwyd Pension Fund Manager provided a verbal update on the DCLG consultation on Pooled Investments, the Working Together in Wales Project and the search for a single passive provider for the Welsh Funds.

During discussion it was agreed that whilst the outcome of the DCLG consultation was awaited a meeting of the Committee would be held during April 2016 on pooling investments in Wales and members of the Pension Board be invited to attend. Mrs McWilliam commented that there were a number of key decisions to be made during the next six months and that the implications needed to be fully understood. It was acknowledged by Committee that there are a number of important areas that await clarification. It was further acknowledged that the imminent response from Government to the underlying Funds in the proposed All Wales Pool will form a base from which to begin clarifying these areas and move forward.

Debbie Fielder, Pensions Finance Manager, provided feedback on the recent appointment of a single passive provider for the Welsh Funds. She advised that a manager had been appointed in the last week and would be working with officers across all authorities. As the appointment was conducted through the OJEU process, it was now in the 10 day standstill period and the appointment would be announced at the end of March.

RESOLVED:

That a meeting of the Committee be held during April 2016 on pooling investments in Wales and members of the Pension Board be invited to attend.

39. ADMINISTRATION AND COMMUNICATIONS STRATEGY STATEMENTS

The Pensions Administration Manager explained that as part of the 2015/16 Business Plan it had been agreed to develop administration and communication strategies for the Fund with the aim of implementing on 1 April 2016. These were developed and consulted on with stakeholders including the Pension Board, Pension Committee, scheme members and employers. The Pension Administration Manager reported on the proposed aims and objectives, as detailed in the report, and advised that the draft Administration and Communication Strategy statements were appended to the report for consideration.

RESOLVED:

That the Administration and Communication Strategies, as appended to the report, be approved.

40. LOCAL GOVERNMENT PENSION SCHEME (LGPS) CURRENT ISSUES

Mr Middleman (Fund Actuary – Mercers), introduced a report to provide an update on the current issues affecting the LGPS as at February 2016. Mr.

Middleman referred to the number of specific and wider issues affecting the whole of the pensions industry which were detailed in appendix 1 to the report.

Mr Middleman also provided a verbal update on the implications of the Chancellor's budget statement on 16 March 2016 and referred to the SCAPE discount rate, LGPS – British Wealth Funds, the expectation of all schools in England to become Academies by 2022, and the new Lifetime ISA (LISA), pension's taxation, and salary sacrifice. It was confirmed by the Chief Executive that academies will still not be an issue for Wales.

Mr Middleman advised that the implementation of the new State Pension would have implications for costs for employers through increased National Insurance contributions and indexation of GMP pensions for certain members. He also noted that the GMP reconciliation exercise would require significant resource and cost for the Clwyd Pension Fund to implement.

RESOLVED:

That the update be received.

41. ADMINISTRATION AND COMMUNICATIONS UPDATE

The Pensions Administration Manager introduced a report to provide an update on administration and governance related matters for the current period (quarter 4) concerning the following items:

- Business Plan 2015/16
- GMP indexation and Tax changes
- policy and strategy implementation and monitoring
- delegated responsibilities

The Pensions Administration Manager gave an overview of the report and advised that a summary of progress against the administration and communications section of the Business Plan, up to end of March 2016, was attached as appendix 1 to the report. Also appended to the report was an analysis of tasks received and completed and an update by Mercers on progress made concerning the Clwyd Pension Fund on the backlog clearance project to the end of January 2016.

RESOLVED:

That the update be received

42. INVESTMENT AND FUNDING UPDATE

Debbie Fielder, Pensions Finance Manager, introduced a report to provide an update on investment and funding related issues. She advised that the report provided an update for quarter 4 (up to 31 March 2016) on the following items:

- Business Plan 2015/16
- current developments and news
- funding and investment related policy/strategy implementation and monitoring
- delegated responsibilities

The Pensions Finance Manager advised that a summary of progress against the investment funding section of the Business Plan was appended to the report. She explained that the Plan was complete for 2015/16 except for the review of Additional Voluntary Contributions (AVCs) which it was recommended be deferred and included in the 2016/17 Business Plan.

The Pensions Finance Manager reported on the main considerations as detailed in the report and referred to developments around the Working Together in Wales project, annual accounts and investment costs, and reclassification of private equity investments to private equity/debt within the Statement of Investment Principles (SIP).

Councillor Haydn Bateman raised a query concerning the underlying fees for Fund of Fund managers. The Pension Finance Manager explained revisions had been made to the previous guidance issued by CIPFA. The Fund is no longer required to identify underlying fees in the accounts. These are fees which are payable but outside the control of the Fund. The Chief Executive confirmed that although these are not disclosed in the Fund accounts, they will be reported in the Fund's Annual Report.

RESOLVED:

- (a) That the review of Additional Voluntary Contributions (AVCs) be deferred and included in the 2016/17 Business Plan; and
- (b) That the reclassification of Private Equity Investments to Private Equity/Debt within the Statement of Investment Principles (SIP) be approved.

43. ECONOMIC AND MARKET UPDATE

Mr Harkin, Fund Investment Consultant – JLT Group, presented a report to provide an economic and market update for the period ending 31 December 2015. He reported on market performance and volatility and referred to the key issues which were highlighted in the report concerning lower economic growth than forecast, the slowdown in China, and the continued slump in the price of oil. Mr Harkin advised that despite the uncertain outlook markets had rallied strongly over the quarter with good returns across many Growth assets. Returns from UK Government Bonds had been negative during the quarter due to a rise in yields.

RESOLVED:

That the update be noted.

44. INVESTMENT STRATEGY AND MANAGER SUMMARY

Mr Harkin, Fund Investment Consultant – JLT Group, presented a report to provide an update on the performance of the Fund's investment strategy and performance of the Fund's investment managers for the quarter ending 31 December 2015.

Mr Harkin reported on market performance and volatility and advised that the Fund had enjoyed a strong quarter as a result of growth in a number of asset markets. He commented on the key considerations as detailed in the report and said that the Fund's investment strategy would be reviewed later in the year as part of the Actuarial Valuation Process. He advised there were no current concerns with any of the Fund's investment managers and that a number of managers had outperformed their respective targets during the period.

RESOLVED:

That the report be noted.

45. FUNDING AND FLIGHT PATH UPDATE

Mr Middleman, Fund Actuary - Mercer, introduced a report to provide an update on the funding position as at 29 February 2016 and an overview of the hedging implemented to date.

Mr Middleman advised that the monthly summary report from Mercer on the funding position and an overview of the liability hedging mandate was appended to the report. He reported on the key considerations and referred to the funding position, and hedging strategy. Mr. Middleman advised that the funding framework (including overall return expectations) would need to be reviewed as part of the 2016 Actuarial Valuation of the Fund. The flightpath and liability hedging strategy would also need to be reviewed in conjunction with the Actuarial Valuation included in the 2016/17 Business Plan.

The Chief Executive asked if benchmarking information could be provided to determine how well the Fund was performing in comparison to other funds. Mr. Middleman acknowledged the point and explained that this information would emerge as a result of the KPI self-evaluation process and the Scheme Advisory Board considerations. He agreed to consider how he could provide some data in the interim based on a normalised funding position rolled-up from the 2013 valuations.

RESOLVED:

- (a) That the action required to review the funding framework (including overall return expectations) as part of the 2016 Actuarial Valuation of the Fund be noted; and

- (b) That the review of the flightpath and liability hedging strategy in conjunction with Actuarial Valuation which is included in the 2016/17 Business Plan be noted.

46. 2016 ACTUARIAL VALUATION

Mr Middleman, Fund Actuary - Mercer, presented a report to provide an update on the actuarial valuation project as at February 2016, including key milestones, communications with employers and other events. He advised that an overview of the actuarial valuation project plan was appended to the report.

Mr Middleman reported on progress with the actuarial valuation project as detailed in the report. He referred to discussions between the Actuary and Fund officers to consider the data requirements requested by the Actuary to complete the actuarial valuation exercise and said that meetings would be scheduled with employing bodies as a result. The first scheduled meeting is with the Councils on 14th April.

Mrs. McWilliam drew attention to a training session on the 2016 Actuarial Valuation exercise to be held on 11 May 2016, for members of the Local Pension Board and Clwyd Pension Fund Committee.

RESOLVED:

That the progress being made with the actuarial valuation project and the planned meetings with employers be noted.

47. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There were no members of the press or public in attendance.

(The meeting commenced at 2.00 pm and ended at 4.10 pm)

.....
Chairman

CLWYD PENSION FUND COMMITTEE

28 APRIL 2016

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Thursday, 28 April 2016.

PRESENT: Councillor Alan Diskin (Chairman)

Councillors: Haydn Bateman (Vice Chair), and Brian Dunn

CO-OPTED MEMBERS: Steve Hibbert (Scheme Member representative), Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Andrew Rutherford (Other Scheme Employer Representative) and Councillor Steve Wilson (Wrexham County Borough Council)

APOLOGIES: Councillor Ron Hampson

ALSO PRESENT (AS OBSERVERS): Councillor Aaron Shotton, Leader and Cabinet Member for Finance, Mark Owen (Employer representative Clwyd Pension Fund Board), Gaynor Brooks (Member representative Clwyd Pension Fund Board) and James Duffy (Member representative Clwyd Pension Fund Board)

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Mr. Paul Middleman (Fund Actuary – Mercers), Mr. Kieran Harkin and Mr Joseph Peach (Fund Investment Consultants – JLT Group)

Officers comprising: Alwyn Hughes (Pensions Finance Manager), Debbie Fielder (Pensions Finance Manager), and Committee Officer

Others comprising: Mr. Paul Potter (Hymans Robertson), Mr. Jon Rae (WLGA), Mr. Dafydd Edwards (Gwynedd Pension Fund)

Prior to the start of the meeting the Chair welcomed and introduced Mr. Paul Potter, Mr. Jon Rae, Mr. Dafydd Edwards and the members of the Clwyd Pension Fund Board to the meeting. The Chair confirmed that all could contribute to the meeting.

48. DECLARATIONS OF INTEREST (including Conflicts of Interest)

Councillors Stephen Wilson and Huw Llewellyn Jones declared a personal interest as members of the Clwyd Pension Fund for the following item:

Item 4 – Pooling Investments in Wales

Karen McWilliam also declared a personal interest as an employee of Aon Hewitt who may submit a tender bid to become the CIV platform provider under Item 4. Joe Peach declared the same personal interest as he will become employed by Aon Hewitt in July 2016.

Paul Middleman declared a personal interest as an employee of Mercers who may submit a tender bid to become the CIV platform provider under Item 4.

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

RESOLVED:

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

50. POOLING INVESTMENTS IN WALES

The Clwyd Pension Fund Manager gave a verbal update on Pooling Investments in Wales. He provided background information and context and reported on developments concerning Wales, the LGPS as a whole, and the Clwyd Pension Fund (CPF).

The Clwyd Pension Fund Manager reported on the current position and advised that the Government had agreed for work to continue on a Wales Pool. He referred to the recent letter from the Minister for Local Government to Welsh funds which referred to the unique culture, politics and regulation, and required a 'full assurance that the final proposals in July would satisfactorily meet all other criteria'. The Clwyd Pension Fund Manager commented on the implications for the Clwyd Pension Fund and invited Mr Harkin (Fund Investment Consultant – JLT Group) to give a presentation on Local Government Pension Scheme Asset Pooling – All Wales. The main points of the presentation, which highlighted some of the governance and investment risks to be managed, were as follows:

- setting investment strategy – impact of decisions
- trade off between risk and return
- Risk – value at risk definition
- how we arrived at the current position
- CPF's current investment strategy
- CPF's current asset allocation compared to rest of All Wales Pool
- challenge of delivering cost savings
- establishing a governance framework
- key areas to be clarified

The Chair thanked Mr Harkin for his detailed presentation and invited Mr Potter, Hymans Robertson LLP, to give a presentation on the proposed asset

pooling within Wales. Mr. Potter provided an update on the Wales project. The presentation covered the following main points:

- background
- Governance and structure issues
- Investment pools
- timescales
- areas for inclusion in July submission
- contract award for CIV operator
- transition of investments into the pool

The Chair thanked Mr Potter for his presentation and invited the Committee to raise questions.

During discussion Mr Harkin and Mr Potter, responded in detail to the comments and queries put forward concerning governance framework, appointments and roles, costs, fees, risk management, and timescales.

RESOLVED:

That the update be received and further meetings be arranged as required to make key decisions.

51. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There were no members of the press or public in attendance.

(The meeting commenced at 2.00 pm and ended at 4.15 pm)

.....
Chairman

This page is intentionally left blank



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 24 May 2016
Report Subject	Risk Policy and Register
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

In March 2015, the Pension Fund Committee (PFC) agreed the initial Risk Policy in relation to the Clwyd Pension Fund (CPF). Since then, regular updates have been provided to the PFC summarising the Fund's key risks, and changes in risks as captured on the risk register.

This report presents recommended changes to the Risk Policy, which in the main relate to the scoring and criteria for evaluating risks.

In addition, the report attaches the latest risk register which has been subject to a complete review by the Pension Fund Advisory Panel (PFAP). It also now includes a target risk score with a view to highlighting risk areas that require action and which may be of particular concern to the PFC.

A number of key risks are identified, including:

- the impact of external influence on governance, funding and investments
- reduced staff numbers due to external influence and age profiles of existing key staff
- employers failing to carry out their responsibilities in relation to pension administration matters.

RECOMMENDATIONS

1	That the Committee approve the updated Risk Policy.
2	That the Committee consider the remainder of the report and the contents of the risk register and provide any comments.

REPORT DETAILS

1.00	CPF RISK MANAGEMENT
1.01	<p>In March 2015, the PFC agreed the initial Risk Policy in relation to the CPF. Since then, regular updates have been provided to the PFC summarising the Fund's key risks, and changes in risks as captured on the risk register.</p>
1.02	<p>The CPF Risk Policy has been updated to be more aligned to the Flintshire County Council (FCC) Risk Management Policy and Strategy, in particular:</p> <ul style="list-style-type: none"> • the measurement of likelihood now spans six areas • the evaluation of impact includes FCC criteria. <p>In addition, guidance on the criteria for impact has been further developed for Fund specific events, and likelihood criteria are also provided to ensure consistency in measurement. Appendix 1 includes the proposed changes to the existing Policy which the Committee are asked to consider and approve.</p>
1.03	<p>In addition, the PFAP has undertaken a complete review of the risk register, with a particular focus on capturing the Fund's risks within a smaller number of higher level risk areas, given many of the risks identified are closely linked. The updated risk register is included in Appendix 2.</p>
1.04	<p>As well as the risks now being evaluated based on the new measures, as outlined in the proposed changes to the Policy, the register now includes a target risk score with a view to highlighting risk areas that require action and which may be of particular concern to the Committee. A green tick and red cross will assist in quickly identifying areas that may require some focus.</p>
1.05	<p>The Committee are asked to consider the contents of the risk register and identify any changes, including areas that they consider are missing or where recommended action or existing controls are not considered appropriate or sufficient.</p>
1.06	<p>The attention of the Committee is particularly drawn to the following risks which can be discussed at the Committee meeting:</p> <ul style="list-style-type: none"> • Governance Risk 5 – externally led influence, such as asset pooling, could have an impact on our ability to meet our objectives and legal responsibilities. We are hopeful that the next few months will assist us in understanding the impact of some of the more immediate external factors; however we expect this risk will remain high for the foreseeable future. • Governance Risk 6 – the potential impact on staff numbers (for example due to age profiles of key staff members, local authority pay grades and the implementation of asset pooling) could impact our ability to deliver services. Consideration of this risk is included in the Business Plan for 2016/7.

	<ul style="list-style-type: none"> • Funding and Investment Risks 1 to 3 – these risks all relate to the implementation of the Funding Strategy and the ability to set affordable and stable employer contributions. Market conditions left us, along with other LGPS funds, in a position where the funding level is significantly lower than hoped. Managing these risks will be a key part of the valuation and funding strategy discussions during 2016/7. • Funding and Investment Risk 6 – expected legislative changes, including asset pooling and MIFIDII could result in us having to review our investment and funding strategies to ensure they are fit for purpose. This is a matter that will require ongoing attention to ensure we react as and when appropriate, but it may continue to be outside of our control for the foreseeable future. • Administration and Communications 2 – employers failing to meet their responsibilities could impact on our ability to meet legal and performance expectations. The recently approved Administration Strategy and 2016/7 Business Plan include a number of initiatives to control this, in particular the implementation of I-Connect. • Administration and Communications 5 – not utilising our system capabilities could result in higher administration costs or errors. Once again, a number of initiatives are included in the 2016/7 Business Plan.
--	---

2.00	RESOURCE IMPLICATIONS
2.01	There are no direct resource implications as a result of this report, albeit many of the risks identified could impact on resources and finances.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	The attached risk register was developed in consultation with the Pension Fund Advisory Panel.

4.00	RISK MANAGEMENT
4.01	The key risks to the implementation of the Fund's Risk Policy are considered as part of the policy document.

5.00	APPENDICES
5.01	Appendix 1 – Draft May 2016 Risk Policy Appendix 2 – Risk Register

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Report to Pension Fund Committee – Risk Policy and Register - 24 March 2015</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) CPF or the Fund – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) PFC or Committee – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(c) PFAP – Pension Fund Advisory Panel – The Pension Fund Advisory Panel is a group of officers and advisers to the Clwyd Pension Fund, currently consisting of:</p> <ul style="list-style-type: none"> • The Chief Executive • The Corporate Finance Manager (Section 151 Officer) • The Clwyd Pension Fund Manager • Investment Consultant • Fund Actuary • Independent Adviser <p>(d) FCC – Flintshire County Council – the administering authority responsible for managing the Clwyd Pension Fund</p> <p>(e) MIFIDII – the revised Markets in Financial Instruments Directive which is being proposed and which includes areas such as investor protection and provision of investment services, and authorisation and organisational requirements.</p>

Cronfa Bensiynau Clwyd
Clwyd Pension Fund



FLINTSHIRE COUNTY COUNCIL

**Administering Authority for
Clwyd Pension Fund**

RISK POLICY

March-May 2016

RISK POLICY

Introduction

This is the Risk Policy of the Clwyd Pension Fund, which is managed and administered by Flintshire County Council. The Policy details the risk management strategy for the Clwyd Pension Fund, including

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

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

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

We adopt best practice risk management, which will support a structured and focused approach to managing risks, and ensuring risk management is an integral part in the governance of the Clwyd Pension Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the Flintshire County Council Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief ~~Officer~~Executive, People and Resources (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the Clwyd Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Advisers to the Clwyd Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

We recognise the significance of our role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- around 40,000 current and former members of the Fund, and their dependants
- around 28 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:

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

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Clwyd Pension Fund we will aim to comply with:

- the CIPFA Managing Risk publication and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for Clwyd Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable us to anticipate and respond positively to change
- minimise loss and damage to the Clwyd Pension Fund and us, and to other stakeholders who are dependent on the benefits and services provided
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and taken into account in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and The Pensions Regulator Requirements

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

“249B Requirement for internal controls: public service pension schemes

(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—

(a) in accordance with the scheme rules, and

(b) in accordance with the requirements of the law.

(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.

(3) In this section, “enactment” and “internal controls” have the same meanings as in section 249A.”

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourage scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls require scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the Clwyd Pension Fund

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to Clwyd Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

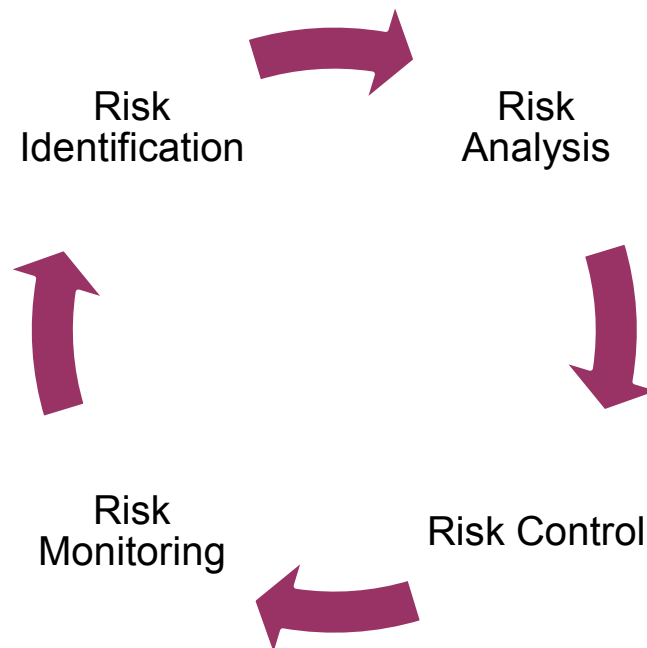
Responsibility

As the Administering Authority for the Clwyd Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pension Fund Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The Clwyd Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



Risk identification

Our risk identification process is both a proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Clwyd Pension Fund Advisory Panel
- performance measurement against agreed objectives
- monitoring against the Fund's business plan
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Pension Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

Impact Severity	Catastrophic	Yellow	Amber	Red	Red	Black	Black
	Critical	Yellow	Amber	Amber	Red	Red	Red
	Marginal	Green	Yellow	Amber	Amber	Amber	Red
	Negligible	Green	Green	Yellow	Yellow	Amber	Amber
		Unlikely (5%)	Very Low (15%)	Low (30%)	Significant (50%)	Very High (65%)	Extremely High (80%)
Likelihood & Percentage of risk happening							

Criteria for assessing likelihood and impact are included at Appendix A to help promote consistent risk evaluation across Fund matters.

Potential impact if risk occurred	5 Catastrophic	5	10			
	4 Major	4	8	12		
	3 Moderate	3	6	9	12	
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain
Likelihood of risk occurring						

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

The resulting scores are interpreted as follows:

Risk Exposure	Impact/Likelihood	Risk Appetite/Control
Black	Catastrophick consequences, almost certain to happen	Unacceptable level of risk exposure which requires immediate corrective action to be taken. Regular monitoring required; at least monthly
Red	Major consequences, likely to happen	Unacceptable level of risk exposure which requires regular active monitoring (at least quarterly) and measures to be put in place to reduce exposure.
Amber	Moderate consequences, possible occurrence.	Acceptable level of risk exposure subject to regular active monitoring measures, at least quarterly.
Yellow	Minor consequences, unlikely to happen.	Acceptabel level of risk subject to regular passive monitoring measures, at least half yearly.
Green	Insignificant consequences, almost very unlikely to happen.	Acceptable level of risk subject to periodic passive monitoring measures, at least annually.

Risk control

The risk register will also show what we consider to be the target risk score for each of the risks shown. This will help us ~~The Pension Fund Manager will then~~ determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require Pension Fund Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Clwyd Pension Fund Advisory Panel. In monitoring risk management activity, we will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision- making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Clwyd Pension Fund Committee and the Pension Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include as a minimum:

- a summary of the Fund's key risks (red and black) ~~(ranked 15 or above in the above matrix)~~
- a summary of any new risks ~~or~~ risks that have changed/moved into a new risk exposure category ~~(by a score of 3 or more)~~ or risks that have been removed since the previous report
- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion
- a summary of any changes to the previously agreed actions.

Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Independent Governance Adviser will be commissioned to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

Key risks to the effective delivery of this Policy

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

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Fund Committee and/or Pension Fund Advisory Panel and/or Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

Costs

All training costs related to this Risk Policy are met directly by Clwyd Pension Fund

Approval, Review and Consultation

This Risk Policy was approved at the Clwyd Pension Fund Committee meeting on 24 ~~March~~ May 2016~~5~~. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

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

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

Appendix A – Criteria for assessing impact and likelihood

Criteria for assessing likelihood

Description	% of risk happening	OR	potential timescale
Unlikely	Up to 5%		Once in 20 or more years
Very Low	Over 5% to 20%		Once in 10 to less than 20 years
Low	Over 20% to 40%		Once in 5 to less than 10 years
Significant	Over 40% to 60%		Once in 3 to less than 5 years
Very High	Over 60% to 80%		Once in 1 to less than 3 years
Extremely High	Over 80%		At least once in a year

Criteria for assessing impact

Description	FCC Examples (apply to CPF where relevant)	Additional CPF examples
Catastrophic	<ul style="list-style-type: none"> No confidence in Senior Management / Leadership Formal WG intervention/exercise of their powers Multiple fatalities Complete/critical service failure Exceedingly negative <i>national</i> publicity Serious impact on workforce across more than one Portfolio Legal action almost certain, unable to defend Serious financial impact to budget, not manageable within existing funds and may impact on reserves Non-compliance with law resulting in imprisonment 	<ul style="list-style-type: none"> Incorrect actual benefit calculations affecting more than 500 members Incorrect general/estimate information being communicated that could impact 80% A, D or P members Delay in paying pensioners by more than 3 working days Consistently missing both legal and Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by more than 20% over a 1 month period Formal DCLG/TPR/SAB or other regulatory intervention/exercise of their powers Serious impact on workforce impacting more than one area of CPF team
Critical	<ul style="list-style-type: none"> Limited confidence in Senior Management/Leadership Significant service failure Negative <i>national</i> publicity Impact on workforce across more than one Portfolio Legal action almost certain and difficult to defend Serious financial impact to budget, manageable across the authority Negative external regulatory reports impacting on Corporate Governance Extracted from FCC Single fatality 	<ul style="list-style-type: none"> Incorrect actual benefit calculations affecting 100-500 members Incorrect general/estimate information being communicated that could impact 25-80% A, D or P members Delay in paying pensioners by 2 working days Missing some legal and regularly missing Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by 10-20% over a 1 month period Informal DCLG/TPR/SAB or other intervention Negative national level information (e.g. outlier on league tables) Serious impact on workforce impacting one area of CPF team
Marginal	<ul style="list-style-type: none"> Significant service under performance Negative <i>local</i> publicity Expected impact on workforce, but manageable within Portfolio contingency arrangements Legal action expected Expected financial impact to budget, manageable within Portfolio Non-compliance with law resulting in fines Negative external regulatory reports Extensive, permanent/long term injury or long term sickness 	<ul style="list-style-type: none"> Incorrect actual benefit calculations affecting 50-100 members Incorrect general/estimate information being communicated that could impact 10-25% A, D or P members Delay in paying pensioners by 1 working day Meeting the majority of legal but missing some Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by 5-10% over a 1 month period Negative regional level information (e.g. outlier on Welsh or County league tables) Expected, but manageable, impact on workforce impacting one area or more areas of CPF team
Negligible	<ul style="list-style-type: none"> Some risk to normal service delivery but manageable within contingency arrangements Legal action possible but unlikely and defensible Possible financial impact to budget, manageable within service Non-compliance with regulations / standards or local procedures resulting in disciplinary action First Aid or medical treatment required Previous risk mitigated by completed action plan 	<ul style="list-style-type: none"> Incorrect actual benefit calculations affecting up to 50 members Incorrect general/estimate information being communicated that could impact up to 10% A, D or P members Delay in paying pensioners by less than 1 working day Meeting the majority of legal and Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by up to 5% over a 1 month period

Clwyd Pension Fund - Risk Register

Governance Risks

Last Updated 14/04/2016

Objectives extracted from Governance Policy (7/2014), Training Policy (12/2015) and Breaches Procedure (12/2015):

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

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Further Action?	Owner	Next review date	Last Updated
1	Losses or other detrimental impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognising that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low	3	1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to each PFC 3 - Advisory panel meets at least quarterly discussing changing environment etc 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Marginal	Low	3	✓	None	CPFM	31/03/2017	14/04/2016
2	Inappropriate or no decisions are made	Governance (particularly at PFC) is poor including due to: - short appointments - poor knowledge and advice - poor engagement /preparation / commitment - poor oversight	G1 / G2 / G3 / G4 / G5 / G6 / G7	Marginal	Significant	3	1 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Annual check against TPR Code 4 - Training Policy, Plan and monitoring in place for PC and PB members 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. 7 - Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed.	Negligible	Low	2	✗	1 - Complete Training Needs Analysis/consider engagement 2 - Speak to Democratic Services before FCC elections to assist with continuity/retaining knowledge	CPFM	30/09/2016	14/04/2016
3	Our legal fiduciary responsibilities are not met	Decisions, particularly at PFC level, are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers	G1 / G2 / G4 / G6 / T2	Negligible	Very Low	1	1 - Conflicts of Interest policy focussed on fiduciary responsibility regularly discussed and reviewed 2 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 3 - All stakeholders to which fiduciary responsibility applies represented at PFC and PB 4 - Training Policy, Plan and monitoring in place for PC and PB members including section on responsibilities 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Clear strategies and policies in place with Fund objectives which are aligned with fiduciary responsibility	Negligible	Very Low	1	✓	None	CPFM	31/03/2017	14/04/2016
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low	1	1- Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored	Negligible	Unlikely	1	✓	1- Ensure work relating to annual monitoring is completed	Pension Finance Managers	30/06/2016	14/04/2016
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such as LGR, scheme change and asset pooling	G1 / G4 / G6 / G7	Critical	Very High	4	1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Involvement of CEO / links to WLGA and WG 3 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 4 - Key areas of potential change identified as part of business plan (ensuring ongoing monitoring)	Marginal	Low	3	✗	1 - Regular ongoing monitoring by AP to consider if any action is necessary	CPFM	22/03/2016	14/04/2016
6	Services are not being delivered to meet legal and policy objectives	Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	G3 / G6 / G7 / T1	Critical	Significant	4	1 - 2016/17 business plan identifies key officer risk 2 - Review of admin structure in 2015/16 3 - Quarterly update reports consider resourcing matters 4 - Advisory Panel provide back up when required 5 - Additional resources, such as outsourcing, considered as part of business plan	Negligible	Very Low	1	✗	1 - Review key officer risk (on Business Plan)	CPFM	30/09/2016	14/04/2016
7	Legal requirements and/or guidance are not complied with	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches)	G3 / G6 / T1 / T2 / B1 / B2	Marginal	Very Low	2	1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliance areas (relevant individuals provided with a copy and training provided) 4 - Training policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures 7 - Strategies and policies often included statements or measures around legal requirements/guidance 8 - Wide range of advisers and AP in place 9 - Independent adviser in place including annual report which will highlight concerns	Negligible	Very Low	1	✗	1 - Ongoing work to ensure breaches are identified and the procedure used appropriately 2 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure	CPFM	30/09/2016	14/04/2016

Clwyd Pension Fund - Risk Register

Funding & Investment Risks (includes accounting and audit) Last Updated 14/04/2016

Objectives extracted from Funding Strategy Statement (5/2015) and Statement of Investment Principles (6/2015):

- F1 Achieve and maintain assets equal to 100% of liabilities within reasonable risk parameters
- F2 Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- F6 Ensure net cash outgoings can be met as/when required
- F7 Minimise unrecoverable debt on employer termination.

