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To: Councillor Alan Diskin (Chair)
Councillors: Haydn Bateman, Brian Dunn, Ron Hampson, and Matt Wright

**Co-opted Members**:
Steve Hibbert, Cllr. Huw Llewelyn Jones, Cllr. Andrew Rutherford and
Cllr. Steve Wilson

2 November 2016

Dear Councillor

You are invited to attend a meeting of the Clwyd Pension Fund Committee which will be held at 9.30 am on Tuesday, 8th November, 2016 in the Delyn Committee Room, County Hall, Mold CH7 6NA to consider the following items.

**Members are asked to note that the meeting will start at 9.30 a.m.**

**A G E N D A**

1 **APOLOGIES**

To receive any apologies.

2 **DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)**

To receive any Declarations and advise Members accordingly.

3 **MINUTES** (Pages 5 - 16)

To confirm as a correct record the minutes of the meeting held on 27 September 2016.

**GOVERNANCE**

4 **NATIONAL GUIDANCE ON INVESTMENT STRATEGY STATEMENTS (ISS) AND POOLING GOVERNANCE** (Pages 17 - 22)

To provide Committee Members with presentations on the new statutory DCLG guidance for ISS and on the CIPFA Pooling Governance Principles.

5 **FLIGHTPATH STRATEGY PROPOSAL** (Pages 23 - 32)

To provide Committee Members with an update on the proposals for the Flightpath Strategy for discussion and approval.

6 **DELEGATED RESPONSIBILITIES AND URGENT DELEGATIONS** (Pages 33 - 42)

To provide Committee Members with an update on the use of delegations since the last Committee meeting.

7 **GOVERNANCE UPDATE**

To provide Committee Members with a verbal update of any issues arising since the last Committee meeting.

**ADMINISTRATION AND COMMUNICATIONS**

8 **LGPS UPDATE**

To provide Committee Members with a verbal update of any new current issues affecting the management of the LGPS.

9 **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

To provide Committee Members with a verbal update on the Pensions Administration Section.

**INVESTMENT AND FUNDING**

10 **INVESTMENT AND FUNDING UPDATE**

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

11 **ECONOMIC AND MARKET UPDATE** (Pages 43 - 60)

To provide Committee Members with an economic and market update.

12 **INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 61 - 78)

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

13 **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 - TO CONSIDER THE EXCLUSION OF THE PRESS AND PUBLIC**

**Purpose:**

The following item is considered to be exempt by virtue of Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

The meeting will discuss details of a proposed contract. Whilst the contract details will be made public in due course the public interest in maintaining the exemption outweighs the public interest in disclosing the information until such time as the contract has been concluded.

14 **INVESTMENT STRATEGY REVIEW** (Pages 79 - 86)

To provide Committee Members with an update on the implementation of the Investment Strategy Review.

The following item is considered to be exempt by virtue of Paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

The meeting will discuss details of a proposed contract. Whilst the contract details will be made public in due course the public interest in maintaining the exemption outweighs the public interest in disclosing the information until such time as the contract has been concluded.

15 **POOLED INVESTMENTS**

To provide Committee Members with a verbal update on the progress of the Working Together in Wales Project.

Yours faithfully

Robert Robins
Democratic Services Manager

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**CLWYD PENSION FUND COMMITTEE**
**27 SEPTEMBER 2016**

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Tuesday, 27 September 2016.

**PRESENT: Councillor Alan Diskin (Chairman)**
Councillors: Haydn Bateman (Vice Chair), Brian Dunn

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

**APOLOGIES:** Councillors Huw Llewelyn Jones (Denbighshire County Council), Ron Hampson and Matt Wright, Philip Latham (Clwyd Pension Fund Manager).