Risk no.	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Further Action?	Owner	Next review date	Last Updated
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Significant	4	1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process	Critical	Very Low	3	X	1 - This risk will be considered and quantified in more detail as part of the 2016 Actuarial Valuation including building a framework to monitor employer risk	CPFM	30/9/16 2016	14/04/2016
2	Funding level reduces, increasing deficit	Movements in assets and/or liabilities (as described in 3,4,5) in combination	F1 / F2 / F3 / F4 / F5 / F7	Critical	Significant	4	See points within points 3,4 and 5	Marginal	Low	3	X	See points within points 3,4 and 5	CPFM	30/09/2016	14/04/2016
3	Investment targets are not achieved therefore reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	F1 / F2 / F3 / F4 / F7	Critical	Significant	4	1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring of funding position versus flightpath targets 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of investment opportunities available.	Critical	Low	3	X	1 - The impact of the assumptions will be considered and quantified in more detail as part of the 2016 Actuarial Valuation 2 - Review of flight path strategy following valuation 3 - Review of investment strategy following valuation	Pension Finance Managers	30/09/2016	14/04/2016
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Low	3	1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee.	Marginal	Very Low	2	X	1 - This risk will be considered and quantified in more detail as part of the 2016 Actuarial Valuation 2 - Review of flight path strategy following valuation	Pension Finance Managers	30/09/2016	14/04/2016
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Low	3	1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low	2	X	1 - Assumptions and experience will be considered as part of the 2016 valuation.	Pension Finance Managers	30/09/2016	14/04/2016
6	Investment and/or funding objectives and/or strategies are no longer fit for purpose	Legislation changes such as LGPS regulations (e.g. asset pooling), tax treatments, results of the EU referendum, MIFIDII and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Critical	Very High	4	1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS	Marginal	Low	3	X	1 - Fund has no control over this except through responses to consultations etc. There are tax changes proposed by Government which could adversely affect membership.	CPFM	30/09/2016	14/04/2016
7	Insufficient assets to pay benefits	Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs	F1 / F6	Negligible	Very Low	1	1 - Cashflow monitoring to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding liquid assets 4 - Monitor cashflow requirements 5 - Treasury management policy is documented	Negligible	Very Low	1	✓	1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place).	Pension Finance Managers	30/09/2016	14/04/2016
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Very Low	2	1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely	1	X	1 - Employer risk management framework to be developed	Pension Finance Managers	31/12/2016	14/04/2016

Clwyd Pension Fund - Risk Register

Administration and Communication Risks

Last Updated 14/04/2016

Objectives extracted from Draft Administration Strategy (02/2016) and Draft Communications Strategy (02/16):

- A1 Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
- A2 Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- A3 Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
- A4 Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- A5 Maintain accurate records and ensure data is protected and has authorised use only
- C1 Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
- C2 Communicate in a clear, concise manner
- C3 Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
- C4 Look for efficiencies in delivering communications through greater use of technology and partnership working
- C5 Regularly evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Further Action?	Owner	Next review date	Last Updated
1	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	There are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	All	Marginal	Significant	3	1 - Training Policy, Plan and monitoring in place 2 - BP 2016/17 improvements assist with staff engagement 3 - Benefit consultants available to assist if required 4 - Ongoing task/SLA reporting to management/AP/PC/LPB to quickly identify issues 5 - Recent restructuring of team 6 - Data protection training, policies and processes in place 7 - System security and independent review/sign off requirements	Negligible	Low	2	X	1 - Consider risk from senior staff/similar age	Pensions Administration Manager	30/09/2016	14/04/2016
2	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues	Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Extremely High	4	1 - Administration strategy recently agreed 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Part of 2016/7 internal audit plans for all Councils	Negligible	Very Low	1	X	1 - Roll out admin strategy including I-connect	Pensions Administration Manager	30/04/2016	14/04/2016
3	Unable to meet legal and performance expectations due to external factors	Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Low	3	1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required	Marginal	Low	3	✓		Pensions Administration Manager	30/06/2016	14/04/2016
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1/ C2 / C3	Marginal	Low	3	1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed	Negligible	Very Low	1	X	1 -Continue with website development 2 -Roll out member self service	Pensions Administration Manager	30/09/2016	14/04/2016
5	High administration costs and/or errors	Systems are not kept up to date or not utilised appropriately, or other processes inefficient	A2 / A4 / C4	Critical	Significant	4	1- Business plan has number of improvements (task management, doc prod etc) 2 - Recent efficiency review 3 - Pension Admin Manager on management group for admin software	Negligible	Very Low	1	X	1 -Various improvements in 2016/17 business plan (e.g. doc prod)	Pensions Administration Manager	30/06/2016	14/04/2016
6	Service provision is interrupted	System failure or unavailability	A1 / A4 / C2	Negligible	Unlikely	1	1 - Disaster recover plan in place and regularly checked	Negligible	Unlikely	1	✓		Pensions Administration Manager	31/03/2017	14/04/2016

Risk Evaluation and Likelihood and Impact Explanations

The following information outlines how risks are to be evaluated. It is based on the FCC evaluation system incorporated in its Risk Management & Strategy (January 2016) but has been customised in places to better fit the management of Clwyd Pension Fund.

Assessment of risk:

Impact Severity	Catastrophic	Yellow	Amber	Red	Red	Black	Black
	Critical	Yellow	Amber	Amber	Red	Red	Red
	Marginal	Green	Yellow	Amber	Amber	Amber	Red
	Negligible	Green	Green	Yellow	Yellow	Amber	Amber
		Unlikely (5%)	Very Low (15%)	Low (30%)	Significant (50%)	Very High (65%)	Extremely High (80%)
Likelihood & Percentage of risk happening							

Interpretation of risk exposure

Risk Exposure	Impact/Likelihood	Risk Appetite/Control
Black	Catastrophic consequences, almost certain to happen	Unacceptable level of risk exposure which requires immediate corrective action to be taken. Regular monitoring required; at least monthly
Red	Major consequences, likely to happen	Unacceptable level of risk exposure which requires regular active monitoring (at least quarterly) and measures to be put in place to reduce exposure.
Amber	Moderate consequences, possible occurrence.	Acceptable level of risk exposure subject to regular active monitoring measures, at least quarterly.
Yellow	Minor consequences, unlikely to happen.	Acceptable level of risk subject to regular passive monitoring measures, at least half yearly.
Green	Insignificant consequences, almost very unlikely to happen.	Acceptable level of risk subject to periodic passive monitoring measures, at least annually.

Criteria for assessing impact (based on FCC with CPF customisation):

Description	FCC Examples (apply to CPF where relevant)	Additional CPF examples
Catastrophic	No confidence in Senior Management / Leadership Formal WG intervention/exercise of their powers Multiple fatalities Complete/critical service failure Exceedingly negative <i>national</i> publicity Serious impact on workforce across more than one Portfolio Legal action almost certain, unable to defend Serious financial impact to budget, not manageable within existing funds and may impact on reserves Non-compliance with law resulting in imprisonment	Incorrect actual benefit calculations affecting more than 500 members Incorrect general/estimate information being communicated that could impact 80% A, D or P members Delay in paying pensioners by more than 3 working days Consistently missing both legal and Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by more than 20% over a 1 month period Formal DCLG/TPR/SAB or other regulatory intervention/exercise of their powers Serious impact on workforce impacting more than one area of CPF team
Critical	Limited confidence in Senior Management/Leadership Significant service failure Negative <i>national</i> publicity Impact on workforce across more than one Portfolio Legal action almost certain and difficult to defend Serious financial impact to budget, manageable across the authority Negative external regulatory reports impacting on Corporate Governance Single fatality	Incorrect actual benefit calculations affecting 100-500 members Incorrect general/estimate information being communicated that could impact 25-80% A, D or P members Delay in paying pensioners by 2 working days Missing some legal and regularly missing Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by 10-20% over a 1 month period Informal DCLG/TPR/SAB or other intervention Negative national level information (e.g. outlier on league tables) Serious impact on workforce impacting one area of CPF team
Marginal	Significant service under performance Negative <i>local</i> publicity Expected impact on workforce, but manageable within Portfolio contingency arrangements Legal action expected Expected financial impact to budget, manageable within Portfolio Non-compliance with law resulting in fines Negative external regulatory reports Extensive, permanent/long term injury or long term sickness	Incorrect actual benefit calculations affecting 50-100 members Incorrect general/estimate information being communicated that could impact 10-25% A, D or P members Delay in paying pensioners by 1 working day Meeting the majority of legal but missing some Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by 5-10% over a 1 month period Negative regional level information (e.g. outlier on Welsh or County league tables) Expected, but manageable, impact on workforce impacting one area or more areas of CPF team
Negligible	Some risk to normal service delivery but manageable within contingency arrangements Legal action possible but unlikely and defensible Possible financial impact to budget, manageable within service Non-compliance with regulations / standards or local procedures resulting in disciplinary action First Aid or medical treatment required Previous risk mitigated by completed action plan	Incorrect actual benefit calculations affecting up to 50 members Incorrect general/estimate information being communicated that could impact up to 10% A, D or P members Delay in paying pensioners by less than 1 working day Meeting the majority of legal and Fund's agreed delivery timescales Impact on assets or liabilities changing funding level by up to 5% over a 1 month period

Criteria for assessing likelihood (based on FCC but timescales added for CPF guidance):

Description	% of risk happening	OR	potential timescale
Unlikely	Up to 5%		Once in 20 or more years
Very Low	Over 5% to 20%		Once in 10 to less than 20 years
Low	Over 20% to 40%		Once in 5 to less than 10 years
Significant	Over 40% to 60%		Once in 3 to less than 5 years
Very High	Over 60% to 80%		Once in 1 to less than 3 years
Extremely High	Over 80%		At least once in a year



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 24 May 2016
Report Subject	Pooling Investments In Wales
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide a further update on this on-going project now the UK Government have agreed that work on a Wales Pool can continue despite not meeting the size criteria.

The next milestone is a detailed submission by 15th July 2016 from the Wales Pool. Much work is required to be undertaken and decisions to be made both as individual funds and collectively as 8 funds. Hymans Robertson, advisor and project manager for the 8 funds, have documented a project overview to assist with decision making on the asset pools, governance, savings and infrastructure.

A reply has also been received from DCLG on the Clwyd Fund February submission which asked for consideration for holding some assets outside a pool. The response requires both interpretation and discussion with the Fund's advisors.

This is a fast moving project and a further verbal update will be provided at Committee. Clwyd Fund Officers will continue to work on the project and express the views of the Fund to enable the best possible outcome for stakeholders, albeit some compromise should be anticipated.

RECOMMENDATIONS

1	That the Committee discuss progress in this report and after receiving a further verbal update consider any recommendations made.
2	That Committee agree with advice from officers and investment adviser to continue to support the recommendation to rent a provider.

REPORT DETAILS

1.00	Pooling Investments
1.01	The SWT (Pension Sub Group) have re-visited the decision to rent a provider. Following a risk analysis of the options available the Group agreed to continue with the rent option, which is supported by Clwyd Fund practitioners and investment advisor.
1.02	There was an 'Information Day' on 12 th May 2016 in Cardiff at which all 8 funds were represented and WLGA. The Clwyd Pension Fund Manager and Corporate Finance Manager represented the Clwyd Fund. Two potential providers explained different approaches to the 'rental model'. No decision was made following these presentations but Hymans Robertson will be making recommendations to the Group.
1.03	On 13 th May 2016 all 8 Committee/Panel Chairs joined the SWT (Pensions Sub Group), Officers and WLGA. The Chairs were updated on the project. The briefing note provided which gives full background to the project is Appendix 1. They then met with representatives from LGA, DCLG and HMT to discuss the Wales Pool. The feedback on the Wales Pool approach was positive. A selection of Officers from the 8 funds will present to a Panel in early June (date to be confirmed).
1.04	Ahead of the above presentation Hymans Robertson will be making recommendations on: <ul style="list-style-type: none">• The legal structure for pooling investments• Clarity on investment decision-making and governance• Range of asset pools to be available to participating funds Clwyd Fund officers and advisors will inform Committee on the impact of the recommendations on the Clwyd Fund and recommend support or otherwise. Clearly the timetable set by Government makes proper local evaluation difficult but this is being faced by all LGPS funds.
1.05	There are two national groups with representatives from the pools on Responsible Investment and Infrastructure. Clwyd Fund Pension Finance Managers are representing the Wales Pool on both groups and will provide a verbal update to Committee.
1.06	A response has been received from DCLG officials on the Clwyd Fund submission in February which considered holding assets outside a Pool. The response is shown below. There will be an opportunity in the Annex to the July Wales Pool submission to further explain any exemptions. Fund Officers and Advisors will work with Hymans Robertson to express the view, agreed by Committee, within the submission. The consideration of assets to be held outside the Pool is part of the Project Plan and will be clearer when the range of assets available is known.

Philip,

I am writing in response to the submission from Clwyd of 16 February 2016, specifically in relation to the business case for holding assets outside of the proposed LGPS pool.

As stated in the guidance, any exemptions should be minimal and must be set out in the pooling proposal, alongside a supporting rationale, drawing on estimated transition costs, and forecast costs and net performance. We are not yet aware of any asset class or investment type that should be exempt from pooling in principle, though in some cases the transition period may be extended. The comments below are based on the information we've received to date.

Managed Account Platform

- We would expect this type of investment to be managed by the pool, as part of each fund's investment strategy.
- The pool may choose to invest through this vehicle, providing it is the most suitable option for these investments.

Liability Matching Mandate/Tactical Asset Allocation platform

- In principle the risk/return requirements which these seek to deliver could be delivered through the pool if the appropriate asset types are available. Transition costs will need to be set against the potential for improved net performance.

Legacy Illiquid assets

- As a result of recent tax changes, for initial seeding transactions only, UK property can be transferred into an ACS without attracting Stamp Duty Land Tax. Therefore any request for an exemption could not rely on the application of SDLT and, at present, we cannot see a clear rationale for UK property to be kept outside of an ACS. This will depend on the structure of the Wales Pool and the nature of the legacy illiquid assets.
- Funds will need to be clear how assets remaining outside the pool, including property, will be managed.

I should highlight that we do not yet have a clear understanding of the structure and governance of the proposed Welsh Pool. Proposed asset exemptions will be scrutinised as part of the review process for the 15 July submissions.

Please let me know if you have any questions.

2.00	RESOURCE IMPLICATIONS
2.01	The advisory and project management costs are being equally shared between the 8 Wales Funds. Officer support is being provided within existing resources in the Business Plan.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None required for this update report.

4.00	RISK MANAGEMENT
4.01	Pooling Investments is a key risk on the Fund's risk register as it could impact on the Fund's ability to deliver its investment strategy which in turn could impact investment risk and return and the pension cost to employers.

5.00	APPENDICES
5.01	Appendix 1 – Briefing Note for Pension Committee Chairs

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Letter from Minister for Local Government to 8 Wales pension funds – Wales Investment Pool proposal – 24th March 2016.</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) CPF or the Fund – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) PFC or Committee – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(c) PFAP – Pension Fund Advisory Panel – The Pension Fund Advisory Panel is a group of officers and advisers to the Clwyd Pension Fund, currently consisting of:</p> <ul style="list-style-type: none"> • The Chief Executive

- The Corporate Finance Manager (Section 151 Officer)
- The Clwyd Pension Fund Manager
- Investment Consultant
- Fund Actuary
- Independent Adviser

(d) **FCC – Flintshire County Council** – the administering authority responsible for managing the Clwyd Pension Fund

(e) **DCLG** – Department of Communities & Local Government.

(f) **HMT** – Her Majesty’s Treasury

(g) **WLGA** – Wales Local Government Association

This page is intentionally left blank

BACKGROUND

Collaboration across the eight LGPS pension funds in Wales is not new. In recent years, there has been support from elected members across all eight funds to explore the opportunities for achieving efficiencies within the areas of funding and investment by considering issues such as scheme mergers and collaboration on investments.

In March 2013, the Pensions Sub Group of the SWT published a substantial report ('Welsh Local Government Pension Funds: Working Together') which included a formal consultation process.

Following guidance from the wider DCLG Consultation on Cost savings and Efficiency, the Pensions Sub Group commissioned a further report in early 2015 on the development of a detailed business plan for the establishment of a common investment fund.

UK GOVERNMENT - AGENDA FOR STRUCTURAL REFORM

In July 2015, the UK Government suggested that all LGPS assets within England and Wales should be pooled. Informal discussions with funds commenced in the summer and it was made clear that the funds themselves would be invited to put forward their own proposals as to how asset pooling might best be implemented. Discussions began across the Scheme on the possible composition of the different asset pools.

In September 2015, each of the eight Welsh funds' Pensions Committees formally resolved to set their own course significantly in advance of the guidelines which were subsequently laid down by DCLG / HMT. Decisions were taken to:-

- appoint a single provider of passive management services for funds, and
- proceed with establishing a formal Collective Investment Vehicle (CIV) to facilitate asset pooling.

It was also decided that the funds would use a third party provider (an 'operator') to supply the necessary infrastructure for establishing a pooling vehicle fully regulated by the FCA (Financial Conduct Authority) - rather than creating their own vehicle.

This decision was made taking into account the limited internal resources available to establish its own pooling vehicle, the shorter timescales for likely implementation and the lower level of regulatory risk that such an approach would imply.

In November, the formal criteria were issued by DCLG against which the pooling proposals put forward by the LGPS would be assessed. There were four key criteria:-

- Scale
- Strong governance and decision making
- Cost efficiency and value for money
- Improved capacity to invest in infrastructure

The Welsh funds reviewed their progress to date on pooling investments and decided to proceed with establishing a Wales Pool within the guidelines laid down by UK Government, through the DCLG.

FEBRUARY SUBMISSION

A proposal for a Wales Pool was submitted to DCLG in line with their prescribed timetable by 19 February 2016, along with letters of support from each of the relevant Committee Chairs.

The proposal addressed each of the stated criteria except for scale where DCLG had indicated that they anticipated pools with a minimum of £25bn of assets. (Total assets across the Welsh funds were in the region of £12-13bn. at March 2015). The proposal also stressed the substantial work done to date and unique situation of collaboration across Wales.

The response to the proposal from DCLG strongly supported the intended use of a formal regulated vehicle and acknowledged the unique characteristics of a Wales Pool. The funds were encouraged to work up the proposal in more detail for submission in July.

JULY SUBMISSION

More detailed submissions have been requested from all the proposed pools by 15 July.

These submissions will need to provide more detail on:-

- The proposed governance arrangements, including the legal structure of the proposed pooling arrangements and how accountability to participating funds will be maintained.
- The nature of the asset pools which will be made available to funds and how investment in different asset classes will be implemented.
- Estimated cost savings for each individual fund and the timescale over which these might be achieved.
- The pool's approach to investment in infrastructure.

Therefore, a number of decisions need to be taken in relation to the proposed working of the pool over the next few weeks.

WHAT WILL IT MEAN FOR ADMINISTERING AUTHORITIES?

One of the key principles is that administering authorities will retain control over setting the investment strategy and detailed asset allocation for their individual funds. This allows the broad risk and return characteristics of the strategy to be set in conjunction with each fund's overall funding strategy.

But funds will then invest in asset pools which will be made available by the operator of the Wales Pool.

One of the Government's aims is that the appointment of investment managers is no longer carried out at an individual fund level. Decisions on investment managers for each asset class or mandate will be made collectively at a pool level.

Governance arrangements will be put in place to allow oversight of the operator and ensure accountability back to individual funds.

One of the principles behind the Government's imposition of pooling is that larger asset pools will result in fee savings with investment managers. Within Wales, this has already been achieved through the passive manager appointment which has generated an estimated overall saving of £1.3m p.a.

In aggregate, there is likely to be less manager turnover which would reduce transaction costs. And combining assets may make it more cost effective for some funds to access certain asset classes (such as private equity, property and infrastructure) where relatively expensive 'fund of fund' approaches are currently used.

However, the changes do mean that individual Pensions Committees will have less control over their underlying investment managers and some compromise will be required across the funds when determining exactly which sub-funds will be made available for investment.

It is anticipated that initial transfers of liquid assets into the pooled vehicle might begin in the second half of 2017 – ahead of the government target of April 2018. The Government has conceded that illiquid investments, such as property, infrastructure, and private equity are likely to transition into the pools over a much longer period of time, and has stressed specifically that investments with significant exit costs should not be wound up early on account of the pooling arrangements.

Within the pool submission in July, individual funds will be allowed to request that they retain specific assets outside of the pool, though it is anticipated that these will only be allowed in exceptional circumstances.

NEXT STEPS

Officer representatives from each of the funds will be working over the next few weeks on agreeing some of the detail set out above. This will need to be reflected in the July submission to DCLG.

The nature of the pool's legal and regulatory structure has been discussed previously and the funds currently intend to proceed with a selection exercise later this year to appoint a third party provider for operating the CIV. Details of the governance process for overseeing the operator are still to be agreed.

The range of sub-funds which will be made available to participating funds needs to be considered and agreed.

Funds have submitted data on their investment costs to CEM Benchmarking, a third party analytical firm, and this will help to set a baseline for monitoring future savings.

This page is intentionally left blank



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 24 May 2016
Report Subject	Governance Update
Report Author	Pensions Finance Manager

EXECUTIVE SUMMARY

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

- (a) Business Plan 2016/17 update (Appendix 1) for governance for which no actions commence during Quarter 1.
- (b) Current Developments and News – The Chair of the SAB has confirmed its formal establishment, the appointment of a Vice Chair, the creation of two sub-committees and that invitations have been sent asking for nominees for the three statutory non-voting positions on the Board.
- (c) Governance related policy/strategy implementation and monitoring. The Training Policy is now well embedded with excellent progress being made (Appendix 4). Details are also included of future events that Committee Members should consider (Appendix 3). The Breaches Policy is now in place. An anonymised copy of the Breaches Register is included at Appendix 5.
- (d) Delegated responsibilities – no responsibilities have been delegated to officers since the last Committee meeting.
- (e) Calendar of future events (Appendix 2). This details future training and other events.

RECOMMENDATIONS

	That the Committee consider the update and provide any comments.
--	--

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
	Business Plan 2016/17 Update
1.01	Appendix 1 provides a summary of progress against the governance section of the Business Plan up to the end of quarter 1 to 30 June 2016. The Committee is asked to note that no actions are planned to commence during this quarter.
1.02	Appendix 1 also includes progress against the projected cash-flows and budgeted operating costs for 2015/16. The 2016/17 budget is included for information. The Committee is asked to note the following: <ul style="list-style-type: none"> • Fund Manager Fees are estimated as details of the majority of these fees have not yet been received. • We have yet to be advised of the Flintshire County Council support service costs recharge; an estimate based on the 2014/15 recharge has thus been used. • The key message from the final cash-flow for 2015/16 is that the Fund, excluding investment income and net distributions, was cash flow negative (£800 k), however, this included a bulk transfer of £4m during March to Gwynedd County Council.
1.03	The Committee is asked to note the contents of the business plan update.
	Current Developments and News
1.04	<i>National Scheme Advisory Board Update</i> – An update by Cllr Phillips (Chair SAB) has been shared on the SAB website. This confirms the formal establishment on the SAB, the appointment of a Vice-Chair (Jon Richards UNISON), and the establishment of two sub committees (Cost Management and Scheme Design, and also Investment, Engagement and Governance). Invitations to fill the three statutory non-voting positions will be sent to the Association of Local Authority Treasurers (ALAT), the Pension and Lifetime Savings Association (PLSA formerly NAPF) and the Trade Union Congress (TUC). The SAB's third annual report has now been published (http://www.lgpsboard.org/index.php/schemedata/scheme-annual-report).
1.05	<i>Local Pension Board Update</i> – The minutes from the Board meeting held on the 1 st March 2016 have previously been circulated to the Committee. There are no further matters to report.
	Policy and Strategy Implementation and Monitoring
1.06	<i>Internal Audit Report</i> – A routine annual audit was undertaken of Pensions Administration (Appendix 6) during the final quarter of 2015/16. An audit opinion is issued on a scale red to green, with green being substantial assurance. This audit resulted in an amber green (reasonable assurance) opinion being given. This has identified that whilst key controls are in place,

	<p>and generally operating effectively, some fine tuning is required.</p> <p>In total, one medium priority action and four low priority actions were identified. These are detailed in the report and remedial actions have been agreed with management. Internal Audit found that all other areas within the scope of their audit were well managed.</p>
1.07	<p><i>Training Policy</i> – The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to:</p> <ul style="list-style-type: none"> • have training on the key elements identified in the CIPFA Knowledge and Skills Framework • attend training sessions relevant to forthcoming business • attend at least one day each year of general awareness training or events.
1.08	<p>Appendix 4 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Some Committee Members do have outstanding modules to complete. Catch up training will be arranged during 2016/17.</p>
1.09	<p>Appendix 4 also includes training and various external events attended by Committee Members during 2016/17 as well as The Pension Regulator modules undertaken. Appendix 3 includes details of all future training planned including forthcoming events considered suitable for general awareness training.</p> <p>Members should note, in particular, that the Local Government Association (LGA) is holding the 13th Annual LGPS Trustee’s Conference in Manchester on the 23-24 June 2016. A flyer for the event is included at Appendix 7.</p>
1.10	<p><i>Recording and Reporting Breaches Procedure</i> – The Fund’s procedure requires that the Clwyd Pension Fund Manager maintains a record of all breaches of the law identified in relation to the management of the Fund and this information will be reported to the Pension Fund Committee at each meeting. Appendix 5 includes summary information in relation to the breaches identified last quarter. Information has been anonymised where necessary for data protection or commercial confidentiality.</p>
1.11	<p>No additional Breaches have been reported since the 22nd March Committee. In terms of the Breaches reported:</p> <p>Reference 01: work is progressing with system reports to identify those deferred benefits affected</p> <p>Reference 02: some legal advice has been received but further correspondence is required.</p>
1.12	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to governance matters.</p>
	<p>Calendar of Future Events</p>

1.13	<p>Appendix 2 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates.</p> <p>The Committee is asked to note that there will be a Special Meeting of the Clwyd Pension Fund Committee on the 5th July.</p>
------	---

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

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

4.00	RISK MANAGEMENT
4.01	The Fund's Risk Management Policy 2016/17 is included at Agenda Item 6 of this Committee for approval.

5.00	APPENDICES
5.01	<p>Appendix 1 - Business plan update 2016/17</p> <p>Appendix 2 - Calendar of events</p> <p>Appendix 3 - Training Plan 2016/17</p> <p>Appendix 4 - Training undertaken 2016/17</p> <p>Appendix 5 - Record of breaches of the law</p> <p>Appendix 6 - Internal Audit Report</p> <p>Appendix 7 - LGA Trustee Training</p>

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Report to Pension Fund Committee – Business Plan 2016/17 to 2018/19 on the 22 March 2016. A link to the Committee Agenda follows:</p> <p>http://cyfarfodyddpwylgor.siryfflint.gov.uk/ieListDocuments.aspx?CId=445&MIId=3586&Ver=4&LLL=undefined</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) CPF – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) Administering authority or scheme manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) PFC or Committee – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) LPB or PB – Local Pension Board or Pension Board – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.</p> <p>(e) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(f) TPR – The Pensions Regulator – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF.</p> <p>(g) SAB – The national Scheme Advisory Board – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG.</p> <p>(h) Breaches Register - There is a requirement to maintain a register of all breaches of the law which affect pension schemes. Where these breaches are likely to be of material significance to the Pensions Regulator there is an additional requirement to report them to the Pensions Regulator.</p> <p>(i) Internal Audit - This is a statutory function within the Authority. Its purpose is to provide the Authority with an independent and objective opinion on the adequacy and effectiveness of internal control, risk management and governance arrangements.</p> <p>(j) PLSA (formerly NAPF) – The Pensions and Lifetime Savings Association is a national association dedicated to help pension professionals run better pension schemes.</p> <p>(k) ALAT – The Association of Local Authority Treasurers collectively represents the professional interests of treasurers in all types of local</p>

government.

- (l) **TUC** – The Trades Union Congress represents the majority of trades unions in England and Wales. It brings unions together to draw up common policies on issues that matter to people at work.

Business Plan 2016/7 to 2018/9 – Q1 Update

Governance

Budget

All the costs associated with the management of the Fund are a charge to the Fund and not to the Council. Final out-turn figures for 2015/16 are shown below:

Cashflow

	2013/14	2014/15	2015/16 £000s			
	£000s	£000s	Budget	Actual	Projected for full year	Final under/over
Opening Cash	(15,874)	(30,520)	(43,735)	(43,735)		
Payments						
Pensions	46,858	50,415	53,600	52,932	52,932	(668)
Lump Sums & Death Grants	12,861	17,317	18,000	14,906	14,906	(3,094)
Transfers Out	3,260	2,036	2,800	5,889	5,889	3,089
Expenses (including In House)	2,436	2,691	3,200	4,881	4,881	1,681
Support Services	242	219	250	167	167	(83)
Total Payments	65,657	72,678	77,850	78,775	78,775	925
Income						
Employer Contributions	(27,451)	(29,608)	(31,765)	(30,506)	(30,506)	1,259
Employee Contributions	(14,629)	(14,532)	(15,000)	(14,535)	(14,535)	465
Employer Deficit Payments	(24,666)	(28,079)	(27,230)	(27,872)	(27,872)	(642)
Transfers In	(3,802)	(2,347)	(4,000)	(1,791)	(1,791)	2,209
Pension Strain	(1,104)	(3,030)	(2,350)	(3,204)	(3,204)	(854)
Income	(326)	(223)	(140)	(74)	(74)	66
Total Income	(71,978)	(77,819)	(80,485)	(77,982)	(77,982)	2,503
Cashflow Net of Investment Income	(6,321)	(5,141)	(2,635)	793	793	3,428
Investment Income	(2,575)	(2,847)	(2,850)	(2,497)	(2,497)	353
Total Net of In House Investments	(8,896)	(7,988)	(5,485)	(1,704)	(1,704)	3,781
In House Investments						
Draw downs	46,624	40,212	44,376	34,021	34,021	(10,355)
Distributions	(33,135)	(59,824)	(61,606)	(64,836)	(64,836)	(3,230)
Net Expenditure /(Income)	13,489	(19,612)	(17,230)	(30,815)	(30,815)	(13,585)
Total Net Cash Flow	4,593	(27,600)	(22,715)	(32,519)	(32,519)	(9,804)
Rebalancing Portfolio	(19,239)	14,385	39,400	62,614	62,614	23,214
Total Cash Flow	(14,646)	(13,215)	16,685	30,095	30,095	
Closing Cash	(30,520)	(43,735)	(27,050)	(13,640)		

Operating Costs

	2013/14	2014/15	2015/16			2016/17
	Actual £000s	Actual £000s	Budget £000s	Projected for full year £000s	Final under/ over £000s	Budget £000s
Governance Expenses						
Employee Costs (Direct)	182	218	226	225	(1)	229
Support & Services Costs (Internal Recharges)	23	13	19	34	15	19
Premises	19	8	17	0	(17)	17
IT (Support & Services)	10	12	10	2	(8)	10
Other Supplies & Services)	47	49	56	51	(5)	56
Audit Fees	35	37	36	40	4	40
Actuarial Fees	148	205	192	225	33	304
Consultant Fees	229	403	341	371	30	389
Advisor Fees	0	142	156	225	69	188
Legal Fees	31	21	30	35	5	30
Performance Monitoring Fees	25	20	25	30	5	25
Total Governance Expenses	749	1,128	1,108	1,238	130	1,307
Investment Management Expenses						
Fund Manager Fees*	5,571	16,127	14,490	11,300	(3,190)	11,028
Custody Fees	17	32	34	27	(7)	34
Total Investment Management Expenses	5,588	16,159	14,524	11,327	(3,197)	11,062
Administration Expenses						
Employee Costs (Direct)	599	592	662	603	(59)	711
Support & Services Costs (Internal Recharges)	69	53	82	157	75	90
Outsourcing	0	32	800	458	(342)	1,240
Premises	78	33	75	0	(75)	75
IT (Support & Services)	223	218	250	175	(75)	250
Other Supplies & Services)	63	75	70	61	(9)	107
Miscellaneous Income	(2)	(1)	0	0	0	70
Total Administration Expenses	1,030	1,002	1,939	1,454	(485)	2,543
Total Costs	7,367	18,289	17,571	14,019	(3,552)	14,912

*CIPFA have changed the elements that need to be included in Fund manager fees resulting in a reduction. Underlying fees are no longer required to be disclosed in the accounts.

Key Tasks

Key:

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

Governance Tasks

Ref	Key Action –Task	2016/17 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
G1	Review CPF Adviser Procurement Framework		x	x	x		
G2	Review constitution and delegations in relation to asset pooling		x	x	x		
G3	Review/Tender Investment Consultancy and Independent Adviser Contracts		x	x	x		
G4	Consider Key Person Risk			x	x		
G5	Induction Training for PC					x	
G6	Review/Tender Actuarial					x	
G7	Review administration system contract					x	x

G8	Review of governance related policies					x	x
G9	Review/Tender Custodian Contract						x
G10	Impact of local government reorganisation in Wales						x

CLWYD PENSION FUND - CALENDAR OF EVENTS APRIL 2016 ONWARDS

Month	Date	Day	Committee	Training	Pension Board	Location
2016						
April	22 Apr	Friday		ESG Training		Cardiff
May	11 May	Wednesday		Actuarial Valuation (AM)		County Hall
	16-18 May	Mon - Wed		NAPF Local Authority Conference		Gloucestershire
	24 May	Tuesday	AM			County Hall
June	23-24 June	Thur-Fri		LGA Trustee Conference		Manchester
	29 Jun	Wednesday		Local Pension Boards - One Year On...		London
July	05 Jul	Tuesday	Special Cttee			County Hall
	06 Jul	Wednesday			PM	County Hall
September	27 Sep	Tuesday	AM	tbc		County Hall
	8-9 Sep	Thur-Fri		LGC Investment Summit		Newport
October	13 Oct	Thursday			PM	County Hall
November	08 Nov	Tuesday	AM	Annual Employer Meeting		County Hall
December	7-9 Dec	Wed - Fri		LAPFF Conference		Bournemouth
2017						
Feb-2017	16 Feb	Tuesday	AM	tbc		County Hall
March	02 Mar	Thursday			PM	County Hall
	21 Mar	Tuesday	AM (Special)	tbc		County Hall
June	13 Jun	Tuesday	PM	tbc		County Hall
	28 Jun	Wednesday			PM	County Hall

NOTE: Committee dates to be confirmed at FCC AGM

NOTE: Training will normally take place immediately before each Committee

This page is intentionally left blank

Clwyd Pension Fund

Training Plan 2016/17 - as at 17 May 2016

Title of session	Training Content	Timescale	Training Length	Audience	Complete
ESG Training, Cardiff	Approaches to Environmental, Social and Governance (ESG) and Impact Investing	22/04/2016	1 day	Pension Finance Manager	Y
Actuarial Valuation	Update on the actuarial valuation process for 2016	11/05/2016	AM	Committee, Pensions Board and Officers	Y
PLSA Local Authority Conference, Gloucestershire	Various topical updates	16-18/05/2016	2 days	Not attended	
LGA Trustee Conference	Various topical presentations including pooling, cost control and the potential impact of European legislation.	23-24/06/2016	1 day	Committee, Pensions Board and Officers	
CIPFA and Barnett Waddingham: Local Pension Boards - One Year On...	Update by key players together with a focus on the Scheme's financial viability and the problem of managing data.	29/06/2016	1 day	Pensions Board	
Investment Strategy Statement	Briefing on the change to, and implication of, an ISS	tbc	tbc	Committee, Pensions Board and Officers	
Alternative Delivery Models	Overview of Alternative Delivery Models including impact on the Clwyd pension Fund	tbc	tbc	Committee, Pensions Board and Officers	
LGC Investment Summit, Newport	Various topical presentations. Agenda not yet available.	7-9/09/2016	1.5 days	Committee, Pensions Board and Officers	
Employer Risk Management	Employer Risk Management including the monitoring framework (employer covenant, funding and protections)	tbc	tbc	Committee, Pensions Board and Officers	
Pension Cost and Deficit Management	Overview of the National Scheme Advisory Board's deficit and cost management projects and implications	tbc	tbc	Committee, Pensions Board and Officers	

This page is intentionally left blank

	Cllr A Diskin	Cllr H Bateman	Cllr R Hampson	Cllr B Dunn	Cllr M Wright	Cllr H. Jones	Cllr S Wilson	A Rutherford	S Hibbert
Committees (3hrs)									
Special Committee April 2016	✓	✓		✓		✓	✓	✓	✓
May 2016									
Special Committee July 2016									
November 2016									
March 2017									
CIPFA Framework Requirements 2014/15 – 2016/17									
Governance (1 day)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Funding & Actuarial (1 day)		✓	✓	✓	✓	✓	✓	✓	✓
Investments (1 day)		✓	✓	✓	✓	✓	✓	✓	✓
Accounting (Included with Investments)		✓	✓		✓	✓	✓		✓
Additional Training & Hot Topics									
Alternative Delivery Models									
Actuarial Valuations (2 Hrs)	✓	✓				✓	✓	✓	✓
Annual Employer Meeting (4hrs)									
Pensions Regulator Modules									
Conflicts of Interest							✓	✓	✓
Managing Risk & Internal Controls									

	Cllr A Diskin	Cllr H Bateman	Cllr R Hampson	Cllr B Dunn	Cllr M Wright	Cllr H. Jones	Cllr S Wilson	A Rutherford	S Hibbert
Maintaining Accurate Member Data									
Maintaining Contributions									
Providing Information to Members & Others									
Resolving Disputes									
Reporting Breaches									
Conferences									
ESG Training Cardiff (1.5 days) April 2016									
PALSA 16-18 May 2016									
LGA Trustee Conf. Manchester (1.5 days) June 2016									
LGC Investment Summit (1.5 days) Sept 2016									
LAPFF Annual Conference (1.5 days) Dec 2016									
LGC Seminar (1.5 days) March 2017									

CURRENT BREACHES OF THE LAW

Reference	01	Date recorded	11/3/2016	Date breach resolved	Ongoing
Category	Administration	Owner	H Burnham	Reported to TPR	No
Description and cause of breach	Notification of deferred benefit entitlement for those who have left the scheme not sent within the legally prescribed timescale. Whilst it is acknowledged that there are a number of these breaches there is no detail yet available regarding numbers affected.				
Possible effect and wider implications	The impact of the breach will vary dependant on the individuals concerned but as a minimum will mean they do are not fully aware of the benefits they will eventually become entitled to.				
Reaction to breach	Still trying to identify cases. Backlog project put in place including using external resource (Mercers) to assist with rectifying the situation as soon as possible. Methods of internal working reviewed to focus on older cases including greater focus on identifying cases and monitoring.				
Outcome of report and/ or investigations	Ongoing.				
Outstanding actions	Information being collated to quantify deferred benefit notifications over 2 months late together with reasons why there is a delay and what steps are being taken to prevent a recurrence of the breach.				

Reference	02	Date recorded	11/3/2016	Date breach resolved	Ongoing
Category	Administration	Owner	H Burnham	Reported to TPR	No
Description and cause of breach	There is a potential Admitted Body which is due to become one of our employers with effect from January 2016. Since having dialogue with the company in question it transpired that 2 members TUPE transferred over to this company in December 2014 and therefore the body should have arranged access to the LGPS from that date. We were not made aware of this. Instead the company got the individuals to sign and enter into their Auto Enrolment Scheme, and subsequently are now wanting them to join the LGPS.				
Possible effect and wider implications	Unclear until legal advice received but it is possible these members will miss out on approximately 1 year's LGPS benefits.				
Reaction to breach	We are taking legal advice on how next to proceed.				
Outcome of report and/ or investigations	Ongoing				
Outstanding actions	Legal advice is being sought to determine an equitable solution.				

This page is intentionally left blank

Flintshire Internal Audit

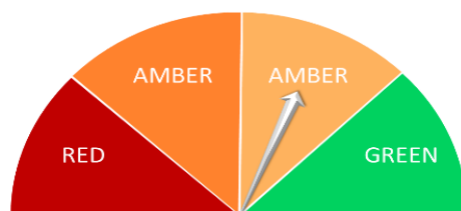
Audit Report

Title: Pensions Administration & Contributions (2015/16)
Portfolio: External
Issued Dated: May 2016
Report No: 44-2015/16
Report Status: Final

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

Page 65

Audit Opinion



1. Executive Summary:

Introduction and Scope:

An audit of Pensions Administration was undertaken as part of the approved Internal Audit Periodic Plan for 2015/16. The purpose of the review is to give assurance on the robustness of the administration processes and the accuracy of the data on the Pensions Administration software system, Altair.

The Fund currently comprises approximately 30 employers with active members, and approximately 40,000 scheme members (including active members, deferred and pensioner members).

Of significance in the current year is the development of the Clwyd Pension Fund Administration Strategy. The draft strategy has been consulted upon and was approved at the Clwyd Pension Fund Committee Meeting held on 22nd March 2016. This has now been implemented with effect from 1st April 2016. Of particular importance is the outlining of both the responsibilities of the Administering Authority and the Employers and also the required performance standards to be met under it. The overall objective is the delivery of a high quality, timely and professional administration service. Key Performance Indicators have been changed to ensure that they are more meaningful and a fairer reflection of performance.

The review incorporated looking at the timeliness of processing a sample of retirement accruals from 2014/15. After taking into account the date that all appropriate information had been received back from members, the average time taken to process the payments was 18 days. It will be important to consider the actual date pension information is received for the reporting of the Performance Indicators (PIs) under the new Administration Strategy.

The Clwyd Pension Fund's Business Plan for the next three years (2016/17 to 2018/19) has a number of projects which will aid the delivery of the Administration Strategy. These include the implementation of new software (iConnect) that will allow employer data to be loaded directly into the pension administration software. This should bring about increased efficiency within work processes.

Audit Opinion:

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

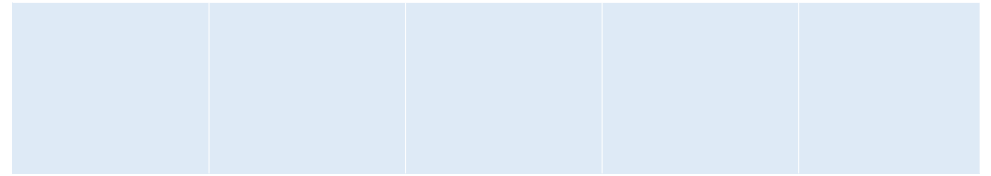
Assurance:	Explanation
Amber Green – Reasonable	<p>Key Controls in place but some fine tuning required (one or more of the following)</p> <ul style="list-style-type: none"> • Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact • Some refinement or addition of controls would enhance the control environment • Key objectives could be better achieved with some relatively minor adjustments <p>Conclusion: key controls generally operating effectively.</p>

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

Priority	High	Medium	Low	Total
No.	0	1	4	5

Page 2

The main challenge for Pensions Administration continues to be significantly reducing the backlog of tasks. As at 10th February 2016 backlog figures drawn off the system showed a total backlog of outstanding tasks of 2,486. This relates to 814 for 14/15 and the current workload of 1672 for 2015/16.



2. Summary Findings:

Areas Managed Well	Areas for Further improvement
<ul style="list-style-type: none"> • Life Cycle events are being processed accurately. • The Atmos data matching process is well managed with positive outcomes being achieved. • The Annual Benefit Statements are distributed in line with the scheduled timetable and communications with stakeholders are delivered in line with the Communications Strategy. • Task management is being reviewed regularly to determine potential work flow efficiencies. • Staff have regular 'in situ' training to expand their knowledge and keep abreast of regulations. • The processing of retirement payments is being conducted in a timely manner once all information has been received. 	<ul style="list-style-type: none"> • Where information is waited on to complete tasks monitoring could be improved to receive more timely responses. • Spreadsheets showing outstanding queries with contributing bodies need to be maintained in a manner where it is easier to see what the current position is. • Issues with the reconciliations of the Lump Sums need to be addressed in a timely manner.

3. Action Plan:

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

No.	Findings and Implications	Agreed Action	Who	When
1(A)	<p>Lump Sums</p> <p>As at 25 January 2016 the reconciliation for period 9 was still being worked on and it took another 10 days for the reconciliation to be sent to us. Many problems have been reportedly experienced in undertaking the reconciliation and it still contains several large unexplained variances which are being worked on. These relate largely to Flintshire CC, Wrexham CBC and Denbighshire CC where there are items not in Masterpiece and items not on Altair reports. The net value of differences for Flintshire CC is £393k, for Wrexham CBC £117k and Denbighshire £19k. Many of the variances relate to early periods which should have now been resolved.</p>	<p>A revised report is to be produced and all variances will be picked up on a monthly basis.</p> <p>URN 01379</p>	Debbie Fielder	31/07/2016
2 (G)	<p>Flintshire Starters</p> <p>We obtained the spreadsheet of Flintshire starters and noted that Pension Assistants are currently working on queries from the November 2015 uploads. We obtained the monthly exception reports from the uploads to Altair from April 2015 to November 2015. The reports give control totals of the total number of member records read, the total of members rejected and the total accepted for updating. We noted that the date on these reports are often two months after the period end. The number of records rejected is approximately 30-40% of the total number of records.</p> <p>We noted that the exception reports are no longer being evidenced as checked or explanations given. The Pension Assistants are working off the reports to update the spreadsheet.</p>	<p>Evidence of checking the exception reports will be reinstated.</p> <p>URN 01374</p>	Sandra Beales	30/06/2016

No.	Findings and Implications	Agreed Action	Who	When
	The spreadsheet is colour coded on the left margin showing records in green when all queries resolved and agreed. We noted that there were still a few queries outstanding from August 2015 forwards.			
3 (G)	<p>Death Grants</p> <p>Out of a sample of ten death grants examined, in one case the payment of death grants showed tasks had not been completed dating back to September 2015. Pensions are waiting for information from Staffordshire Council to proceed or close off the case.</p>	<p>A review of the workflow and tasks undertaken has taken place and this will link into following through on cases requiring further action</p> <p>URN 01383</p>	Helen Burnham	30/06/2016
4 (G)	<p>Reconciliation of Employees and Employers Contributions</p> <p>Pensions Finance maintain a spreadsheet reconciling contributing bodies employee and employer contributions to amounts received and compare these to the Pensionable Pay figures and expected employer contributions payable.</p> <p>There is currently a cumulative difference of over £100k on the Flintshire County Council spreadsheet and the Employment Services Systems and Data Team Leader has informed Pensions Finance that the difference has arisen because of employees being paid back pay and this being subject to employer contributions at different rates. This has remained unresolved with it being reported by the Employment Services Systems and Data Team Leader to Pensions Finance staff that the Payroll system cannot provide the Pensionable Pay figures for these employees. However this information is required by Pensions Finance.</p>	<p>Details of Pensionable Pay will be requested from Payroll that reflect the contributions paid.</p> <p>UR 01378</p>	Debbie Fielder	31/05/2016
5 (G)	<p>Contributing Bodies Annual Statements</p> <p>From the 1st April 2015 Pension Funds must report on the Career Average Revalued Earnings (CARE) of Members. CARE is a defined benefit pension scheme. A defined benefit scheme guarantees a certain level of benefit at retirement, according to a fixed formula.</p> <p>When the Annual statements are received from the</p>	<p>A thorough review of the workflow has already been undertaken to take into account the ownership of outstanding tasks and the spreadsheet will be updated accordingly</p> <p>URL 003</p>	Helen Burnham	30/09/2016

No.	Findings and Implications	Agreed Action	Who	When
	<p>contributing bodies these are manually copied and pasted to a spreadsheet template. Because of the new regulations on the CARE element there are now two spreadsheets that must be uploaded through the Flintshire database in Microsoft Access. To make this easier for the employers, Pensions Administration have combined the two spreadsheets and edited the guidance notes. Due to the CARE element including overtime and the Pre CARE pensionable pay excluding overtime pensionable remuneration for the employers can no longer be automatically calculated by the system. Employers have therefore now been asked to supply the details. It was reported that a few employers have struggled to provide these details because of uncertainty on the required calculation and have sometimes merely quoted the members final pay scale rather than pensionable remuneration.</p> <p>As the two spreadsheets have to be uploaded separately to Altair the reporting element can be duplicated.</p> <p>A number of reports are drawn from the system after the information has been uploaded. These are:</p> <ul style="list-style-type: none"> • No matching Data Sets • Duplicate data Sets • Contributions already exist. • AVC contributions. <p>These are all reviewed and investigated by the Technical Development Officer. Checks are evidenced on the reports.</p> <p>Reports of Pensionable Remuneration (High/Low) are also produced. Significant differences between the last Pensionable pay and the current are all investigated.</p> <p>A Contributions Query Folder is maintained on the shared drive with a spreadsheet for each contributing body. We</p>			

No.	Findings and Implications	Agreed Action	Who	When																																																																													
	<p data-bbox="226 183 1003 255">obtained the outstanding queries for the individual contributing bodies and found:</p> <table border="1" data-bbox="226 284 1003 751"> <thead> <tr> <th data-bbox="226 284 481 371" rowspan="2">Employer</th> <th colspan="5" data-bbox="481 284 1003 316">Queries Relating to</th> </tr> <tr> <th data-bbox="481 316 593 371">Starters</th> <th data-bbox="593 316 705 371">Leavers</th> <th data-bbox="705 316 817 371">Missing Cont's</th> <th data-bbox="817 316 929 371">Other</th> <th data-bbox="929 316 1003 371">Total</th> </tr> </thead> <tbody> <tr> <td data-bbox="226 371 481 403">Wrexham BC</td> <td data-bbox="481 371 593 403">333</td> <td data-bbox="593 371 705 403">120</td> <td data-bbox="705 371 817 403">60</td> <td data-bbox="817 371 929 403">76</td> <td data-bbox="929 371 1003 403">589</td> </tr> <tr> <td data-bbox="226 403 481 435">Coleg Cambria</td> <td data-bbox="481 403 593 435">44</td> <td data-bbox="593 403 705 435">40</td> <td data-bbox="705 403 817 435">12</td> <td data-bbox="817 403 929 435"></td> <td data-bbox="929 403 1003 435">96</td> </tr> <tr> <td data-bbox="226 435 481 467">Flintshire CC</td> <td data-bbox="481 435 593 467">396</td> <td data-bbox="593 435 705 467">129</td> <td data-bbox="705 435 817 467">30</td> <td data-bbox="817 435 929 467"></td> <td data-bbox="929 435 1003 467">555</td> </tr> <tr> <td data-bbox="226 467 481 499">Denbighshire CC</td> <td data-bbox="481 467 593 499">174</td> <td data-bbox="593 467 705 499">18</td> <td data-bbox="705 467 817 499">65</td> <td data-bbox="817 467 929 499"></td> <td data-bbox="929 467 1003 499">257</td> </tr> <tr> <td data-bbox="226 499 481 531">North Wales Fire</td> <td data-bbox="481 499 593 531">2</td> <td data-bbox="593 499 705 531">2</td> <td data-bbox="705 499 817 531">1</td> <td data-bbox="817 499 929 531"></td> <td data-bbox="929 499 1003 531">5</td> </tr> <tr> <td data-bbox="226 531 481 563">Careers Wales</td> <td data-bbox="481 531 593 563">1</td> <td data-bbox="593 531 705 563">2</td> <td data-bbox="705 531 817 563"></td> <td data-bbox="817 531 929 563"></td> <td data-bbox="929 531 1003 563">3</td> </tr> <tr> <td data-bbox="226 563 481 595">Wrexham Com</td> <td data-bbox="481 563 593 595">9</td> <td data-bbox="593 563 705 595"></td> <td data-bbox="705 563 817 595"></td> <td data-bbox="817 563 929 595"></td> <td data-bbox="929 563 1003 595">9</td> </tr> <tr> <td data-bbox="226 595 481 627">Connahs Quay High</td> <td data-bbox="481 595 593 627"></td> <td data-bbox="593 595 705 627"></td> <td data-bbox="705 595 817 627"></td> <td data-bbox="817 595 929 627">3</td> <td data-bbox="929 595 1003 627">3</td> </tr> <tr> <td data-bbox="226 627 481 659">Glyndwr</td> <td data-bbox="481 627 593 659"></td> <td data-bbox="593 627 705 659">6</td> <td data-bbox="705 627 817 659">2</td> <td data-bbox="817 627 929 659"></td> <td data-bbox="929 627 1003 659">8</td> </tr> <tr> <td data-bbox="226 659 481 691">Bodelwyddan Castle</td> <td data-bbox="481 659 593 691"></td> <td data-bbox="593 659 705 691"></td> <td data-bbox="705 659 817 691"></td> <td data-bbox="817 659 929 691">2</td> <td data-bbox="929 659 1003 691">2</td> </tr> <tr> <td data-bbox="226 691 481 751">Total</td> <td data-bbox="481 691 593 751">959</td> <td data-bbox="593 691 705 751">317</td> <td data-bbox="705 691 817 751">170</td> <td data-bbox="817 691 929 751">92</td> <td data-bbox="929 691 1003 751">1527</td> </tr> </tbody> </table> <p data-bbox="226 790 1003 1093">There are many outstanding queries on the annual contributions and the Technical Development Officer informed us that as the queries are passed to the Pensions Operations Team the spreadsheets may not have been updated to reflect the current position. We were informed during the previous review that the spreadsheets had been redesigned and a better system was in place for ensuring the current position of the queries, however this has not happened.</p> <p data-bbox="226 1125 1003 1431">On discussion a Principal Pensions Officer informed us that this is work in progress to ensure the current position is clearer and up to date and a Pensions Assistant is currently working through the query spreadsheets looking at the queries against the Task Lists. The Task will be changed under a Technical user Group to ensure that the queries are assigned to the Pensions Operations Team to resolve and monitor more closely under the routine monitoring of tasks outstanding.</p>	Employer	Queries Relating to					Starters	Leavers	Missing Cont's	Other	Total	Wrexham BC	333	120	60	76	589	Coleg Cambria	44	40	12		96	Flintshire CC	396	129	30		555	Denbighshire CC	174	18	65		257	North Wales Fire	2	2	1		5	Careers Wales	1	2			3	Wrexham Com	9				9	Connahs Quay High				3	3	Glyndwr		6	2		8	Bodelwyddan Castle				2	2	Total	959	317	170	92	1527			
Employer	Queries Relating to																																																																																
	Starters	Leavers	Missing Cont's	Other	Total																																																																												
Wrexham BC	333	120	60	76	589																																																																												
Coleg Cambria	44	40	12		96																																																																												
Flintshire CC	396	129	30		555																																																																												
Denbighshire CC	174	18	65		257																																																																												
North Wales Fire	2	2	1		5																																																																												
Careers Wales	1	2			3																																																																												
Wrexham Com	9				9																																																																												
Connahs Quay High				3	3																																																																												
Glyndwr		6	2		8																																																																												
Bodelwyddan Castle				2	2																																																																												
Total	959	317	170	92	1527																																																																												

4. Distribution List:

Name	Title
Colin Everett	Chief Executive Officer
Philip Latham	Clwyd Pension Fund Manager
Helen Burnham	Service Manager
Debbie Fielder	Pensions Finance Manager
Alwyn Hughes	Pensions Finance Manager

Appendix A - Audit Opinion:

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

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

The 13th Annual LGPS Trustees' Conference

“In at the deep end”

23-24 June 2016

Macdonald Manchester Hotel & Spa

Organised by the Local Government Pensions Committee



The Conference

The thirteenth annual LGPS trustees' conference themed "In at the deep end" is to be held on 23 and 24 June 2016 at the Macdonald Manchester Hotel and Spa commencing with registration and a buffet lunch from 12:30 pm. The conference starts at 13:50 pm. Following the afternoon programme there will be a drinks reception in the evening, private conference dinner and an after-dinner speaker.

Overnight accommodation and breakfast at the Macdonald Manchester Hotel is also included in the conference fee. The second day consists of a full morning's programme concluding with a buffet lunch for delegates at 12:30 pm.

A similar format has been appreciated by previous delegates, as it allows plenty of time for travel and avoids the expense of an extra night's accommodation in many cases. You will need to contact the hotel directly if you would like to stay over the night before or the night after as the case may be but state that you are attending the conference.

Confirmed speakers include:

Andrew Cornelius
HM Treasury

Angela Rayner MP
Shadow Pensions Minister

Chris Megainey
DCLG

David Walker
Hymans Robertson

Glyn Jenkins
Unison

Graeme Muir
Barnett Waddingham

James Walsh
Pensions & Lifetime Savings Association

Martin Clarke
The Government Actuary

Intended Audience

Although primarily aimed at elected members, the conference will be of interest to other people who attend pension committees, panels or sub-committees etc (e.g. employing authority, trade union and pensioner representatives, as well as officers).

The conference also acts as an annual update for those persons who have been through the LGPS's "Fundamentals" course, keeping them up-to-date with developments in the local government pension world.

Having delivered inaugural training for local pension boards in May/June 2015, and judging by attendance at "Fundamentals" later last year, the conference will also be of particular interest to local pension board members.



Cost and Booking

The conference fee is all inclusive. All meals from arrival to departure, overnight accommodation at the hotel, and all delegate materials are included in the conference fee of £499 plus VAT. Due to the strictly limited number of places available, early booking is highly recommended.

Booking for the conference is via the events on-line booking facility which is part of the Local Government Association's website at: <http://www.local.gov.uk/events>

If you experience any difficulties in using the on-line booking system or do not have access to the internet, please contact Elaine English, LGPS Executive Officer, on 020 7187 7344 or elaine.english@local.gov.uk

Programme

Thursday 23 June 2016

- 12:30 Registration & Buffet lunch
- 13:50 Chair's Welcome
- 14:00 **Keynote Address**
"In at the deep end"
Our 2016 keynote address focusses on the hot topic of "pooling".
- 14:30 **Pooling Panel Session**
A look at how pooling will affect the LGPS world going forward, including a look at investment manager selection.
- 15:15 Refreshment break
- 15:45 **Investment Cost Transparency**
Is 2020 vision really a possibility in 2016?
- 16:15 **Pensions Tax – implications for the LGPS**
"Strengthening the incentive to save: a consultation on pensions tax relief" is long since closed. Where do we go from here?
- 16:45 **"Around the corner – in or out?"**
The day of "the" referendum we will take a look at the implications for LGPS Funds whatever the outcome.
- 17:15 **Chair's closing remarks**
- 19:00 Drinks Reception
- 20:00 Private Conference Dinner
- 21:30 After-Dinner Speaker

Programme and speakers may be subject to change without prior notice

Friday 24 June 2016

- 09:30 Chair's Welcome
- 09:35 **"In or out - around the corner" Valuations**
2016 sees the first valuation in England and Wales (and Northern Ireland) since introducing CARE schemes in 2014 (and 2015). How optimistic should we all be?
- 09:50 **Cost control**
As the 2016 round of valuations get underway, we will take a look at the prospects of the cost control mechanism clicking in.
- 10:05 **GAD's perspective**
The Government Actuary's view of the LGPS world, including a look at Section 13 checks.
- 10:20 **A Union perspective**
A Union's view on cost control and the assumptions that are driving cost.
- 10:35 **Question and Answer Session**
- 10:45 Refreshment break
- 11:15 **MIFIDII + IORPII = ?**
Just what will second versions of the Markets in Financial Instruments Directive and the Institutions for Occupational Retirement Provision Directive have in store for you?
- 11:45 **Investment Spotlight**
We end the conference with our ever-popular tour of investments across the globe.
- 12:20 Chair's closing remarks
- 12:30 Buffet lunch

Our Sponsors



Barnett Waddingham



Investec

HYMANS ROBERTSON

Page 77

AON Hewitt

This page is intentionally left blank



CLWYD PENSION FUND COMMITTEE

Date of Meeting	24 May 2016
Report Subject	LGPS Current Issues
Report Author	Pension Administration Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide an update on the key issues affecting the LGPS as at May 2016 and makes recommendations for Members to review the following:

- The large number of current issues ongoing for the Fund as per Appendix 1
- The update following the 2016 Budget in March
- The 2016 actuarial valuation process is now underway with initial strategy meetings taking place
- Code of practice update on incentive exercises, and the valuation presenting an opportune time to explore this
- An update on the LGPS Scheme Advisory Board and sub committees

RECOMMENDATIONS

1	It is recommended that all PFC members note this report and make themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the CPF.
2	In particular, members are asked to note that the actuarial valuation is well underway with a formal update in a separate report.

REPORT DETAILS

1.00	LGPS Current Issues
1.01	<p>The purpose of this report is to provide a general update to PFC Members on various current issues affecting the LGPS.</p> <p>Appendix 1 sets out a brief update on a number of significant specific issues, and also wider issues affecting the whole of the pensions industry.</p>
1.02	<p>Relating to the actuarial valuation, a number of initial strategy meetings have taken place already. Full details are contained in a separate report, but other related points to be aware of are:</p> <ul style="list-style-type: none">• Code of practice update on incentive exercises• New regulations relating to the Pension Flexibilities• State pension reforms

2.00	RESOURCE IMPLICATIONS
2.01	<p>Some of the actions arising out of the issues identified will take significant input from Fund officers.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>None directly as a result of this report but noting the consultation on exit payments for public sector workers.</p>

4.00	RISK MANAGEMENT
4.01	<p>Some key risks need to be considered. In particular the cost impact of the new State Pension reforms and the resource requirements to deal with the matters arising. This report also is also intended to support the Knowledge & Understanding of the PFC and officers thereby reducing risk around decision making.</p>

5.00	APPENDICES
5.01	Appendix 1 – LGPS Current Issues - May 2016 edition

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Earlier editions of the LGPS Current Issues document, tabled at previous PFC meetings.</p> <p>Contact Officer: Helen Burnham, Pension Administration Manager Telephone: 01352 702872 E-mail: helen.burnham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>(a) CPF – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) Administering authority or scheme manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) PFC – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) LPB or PB – Local Pension Board or Pension Board – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.</p> <p>(e) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(f) DCLG - Department for Communities and Local Government - Central Government department responsible for the LGPS</p> <p>(g) LGA - The Local Government Association - a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. Performs various Secretariat and support roles for the LGPS.</p> <p>(h) Actuarial Valuation - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good</p>

any existing shortfalls as set out in the separate Funding Strategy Statement.

- (i) **GMP – Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.
- (j) **CARE – Career Average Revalued Earnings** – With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.
- (k) **Annual Allowance** – the annual allowance is a limit on the amount that individuals can contribute to their pension each year, while still receiving tax relief.
- (l) **Fair Deal** - guidance issued by the Government which applies to compulsory transfers of employment out of the public sector. Updated guidance was issued in October 2013, referred to as “New Fair Deal”, which amends some of the previous guidance.

MAY, 2016

LGPS CURRENT ISSUES

NEWS IN BRIEF



2016 ACTUARIAL VALUATION (ENGLAND AND WALES)

We are now firmly passed 31 March 2016, the effective date of the next round of actuarial valuations for English and Welsh Funds.

We are in the process of scheduling and attending meetings with all Fund officers to discuss initial strategies and provide advice. Work is currently underway on providing indicative results to all of our Funds, based on a roll forward approach from the previous valuation, for discussions during these initial meetings.

For several months, work has also been ongoing in order to create a Universal Data Extract. The primary aim of the extract is to produce the membership data required for the 2016 actuarial valuation exercises in England and Wales, but it is also intended to produce data required for other employer related calculations. It is hoped that the Universal Data Extract will therefore improve the efficiency of data being provided by Funds to their actuaries when calculations are required.

IN THIS ISSUE

- News in Brief
- Dates to Remember
- Contacts



MERCER LIMITED IS AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY
REGISTERED IN ENGLAND NO. 984275 REGISTERED OFFICE: 1 TOWER PLACE WEST, TOWER PLACE,
LONDON EC3R 5BU

Where requested, data quality testing / cleansing exercises are currently in progress to ensure smooth running of the valuation calculations once the data extracts are submitted (expected to be in July / August 2016 for the majority of English and Welsh Funds).

We will keep you up-to-date on the latest progress on your Fund's 2016 actuarial valuation. Any queries regarding timings of the various stages should be directed to your usual Mercer contact.



PENSIONS TAXATION

As reported, the 2016 Budget contained few immediate changes to the pension tax regime.

Although a summary of the responses to the consultation "Strengthening the Incentive to Save" was published, it contained no real conclusions or commentary from Treasury. A premise of the consultation was that people did not save enough for retirement, possibly because they find the current system of tax relief confusing or do not fully understand pensions. The announcement in the Budget of a new Lifetime ISA (LISA) for the under 40s introduces yet another retirement savings option into the mix.

LISA looks very similar to the Pension ISA (PISA), one of the options being considered by Treasury. Although there is no lock-in of money saved in a LISA, the disincentive to withdraw the money before age 60 other than for the purposes of buying a first home (5% penalty and loss of the Government incentive) makes it appear like an alternative to pension savings. Indeed, for some it may be more tax efficient than paying additional contributions into a pension scheme.



EQUITABLE LIFE DEVELOPMENTS

As highlighted in previous editions, Equitable Life is increasing the annual management charges it applies to various funds, and also halving its overall fund range, with assets being disinvested and reinvested in one or more of the remaining funds. Whilst we would expect that the majority of LGPS members with Equitable Life policies to not be affected (given they will be invested in With-Profits funds which are not subject to any of the changes announced), LGPS Funds, which have members with Equitable Life Policies, still need to consider what action they should take.

In particular, administering authorities need to be aware that any automatic reinvestment performed by Equitable Life, could be deemed to be an investment decision by the administering authority on behalf of members.

We have issued a separate update to administering authorities setting out the changes and we are now currently in the process of liaising with them in order to first consider the extent to which members are invested in the affected funds, with a view to then preparing suitable communications for members informing them of the position.



SCHEME ADVISORY BOARD UPDATE

Following the appointment of Cllr Roger Phillips as chairman of the Local Government Pension Scheme Advisory Board (SAB), and Jon Richards from Unison as vice chairman, a message was issued in April on forthcoming matters.

This included the invitation for nominations to fill three statutory non-voting positions to be sent to Association of Local Authority Treasurers (ALAT), the Pension and Lifetime Savings Association (PLSA formerly NAPF) and the Trade Union Congress (TUC). Further considerations will take place at the next meeting of the SAB on if and how it may wish to appoint advisors or other observers.

In addition, there will be two sub committees chaired by members of the SAB: Cost management and Scheme Design and secondly Investment, Engagement and Governance, while the Deficits Working Group will be reconstituted.

SAB will also be publishing its third annual report this month, based on data collated from all 89 Funds in England and Wales.



ACADEMIES

The 2016 Budget saw the Chancellor confirm his plans to force all schools in England to convert to academies by 2022.

However, following strong opposition from teachers, education experts, MPs and councillors, including the threat of industrial action by head teachers, concessions have since been announced where high performing schools can now make the choice to convert.

The government has however said it is still planning on compelling academy conversions in two areas:

- Where the local authority can no longer viably support its remaining schools because too many schools have already become academies.
- Where the local education authority consistently fails to meet a minimum performance threshold across its schools.

As not a complete climbdown, it is clear the government still intends to push academy conversions in certain areas. Therefore, English LGPS Funds should still be prepared for more academy conversions in the future.



EUROPEAN UNION REFERENDUM

As you will no doubt be aware, the European Union (EU) Referendum is to be held on 23 June 2016.

We have previously highlighted the impact the Referendum may have on the financial markets and that volatility and uncertainty in the markets will almost certainly have a knock-on effect on funding positions of pension schemes. Decisions on how best to take this into account when considering the results of the triennial actuarial valuations of LGPS Funds in England and Wales will need to be made and we will discuss this matter further with Fund officers as the valuation year progresses and the outcome of the Referendum becomes known.



PUBLIC SECTOR EXIT PAYMENTS

In the March 2016 edition of LGPS Current Issues we provided details on the most recent consultation in respect of reforms to public sector exit payments, which aims to reduce the overall cost of exit payments and achieve greater consistency with the private sector.

Mercer has responded to the consultation and we will update you when the government's response becomes available. Please contact your usual Mercer contact if you would like a copy of our response.

It is safe to say the government still has the overall area of public sector pay and exit packages well in its sights, and more can be expected (e.g. the promised review of sickness absence has yet to emerge). We will keep you informed of any further developments in this area.



INVESTMENT POOLING IN THE LGPS

The proposed pooling reforms for the LGPS were debated in the House of Lords last week. Professional Pensions has reported that Labour peers called on the government to ensure the pooled funds will conduct their investment strategies only in the interests of their members.

There are many challenges ahead, there is still much emphasis on reducing investment manager fees and structuring portfolios; but these issues are really just the tip of the iceberg. There are a plethora of underlying, “hidden” costs which should be considered, alongside the potentially unlimited costs that could be incurred if the operational aspects of a pool are not properly risk managed.

We would be happy to provide our comments on risk management. Please contact Joanne Holden (joanne.holden@mercer.com, 0161 837 6514) or Andy Farrington (andy.farrington@mercer.com, 0161 837 6528) for more information.

The next deadline for Funds/pools to consider is 15 July 2016. By this date, they will have had to make a final submission to the government describing the proposed structure and governance of any pooling arrangement, what costs (and importantly savings) are expect, and also how this will be implemented e.g. transition profile for the assets involved. Unlike the initial submissions, final submissions need to be on an individual pool basis only.



STATE PENSION AGE REVIEW

The 2014 Pensions Act requires the results of an independent review of the State Pension age to be published at least every six years, with the first review to be completed and a report published by 7 May 2017. The Government has just published the terms and conditions of the first review.

The purpose of the review is to make recommendations to the Secretary of State for Work and Pensions on future State Pension age arrangements. The review should consider whether the current position (that is, the State Pension age increasing over time) is affordable in the long term, fair to current and future generations of pensioners, and consistent with supporting fuller working lives. If not, it should consider the alternatives.

The terms and conditions state that the review “is to have regard to variations between groups”. There are as yet no further details on the form that this will take, but the document has led to a large amount of press speculation on which groups could be considered and the possibility of further increases to State Pension ages for these groups. The review will also “consult widely” as part of its remit and so opportunities for further discussion and comment are expected during the process.

Whilst this review is very relevant to the LGPS given the retirement age link to the State Pension Age, the Government has said that the review and subsequent report will not affect the current timetable for increases to the State Pension age, which will take place between now and 2028.



CODE OF PRACTICE ON INCENTIVE EXERCISES

The Incentive Exercises Monitoring Board has published Version 2 of the Incentive Exercises for Pensions code of good practice. The code applies to all new incentive exercises made available to members on or after 1 February 2016. Exercises made available to members prior to this date will continue to fall under Version 1.

Version 2 introduces a proportionality threshold under which there is no requirement to provide advice or for a member to take guidance. The threshold is £10,000 for transfers

and full commutation exercises, and £500 p.a. of pension affected by a pension increase exchange.

This proportionality threshold is a useful mechanism for Funds and employers wishing to conduct bulk trivial commutation exercises to reduce liabilities and administration costs, as it potentially removes the requirement to pay for financial advice for the member, where the member's pension is trivial, which significantly increases the appeal of such exercises.

The 2016 valuations mark an ideal time for Funds which have not yet previously considered such exercises to assess the liabilities that can be extinguished through trivial commutation and we are able to incorporate such analysis in our valuation calculations.



NEW REGULATIONS RELATING TO PENSION FLEXIBILITIES

Following a consultation and call for evidence, the Department for Work and Pensions has published the Government's response relating to pension flexibilities and laid regulations before Parliament, which came into effect on 6 April 2016. This consultation was to ensure that the pension flexibilities introduced in April 2015 were operating as intended in certain circumstances. The Government response highlights various changes that have been made to the original proposals and notes that the introduction of some changes have been delayed. The key points are as follows:

- Disclosure of information requirements – the regulations introduce a statutory requirement for schemes to issue generic risk warnings “as a second line of defence” in certain situations where a member wishes to take flexible benefits. The Pensions Regulator has previously issued good practice guidance encouraging use of these warnings and so many schemes will already be including them within their member communications.
- Pension sharing orders on divorce – it is clarified that the “advice” requirements relating to the transfer of safeguarded rights do not apply at the point a pension sharing order is implemented, even when this involves a transfer out of the original scheme. However, ex-spouses who become members of the scheme in their own right following implementation of a pension sharing order will be subject to the same advice requirements as other members if they seek to transfer out at a future date.
- Pension attachment (or “earmarking”) orders on divorce – the original intention that a scheme would be required to write to a former spouse when the member applies to take flexible benefits has been delayed in recognition of the complexity of the issues involved.



NEW FAIR DEAL

As reported in previous editions, DCLG have formed a working group, made up of the LGA, Trade Unions and practitioners, to consider how the principles of the new Fair Deal might apply for the LGPS – in the spirit as it applies to the other public sector schemes.

Whilst there has been no major developments to report on we are aware of work going on behind the scenes. Our current expectation is that there is likely to be further news on progress in the autumn. We will, of course, update you when we know more.

DATES TO REMEMBER

DATE	ISSUE	SUMMARY
6 May 2016	Abolition of contracting out	This is the deadline for employers to have notified employees of change in contractual terms (as a result of the abolition of contracting-out)
23 June 2016	European Referendum	The referendum on whether the UK will opt out of the EU will take place on this date.
5 July 2016	Abolition of contracting out	This is the deadline for administering authorities to have notified active members of their change in contracted-out status.
15 July 2016	Investment pooling	Deadline for funds to have formally submitted their proposals to the government for investment pooling with other funds.
30 September 2016	Actuarial valuation	Deadline for membership data to have been submitted to GAD as part of the LGPS cost management analysis.
31 March 2017	Actuarial valuation	Deadline for the 2016 England and Wales actuarial valuation exercises to have been formally signed off by the fund actuary. Effective date of the Scottish LGPS actuarial valuations.
6 April 2017	Scottish Income tax	From this date, the Scottish Parliament will have the power to set all income tax rates and bands above the personal allowance for non-savings and non-dividend income for Scottish taxpayers.
7 May 2017	State Pension Age	Deadline for publication of the first report on the independent review of the State Pension age.

CONTACTS



Paul Middleman
paul.middleman@mercer.com
 0151 242 7402



Leanne Johnston
leanne.johnston@mercer.com
 0161 837 6649



Ian Kirk
ian.kirk@mercer.com
 0151 242 7141



Nigel Thomas
nigel.thomas@mercer.com
 0151 242 7309



John Livesey
john.livesey@mercer.com
 0151 242 7324



Clive Lewis
clive.lewis@mercer.com
 0151 242 7297

This edition of LGPS: Current Issues is for information purposes only.

The articles do not constitute advice specific to your Fund and you are responsible for obtaining such advice. Mercer does not accept any liability or responsibility for any action taken as a result of solely reading these articles.

For more information about other training or advice about how any article in this issue relates to your Fund, please contact your usual Mercer consultant.

Mercer retains all copyright and other intellectual property rights in this publication.

Visit us at www.uk.mercer.com

Copyright 2016 Mercer Limited. All rights reserved



This page is intentionally left blank



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 24 May 2016
Report Subject	Administration and Communications Update
Report Author	Pensions Administration Manager

EXECUTIVE SUMMARY

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

- (a) Business Plan 2016/17 update (Appendix 1) for administration and communication - all areas are on target.
- (b) Current Developments and News including updates on the Universal Data Extract delays and Equitable Life changes to investments
- (c) Administration and communications related policy/strategy implementation and monitoring - this includes the latest statistics on the number of tasks being dealt with by the administration team, which highlights a high volume of work continuing to be received.

RECOMMENDATIONS

1	That the Committee consider the update and provide any comments.
---	--

REPORT DETAILS

1.00	ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS																																																								
	Business Plan 2016/17 Update																																																								
1.01	<p>Appendix 1 provides a summary of progress against the administration and communications section of the Business Plan up to the end April 2016. All items are as originally planned.</p> <ul style="list-style-type: none"> GMP Reconciliation – We are currently investigating how to outsource this project due to the major resource requirements. Further details will be provided at the next Committee. 																																																								
1.02	The Committee is asked to note the contents of the business plan update																																																								
	Current Developments and News																																																								
1.03	In order to provide data to the Fund actuaries for the 2016 valuation, our administration system providers (Heywood) have been developing an updated program to extract scheme member data called the Universal Data Extract. This should have been available before April so it could be tested with the Fund actuary. However, the extract has been further delayed and Clwyd Pension Fund are due to have it released to them on 31 May 2016. Assuming there are no issues with the extract this should not impact the valuation timetable but there is a risk given it is untested by us.																																																								
1.04	Equitable Life as outlined in a separate LGPS Update report, have changed their annual management charges and reduced the number of funds members are eligible to invest in. Clwyd Pension Fund has a number of scheme members who have accumulated Additional Voluntary Contribution (AVC) funds with Equitable Life so these changes may have an impact on them. Equitable Life are contacting members direct.																																																								
	Policy and Strategy Implementation and Monitoring																																																								
1.05	<i>Administration Strategy</i> – This has been implemented from 1 April 2016 and has been published on the Clwyd Pension Fund Website.																																																								
1.06	To provide some context to the magnitude of the services provided by the Administration Section, the latest membership figures for the Fund in relation to the last six months are as follows:																																																								
	<table border="1"> <thead> <tr> <th colspan="7">LGPS</th> </tr> <tr> <th>Status</th> <th>Nov</th> <th>Dec</th> <th>Jan-16</th> <th>Feb</th> <th>Mar</th> <th>Apr</th> </tr> </thead> <tbody> <tr> <td>Active</td> <td>15,847</td> <td>15,840</td> <td>16,075</td> <td>16,124</td> <td>16,228</td> <td>16,210</td> </tr> <tr> <td>Undecided Leaver</td> <td>3,314</td> <td>3,235</td> <td>3,118</td> <td>2,984</td> <td>2,778</td> <td>2,633</td> </tr> <tr> <td>Leaver</td> <td>9,690</td> <td>9,721</td> <td>9,742</td> <td>9,778</td> <td>9,811</td> <td>9,856</td> </tr> <tr> <td>Deferred</td> <td>9,812</td> <td>9,850</td> <td>10,028</td> <td>10,139</td> <td>10,266</td> <td>10,395</td> </tr> <tr> <td>Pensioner</td> <td>9,624</td> <td>9,667</td> <td>9,689</td> <td>9,750</td> <td>9,793</td> <td>9,842</td> </tr> <tr> <td>Spouse/Dependant</td> <td>1,588</td> <td>1,591</td> <td>1,595</td> <td>1,601</td> <td>1,597</td> <td>1,606</td> </tr> </tbody> </table>	LGPS							Status	Nov	Dec	Jan-16	Feb	Mar	Apr	Active	15,847	15,840	16,075	16,124	16,228	16,210	Undecided Leaver	3,314	3,235	3,118	2,984	2,778	2,633	Leaver	9,690	9,721	9,742	9,778	9,811	9,856	Deferred	9,812	9,850	10,028	10,139	10,266	10,395	Pensioner	9,624	9,667	9,689	9,750	9,793	9,842	Spouse/Dependant	1,588	1,591	1,595	1,601	1,597	1,606
LGPS																																																									
Status	Nov	Dec	Jan-16	Feb	Mar	Apr																																																			
Active	15,847	15,840	16,075	16,124	16,228	16,210																																																			
Undecided Leaver	3,314	3,235	3,118	2,984	2,778	2,633																																																			
Leaver	9,690	9,721	9,742	9,778	9,811	9,856																																																			
Deferred	9,812	9,850	10,028	10,139	10,266	10,395																																																			
Pensioner	9,624	9,667	9,689	9,750	9,793	9,842																																																			
Spouse/Dependant	1,588	1,591	1,595	1,601	1,597	1,606																																																			

Death	6,552	6,578	6,616	6,642	6,677	6,709
Frozen	894	898	925	939	955	977
Opt out*	857	862	882	890	916	930
Total	58,178	58,242	58,670	58,847	59,021	59,128

*excludes members who have opted out prior to March 2013.

The membership numbers in relation to the Councillors' scheme are as follows:

Councillors Scheme						
Status	Nov	Dec	Jan-16	Feb	Mar	Apr
Active	55	55	55	54	54	53
Undecided Leaver	2	2	2	3	3	3
Leaver	0	0	0	0	0	0
Deferred	5	5	5	5	5	6
Pensioner	22	22	22	22	22	22
Spouse/Dependant	4	4	4	4	4	4
Death	6	6	6	6	6	6
Frozen	0	0	0	0	0	0
Total	94	94	94	94	94	94

1.07 In relation to staffing and resource matters, a vacant post for a part time pension assistant is going through the recruitment process.

1.08 The latest monitoring information (to 30 April 2016) in relation to administration is outlined below:

- Day to day tasks – Appendix 2 provides the analysis of the numbers of tasks received and completed on a monthly basis since April 2015 as well as how this is split in relation to our three unitary authorities and all other employers. As can be seen:
 - Current workloads – On average more tasks are being completed than the amount of tasks coming in, allowing older cases to move forward. There were an extra 1,090 tasks completed in the month of April alone against what was expected of the team and once recruitment has been completed this should improve further.
 - Progress with older cases – 2014/15 tasks are progressing with only 264 outstanding and these are still on target to be completed in Quarter 1 of 2016/17.
 - Mercers backlog cases - included as Appendix 3 is a summary of the backlog work that is being carried out by Mercers in relation to pre 31 March 2013 cases. Note these are counted in a different way to the items included in Appendix 2 which shows tasks within a case, whereas Appendix 3 is the actual cases). The target for completion is still within Quarter 2 of 2016/17.
 - It was anticipated to be able to provide a report on Key Performance Indicator's for this Committee however more work is being undertaken to ensure that the reports are robust.

1.09	<ul style="list-style-type: none"> Internal dispute resolution procedures – Below is a summary of the internal dispute resolution cases that have been received in the last 12 months. 2 received in the current year 2016/17 are based on the non-payment of ill health benefits and 1 is based on the date of payment of benefits (deferred into pay on ill health grounds) <table border="1" data-bbox="300 309 1374 772"> <thead> <tr> <th></th> <th colspan="4">2016/17</th> </tr> <tr> <th></th> <th>Received</th> <th>Upheld</th> <th>Rejected</th> <th>Ongoing</th> </tr> </thead> <tbody> <tr> <td>Stage 1 - Against Employers</td> <td>3</td> <td></td> <td></td> <td>3</td> </tr> <tr> <td>Stage 1 - Against Administering Authority</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Stage 2 - Against Employers</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Stage 2 - Against Administering Authority</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <th></th> <th colspan="4">2015/16</th> </tr> <tr> <th></th> <th>Received</th> <th>Upheld</th> <th>Rejected</th> <th>Ongoing</th> </tr> <tr> <td>Stage 1 - Against Employers</td> <td>6</td> <td>3</td> <td></td> <td>3</td> </tr> <tr> <td>Stage 1 - Against Administering Authority</td> <td>2</td> <td>1</td> <td>1</td> <td></td> </tr> <tr> <td>Stage 2 - Against Employers</td> <td>1</td> <td>1</td> <td></td> <td></td> </tr> <tr> <td>Stage 2 - Against Administering Authority</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>Since the last Committee an appeal against the Administering Authority has been upheld. This was where a spouse had married her husband after his retirement and we (CPF) classed the spouse as a post retirement marriage, however the spouse concerned had been married to the same individual previously and the decision made was based on the interpretation of the regulations.</p>		2016/17					Received	Upheld	Rejected	Ongoing	Stage 1 - Against Employers	3			3	Stage 1 - Against Administering Authority					Stage 2 - Against Employers					Stage 2 - Against Administering Authority						2015/16					Received	Upheld	Rejected	Ongoing	Stage 1 - Against Employers	6	3		3	Stage 1 - Against Administering Authority	2	1	1		Stage 2 - Against Employers	1	1			Stage 2 - Against Administering Authority				
	2016/17																																																												
	Received	Upheld	Rejected	Ongoing																																																									
Stage 1 - Against Employers	3			3																																																									
Stage 1 - Against Administering Authority																																																													
Stage 2 - Against Employers																																																													
Stage 2 - Against Administering Authority																																																													
	2015/16																																																												
	Received	Upheld	Rejected	Ongoing																																																									
Stage 1 - Against Employers	6	3		3																																																									
Stage 1 - Against Administering Authority	2	1	1																																																										
Stage 2 - Against Employers	1	1																																																											
Stage 2 - Against Administering Authority																																																													
1.10	<p><i>Communications strategy</i> - This has been implemented from 1 April 2016 and has been published on the Clwyd Pension Fund Website.</p>																																																												
1.11	<p>The Communication Officer has provided the following services since the last update (i.e. relating to the period from 01 March 2016 to 30 April 2016):</p> <ul style="list-style-type: none"> 22 full days of Pension Surgeries 1 Pre-Retirement Course Attended the North Wales Payroll Group 																																																												
1.12	<p>The following communications have been distributed during this period:</p> <ul style="list-style-type: none"> Penpal Newsletter emailed Pension Increase Letters Clwyd Catch Up 																																																												
1.13	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to administration and communication matters. There are however a number of outsourcing exercises going on at different authorities which will potentially mean some new Employers within the Fund.</p>																																																												

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

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

4.00	RISK MANAGEMENT
4.01	The administration and communications risks facing the Fund are in a separate report.

5.00	APPENDICES
5.01	Appendix 1 - 2016/17 Business plan update Appendix 2 - Analysis of tasks received and completed Appendix 3 – Progress with backlog by Mercers

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Business Plan 2016/7 to 2018/19 – 22 March 2016. Contact Officer: Helen Burnham, Pensions Administration Manager Telephone: 01352 702872 E-mail: helen.burnham@flintshire.gov.uk

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

- | | |
|--|---|
| | <ul style="list-style-type: none">(e) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of(f) TPR – The Pensions Regulator – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF.(g) SAB – The national Scheme Advisory Board – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG.(h) DCLG – Department of Communities and Local Government – the government department responsible for the LGPS legislation. |
|--|---|

Business Plan 2016/7 to 2018/9 – Q1 Update

Administration and Communications

Key Tasks

Key:

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

Administration (including Communications) Tasks

Ref	Key Action –Task	2016/17 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
A1	Pension Administration and Communication Strategies - final implementation including the set-up of performance monitoring	x					
A2	Tax Changes (Potentially from Spring Budget)	x					
A3	3rd Party Administrators Framework	x	x				
A4	Backlog to 31 March 2013 (Mercers)	x	x				
A5	Backlog from 1 April 2014 (Internal)	x	x	x	x		

A6	Preparation of Member Data for Valuation	x	x	x			
A7	Document production and word integration	x	x	x	x		
A8	Electronic and Centralised internal procedures	x	x	x	x		
A9	Website Update	x	x	x	x	x	
A10	GMP Reconciliation	x	x	x	x	x	x

Administration and Communication Task Descriptions

A1 – Pension Administration and Communication Strategies - final implementation including the set-up of performance monitoring

What is it?

These strategies, outlining how we deliver our administration and communication services, are expected to be effective from 1 April 2016. They include the high level service standards we will provide, the standards we expect from employers and how we engage and communicate with our stakeholders. There will be some final work implementing the strategies and the associated performance monitoring.

Timescales and Stages

Implementation and Commencement of Strategies

2016/17 Q1

Resource and Budget Implications

All internal costs are being met from the existing budget

A2 – Tax Changes (potentially from the Spring Budget)

What is it?

HM Treasury has already legislated for several changes to how pensions are taxed, while others may be announced at the next Budget on 16 March. Already coming in the 2016/17 tax year is a reduction in the Lifetime Allowance from £1.25 million to £1 million, which will hit high earners and long-serving scheme members. Also, the Annual Allowance taper for higher earners will potentially reduce maximum contributions eligible for tax relief to £10,000. However, this restriction will only hit those earning six-figure salaries and above. Further changes may include another review of pension taxation (expected in the Budget speech), the long-mooted abolition or reform of pension tax relief and measures to help investors facing pension exit penalties to access the pensions freedoms granted in April 2015.

Timescales and Stages

Communicate as necessary

2016/17 Q1

Resource and Budget Implications

All internal costs are being met from the existing budget.

A3 - 3rd Party Administrators Framework

What is it?

To work with other LGPS administering authorities in establishing a national Framework to enable the procurement of 3rd Party Administrators. Part of this will include the provision to procure assistance with project work, where internal resources are not sufficient to cope, or where they do not have the required knowledge and experience to undertake such work whilst continuing to do "business as usual"

Timescales and Stages

Appointment to Framework

2016/17 Q1/2

Resource and Budget Implications

To be led by the Pension Administration Manager. All internal costs will be met by the existing budget. There will be some initial set-up costs involved in this process, to be determined.

A4– Backlog to 31 March 2013 (Mercers)

What is it?

A backlog of tasks prior to 31 March 2013 amounting to 3,000 member cases was initially identified and was reduced by the pensions administration team to approximately 1,700. Plans were put in place to eliminate this accumulated backlog and the Fund's actuary was appointed to complete this project.

Timescales and Stages

Clear cases externally, eliminating backlog.

2016/17 Q1/2

Resource and Budget Implications

Mainly outsourced to the Fund's Actuary and managed internally by the Pensions Administration Manager. It does require some assistance from the operation team. Employers have also needed to dedicate appropriate time in providing information. There are significant external costs associated with this exercise but all alternative options have been considered.

A5 – Backlog from 1 April 2014 to 31 March 2015 (Internal)

What is it?

Following the introduction of the new scheme from 1 April 2014 and late receipt of regulations concerning how members' benefits would be aggregated, a backlog of cases built up, and is in the process of being worked on at the same time as doing the day to day administration.

Timescales and Stages

Clear cases internally for period to 31 March 2015	2016/17 Q1/2
Clear any further backlogs that have accumulated since	2016/17 Q3/4

Resource and Budget Implications

To be completed by the Operations Team. Internal costs are being met from the existing budget albeit this may utilise some of the overtime budget.

A6 – Preparation of Member Data for Valuation

What is it?

The triennial actuarial valuation as at 31 March 2016 requires the pensions administration team to provide data to the actuary. This generally involves additional year end cleansing and is particularly detailed for the 2016 actuarial valuation.

Timescales and Stages

Data for 31 March 2016 valuation:	2016/17 Q1/2
Potential final clarification on data	2016/17 Q3

Resource and Budget Implications

Carried out by the Technical Team in the main with assistance from the Communications Officer when communicating the valuation results. All internal costs are being met from the existing budget.

A7 Document Production and Word Integration

What is it?

There is a facility whereby we can utilise the pensions software (Altair) to create and maintain the standard layout of letters, summaries and other documents. This includes the ability to populate variable data from that held within the system. After the completion of a benefit calculation or a bulk calculation, or following a selection of members, the variable data is merged with the document text to produce the required generated documents for each member. Documents are listed in the document history and they can be printed immediately or at a later date. Setting up this facility is time consuming in the short term but produces ongoing efficiencies as well as reducing the risk of manual error.

Timescales and Stages

Obtain all current letters in use:	2016/17 Q1
Update system with all letters including testing	2016/17 Q2/3/4

Resource and Budget Implications

To be led by the Technical Team with assistance from the Operational Team. All internal costs are being met from the existing budget.

A8 – Electronic and Centralised internal procedures

What is it?

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

Timescales and Stages

Develop and collate	2016/17 Q1/2
Upload and maintain	2016/17 Q3/4

Resource and Budget Implications

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

A9 – Website Update

What is it?

An overhaul of the Pension Fund's website, considering the ease of navigation, the look and feel whilst ensuring that the relevant content is included and is correct. As part of this review, the Communications Officer will consider options in relation to how the existing website can be updated including utilising wording prepared at a national level. Although this is separate to the member self-service facility, there will be some overlap due to access being via the website.

Timescales and Stages

Update and revamp	2016/17 Q1/2/3/4
Link with member self-service (if appropriate)	2017/18

Resource and Budget Implications

This will be a significant amount of work to be undertaken in the main by the Communications Officer with some assistance from the Technical Team. All internal costs to be met from the existing budget.

A10 – Scheme/GMP Reconciliation

What is it?

The government's announcement that contracting out will cease and that HMRC will no longer be responsible for maintaining GMP and other contracting out member records. This means that the onus will be on individual funds to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC before they cease holding these records. Unfortunately this has shown significant discrepancies between the two sets of data. As a result a significant amount of work will be required to determine the correct benefits, ensure all systems are updated and to process a significant number of over/underpayment calculations. After the records are reconciled for former pensionable employees, the Fund will also verify national insurance information held for active members. All GMP's and national insurance information must be reconciled by December 2018, the date the HMRC will cease to provide their services. The timescales below are subject to change depending on the magnitude of the work.

Timescales and Stages

GMP data reconciliation and investigation	2016/17 to 2017/18
Benefit correction and system updates:	2016/17 to 2017/18
Reconciliation of national insurance information	2017/18

Resource and Budget Implications

This project is currently being led by the Technical Team with some assistance from the Operational Team. Some external assistance from Heywoods (our software provider) has been provided, this external assistance is at a minimal cost at present. However, it is anticipated that due to the significant additional resource required to complete this project, further external resource will be sought. This has been estimated as £840,000 and is included in the budget.

Appendix 2

Tasks 15/16

Tasks 16/17

	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
DCC Start Total	1,209	1,419	1,539	1,511	1,485	1,462	1,380	1,215	1,179	1,126	1,055	1,083
DCC Completed	430	685	835	854	1,097	1,174	1,187	901	1,200	1,247	1,016	1,276
DCC Added	640	805	807	828	1,074	1,092	1,022	865	1,147	1,184	1,066	1,323
DCC Remaining	1,419	1,539	1,511	1,485	1,462	1,380	1,215	1,179	1,126	1,063	1,105	1,130
DCC 14/15										130	127	117
Apr-Dec										266	243	209
FCC Start Total	2,076	2,137	2,061	2,018	2,128	2,107	2,004	1,959	1,932	2,017	2,056	2,033
FCC Completed	876	1,255	1,173	763	1,188	1,248	1,455	1,040	1,509	1,604	1,416	1,294
FCC Added	937	1,179	1,130	973	1,167	1,145	1,410	1,013	1,594	1,662	1,433	1,266
FCC Remaining	2,137	2,061	2,018	2,128	2,107	2,004	1,959	1,932	2,017	2,075	2,073	2,005
FCC 14-15										77	71	69
Apr-Dec										460	440	374
WCBC Start Total	1,264	1,298	1,398	1,457	1,473	1,517	1,539	1,469	1,484	1,469	1,599	1,631
WCBC Completed	529	555	561	596	479	772	484	632	1,161	1,164	1,168	1,489
WCBC Added	563	653	620	612	523	704	774	647	1,146	1,308	1,248	1,458
WCBC Remaining	1,298	1,398	1,457	1,473	1,517	1,539	1,469	1,484	1,469	1,613	1,679	1,600
WCBC 14/15										40	38	36
Apr-Dec										293	262	196
Other Start Total	801	836	937	1,031	1,036	1,013	984	969	973	644	675	708
Other Completed	510	604	718	575	546	704	940	515	752	796	590	790
Other Added	545	707	812	480	523	765	565	519	799	930	624	733
Other Remaining	836	937	1,031	1,036	1,013	984	969	973	1,020	676	709	651
Other 14/15										43	42	42
Apr-Dec										113	101	72
All Start Total	5,350	5,690	5,935	6,017	6,122	6,099	5,907	5,612	5,568	5,256	5,385	5,455
All Completed	2,345	3,099	3,287	2,788	3,310	3,898	4,066	3,088	4,622	4,811	4,190	4,849
All Added	2,685	3,344	3,369	2,893	3,287	3,706	3,771	3,044	4,686	5,084	4,371	4,780
All Remaining	5,690	5,935	6,017	6,122	6,099	5,907	5,612	5,568	5,632	5,427	5,566	5,386
14/15										290	278	264
Apr-Dec										1,132	1,046	851
Plan									3,759	3,759	3,938	3,759
Month against Plan									4,622	4,811	4,190	4,849
Cummulative against Plan									863	1,052	1,304	1,090

This page is intentionally left blank

CLWYD PENSION FUND BACKLOG CLEARANCE PROJECT

PROGRESS UPDATE - APRIL 2016

Following on from the paper provided to the Advisory Panel in October, set out below is an update on the progress made on the project to the end of April 2016.

	Cases in scope	Cases completed												Cases remaining	
		May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	Number	%
DCC	278	0	0	1	70	82	37	32	1	11	2	7	28	7	3%
FCC	1080	8	72	105	30	55	87	92	59	60	67	19	3	423	39%
WCBC	684	1	2	0	1	0	0	2	10	41	50	103	114	360	53%
Others	123	2	6	4	2	1	2	2	0	13	21	2	15	53	43%
Total in scope	2165	11	80	110	103	138	126	128	70	125	140	131	160	843	36%
Cases with no further action	199	6	2	2	20	38	33	13	7	19	14	20	25		
Total cases actioned	2364	17	82	112	123	176	159	141	77	144	154	151	185		

This page is intentionally left blank



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 24 May 2016
Report Subject	Investment and Funding Update
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

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

- (a) The Business Plan 2016/17 update is attached as appendix 1. Although we are only part way through the quarter all relevant tasks relating to the Actuarial Valuation and Asset Pooling are on track.
- (b) Current Developments and News – News and development continues to be dominated by the Pooling debate across the LGPS which has been covered in agenda item 8.
- (c) Funding & investment related policy/strategy implementation and monitoring – This section highlights the update to the Fund's Funding Strategy Statement. This is covered in more detail in agenda item 16.
- (d) Delegated responsibilities (Appendix 2). This details the responsibilities which have been delegated to officers since the last Committee meeting. These include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

RECOMMENDATIONS

1	That the Committee consider and note the update including the delegated responsibilities and provide any comments.
---	--

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Business Plan Update</p> <p>Appendix 1 provides a summary of progress against the investment and funding section of the Business Plan up to the end of quarter 1 to 30 June 2016. Both the items relating to the Actuarial Valuation and Asset Pooling are on track for the quarter.</p>
1.02	<p>Current Developments and News</p> <p>LGPS Pooling of Investments.</p> <p>A verbal update on the current position on Pooled Investments within Wales has been provided as part of agenda 7 of this Committee.</p>
1.03	<p>Working Together in Wales</p> <p>At the March 2016 committee, Members were provided with an update on the appointment of a single passive manager. Since that committee, it has been announced that BlackRock were the successful manager appointed. Initial savings look to be in the region of £1.4m across the 8 Welsh Funds. In terms of the Clwyd Fund, the transition of applicable assets is in the Business Plan for Q2/3 2016.</p>
1.04	<p>WM Performance Services</p> <p>The Fund has received notification from our current performance measurers, WM Company that they are ceasing to provide those services to the Public Sector Pension Schemes. The Fund will be given access to all historical data to provide to any subsequent providers of the data. In the short term, the Fund has been using the performance services of its Investment Consultants, JLT, so initially this has not caused any issues. Funds in Wales are now looking at the possibility of collaborating to find a new provider.</p>
1.05	<p>Policy and Strategy Implementation and Monitoring</p> <p>Funding Strategy Statement – A separate report on Funding and Flight-Path provides an update on the progress against the Fund’s Funding Strategy Statement objectives. The FSS will be updated as part of the Actuarial Valuation process and a Special Committee is arranged for July 5th 2016 where Members will agree assumptions before the draft statement is circulated to employers for consultation. The draft statement will be submitted to the Committee in September and the final FSS approved in February 2017. Further details will be provided in agenda item 15.</p> <p>The implementation and monitoring of the Fund’s SIP continues to be undertaken through delegated responsibilities as outlined below.</p>

	<p>Delegated Responsibilities</p>
1.06	<p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting.</p> <p>To summarise:</p> <ul style="list-style-type: none"> • Deficit payments from the Unitary Authorities have been paid in advance and the cash flow will need to be monitored to identify any surplus which can be reinvested. • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG). • The Fund's strategic allocation is mainly within the SIP ranges. The exception is Stone Harbour, Multi Asset Credit, who are marginally outside. • Within the "In House" portfolio, 2 further commitments have been made in the Private Equity space totalling a sterling equivalent of £16 million. All these commitments follow the strategy agreed by the AP for these asset classes. The Fund is now looking at investments in Property and Infrastructure. • There are no significant matters to bring to the attention of the Committee as a result of the Fund Manager monitoring meetings.

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

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

4.00	RISK MANAGEMENT
4.01	<p>The Fund will consider many risks as part of its Funding and Investment strategies, some of which are covered in specific agenda items. The key risks considered in this report include cash flows and the inability to meet payments due from the Fund, the risk of managers not meeting targets expected thus leading to lower valuations. Investment risk is considered when conducting appropriate due diligence on potential investments. Legislative risk is considered in preparing and considering changes which affect the accounts.</p>

5.00	APPENDICES
5.01	Appendix 1 - 2016/17 Business plan update Appendix 2 - Delegated responsibilities

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Business Plan 2016/7 to 2018/19 – 22 March 2016. Report to Pension Fund Committee – Statement of Investment Principles – 21 May 2015 Contact Officer: Debbie Fielder, Pension Finance Manager Telephone: 01352 702259 E-mail: debbie.a.fielder@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	<p>(a) CPF – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) Administering authority or scheme manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) PFC – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) TAAG – Tactical Asset Allocation Group – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.</p> <p>(e) AP – Advisory Panel – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor.</p> <p>(f) PERAG – Private Equity and Real Asset Group – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund’s Investment Consultant and monitored by AP.</p>

- (g) **In House Investments** – Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG.
- (h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (i) **SIP – Statement of Investment Principles** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund
- (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (k) **DCLG – Department of Communities and Local Government** – the government department responsible for the LGPS legislation.
- (l) A full glossary of Investments terms can be accessed via the following link.
<http://www.fandc.com/uk/private-investors/tools/glossary/>

This page is intentionally left blank

Business Plan 2016/7 to 2018/9 – Q1 Update

Funding and Investments

Key Tasks

Key:

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

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2016/17 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
F1a to j	Triennial Actuarial Valuation and associated tasks	x	x	x	x		
F2a to d	Asset Pooling	x	x	x	x	x	x

Funding and Investments (including accounting and audit) Task Descriptions

F1a – Triennial Actuarial Valuation

What is it?

It is the formal actuarial valuation of the Fund detailing the solvency position and other financial metrics. It is a legal requirement of the LGPS Regulations. It determines the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.

Timescales and Stages

Effective date:	31 March 2016
Initial whole Fund results (expected):	Q1 2016/17
Individual Employer results (expected):	Q2&3 2016/17
Deadline for agreement of all contributions and sign-off:	31 March 2017

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and it will determine contribution requirements for all participating employers from 1 April 2017. It is a major exercise for the Fund and will take a lot of input from the Administration and Investment teams. Employers will be formally consulted on the funding strategy as part of the process. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1e – Test data quality in advance of the valuation

What is it?

The formal actuarial valuation requires data to be of a high quality. The Fund's data will be compared against a number of checks to ensure that there are no areas of concern or areas that would significantly affect the results of the valuation. Any issues that arise will be highlighted to the Fund so that it can be rectified.

Timescales and Stages

Perform checks on Fund data (subject to software providers implementing the data extract facility).	Q4 2015/16 and Q1 2016/17
--	---------------------------

Resource and Budget Implications

Exercise will be performed by the Fund Actuary in advance of 31 March 2016. The administration team will be required to provide the data extract and work with the Fund Actuary if there are any areas of improvement required with the data. Tests will also be performed to check that there are no problems with the data extract itself. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F2a – Asset Pooling Responses

What is it?

This comprises the completed (detailed) submission to Government regarding the CPF's plans for Asset Pooling. The initial submission will have been submitted in Q4 2015/16 as this is required by 19 February 2016.

The CPF should also review, and have the ability to comment on, the submission document from the applicable Asset Pool to Government as and when this submission is drafted.

Timescales and Stages

Develop submission documents	Q1 and Q2 2016/17
Completed submission must be issued to Government by	15 July 2016

Resource and Budget Implications

These documents will be produced from a range of the current Fund advisers: JLT as Investment Adviser and Mercer as De-Risking Adviser. Advisor's estimated costs in relation to this exercise are included in the 2016/17 budget.

F2b - Decision regarding assets to be moved to All Wales Passive Collaboration and eventual transition

What is it?

The agreement to run an All Wales Passive search has been taken and Aon Hewitt has been appointed to run this project. Upon completion there will be a decision as to how much of the CPF asset portfolio will be moved into the equity and bond asset allocation positions established as a result of the exercise.

Timescales and Stages

Aon Hewitt exercise is to be undertaken	Q4 2015/16
Anticipated completion	Q1 2016/17
Transition of applicable CPF assets anticipated	Q2/Q3 2016/17

Resource and Budget Implications

This exercise will be conducted by Aon Hewitt and JLT as Investment Adviser as well as the Pension Fund Manager and Finance Manager(s). Advisor's estimated costs in relation to this exercise are included in the 2016/17 budget

This page is intentionally left blank

DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.061	Rebalancing and cash management	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP
<p>Action taken – The Asset allocation for the Fund is monitored against the strategic ranges within the SIP on a monthly basis. These are reported at the monthly Tactical Asset Allocation Group (TAAG) meetings. This quarter the Fund's strategic allocation is mainly within the SIP ranges. The exception being Stone Harbour who are marginally outside. It was decided it would not be cost effective to rebalance the assets at this point in time.</p> <p>Cash flows are monitored and reconciled quarterly to report to Committee but cash balances are monitored on a regular basis to ensure the availability of cash to meet payments of pensioner benefits and calls on drawdowns for In House investments. The cash balance as at 30th April 2016 was £49.6m (£13.6m at 31st March 2016). The substantial increase is due to deficit contributions for the three unitary employers being paid in advance in April. The cash flow will be monitored to ensure there is sufficient monies to pay benefits and capital calls for the In House investments and any surplus will be invested.</p>			
1.062	Short term tactical decisions relating to the 'best ideas' portfolio	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP
<p>Action taken – Meetings of the (TAAG) involving Fund officers and JLT Consultants take place on a monthly basis. Standard agenda items for the meetings cover the short term (12 months) market outlook and discussions to determine which asset classes should be included in the 9% of the Fund's assets which is based on JLT's suggested "best ideas". Detailed minutes of the TAAG identifying the rationale behind any decisions agreed are circulated to the Advisory Panel.</p> <p>The following areas have been identified since the last Committee:</p> <ul style="list-style-type: none"> • Trim allocation to European Equities • Increase allocation to Equity Linked Bonds • Disinvest from US Equities • Invest in Commodities <p>The transition of these assets is currently underway and once actioned the allocations will be as follows:</p> <ul style="list-style-type: none"> • Commodities (2%) • Japanese Equities (2%) • Equity Linked Bonds (3%) • European Equities (2%) 			

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation																																																											
1.063	Investment into new mandates / emerging opportunities	PFM and either the CFM or COPR (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP																																																											
<p>Action taken – As previously reported, following the approval of the strategic review in 2014, the Fund has been progressing with a review of the In-House portfolio of Private Equity and Real Asset holdings. The review is now complete and has now been reviewed and agreed by the Fund’s consultant, JLT and presented to the Advisory Panel (AP).</p> <p>Within the investment areas which fulfil the criteria which was agreed in the review, the Fund has undertaken due diligence and agreed the following commitments since the last Committee:</p> <ul style="list-style-type: none"> • €11 million to Apax IX • €11 million to Charterhouse X <p>Both commitments are follow on investments with long standing Direct Private Equity managers.</p> <p>Officers are currently carrying out due diligence on investments in the Property and Infrastructure areas.</p>																																																														
1.094	Ongoing monitoring of Fund Managers	PFM, CFM and COPR (having regard to ongoing advice of the IC) and subject to ratification by PFC	High level monitoring at PFC with more detailed monitoring by PAP																																																											
<p>Action taken – The in – house team monitor the Fund’s managers on a regular basis. A record of the managers monitored is shown in the following table. Further details on the managers are reported by JLT, the Fund’s Investment Consultant, in agenda item 13 of the committee papers. There are no strategic issues to report.</p> <table border="1"> <thead> <tr> <th>Manager</th> <th>Mandate</th> <th>Strategic Weight %</th> <th>Jun 2015</th> <th>Sept 2015</th> <th>Dec 2015</th> <th>Mar 2016</th> </tr> </thead> <tbody> <tr> <td>Insight</td> <td>LDI</td> <td>19</td> <td></td> <td>✓</td> <td></td> <td>✓</td> </tr> <tr> <td>Stone Harbor</td> <td>Multi Asset Credit</td> <td>15</td> <td>✓</td> <td></td> <td>✓</td> <td>✓</td> </tr> <tr> <td>Investec</td> <td>Global Equity (8) & DGF (5)</td> <td>13</td> <td>✓</td> <td></td> <td>✓</td> <td>✓</td> </tr> <tr> <td>MAN FRM</td> <td>Managed Account Platform</td> <td>9</td> <td></td> <td>✓</td> <td></td> <td>✓</td> </tr> <tr> <td>Wellington</td> <td>Emerging Market Equity</td> <td>6.5</td> <td>✓</td> <td></td> <td>✓</td> <td>✓</td> </tr> <tr> <td>Pyrford</td> <td>DGF</td> <td>5</td> <td>✓</td> <td></td> <td>✓</td> <td>✓</td> </tr> <tr> <td>Aberdeen</td> <td>Frontier Market Equity</td> <td>2.5</td> <td>✓</td> <td></td> <td>✓</td> <td>✓</td> </tr> </tbody> </table>							Manager	Mandate	Strategic Weight %	Jun 2015	Sept 2015	Dec 2015	Mar 2016	Insight	LDI	19		✓		✓	Stone Harbor	Multi Asset Credit	15	✓		✓	✓	Investec	Global Equity (8) & DGF (5)	13	✓		✓	✓	MAN FRM	Managed Account Platform	9		✓		✓	Wellington	Emerging Market Equity	6.5	✓		✓	✓	Pyrford	DGF	5	✓		✓	✓	Aberdeen	Frontier Market Equity	2.5	✓		✓	✓
Manager	Mandate	Strategic Weight %	Jun 2015	Sept 2015	Dec 2015	Mar 2016																																																								
Insight	LDI	19		✓		✓																																																								
Stone Harbor	Multi Asset Credit	15	✓		✓	✓																																																								
Investec	Global Equity (8) & DGF (5)	13	✓		✓	✓																																																								
MAN FRM	Managed Account Platform	9		✓		✓																																																								
Wellington	Emerging Market Equity	6.5	✓		✓	✓																																																								
Pyrford	DGF	5	✓		✓	✓																																																								
Aberdeen	Frontier Market Equity	2.5	✓		✓	✓																																																								

This page is intentionally left blank



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 24 May 2016
Report Subject	Economic and Market Update
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide Committee Members with an economic and market update for the quarter.

This report covers the period ending 31 March 2016.

The economic and market environment during the quarter was split into two halves, with a poor start followed by a reversal towards the end of the quarter. The following key contributors have driven much of the sentiment:

- Rebound in the oil price
- Diminishing fears of a US recession
- Encouraging comments from China

Over the quarter, positive returns were seen across all Growth assets, with the exception of UK and Japanese equities.

RECOMMENDATIONS

1	To note and discuss the Economic and Market Update 31 March 2016.
2	To note how the information in the report effectively “sets the scene” for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund’s asset portfolio.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Economic and Market Update 31 March 2016</p> <p>The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee. The report contains the following sections:</p> <ul style="list-style-type: none">• Market Background – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies.• Economic Statistics – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing• Market Commentary – section provides detailed commentary on the economic and market performance of major global regions and financial markets (including alternative assets).
2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.
3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.
4.00	RISK MANAGEMENT
4.01	None.
5.00	APPENDICES
5.01	Appendix 1 – Economic and Market Update Period Ending 31 March 2016
6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Economic and Market Update Period Ending 31 December 2015.</p> <p>Contact Officer: Debbie Fielder Pension Finance Manager Telephone: 01352 702259 E-mail: Debbie.A.Fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <ul style="list-style-type: none"> (a) Absolute Return – The actual return, as opposed to the return relative to a benchmark. (b) Annualised – Figures expressed as applying to 1 year. (c) Duration – The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) Market Volatility – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) Money-Weighted Rate of Return – The rate of return on an investment including the amount and timing of cashflows. (f) Relative Return – The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) Three-Year Return – The total return on the fund over a three year period expressed in percent per annum. (h) Time-Weighted Rate of Return – The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) Yield (Gross Redemption Yield) – The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. <p>A comprehensive list of investment terms can be found via the following link:</p> <p>http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf</p>

This page is intentionally left blank

CLWYD PENSION FUND
ECONOMIC AND MARKET UPDATE
PERIOD ENDING 31 MARCH 2016

TABLE OF CONTENTS

1 Market Background	3
2 Economic Statistics	6
3 Market Commentary	7
4 Indices Used in this Report	12

1 MARKET BACKGROUND

PERIOD ENDING 31 MARCH 2016

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.4	-3.9	3.7
Global Developed Equities	2.3	0.3	13.9
USA	3.7	4.2	13.6
Europe	1.0	-3.9	5.9
Japan	-4.3	-3.3	6.6
Asia Pacific (ex Japan)	4.6	-7.8	1.1
Emerging Markets	8.4	-8.8	-3.3
Frontier Markets	1.8	-9.3	4.1
Property	1.1	11.7	14.6
Hedge Funds	1.9	-0.7	4.0
Commodities	0.0	-26.3	-23.1
High Yield	6.6	2.5	3.7
Emerging Market Debt	5.0	4.2	3.4
Senior Secured Loans	1.0	2.4	4.5
Cash	0.1	0.5	0.5

Yields as at 31 March 2016	% p.a.
UK Equities	3.77
UK Gilts (>15 yrs)	2.17
Real Yield (>5 yrs ILG)	-0.98
Corporate Bonds (>15 yrs AA)	3.36
Non-Gilts (>15 yrs)	3.71

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	8.2	4.0	8.6
Index-Linked Gilts (>5 yrs)	6.5	1.9	5.6
Corporate Bonds (>15 yrs AA)	5.2	-0.2	7.2
Non-Gilts (>15 yrs)	4.9	-1.3	6.7

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-2.5	-3.2	-1.8
Against Euro	-7.0	-8.8	2.2
Against Yen	-8.9	-9.3	4.2

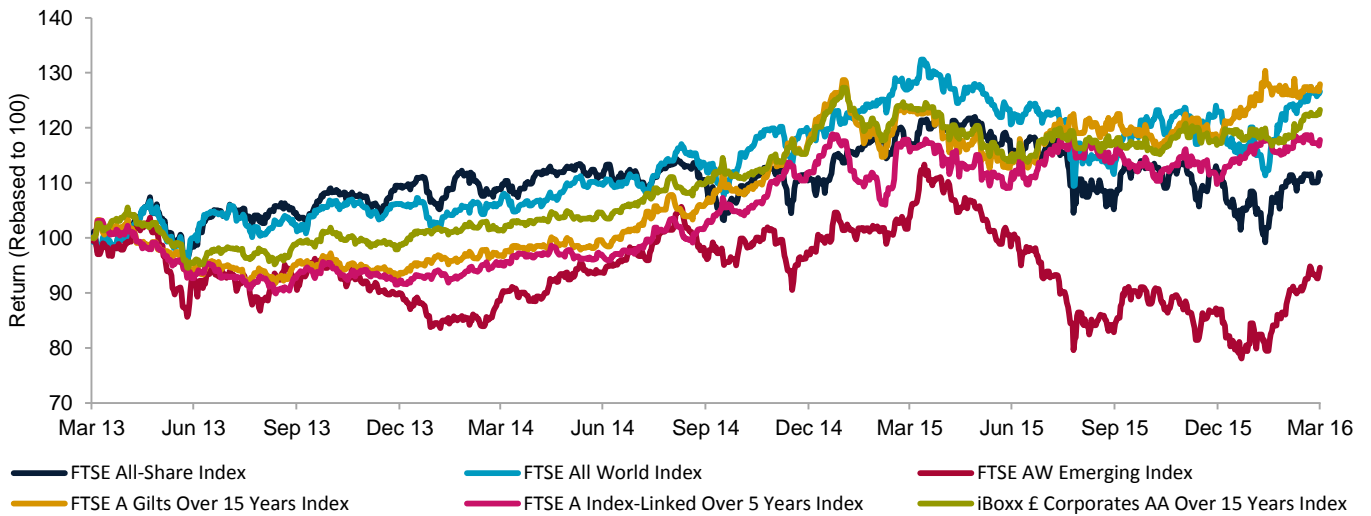
Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.2	1.6	1.6
Price Inflation – CPI	-0.2	0.5	0.7
Earnings Inflation*	1.0	2.4	2.0

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.07	0.44	0.42
UK Gilts (>15 yrs)	-0.40	-0.06	-0.85
Real Yield (>5 yrs ILG)	-0.27	-0.05	-0.55
Corporate Bonds (>15 yrs AA)	-0.32	0.25	-0.70
Non-Gilts (>15 yrs)	-0.29	0.34	-0.52

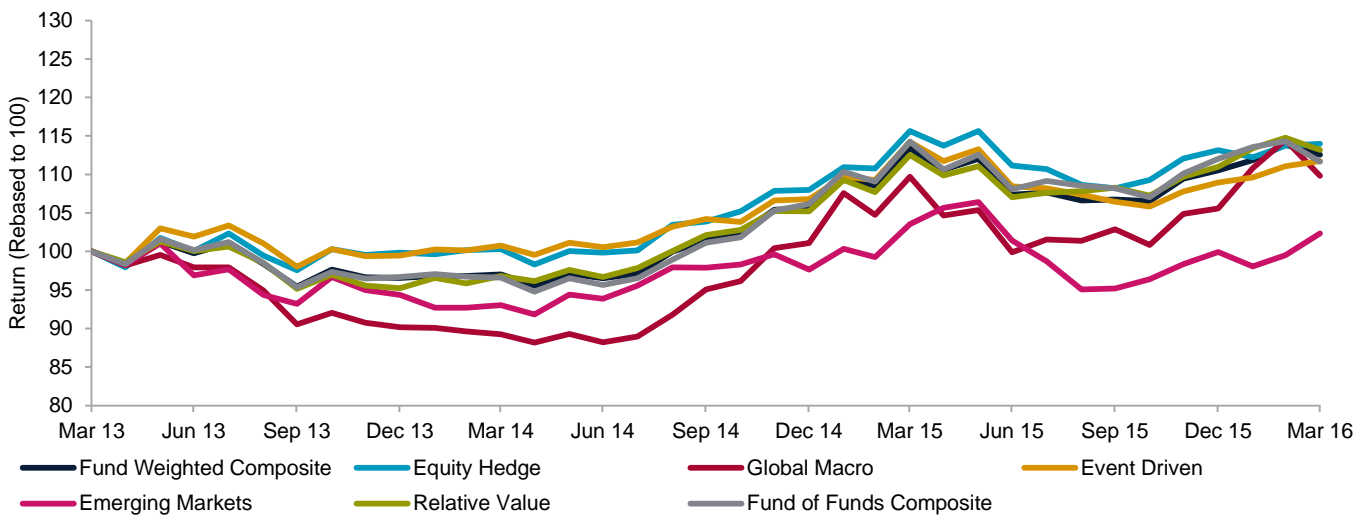
Source: Thomson Reuters and Bloomberg
 Note: * Earnings inflation is lagged by 1 month.
 All returns shown are in Sterling terms

MARKET SUMMARY CHARTS

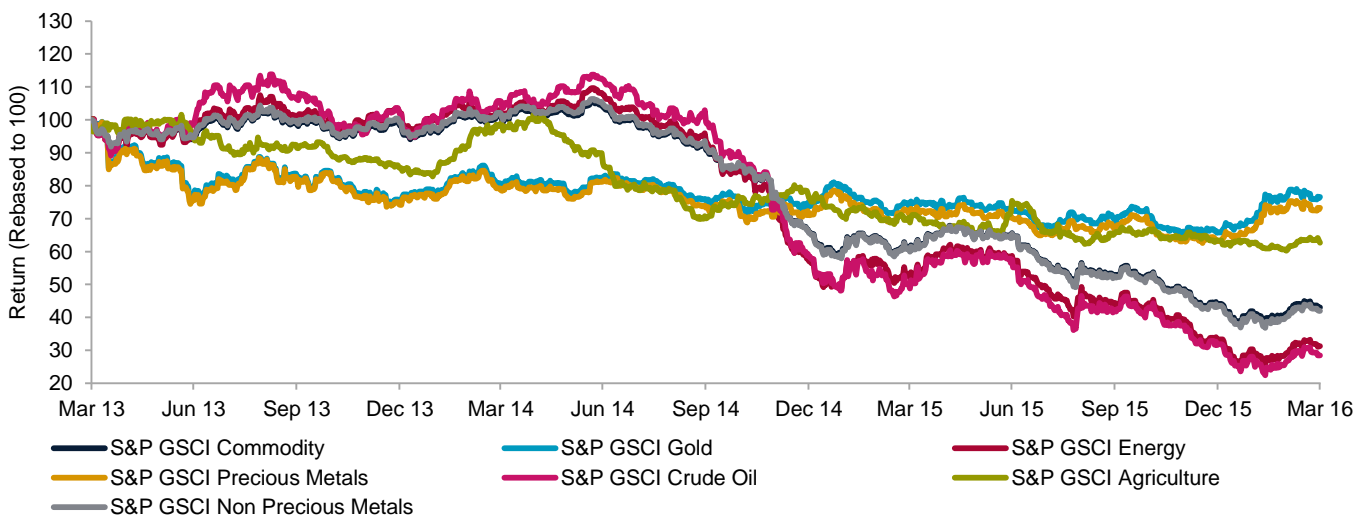
Market performance – 3 years to 31 March 2016



Hedge Funds: Sub-strategies performance – 3 years to 31 March 2016

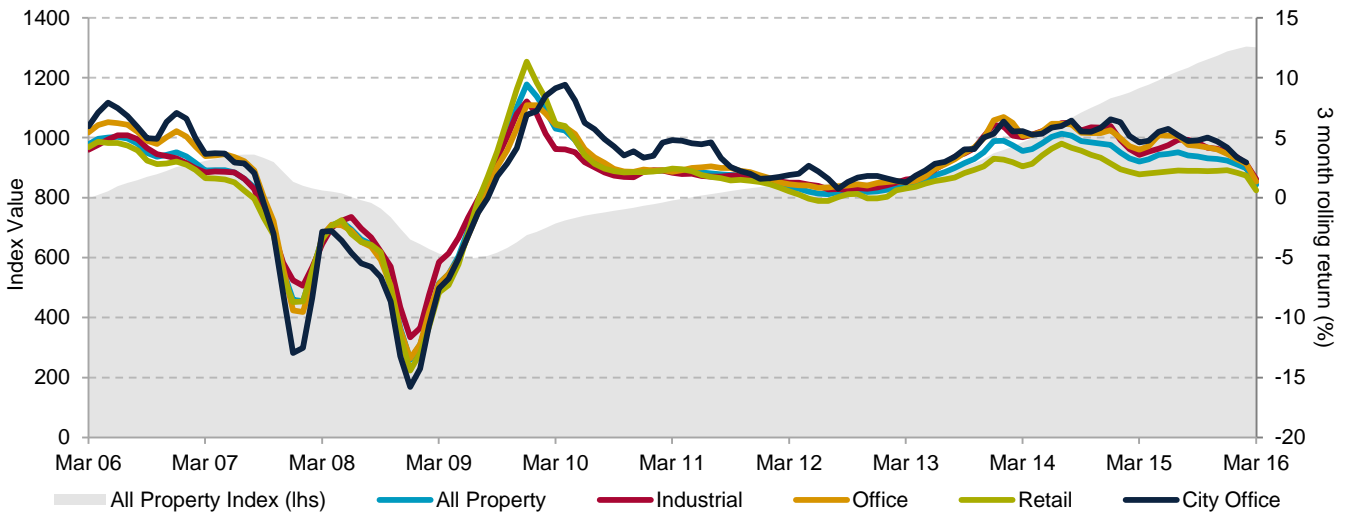


Commodity sector performance – 3 years to 31 March 2016

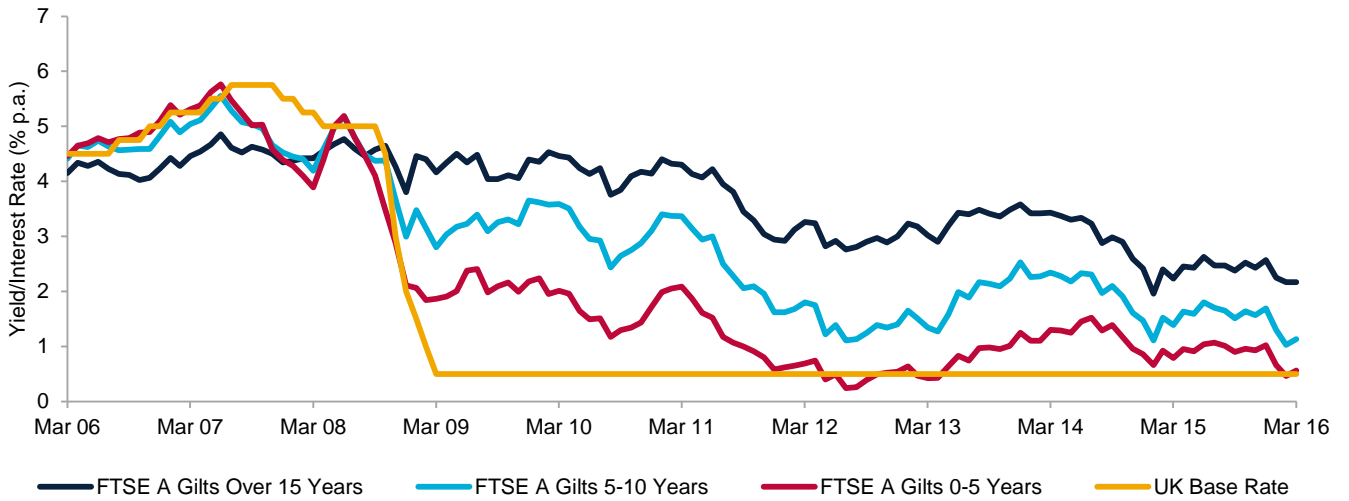


Source: Thomson Reuters

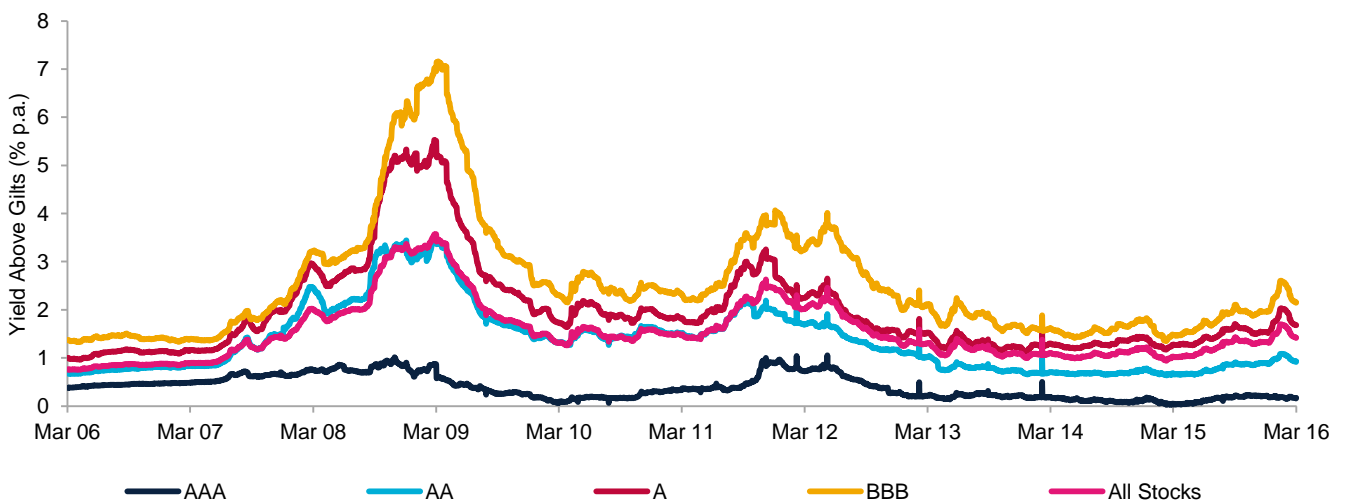
Property sector performance – 10 years to 31 March 2016



UK government bond yields – 10 years to 31 March 2016



Corporate bond spreads above government bonds – 10 years to 31 March 2016



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	31 March 2016			31 December 2015			31 March 2015		
	UK	Euro ¹	US	UK	Euro ¹	US	UK	Euro ¹	US
Annual Real GDP Growth ²	2.1%	2.9%	1.9%	2.1%	3.0%	2.0%	2.6%	2.0%	2.9%
Annual Inflation Rate ³	0.5%	0.0%	0.9%	0.2%	0.2%	0.7%	0.0%	-0.1%	-0.1%
Unemployment Rate ⁴	5.1%	10.5%	4.9%	5.1%	10.7%	5.0%	5.6%	11.4%	5.6%
Manufacturing PMI ⁵	51.0	51.6	51.5	51.8	53.2	51.2	53.7	52.2	55.7

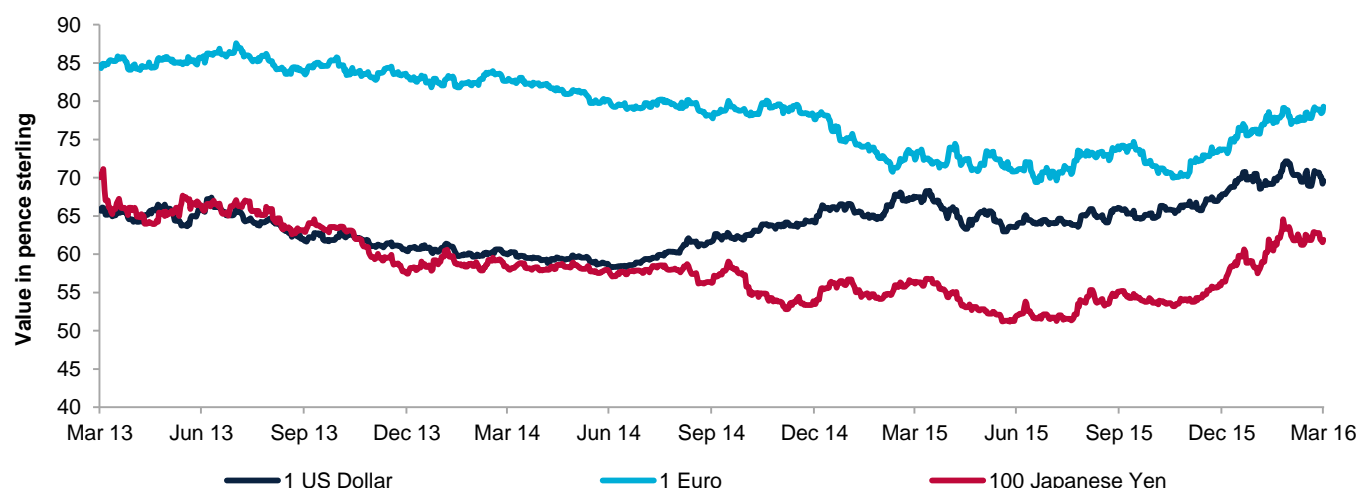
Change over periods ending:	3 months			12 months		
	UK	Euro ¹	US	UK	Euro ¹	US
31 March 2016						
Annual Real GDP Growth ²	-0.1%	-0.1%	0.0%	-0.6%	0.9%	-0.9%
Annual Inflation Rate ³	0.3%	-0.3%	0.1%	0.5%	0.0%	0.9%
Unemployment Rate ⁴	0.0%	-0.2%	-0.1%	-0.5%	-0.9%	-0.7%
Manufacturing PMI ⁵	-0.8	-1.6	0.3	-2.7	-0.6	-4.2

Notes: 1. Euro Area 19 Countries. 2. Euro GDP is lagged by 1 quarter. 3. CPI inflation measure. 4. Euro unemployment is lagged by 1 quarter, UK unemployment is lagged by 1 month. 5. Headline Purchasing Managers Index.

EXCHANGE RATES

Economic Statistics as at:	Value in Sterling (Pence)			Change in Sterling	
	31 Mar 16	31 Dec 15	31 Mar 15	3 months	12 months
1 US Dollar is worth	69.57p	67.85p	67.36p	-2.5%	-3.2%
1 Euro is worth	79.29p	73.70p	72.35p	-7.0%	-8.8%
100 Japanese Yen is worth	61.90p	56.40p	56.17p	-8.9%	-9.3%

Exchange rate movements – 3 years to 31 March 2016



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

3 MARKET COMMENTARY

INTRODUCTION

'Things are always better in the morning' said Harper Lee in 'To Kill a Mockingbird'. There were times in the first few weeks of the last quarter when this seemed unlikely as mild panic overcame investors and prices fell sharply.

This suddenly changed in mid-February, when most markets had recovered rapidly from their low. What caused the reversal?

A combination of a rebound in the oil price, diminishing fears of a US recession, some more encouraging comments from China and, not least, short covering and bargain hunting led to some extreme moves. For example, Anglo American more than doubled in price in just five weeks.

Once again the major Central Banks led the way. Statements from the People's Bank of China (on currency), the Federal Reserve (suggesting no early interest rate rises), the Bank of Japan (which cut rates) and the European Central Bank (also cutting rates) all helped to ease investors' concerns.

Overall the backdrop is not dissimilar to what has been seen for some time now. Consumer spending is holding up – in many areas at the expense of saving rates – but industry is still finding life challenging due to the slowdown in global trade.

In the last few weeks since the recovery in equity prices, markets have mainly moved sideways as investors await further news. But at least for the time being, they are heeding the words of an old Dalai Lama – 'Choose to be optimistic, it feels better'.

UNITED KINGDOM

- The main indices finished the quarter little changed since the year end, despite the volatility seen in the meantime. As elsewhere, markets moved in line with the oil price and recovered when it also showed signs of doing so. But as the quarter ended, the growing possibility of a 'No' vote – Brexit – in the June referendum began to weigh on investors' minds. This is discussed below.
- Looking first at the economic backdrop, the indicators are mixed.
- Growth in the UK economy is continuing, albeit at a relatively low level for this stage in the cycle (similar to the US). Core inflation remains low with no signs of any acceleration, wage increases are still muted and the chances of an interest rate increase this year are small (with one exception, mentioned below).
- There are problems, however. The savings ratio is at a record low of 3.8%, and household finances are in a worse state than before the 2007 crisis as consumers have been taking advantage of low interest rates to add to their debt. As a country Britain is sinking deeper into the red and living beyond its means. At 7% of GDP the current account deficit is now the largest peacetime shortfall since records began in 1772, and the highest among advanced economies. Consumption of imports is too high and will need to be reduced at some stage.
- Sir Walter Scott, in 'Marmion' penned the famous words 'Oh, what a tangled web we weave, when first we practice to deceive'. Both sides of the argument are seemingly guilty of this. Those who wish to remain in the EU not surprisingly emphasise the benefits, particularly the economic benefits, of staying in and warn, often in apocalyptic terms, of the unknown dangers of leaving. Those who argue for a 'No' vote play down the dangers, and stress the advantages of regaining control of ones own actions.
- Whichever side of the argument one is on, it is obvious that a 'No' result will cause confusion in the short term, at least, and volatility in markets. Confidence will take a hit and sterling could weaken sharply – too sharply and

the Bank of England could be forced to increase interest rates sooner, and by a greater amount, than expected. Longer term will depend on the outcome of the negotiations on exit.

- But the final decision in June is likely to be an emotional one, not economic. Opinion polls – their reputation somewhat tarnished over the last few years – are suggesting the result will be very close. On the other hand bookmakers – whose track record is considerably better – are indicating a solid ‘Yes’ majority.
- What should a UK investor do in such a situation? It is pointless trying to second-guess the outcome. Not all UK companies will be hit by a ‘No’ vote. If sterling weakens, some will benefit. Exports will not disappear overnight. A ‘Yes’ outcome will settle the issue for another generation at least.
- Despite a few dividend cuts from higher profile companies, the yield on the UK market is still attractive - especially compared to elsewhere.

EUROPE EX UK

- The Eurozone recovery is continuing but at a very low level and showing no signs of acceleration. There are too many headwinds. The region is still suffering deflation, although there have been a few signs of a pick-up in prices but not enough to reach the 2% target. Core inflation, which strips out volatile items such as food and energy, has risen to 1%, the highest in six months.
- Consumers’ propensity to spend is weak. As a group they are trying to reduce their debt, and additionally companies are reluctant to invest whilst the global background is uncertain. The European Central Bank has tried to provide further stimulus, reducing interest rates to record lows and increasing its bond purchases (including corporate debt for the first time), but there are few indications of any positive effect so far. The ECB has been hoping that countries would provide a fiscal stimulus to add to its monetary one, but again, to date, without success. Austerity still rules supreme in many areas.
- There is nothing new here. In contrast the headlines have been filled with political, not economic, problems. The refugee crisis continues to cause angst throughout the region, and despite the negotiated agreement with Turkey – yet to be fully tested, and already showing signs of breaking down – the onset of Spring and better weather will likely test the political will still further.
- This crisis, coupled with the recent terrorist attacks in Paris and Brussels, have encouraged the rise in anti-EU parties across the whole of the Eurozone. Immigration, not austerity, is now their leading cause. A (non-binding) referendum just held in the Netherlands has rejected a trade treaty with the Ukraine, on fears it might be a prelude to further EU integration, and further immigration from the East.
- Overshadowing everything, in the short term, is the possibility of ‘Brexit’. Other countries on the Continent, not only those in the Eurozone, have parties just as eager to withdraw from the EU as the ‘Out’ supporters in the UK. They, too, would fancy their chances if the UK votes to leave. This is the greatest fear in Brussels.
- In the first quarter, markets in Europe were as volatile as elsewhere, with a sharp fall followed by a recovery, ending the quarter little changed from the year end.

NORTH AMERICA

- The US economy continues to grow, at a rather lacklustre 1% annualised rate. Demand has weakened, due mainly to the strong dollar, but job creation is still high, as recent figures have confirmed. Wage growth has yet to accelerate (many newly created jobs are low paid or part-time) but core inflation is rising and, all other things being equal, the Federal Reserve is expected to raise interest rates twice this year, to reach 1% by year end.
- But all other things are not equal. The Federal Reserve has shown its willingness in the last few months to take more account of the effect of its actions overseas, rather than stick to its official US remit. The expected rate rise in March was postponed (possibly another consequence of the Shanghai meeting) and the latest statement from the Federal Reserve have been far more ‘dovish’ in their implications.
- Resulting from this apparently more benign, outlook, global investors have been returning to the US market, believing it to be less volatile and more predictable. A certain amount of complacency has set in, which may be tested by the first quarter earnings announcements due shortly. Revenues for many companies have been

under pressure for some time, but profits have yet to respond due to accountancy changes. This could soon change.

- And then there is the forthcoming Presidential election.
- Donald Trump must at times feel like Julius Caesar in 'Carry On Cleo' – 'Infamy! Infamy! They've all got it in for me!' The Republican establishment is horrified at the thought of him winning the nomination in July, and trying everything to prevent this happening, so far with little effect.
- For the Democrats the race between Hillary Clinton and Bernie Sanders is less fractious – so far – and much closer than expected. However the likelihood of Mrs Clinton emerging as the nominee is still high.
- Should she go on to win the election in November, this could have serious implications for the market (depending, of course, on which party controls Congress). She does not like 'Big Business' – especially healthcare companies, which she accuses of profiteering – and is deeply suspicious of Wall Street. In theory, a Trump victory, however unlikely, would be more pro-business, but given some of his statements, even this is not a certainty.
- With the exception of the healthcare sector, which has recently been underperforming after a period of strong growth, markets have so far ignored the ongoing political debate. At some stage however, possibly from July when the nominees are finally confirmed, investors will have to take note – and react.

JAPAN

- The Bank of Japan surprised markets (some would say shocked) at the end of January by an additional cut in interest rates – into negative territory for the first time. The immediate results were dramatic, with the Bank index in Tokyo falling 26% in a fortnight (since recovered to a 15% loss) as investors were concerned over the effect on banks' profitability. However the positive effects are already being seen. Consumers are falling over themselves to take advantage of lower mortgage rates. Refinancing applications are up 250% on a year ago, and new home loan requests have risen 50%. The Government might not have appreciated the stock market reaction, but will be pleased by that of the man-in-the-street.
- GDP growth has been down-graded again to 0.8% (it was 1.1%), perilously close to yet another recession. Inflation remains stubbornly low at 0.4%. Mr Abe, like Mr Draghi in Europe, is determined to 'do what it takes' to get the economy moving again. Wage increases are crucial and the results of this year's Spring wage negotiations will be watched closely, with the government trying to persuade companies to use some of their vast reserves of cash to increase real incomes.
- In sterling terms the Japanese market fell over 4% in the first quarter, the worst performance of the major indices (in yen terms it fell even more). Ongoing structural reforms are taking time – as always in Japan – to show any benefits. However the reaction to the introduction of negative rates described above shows the Japanese consumer can move quickly if he wants to.
- The Japanese market requires patience, sorely tested over the years. Valuations are attractive, especially relative to other markets, dividends are increasing and high quality companies are proving their resilience. But yet again confidence is lacking. Some further indication that Mr Abe's reforms are working will be needed before the market regains the momentum seen last year.

ASIA PACIFIC EX JAPAN / EMERGING MARKETS

- 'Even the darkest night will end and the sun will rise' wrote Victor Hugo in 'Les Miserables'.
- Emerging Markets rose dramatically over the period under review, up 8% in the quarter – and up 18% from the bottom in February. Is this a false dawn or the start of a longer term recovery?
- The reasons are not difficult to find. Indications that the US dollar might be peaking (the Shanghai meeting again) and that commodity prices might be stabilising, if not yet increasing (oil being the exception) were enough to tempt investors back into the sector. The rally was led by South American markets, particularly Brazil (due to politics, not economics), but others followed – Asia Pacific rose nearly 5%. It is worth noting that over

two-thirds of the benchmark Emerging Market index is made up of countries that are net commodity importers, benefiting from lower prices. These include nearly all those in Asia.

- In the Pacific Region the value of the Chinese currency is the key, and there the signs are more promising than a few months ago. The Governor of the People's Bank of China has made it clear he was not looking to devalue the currency on a trade-weighted basis, and was comfortable with forecast economic growth figures. This has reassured investors, and companies, in the region.
- It is too early to tell if the fundamental story for Emerging Markets has changed, or whether the recent strong rally was just short covering and nothing more sustainable.

FIXED INCOME

- In mid-February there was a G20 meeting held in Shanghai at which, amongst other things, the Chinese outlined their attempts to reduce, and hopefully eventually stop, the massive capital outflows being experienced. This has led to the pressure on the Renminbi which has been the cause of so much concern since last summer.
- Whether by coincidence, or as a result of these measures, the outflows have fallen dramatically in February (and the early indications suggest the March figures will show a similar fall).
- There have been two major beneficiaries of the flood of Chinese cash – the leading government bond markets and the US dollar.
- The last time something similar happened was in 1985 (the 'Plaza Accord', named after the hotel in New York that hosted an equivalent meeting) and the trade-weighted dollar fell by more than 40% in the following three years.
- Has an equally important turning point for government bonds and the dollar been reached? Will the tide of money that has driven bond yields to all-time lows at long last be reversed? Only time will tell, but the Shanghai meeting in 2016 could turn out to be as important as the one in New York in 1985.
- All the major government bond markets have benefited from the inflow of liquidity mentioned above, the low interest rate environment experienced in recent years and the 'safe-haven' status we have often mentioned in the past.

ALTERNATIVES

- Hedge Funds (in sterling terms) returned 1.9% over the quarter, which was primarily due to a strengthening of the dollar against sterling as hedge funds returned -0.7% in dollar terms. Global Macro were the strongest strategies, returning 4.0%, whilst Equity Hedge returned 0.8% and were the worst performing strategies during this period. Over 3 years however, Equity Hedge were the leading strategies with a return of 4.5% p.a. Event Driven strategies had the worst returns over 12 months, returning -2.2%, whilst Relative Value was the strongest during this period, returning 0.6%. Hedge fund strategies with exposure to global equities produced strong gains at the end of the quarter as equities reversed steep losses from the first half of the quarter.
- UK commercial property returned 1.1% over the quarter, down from 3.0% recorded in the same period last year as the growth rate was weighed down by a decline in capital values. Over the quarter, capital values declined by 0.2%, as capital growth turned negative in March 2016 for the first time since April 2013. Industrials and Offices were the leading sectors over the quarter returning 1.5% and 1.3% respectively. Meanwhile, the retail sector continued to lag behind returning 0.6% over the same period. As at the end of March 2016, the annual yield property yield stood at around 5.5%.
- Commodities generated a flat return over the quarter, a significant improvement from the negative returns obtained last quarter, as most commodity indexes rebounded in February-March from their January lows on market sentiment and a weakening dollar. Energy prices continued to decline over the quarter, as oil prices dropped due to resilient oil production from countries that do not belong to the Organisation of the Petroleum Exporting Countries, expanding supplies from Iran and weak demand. Coal and natural gas prices declined due to oversupply. Despite the reversal of the downward trend in the prices of some agricultural commodities at the

end of the quarter, agriculture prices fell, marking the eighth consecutive quarterly decline. Metal prices declined on weakening growth prospects in China and increasing supplies whilst precious metals prices rose due to stronger investment demand.

CONCLUSION

Volatility has been the watchword in the first quarter with investors close to panic in the first few weeks, only to recover their nerve as time passed. Individual shares have bounced very sharply, but overall indices have hardly changed. The reasons for the reversal in mood have been mentioned above. Will they continue?

The oil price, with which in recent months markets appear to have been correlated, seems to have stabilised at these higher levels (the mid \$30s at the time of writing). Forecasting future oil production is nigh on impossible, given the political ramifications of any change, but suffice to say at this price demand should be sustained and may even increase.

This assumes modest growth in developed market economies, with perhaps some more robust recovery in Emerging Markets – the latter a moot point at this early stage. After the recent Shanghai meeting the chances of a weakening dollar going forward have increased, which would suit the US, its exporting companies and, again, some of the more hard-pressed Emerging Market economies, whose exports would at last become more competitive.

This benign outcome could easily be derailed if the Federal Reserve, for whatever reason, decides to increase rates more rapidly, or more steeply, than markets currently expect.

The June referendum in the UK will almost certainly lead to nervousness amongst investors in the weeks beforehand (and the same will happen later in the year ahead of the Presidential election), probably both here in the UK, and in Europe, especially if the result is likely to be close.

It is difficult to see where economic growth can be accelerated – except perhaps in the Eurozone and Japan if the ongoing monetary stimuli work. So companies will have to continue playing the hand they have already been dealt, with the advantage still with the developed world over the developing (something that may change as the year progresses).

Finally, it is worth remembering a comment from Warren Buffett. 'Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it'.

4 INDICES USED IN THIS REPORT

Asset	Index
Growth Assets	
UK	FTSE All-Share Index
Global Developed	MSCI World Index
USA	FTSE USA Index
Europe	FTSE AW Europe (ex UK) Index
Japan	FTSE Japan Index
Asia Pacific (ex Japan)	FTSE AW Asia Pacific (ex Japan) Index
Emerging Markets	MSCI Emerging Markets Index
Frontier Markets	MSCI Frontier Markets Index
Property	UK IPD Monthly Property Index
Hedge Funds	HFRI Fund Weighted Composite Index
Commodities	S&P GSCI TR Index
High Yield	Bank of America Merrill Lynch Global High Yield Index
Emerging Markets Debt	JPM EMBI Global Diversified Composite Index
Senior Secured Loans	Credit Suisse Western European Leveraged Loan Index
Cash	IBA GBP LIBOR 1 Week Index
Bond Assets	
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts (>5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (>15 yrs AA)	IBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (15yrs)	IBoxx £ Non-Gilts Over 15 Years Index
Yields	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (>5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (>15 yrs AA)	IBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (>15 yrs)	IBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
Inflation	
Price Inflation – RPI	All Items Retail Price Index (NADJ)
Price Inflation – CPI	All Items Consumer Price Index (Estimated NADJ)
Earnings Inflation	Average Weekly Index (Whole Economy excluding Bonuses)
Exchange Rates	
USD/EUR/JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Notes: All the indices above are denominated in Sterling

CONTACT

KIERAN HARKIN

Director

+44 (0)161 957 8016

kieran_harkin@jltgroup.com

JOE PEACH

Senior Consultant

+44 (0)20 7895 7749

joseph_peach@jltgroup.com

Whilst all reasonable care has been taken in the preparation of this presentation no liability is accepted under any circumstances by Jardine Lloyd Thompson for any loss or damage occurring as a result of reliance on any statement, opinion, or any error or omission contained herein. Any statement or opinion unless otherwise stated should not be construed as independent research and reflects our understanding of current or proposed legislation and regulation which may change without notice. The content of this document should not be regarded as specific advice in relation to the matters addressed.

JLT Benefit Solutions Limited. Authorised and regulated by the Financial Conduct Authority. A member of the Jardine Lloyd Thompson Group. Registered office: The St Botolph Building, 138 Houndsditch, London EC3A 7AW. Registered in England No. 02240496. VAT No. 244 2321 96.

This page is intentionally left blank



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 24 May 2016
Report Subject	Investment Strategy and Manager Summary
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

The purpose of the Investment Strategy and Manager Summary is to update Committee Members on the performance of the Fund's investment strategy and performance of the Fund's investment managers.

The report covers the quarter ending 31 March 2016.

The Fund experienced a mixed quarter from an Investment Strategy perspective, with positive returns from a number of asset classes, but negative returns from a number of others. Key facts covered in the report are as follows:

- Over the 3 months to 31 March 2016, the Fund's total market value increased by £11.8m to £1,382,461,380.
- As at 31 March 2016, the value of the Fund's liabilities had increased by £130 million to £2,254 million, resulting in a funding level of 61% - this is a decrease in the funding level from 31 December 2015 which was at 65%.
- Over the quarter, total Fund assets returned 1.7% compared with a composite target of 2.0%.

The Fund's investment strategy will be reviewed later in 2016 (on a light touch basis) as part of the Actuarial Valuation Process.

A number of the Fund's investment managers outperformed their respective targets during the quarter. There was particularly strong performance from the Fund's In-House portfolio.

RECOMMENDATIONS

1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 31 March 2016.
2	That the Committee considers the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Investment Strategy and Manager Summary 31 March 2016</p> <p>Over the 3 months to 31 March 2016, the Fund's total market value increased by £11.8m to £1,382,461,380.</p> <p>Total Fund assets returned 1.7% over the quarter, compared with a composite target of 2.0%.</p> <p>Over the one year period, Total Fund assets returned -0.1%, compared with a composite target of 1.9%.</p> <p>Over the last three years, Total Fund assets returned 5.0% p.a., compared with a composite target of 6.3% p.a.</p> <p>Key performance drivers during the quarter came from the In-House assets and the Equities allocation.</p> <p>The Fund's asset portfolio was within the strategic ranges set for all asset classes, except Multi-Asset Credit, during the period.</p>
1.02	<p>At this time, there are no concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates.</p> <p>The Fund's investment consultant will be reviewing the mandate specification for each of the manager positions as part of the planned light touch review of investment strategy later in 2016. This is to ensure that the structure of the mandates remain appropriate to serve the needs of the Fund going forward.</p>

2.00 RESOURCE IMPLICATIONS

2.01	None directly as a result of this report.
------	---

3.00 CONSULTATIONS REQUIRED / CARRIED OUT

3.01	None directly as a result of this report.
------	---

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

5.00	APPENDICES
5.01	Appendix 1 – Investment Strategy and Manager Summary 31 March 2016.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Investment Strategy and Manager Summary 31 December 2015.</p> <p>Contact Officer: Debbie Fielder, Pension Finance Manager Telephone: 01352 702259 E-mail: debbie.a.fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <p>(a) Absolute Return – The actual return, as opposed to the return relative to a benchmark.</p> <p>(b) Annualised – Figures expressed as applying to 1 year.</p> <p>(c) Duration – The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.</p> <p>(d) Market Volatility – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.</p> <p>(e) Money-Weighted Rate of Return – The rate of return on an investment including the amount and timing of cashflows.</p>

- (f) **Relative Return** – The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark.
- (g) **Three-Year Return** – The total return on the fund over a three year period expressed in percent per annum.
- (h) **Time-Weighted Rate of Return** – The rate of return on an investment removing the effect of the amount and timing of cashflows.
- (i) **Yield (Gross Redemption Yield)** – The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

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

<http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf>

**CLWYD PENSION FUND
INVESTMENT STRATEGY AND
MANAGER SUMMARY
PERIOD ENDING 31 MARCH 2016**

TABLE OF CONTENTS

1 Impact on Clwyd Pension Fund Investment Strategy	3
2 Strategic Asset Allocation	7
3 Valuation and Asset Allocation	8
4 Performance Summary	9
5 Strategic Asset Classes	10
Appendix: Summary of Mandates	11

1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

This report is produced by JLT Employee Benefits ("JLT") to assess the performance and risks of the investment managers of the Clwyd Pension Fund (the "Fund"), and of the Fund as a whole. The report does not comment on the Fund's Liability Driven Investment ("LDI") portfolio, as information in respect of this allocation is produced separately by Mercer.

OVERALL

Over the 3 months to 31 March 2016, the Fund's total market value increased by £11.8 million to £1,382,461,380.

As at 31 December 2015, the Fund's liabilities were valued at £2,124 million, resulting in a funding level of 65%.

As at 31 March 2016, the value of the Fund's liabilities had increased by £130 million to £2,254 million, resulting in a funding level of 61%.

Over the quarter, total Fund assets returned 1.7% compared with a composite target of 2.0%. All strategic asset classes delivered positive absolute returns over the period; the majority of the Fund's total return was driven by the In-House Portfolio which delivered 3.2% and the LDI Portfolio which returned 2.3%. Multi-Asset Credit produced the lowest return of the strategic asset classes, increasing by only 0.3%.

In relative terms, total Fund assets produced a return 0.3% below target, mainly due to the Equity Portfolio which was significantly below target by 4.2% and detracted 0.7% from the total return. The In-House Portfolio was 1.9% above target and added 0.5% to relative performance, offsetting some of the underperformance of the Equity assets.

Some assets had a particularly difficult quarter on both an absolute and relative basis. In particular, Opportunistic assets declined by -12.0%. Within the Best Ideas Portfolio, Japanese Hedged Equities and Japanese Unhedged Equities were the worst performing, returning -13.9% and -4.7% respectively.

More positively, Timber/Agriculture, Private Equity and UK Equity-Linked Gilts (which is held within the Best Ideas Portfolio) all rose significantly in a period of mixed fortunes returning, 7.3%, 6.0% and 5.8% respectively.

Insight's LDI portfolio rose by 2.3% on the back of falling yields and added 0.4% to the Fund's total return.

EQUITIES

Despite one of the worst starts on record for global equity markets, with the exception of UK and Japan, Developed, Emerging and Frontier markets all rose over the quarter.

There were several factors present during the first half of the quarter that led to the poor start, these included concerns over the devaluation of Chinese currency, widening credit spreads in energy amid falling prices, emerging market currency weakness and slowing global growth. As a result, investors duly cut their risk positions in favour of perceived safe-haven assets.

However, global stock markets saw a strong rotation in the second half of the quarter as investors sold out of their winners and previously out-of-favour stocks rebounded from oversold levels. The recovery in global oil prices together with hopes that central banks would take further action to prop up economic growth encouraged investors to put their money to work in riskier assets.

In Developed markets, Asia Pacific (ex Japan) equities provided the strongest returns increasing by 4.6%. US equities rose by 3.7% followed by European equities which were up by 1.0%. Japanese equities and UK equities posted negative returns of -4.3% and -0.4%, respectively.

Over the last 12 months, US equities provided the strongest returns, increasing by 4.2%. Asia Pacific (ex Japan) experienced the lowest return of the developed markets, declining by -7.8%.

Emerging Markets and Frontier Markets were both up by 8.4% and 1.8% respectively over the quarter, but both markets saw a negative annual return of -8.8% and -9.3% respectively.

Total Equity assets returned 1.1%, which was 4.2% below their composite target. Wellington Emerging Markets (Core) and Wellington Emerging Markets (Local) were the only funds in the strategy that generated positive returns, however, all the funds in the strategy underperformed their targets over the quarter.

Global equity exposure to consumer discretionary, industrials and information technology were the main contributors to performance, while financials, healthcare and energy were the largest detractors from returns.

In Emerging Markets, exposures to China and Taiwan contributed to the majority of gains, although this was offset to some extent to exposures in South Africa and Brazil.

In Frontier Markets, the overweight allocation to Sri Lanka was the principal detractor as authorities took steps to rebalance the economy, which included tackling the country's twin deficits. In Latin America, the underweight allocation to Argentina was the second largest detractor from performance, as the market continued to climb, despite further peso weakness. However, this was partially offset by a rally in Copa's share price, on the back of low oil prices, which bodes well for the Panamanian airline's profitability. Elsewhere, exposure to Egypt weighed on performance as the central bank engineered currency devaluation.

MULTI-ASSET CREDIT

Bond markets endured a quarter of two halves. The first half began as the last one ended, with falling commodity prices, the Fed's decision to raise interest rates, and market volatility all weighing on investor sentiment. Sovereign bonds started the year strongly as yields continued to fall; with renewed fears of a slowdown in China, volatile movement in oil prices, and weaker-than-expected economic data leading to declines in risk assets globally.

However, in mid-February, as US economic data improved and commodity prices began to stabilise, volatile equity and bond markets started to reverse, the oil priced rebounded and a weakening dollar boosted risk sentiment. The recovery was further strengthened by the ECB's decision to lower interest rates and expand its QE programme to include corporate bonds - this is in addition to ongoing QE by China, and Japan announced earlier in the quarter.

UK government and UK corporate bonds rose strongly over the quarter as investors moved into less risky assets. Long-dated fixed interest gilts rose by 8.2%, long-dated corporates rose by 5.2%, and long-dated index-linked gilts rose by 6.5%. Global bond markets also rose, as Investment Grade, High Yield and Emerging Market Debt returned 9.8%, 6.6% and 5.0% respectively. However, some of the gains in global bond markets can be attributed to a strengthening US dollar over the period.

Total Multi-Asset Credit generated a return of 0.3% over the quarter, behind the target by 0.1%. Overall this had a neutral contribution to total Fund relative performance. Emerging Market Debt (+0.25%), High Yield (+0.24%) and Investment Grade (+0.22%) all added to performance of the strategy, although Global Rates detracted 0.45%.

In EM Debt, Stone Harbor managed portfolio sensitivity to oil prices by reducing risk exposure to oil exporting countries Kazakhstan, Russia and Venezuela, whose debt performed well in relative terms in the last quarter. By the end of the quarter, the portfolio's exposure to sovereign debt in Kazakhstan and Russia was underweight.

US High Yield sectors, Steel, Metals/Mining and Railroads were the best performers as commodity prices stabilised and began to improve, however, the portfolio's large underweight positions in Energy and Metals/Mining continue.

There was a surge in “Fallen Angels” over the quarter, with over \$60 billion downgraded below investment grade, as the market witnessed deterioration of fundamentals and an increase in default rates.

Strong returns from Colombia, Ecuador and Mexico further supported Latin America’s regional outperformance.

HEDGE FUNDS

Hedge Fund capital declined over the quarter to \$2.86 trillion, as volatile markets and performance at the start of the quarter resulted in falling investor risk tolerance and redemptions from underperforming strategies which totalled \$15.1 billion. Hedge Funds (in sterling terms) returned 1.9% over the quarter; this was primarily due to the US dollar strengthening against sterling, as hedge funds returned -0.7% in US dollar terms.

In sterling terms, Global Macro (+4.0%) were the strongest strategies, whilst Equity Hedge (+0.8%) were the worst performing. Hedge Fund strategies with exposure to global equities produced strong gains at the end of the quarter as equities reversed steep losses from the first quarter. ManFRM’s Managed Futures & Hedge Funds strategy had a positive return of 1.2%, outperforming its target by 0.2%. This made a neutral contribution to relative performance.

ManFRM Hedge Funds (Legacy) portfolio which consists of Duet, Liongate and Pioneer assets returned -0.2% over the quarter, behind their target of 1.2%.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets returned 0.6%, behind their absolute target of 1.1%. Overall this detracted 0.1% from total Fund relative performance.

Investec’s portfolio generated a return of -1.4% over the quarter, which was mainly due to the Growth sub-portfolio, as the poor performance of Japanese equities and US financials in particular impacted returns. The Defensive sub-portfolio benefitted from the long duration exposure, particularly US Treasuries, as yields generally fell over the quarter, but suffered from some currency hedged positions. The Uncorrelated sub-portfolio made a positive addition to performance overall, led by the exposure to gold.

Pyrford’s portfolio navigated through the challenging quarter and produced a positive return of 2.6%, ahead of its target of 1.3%. Within equities, holdings in Canada, Taiwan, Malaysia and Singapore helped to generate the positive return. The portfolio’s bonds also made positive contributions over the period as yields retreated. In particular, overseas bonds were very strong, supported by weakness in sterling against the US and Canadian dollar.

BEST IDEAS PORTFOLIO

The Best Ideas portfolio returned 0.6%, in line with its target of 0.6%. Overall this made a neutral contribution to total Fund performance.

F&C’s UK Equity-Linked Gilts (+5.8%) and BlackRock US Equities (+3.0%) performed the strongest over the quarter, with both fund’s contributing 0.1% to relative performance of the strategy.

LGIM’s Japanese Equities (Hedged) returned -13.9% and Japanese Equities (Unhedged) returned -4.7% and were the worst performing sectors of the strategy, detracting 0.2% and 0.1% from relative performance respectively.

SSARIS Fund of Hedge Funds portfolios were redeemed on 1 January 2016 and redemption payments were made in February 2016. These proceeds were held in cash and then used to make a tactical allocation of £30,007,095 into European ex UK Equities.

IN-HOUSE ASSETS

Total In-House assets returned 3.2%, ahead of their composite target by 1.9%. Overall this contributed to 0.5% to the total Fund performance. Property, Timber/Agriculture and Private Equity assets made positive relative contributions to the performance of the strategy whilst Infrastructure and Opportunistic assets contributed negatively.

Timber/Agriculture, which is marginally underweight relative to its strategic allocation, posted the highest return of the In-House assets of 7.3%, which was above the target by 5.9%.

Private Equity, which is the largest portfolio in the strategy, generated a positive return of 6.0% and outperformed its target of 1.4%. Overall this contributed 2.2% to the strategy and 0.5% to the total Fund performance.

Property assets delivered a return of 2.0%, outperforming its target by 0.9%.

Infrastructure produced an absolute return of -2.4% and underperformed its target by 3.8%.

Opportunistic assets were the poorest performing of the In-House assets, returning -12.0% and underperforming its target by 13.4%.

2 STRATEGIC ASSET ALLOCATION

31 MARCH 2016

Allocation by underlying asset class

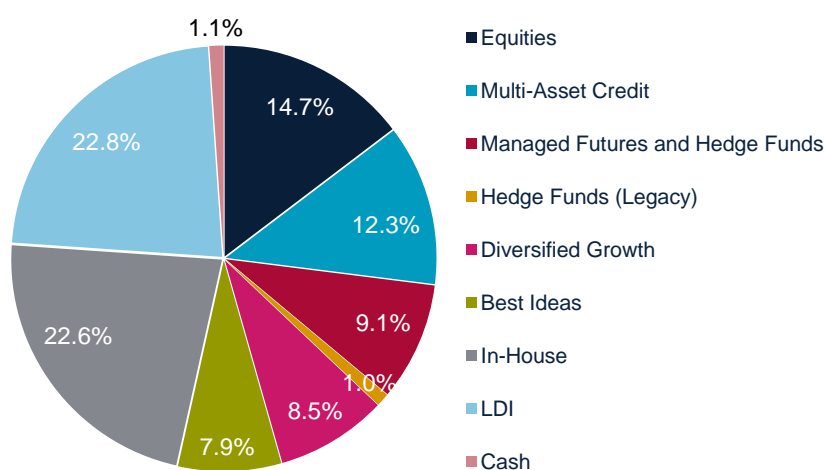
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	98,705,063	7.1	8.0	-0.9	5.0 – 10.0
Emerging Market Equities	77,877,531	5.6	6.5	-0.9	5.0 – 7.5
Frontier Market Equities	26,243,847	1.9	2.5	-0.6	1.0 – 4.0
Multi-Asset Credit	170,330,919	12.3	15.0	-2.7	12.5 – 17.5
Managed Futures and Hedge Funds	125,388,772	9.1	9.0	0.1	7.0 – 11.0
Hedge Funds (Legacy)*	13,880,434	1.0	0.0	1.0	–
Diversified Growth	117,918,757	8.5	10.0	-1.5	15.0 – 25.0
Best Ideas	109,118,072	7.9	9.0	-1.1	
Property	108,679,631	7.9	7.0	0.9	5.0 – 10.0
Private Equity & Opportunistic	150,745,023	10.9	10.0	0.9	8.0 – 12.0
Infrastructure / Timber / Agriculture	53,009,039	3.8	4.0	-0.2	2.0 – 7.0
LDI & Synthetic Equities	315,530,398	22.8	19.0	3.8	10.0 – 30.0
Cash	15,033,895	1.1	0.0	1.1	0.0 – 5.0
TOTAL CLWYD PENSION FUND	1,382,461,380	100.0	100.0	0.0	

Notes: * Hedge Funds (Legacy) includes the Duet, Liongate and Pioneer portfolios.

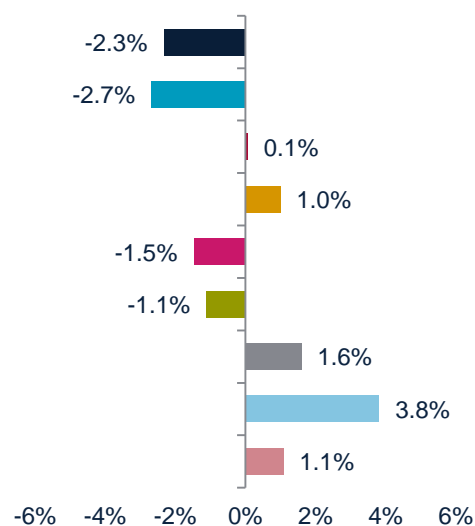
Points to note

- Total allocation to LDI rose by 0.4% over the quarter and is 3.8% overweight relative to its strategic allocation.
- Multi-Asset Credit is 2.7% underweight its strategic allocation and is now 0.2% below its lower strategic range, however, allowing for bond exposures elsewhere in the Fund, the total effective allocation to Multi-Asset Credit was around 16.8% at the end of the quarter.

Strategic Asset Allocation as at 31 March 2016



Deviation from Strategic Allocation



Notes: Totals may not sum due to rounding

3 VALUATION AND ASSET ALLOCATION AS AT 31 MARCH 2016

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Investec	Global Strategic Equity	98,705,063	7.1	8.0	5.0 – 10.0
Wellington	Emerging Market Equities (Core) [#]	37,360,760	2.7	3.25	5.0 – 7.5
Wellington	Emerging Market Equities (Local) [#]	40,516,770	2.9	3.25	
Aberdeen	Frontier Markets [#]	26,243,847	1.9	2.5	1.0 – 4.0
Total Equities		202,826,440	14.7	17.0	
Stone Harbor	Libor Multi-Strategy Portfolio	170,330,919	12.3	15.0	12.5 – 17.5
Total Multi-Asset Credit		170,330,919	12.3	15.0	12.5 – 17.5
ManFRM	Managed Futures and Hedge Funds	125,388,772	9.1	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	13,880,434	1.0	0.0	–
Managed Account Platform		139,269,206	10.1	9.0	7.0 – 11.0
Pyrford	Global Total Return	60,991,880	4.4	5.0	–
Investec	Diversified Growth	56,926,877	4.1	5.0	
Total Diversified Growth		117,918,757	8.5	10.0	–
BlackRock	US Equities	28,025,215	2.0	9.0	–
BMO	UK Equity-Linked Gilts	23,431,796	1.7		
LGIM	Japanese Equities	13,042,510	0.9		
LGIM	Japanese Equities (Hedged)	10,700,800	0.8		
BlackRock	European Equities [^]	33,917,751	2.5		
Best Ideas Portfolio		109,118,072	7.9	9.0	–
Tactical Allocation Portfolio		227,036,829	16.4	19.0	15.0 – 25.0
In-House	Property	108,679,631	7.9	7.0	5.0 – 10.0
In-House	Infrastructure	27,145,247	2.0	2.0	2.0 – 7.0
In-House	Timber / Agriculture	25,863,792	1.9	2.0	
In-House	Private Equity	139,842,211	10.1	10.0	8.0 – 12.0
In-House	Opportunistic	10,902,812	0.8		
Total In-House Assets		312,433,693	22.6	21.0	
Insight	LDI Portfolio	315,530,398	22.8	19.0	10.0 – 30.0
Total LDI		315,530,398	22.8	19.0	10.0 – 30.0
Trustees	Cash ⁺	15,033,895	1.1	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		1,382,461,380	100.0	100.0	

Notes: * ManFRM Hedge Funds (Legacy) includes the Duet, Liongate and Pioneer funds transferred at the end of December 2015. Duet's valuation is based on the 31 August 2015 valuation which is the latest available, Pioneer and Liongate valuations are provided by ManFRM.
⁺ SSARIS 10% hold back cash resulting from the redemptions made on 29 February 2016 and due to be received in June 2016 is shown as part of Trustee Cash.
[^] A tactical allocation to BlackRock European Equities was established on 4 March 2016 using proceeds from the SSARIS redemptions.
[#] Wellington Emerging Markets Core, Wellington Emerging Markets Local and Aberdeen Frontier Markets valuations have been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.

4 PERFORMANCE SUMMARY

PERIODS ENDING 31 MARCH 2016

Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance vs Objective
		Fund	Target	Fund	Target	Fund	Target	
● Investec	Global Strategic Equity	-0.3	3.4	-4.9	1.3	9.5	9.6	Target not met
● Wellington	Emerging Markets (Core) [#]	4.9	8.7	-8.3	-7.9	-3.1	-1.4	Target not met
● Wellington	Emerging Markets (Local) [#]	3.1	9.0	-6.9	-6.9	-1.1	-0.4	Target not met
● Aberdeen	Frontier Markets [#]	-2.5	2.2	-10.4	-7.6	-5.4	0.4	Target not met
Total Equities		1.1	5.3	-6.5	-3.4	4.2	6.6	
● Stone Harbor	Libor Multi-Strategy	0.3	0.4	-1.4	1.5	-1.1	0.1	Target not met
Total Multi-Asset Credit		0.3	0.4	-1.4	1.5	-1.1	0.1	
n/a ManFRM	Managed Futures & Hedge Funds	1.2	1.0	n/a	n/a	n/a	n/a	n/a
n/a ManFRM	Hedge Funds (Legacy) [^]	-0.2	1.2	-5.9	5.2	-1.0	4.9	Target not met
Managed Account Platform		1.0	1.0	n/a	n/a	n/a	n/a	
● Pyrford	Global Total Return	2.6	1.3	1.7	6.1	2.7	6.1	Target not met
n/a Investec	Diversified Growth	-1.4	1.0	-6.1	5.1	n/a	n/a	n/a
Total Diversified Growth		0.6	1.1	-2.2	5.6	0.2	5.7	
Best Ideas Portfolio		0.6	0.6	n/a	n/a	n/a	n/a	
Tactical Allocation Portfolio		0.6	0.6	n/a	n/a	n/a	n/a	
● In-House	Property	2.0	1.1	11.2	11.7	10.5	14.8	Target not met
● In-House	Infrastructure	-2.4	1.4	21.4	5.7	14.4	5.6	Target met
● In-House	Timber / Agriculture	7.3	1.4	3.6	5.6	0.9	5.6	Target not met
● In-House	Private Equity	6.0	1.4	18.0	5.7	10.0	5.6	Target met
● In-House	Opportunistic	-12.0	1.4	-30.1	5.6	-6.6	5.5	Target not met
Total In-House Assets		3.2	1.3	12.6	7.6	9.2	8.6	
n/a Insight	LDI Portfolio	2.3	2.3	-4.1	-4.1	n/a	n/a	n/a
Total (ex LDI)		1.5	1.9	1.2	3.2	3.1	4.7	
TOTAL CLWYD PENSION FUND		1.7	2.0	-0.1	1.9	5.0	6.3	

Notes: 'n/a' against the objective is for funds that have been in place for less than three years.
 Best Ideas Portfolio historically includes SSARIS A and Z portfolios until redemption on 29 February 2016.
 Total Equities historically includes SSgA passive equity funds until March 2014 and Aberdeen Asia Pacific Equity (ex Japan) Fund until March 2015.
[^] ManFRM Hedge Funds (Legacy) includes Duet, Liongate, Pioneer, BlueCrest (disinvested in October 2015) and BlackRock GASL (disinvested in April 2015).
[#] Wellington Emerging Markets Core and Wellington Emerging Markets Local and Aberdeen Frontier Markets data has been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.

● Fund has met or exceeded its performance target

● Fund has underperformed its performance target

5 STRATEGIC ASSET CLASSES

PERFORMANCE TO 31 MARCH 2016

Strategy	3 months	12 months	3 years
	%	%	% p.a.
Total Equities	1.1	-6.5	4.2
Composite Objective	5.3	-3.4	6.6
Composite Benchmark	4.8	-5.2	4.9
Total Multi-Asset Credit	0.3	-1.4	-1.1
Objective	0.4	1.5	0.1
Benchmark	0.1	0.5	-0.5
Managed Account Platform	1.0	n/a	n/a
Objective	1.0	n/a	n/a
Benchmark	1.0	n/a	n/a
Total Hedge Funds (Legacy)	-0.2	-5.9	-1.0
Composite Objective	1.2	5.2	4.9
Composite Benchmark	1.2	5.2	4.9
Total Diversified Growth	0.6	-2.2	0.2
Composite Objective	1.1	5.6	5.7
Composite Benchmark	1.1	5.6	5.7
Best Ideas Portfolio	0.6	n/a	n/a
Objective	0.6	n/a	n/a
Benchmark	0.6	n/a	n/a
Total In-House Assets	3.2	12.6	9.2
Composite Objective	1.3	7.6	8.6
Composite Benchmark	1.3	7.6	8.6
Total LDI Portfolio	2.3	-4.1	n/a
Composite Objective	2.3	-4.1	n/a
Composite Benchmark	2.3	-4.1	n/a
Total (ex LDI)	1.5	1.2	3.1
Composite Objective	1.9	3.2	4.7
Composite Benchmark	1.7	2.6	4.1
Total Clwyd Pension Fund	1.7	-0.1	5.0
Composite Objective	2.0	1.9	6.3
Composite Benchmark	1.8	1.4	5.7

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

Note: Objective performance includes the funds' outperformance targets above the relevant underlying benchmarks, as shown in the Appendix. Benchmark performance is based on the underlying benchmarks without the explicit outperformance targets for the relevant funds; the Equity and Multi-Asset Credit portfolios and the Wellington Commodities Fund.

APPENDIX: SUMMARY OF MANDATES

Manager	Fund	Strategic Asset Class	Performance Objective (Net of Fees)	Strategic Allocation
Investec	Global Strategic Equity	Global Equities	MSCI AC World NDR Index +2.5% p.a.	8.0%
Wellington	Emerging Market (Global)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.25%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.25%
Aberdeen	Frontier Markets	Frontier Markets Equities	MSCI Frontier Equities Index +1.5% p.a.	2.5%
Stone Harbor	Libor Multi-Strategy Portfolio	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a. ⁽¹⁾	15.0%
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0% ⁽³⁾
Pyrford	Global Total Return	Diversified Growth	UK Retail Price Index +4.5% p.a. ⁽²⁾	5.0%
Investec	Diversified Growth	Diversified Growth	UK Consumer Price Index +4.6% p.a.	5.0%
Best Ideas	Best Ideas	Best Ideas Portfolio	UK Consumer Price Index +3.0% p.a.	9.0%
In-House	Private Equity	Private Equity / Opportunistic	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Equity / Opportunistic	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	IPD Balanced Funds Weighted Average	7.0%
In-House	Infrastructure	Infrastructure / Timber / Agriculture	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Timber / Agriculture	Infrastructure / Timber / Agriculture	3 Month LIBOR Index +5.0% p.a.	2.0%
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%

Notes: ¹ FTSE A Gilts All Stocks Index until 31 March 2014.

² UK Retail Price Index +4.4% p.a. until 31 March 2015.

³ Strategic Allocation represents the composite benchmark for the Managed Account Platform.

This report may not be further copied or distributed without the prior permission of JLT Employee Benefits. This analysis has been based on information supplied by our data provider Thomson Reuters and by investment managers. While every reasonable effort is made to ensure the accuracy of the data JLT Employee Benefits cannot retain responsibility for any errors or omissions in the data supplied.

It is important to understand that this is a snapshot, based on market conditions and gives an indication of how we view the entire investment landscape at the time of writing. Not only can these views change quickly at times, but they are, necessarily, generic in nature. As such, these views do not constitute advice as individual client circumstances have not been taken into account. Please also note that comparative historical investment performance is not necessarily a guide to future performance and the value of investments and the income from them may fall as well as rise. Changes in rates of exchange may also cause the value of investments to go up or down. Details of our assumptions and calculation methods are available on request.

CONTACT

KIERAN HARKIN

Director

+44 (0)161 957 8016

Kieran_Harkin@JLTGroup.com

JOE PEACH

Senior Consultant

+44 (0)20 7895 7749

Joseph_Peach@JLTGroup.com

Whilst all reasonable care has been taken in the preparation of this presentation no liability is accepted under any circumstances by Jardine Lloyd Thompson for any loss or damage occurring as a result of reliance on any statement, opinion, or any error or omission contained herein. Any statement or opinion unless otherwise stated should not be construed as independent research and reflects our understanding of current or proposed legislation and regulation which may change without notice. The content of this document should not be regarded as specific advice in relation to the matters addressed.

JLT Benefit Solutions Limited. Authorised and regulated by the Financial Conduct Authority. A member of the Jardine Lloyd Thompson Group. Registered office: The St Botolph Building, 138 Houndsditch, London EC3A 7AW. Registered in England No. 02240496. VAT No. 244 2321 96.

This page is intentionally left blank



CLWYD PENSION FUND COMMITTEE

Date of Meeting	24 May 2016
Report Subject	Funding and Flight Path Update
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

Members should note the following key items:

- The funding position is now around 7% behind the expected position meaning that it should be kept under review. However, the funding position improved materially since the previous update provided to the Committee. This is due to improved equity performance over the month, as well as increases in interest rates. The funding position will be discussed as part of the 2016 valuation of the Fund.
- The level of hedging at 30th April was around 20% for interest rate and 40% for inflation. The level of hedging remained the same over the month. This is as expected but will need to be reviewed as part of the discussions regarding the actuarial valuation
- Insight are operating the liability hedging mandate in line with the tolerances set by our advisors.
- No triggers have been hit since the last update report
- The Actuary is proposing to move to adjust the structure of the funding framework

RECOMMENDATIONS

1	Action is required to review the funding framework (including overall return expectations) as part of the 2016 valuation of the Fund.
2	Review flightpath and liability hedging strategy in conjunction with the actuarial valuation.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>The monthly summary report from Mercer on the funding position and an overview liability hedging mandate is attached as at 30th April 2016. It includes a “traffic light” of the key components of the Flightpath and hedging mandate with Insight.</p>
1.02	<p>The estimated funding position as at 30th April is 64% with an estimated deficit of £799m, which is around 7% behind expectations. However, the funding position improved materially since the previous update to 29th February 2016. This recovery has been driven by improved equity performance over the month, as well as increases in interest rates. These factors have acted to further offset the losses observed earlier in the year.</p> <p>No triggers have been hit since inception and the funding position is now behind the expected recovery plan set in 2013 as a result of the recent changes in market conditions – in particular asset falls due to market uncertainty. The current funding position has been given an “orange” rating meaning that it should be kept under review.</p>
1.03	<p>We are recommending that the funding framework is reviewed as part of the 2016 valuation including the overall expected return assumption vs. the 2013 valuation. This could improve the funding level whilst retaining the same level of prudence in the long term funding target. This will need to be integrated with both the liability hedging strategy and flightpath.</p>
1.04	<p>The level of hedging at 30th April 2016 was around 20% for interest rate and 40% for inflation. The hedging implemented over 2014 and 2015 has provided some protection to the funding position against the changes in interest interests and inflation. In particular, without this hedging the deficit would have been approx. £75m higher since inception than if the original strategy had remained in place when measured on a like for like basis.</p>
1.05	<p>Based on data from Insight, the analysis shows that the management of the Insight mandate is rated as “green” meaning it is operating in line within the tolerances set by our advisors.</p>
1.06	<p>Given the current funding position we are recommending we will be proceeding with the healthcheck in conjunction with the valuation.</p>

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report. Officers will be heavily involved in the review of the funding framework.

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

4.00	RISK MANAGEMENT
4.01	The risk being managed here are the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates.

5.00	APPENDICES
5.01	Appendix 1 - Overview of risk management framework – April 2016

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview.</p> <p>Contact Officer: Debbie Fielder, Pension Finance Manager Telephone: 01352 702259 E-mail: debbie.a.fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
	<p>(a) CPF or the Fund – Clwyd Pension Fund The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) LGPS – Local Government Pension Scheme The national scheme, which Clwyd Pension Fund is part of</p> <p>(c) SIP – Statement of Investment Principles The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund</p>

(d) **Flightpath**

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

(e) **Deficit**

The extent to which the value of the Fund’s liabilities exceeds the value of the Fund’s assets.

(f) **Funding level**

The difference between the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

(g) **Hedging**

A strategy that aims to reduce funding volatility. This is achieved by investing in assets that mimic changes in liability values due to changes in market conditions.

(h) **Insight QIF – Insight Qualified Investor Fund**

An investment fund specifically designed for the Fund to allow Insight to manage the liability hedging and synthetic equity assets.

(i) **Actuarial Valuation**

The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT

May 2016

Page 161

Paul Middleman
Adam Lane



EXECUTIVE SUMMARY



= as per expectations



= to be kept under review



= action required

Page 162



Overall funding position

- Currently behind existing recovery plan and outside acceptable limits
- Funding level below the first de-risking trigger
- The flightpath framework is being reviewed as part of the valuation

The review of the flightpath framework and funding assumptions are being considered as part of the 2016 actuarial valuation. This is expected to have a positive effect on the funding position based on preliminary discussions.



Liability hedging mandate

- Insight in compliance with investment guidelines
- Performance in line with expectations

No action required.



Synthetic equity mandate

- Insight in compliance with investment guidelines
- Performance in line with expectations
- Maturity constraints as expected

No action required.



Collateral and counterparty position

- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.25% rise in interest rates and inflation in combination with a 35% fall in equity markets before requiring further collateral

No action required.



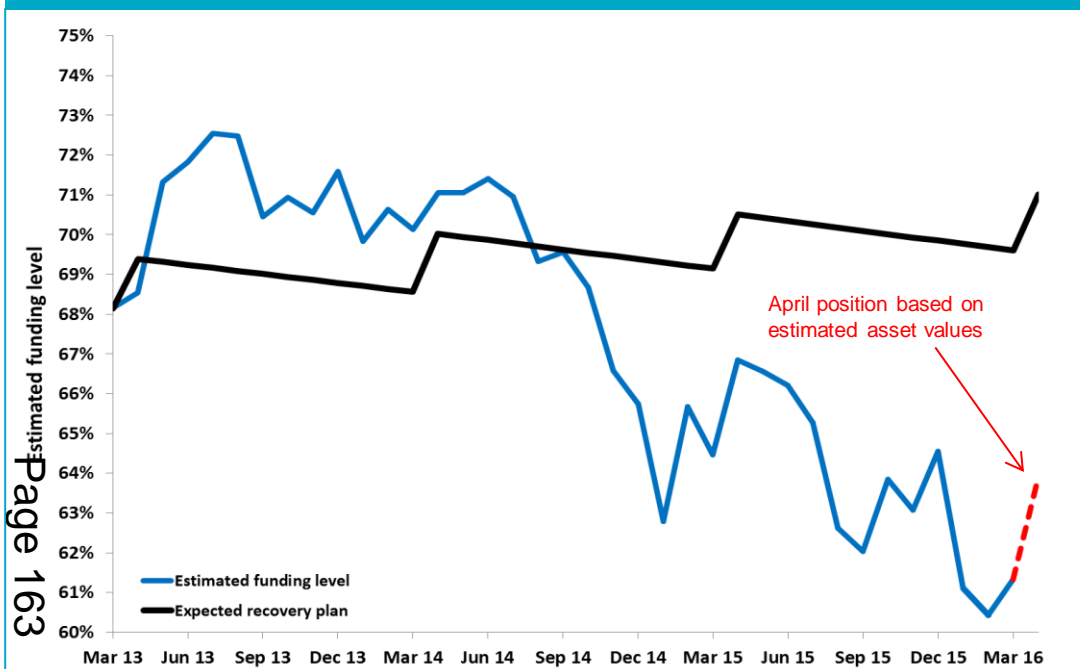
LIBOR Plus Fund

- Fund is ahead of performance target since inception
- Management team stable and no change in manager rating
- Allocation of £50m (plus growth) remains appropriate

No action required.

FUNDING LEVEL MONITORING TO 30 APRIL 2016

Estimated funding position since 31 March 2013



Page 163

Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2013 based on the assumptions (and contributions) outlined in the 2013 actuarial valuation. The *expected* funding level at 30 April 2016 was around 71%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2013 to 31 March 2016. The **red dashed line** shows the progression of the funding level over the period since March. At 30 April 2016, we estimate the funding level and deficit to be:

64% (£799m*)

This shows that the Fund's position was behind the expected funding level at 30 April 2016 by around 7% on the current funding basis.

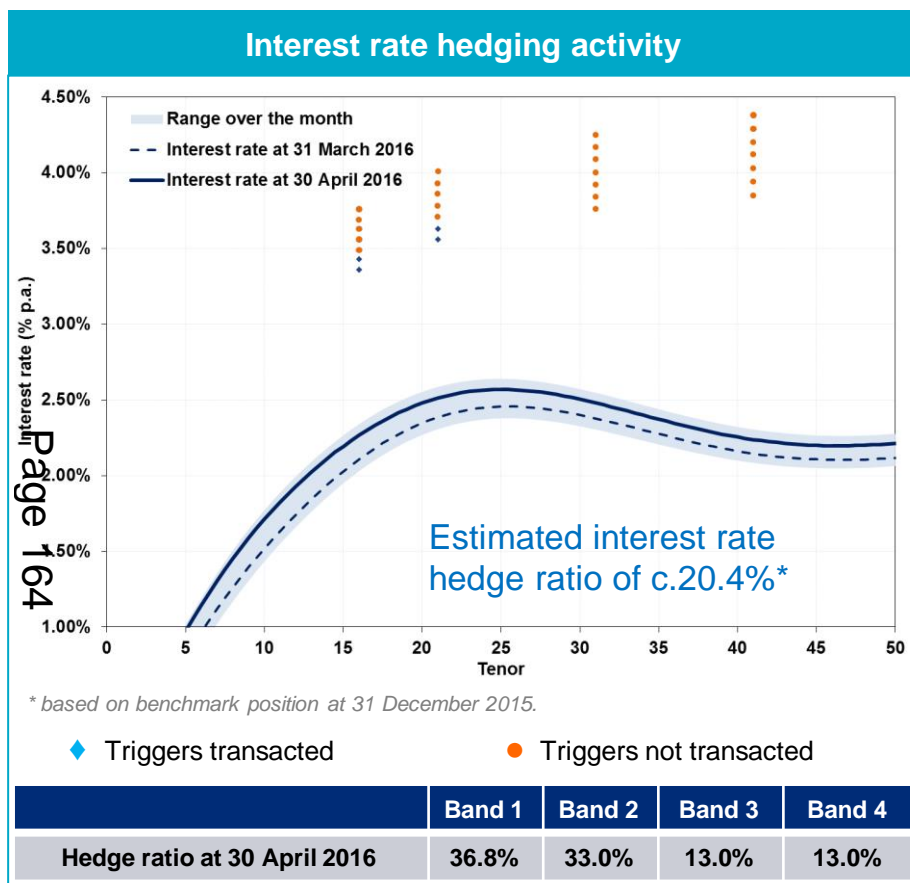
The funding level is currently below the first funding level trigger which is set at 80% (see table to the left hand side).

The review of the flightpath framework and Funding assumptions are being considered as part of the 2016 actuarial valuation. This is expected to have a positive effect on the funding position based on preliminary discussions.

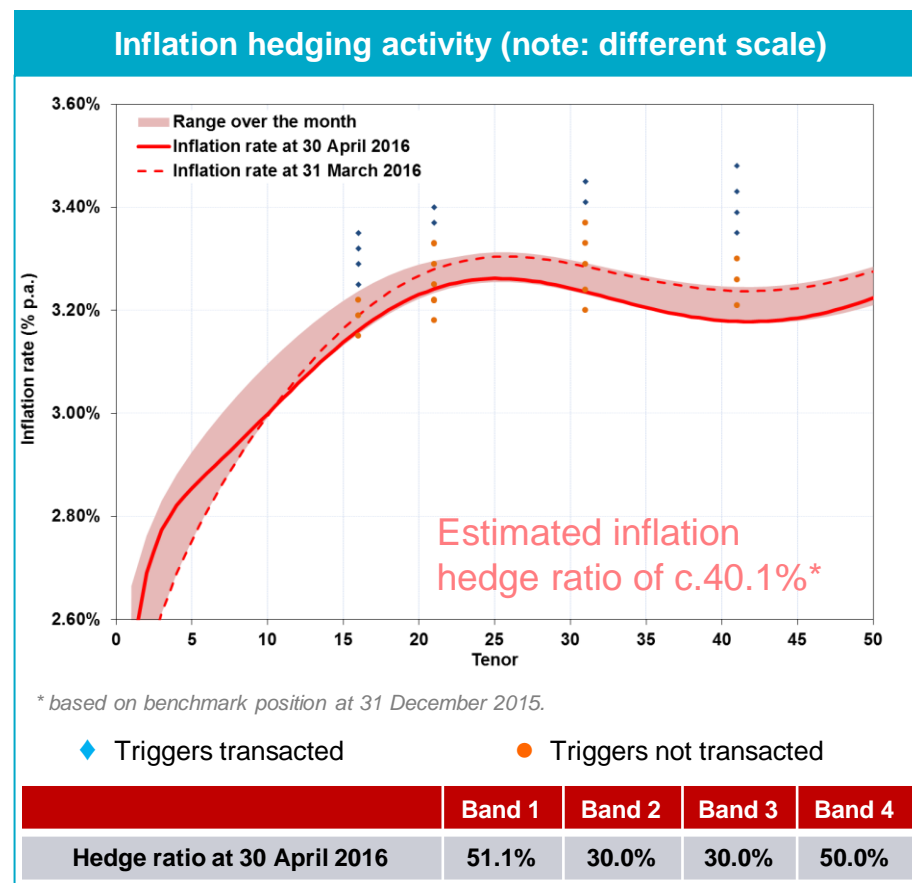
	Funding level	Impact on strategic asset allocation	Change to the hedge ratio
30 April 2016	64%	No action	No action
Trigger 1	80%	Reduce Insight equity exposure by 50%	Increase to 40%
Trigger 2	85%	Remove Insight equity exposure	Increase to 50%
Trigger 3	90%	Increase Insight allocation from 19% of assets to 25%	Increase to 60%
Trigger 4	95%	Increase Insight allocation from 25% of assets to 30%	Increase to 70%
Trigger 5	100%	Increase Insight allocation from 30% of assets to 35%	Increase to 80%

*Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 31 March 2016 to 30 April 2016. We will monitor this estimate over time against the actual position once final asset values are available, and update the asset values on a quarterly basis.

UPDATE ON LIABILITY HEDGING



- No interest rate hedging activity occurred over April 2016.
- Increases in interest rates of c.0.1% were observed across the curve over the month.



- No inflation hedging activity occurred over March 2016 as the hedge ratio remains at its initial maximum permissible level of c.40%.
- Inflation expectations increased at short durations, with increases of up to c.0.2%.
- Inflation expectations fell at medium to long durations.

IMPORTANT NOTICES

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

© 2016 Mercer LLC. All rights reserved.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualized investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.



Mercer Limited is authorised and regulated by the Financial Conduct Authority

Registered in England No. 984275 Registered Office: 1 Tower Place West, Tower Place, London EC3R 5BU



CLWYD PENSION FUND COMMITTEE

Date of Meeting	24 May 2016
Report Subject	2016 Actuarial Valuation
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide an update on the actuarial valuation project as at May 2016 and make recommendations to review the progress to date as detailed below. The actuarial valuation project is critical to the good governance of the CPF.

The main progress on the project since the last report has been made in the following areas:

- A meeting has taken place to discuss the high level valuation indications with the Unitary Authorities.
- A meeting was scheduled with the Education bodies for 17 May 2016 to update them on the progress of the valuation (as required as part of the FSS consultation).
- The Actuary is continuing to work with Heywoods (the CPF's administration system supplier) on testing the data extract software. The Fund is expected to receive the latest data extract software on 31 May 2016.
- The Actuary will perform demographic analysis for the Fund in the coming weeks to determine the appropriate assumptions to use for the valuation. This will improve valuation outcomes. The investment and cashflow information have been provided by the investment team.
- In light of the recent backlog work, the intention is for the Actuary to receive an early cut of the data extract in order to analyse the data quality in advance of the valuation to help improve outcomes. The investment and cashflow information have been provided by the investment team.
- A Special Pensions Committee will be held on 5 July 2016 to discuss the draft Funding Strategy Statement and the initial assumptions to adopt for the 2016 valuation.

The PFC will be kept updated regularly on the progress.

RECOMMENDATIONS

1	It is recommended that all PFC members note this report, the progress being made with the actuarial valuation project and the planned meetings with employers.
---	--

REPORT DETAILS

1.00	2016 Actuarial Valuation Update
1.01	<p>The purpose of this report is to update PFC Members on the 2016 actuarial valuation project, including key milestones, communications with employers and other events. The LPB was updated on the plan on 1 March 2016.</p> <p>This is the third report of what is anticipated to be a series of regular reports for all PFC meetings throughout 2016/17 until the conclusion of the project. Future reports will be updated as progress is made and developments occur.</p> <p>Appendix 1 provides an overview of the project plan in relation to the 2016 actuarial valuation which includes the scheduled meeting dates for 2016/17 and also highlights the key milestones in the coming months with regard to data provision and the delivery of results.</p>
1.02	<p>On 14th April 2016, the Actuary prepared an indicative set of figures as at 31 March 2016 (based on an approximate roll-forward of the 2013 actuarial valuation) and these were discussed with Officers and the Unitary Authorities with regard to both the potential outcomes emerging from the actuarial valuation (at a Whole Fund Level).</p> <p>Discussions also commenced in relation to the funding strategy that will be adopted by the Fund.</p> <p>Also during April 2016, feedback was provided to the software providers of the Universal Data Extract that will be used for the 2016 actuarial valuation calculations. The extract is currently being finalised and is expected to be rolled out to Funds during May 2016. The CPF will receive the extract on 23 May for initial testing and the final extract is expected to be available from 31 May 2016.</p>
1.03	<p>The next stage of the actuarial valuation process will see the Actuary perform demographic analysis for the Fund which will drive the assumptions that will be adopted for the 2016 actuarial valuation calculations. In addition, indicative results will also be calculated for the Unitary Authorities in advance of the formal results.</p> <p>We expect that the membership data required for the actuarial valuation</p>

	<p>calculations will be provided to the Actuary during early July. The initial financial data has already been received. The Actuary is intending to receive an early cut of the membership data so that data quality testing can be performed during early June in advance of the final extract being provided. This will improve valuation outcomes. The investment and cashflow information have been provided by the investment team.</p> <p>A Special Pensions Committee will be held on 5 July 2016 to discuss the draft Funding Strategy Statement and the initial assumptions to adopt for the 2016 valuation.</p> <p>As part of the consultation on the FSS the Fund will continue dialogue with all employers over the coming months.</p>
1.04	<p>The Actuary provided a training session on the 2016 actuarial valuation exercise which was delivered to the LPB and the PFC on 11 May 2016.</p> <p>The Actuary is also arranged a meeting with the Education bodies for 17 May 2016 to update them on the progress of the valuation.</p>
1.05	<p>The PFC is asked to note the contents of the 2016 actuarial valuation Project Plan and the outline above of the discussions that have taken place since March 2016.</p>

2.00	RESOURCE IMPLICATIONS
2.01	<p>None directly as a result of this report. Significant resource requirements will be required from the administration and investment teams to complete the process and provide the data which has already commenced.</p>

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

4.00	RISK MANAGEMENT
4.01	<p>The actuarial valuation is a key Governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements. The funding strategy (along with the investment strategy) which comes from the actuarial valuation is a key determinate of the overall financial risk levels in the CPF.</p>
4.02	<p>The recent market volatility has increased the relative risk levels in relation to CPF solvency position and the required contribution rates from 1 April 2017.</p>

5.00	APPENDICES
5.01	Appendix 1 – Actuarial Valuation Project Plan

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Report to Pension Fund Committee – 2016 Actuarial Valuation – 22 March 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation – 26 November 2015, current FSS and 2013 Actuarial Valuation report.</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

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

- (g) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.
- (h) **Actuary** - A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.
- (i) **GAD – Government Actuary's Department** - The Government Actuary's Department is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.
- (j) **Section 13 Actuarial Valuation** - Section 13 of the Public Service Pensions Act 2013 provides for a review of the LGPS valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where it is considered appropriate. The GAD will undertake this review based on the results of the 2016 actuarial valuations.

This page is intentionally left blank

Valuation effective date

Activity	Q1 2016			Q2 2016			Q3 2016			Q4 2016			Q1 2017			Comments
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
MEETING DATES																
Pension Fund Committee Meetings			22nd	24th		5th		27th		8th			16th	21st	Special Committee for Pooling and discussion of the draft Funding Strategy Statement on 5th July	
Advisory Panel Meetings			22nd	14th	24th			16th	27th	11th	8th		18th	16th	21st	
UA meetings (including Steering Group Meetings)			14th		10th											14th April meeting to discuss high level thoughts with UA
Pensions Board Meetings			1st			6th										
Additional meetings (including training, employer meetings etc)				11th	17th					8th						Further meetings to be arranged with employers as part of the consultation process
VALUATION PROCESSING																
Consideration of data requirements by employers																Potential data quality testing to be considered (delayed due to Heywood's data extract issues)
Demographic analysis																Analysis delayed due to Heywood's data extract issues
Provision of preliminary valuation data to Actuary (investment return, fund assets values, current payroll levels etc)																Majority of the financial data received.
Indicative results provided based on preliminary data only																Discussed at 14 April meeting
Provision of full data covering all individual members and employers to the Fund Actuary																Data expected to be provided 30 June 2016 but may slip into July
Processing the whole Fund calculations and provide results and sensitivities																Whole Fund results delivered within 20 working days of receipt of data
Processing major employer calculations and provide results																Major Council results delivered within 20 working days of receipt of data
Processing the other individual employer calculations and provide results																Individual employer results delivered 20 working days after providing the major employer results
Submission of standardised results/KPI info to National Board and data to GAD																
Final sign off of results on the basis of the final approved FSS																
Provision of formal report and actuarial certificates																
FUNDING STRATEGY REVIEW																
Preliminary discussions with officers regarding assumptions, including results of demographic analysis																Demographic analysis delayed due to Heywood's data extract issues, assumptions have been discussed
Discussions with officers regarding indicative approximate results																Discussed at 14 April meeting
Formal review / update of the Fund's Funding Strategy Statement & Pension Fund Committee workshop																Draft of FSS agreed by Pension Fund Committee at 27 September meeting
Funding Strategy Statement consultation with other interested parties																Taking into account outcomes of preliminary discussions
Review of responses to FSS consultation and formal ratification of FSS by Pension Fund Committee																Finalise FSS at the 16 February Pension Fund Committee meeting
COMMUNICATIONS AND TRAINING																
Indicative results provided to individual employers for budget planning purposes																Based on preliminary data only. Decide if need approx results for any individual employers before full calculations.
Valuation / FSS workshop for Pensions Committee/Local Board																Fund to confirm date
Actual major employer results provided and discussions with finance directors regarding the outcomes, affordability and likely impact on budgets																
Provision of final individual employer results and contribution requirements for all remaining employers based on approved FSS																
Presentation of whole Fund and main Council results to the Pensions Committee																See above meeting dates
EMPLOYER DUTIES AND ACTIONS																
Provision of data by Employers to the Fund																
Consider affordability and impacts on budgets in light of indicative results																
Respond to consultation on the updated Funding Strategy being adopted by the Fund																
Discussions with Fund regarding main Council results																
Liaison between Fund and employers to finalise contribution levels																
<p>Key : target (blue), complete (green), in progress (light blue), meetings (orange)</p>																

This page is intentionally left blank