**ALSO PRESENT (AS OBSERVERS)**: Mark Owen (Employer Representative Clwyd Pension Fund Board), Gaynor Brooks (Member Representative Clwyd Pension Fund Board) and Steve Jackson (Employer Representative Clwyd Pension Fund Board)

**IN ATTENDANCE:**
Advisory Panel comprising: Colin Everett (Chief Executive), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Paul Middleman (Fund Actuary – Mercers), Kieran Harkin and Anthony Kershaw (Fund Investment Consultants – JLT Group),

Officers/Advisers comprising: Alwyn Hughes (Pensions Finance Manager), Debbie Fielder (Pensions Finance Manager), Helen Burnham (Pensions Administration Manager), Karen Williams (Principal Pensions Officer), Matthew Edwards (Wales Audit Office - up to item 4 only), Simon Monkhouse (Wales Audit Office - up to item 4 only) and Kerry Robinson Communications Officer taking minutes.

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.

**24. 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.

Karen McWilliam declared an interest under item 5: Pooled Investments as an employee of Aon Hewitt who may submit a tender submission to be the operator of the Wales Pool. Mrs McWilliam also declared an interest under item 6 (in relation to the independent adviser contract) as an employee of Aon Hewitt.

Paul Middleman also declared an interest under item 5: Pooled Investments as an employee of Mercer for the same reason.

Kieran Harkin declared an interest under item 6 (in relation to the investment consultancy contract) as an employee of JLT.

## 25. MINUTES

(i) The minutes of the meeting of the Committee held on 24 May 2016 were submitted.

(ii) The minutes of the meeting of the Committee held on 5 July 2016 were submitted.

**RESOLVED**:

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

**GOVERNANCE**

Matthew Edwards and Simon Monkhouse from the Wales Audit Office were welcomed to the meeting.

Debbie Fielder apologised to the Committee in relation to the incorrect cross referencing to agenda item numbers within the committee papers.

## 26. CLWYD PENSION FUND ANNUAL REPORT, ACCOUNTS AND AUDIT 2015/16

The Pension Finance Manager, Debbie Fielder, introduced the draft 2015/16 Annual Report welcoming comments. She confirmed that they would resolve the formatting issues that exist in relation to some tables in the document.

Mrs Fielder also highlighted that there had been several changes to the layout and contents of the report compared to last year. This included external reports from JLT and Mercers along with other additional information including a breakdown of the underlying investment fees. Documents have been attached in line with CIPFA's recommended best practice. The report has been agreed in principle by the Wales Audit Office.

Steve Hibbert requested that the training records within the report are amended to highlight that some events were only open to limited numbers of members.

The Chief Executive commented on how well balanced the report was and thanked the Pension Fund Team for their dedication and assistance in developing the report and confirmed the accounts had been formally approved by Council on the 26 September 2016.

Matthew Edwards referred to the Audit of Financial Statements Report highlighting its production in late August, demonstrating the very impressive commitment from the team. He confirmed that all suggested adjustments have been made and there are two areas highlighted in their report, firstly relating reconciling information on financial transactions between the financial ledger and the administration system and secondly relating to the accuracy of the number of active member records. Paul Middleman confirmed this latter point did not have a material impact on employers' liability assessments.

Councillor Steve Wilson noted a letter highlighting those issues and enquired about any possible financial loss. Helen Burnham confirmed no members suffered financial loss due to the discrepancies although this has been an issue for a number of years. The Chief Executive suggested that this matter be assessed in proportion and that he was confident the matter could be resolved. Councillor Steve Wilson agreed with this.

**RESOLVED**:

(a) That the Members note and comment on the draft unaudited Annual Report and delegate finalisation to officers; and

(b) That the members note the management response to the external audit report.

**27. POOLED INVESTMENTS**

Debbie Fielder, Pensions Finance Manager, gave a verbal update, referring to the email sent to Committee members by the Clwyd Pension Fund Manager, Philip Latham, on 23rd September 2016 relating to the Wales Pool Memorandum of Understanding (MoU) for the Joint Chairs Group. The Chair presented a motion to agree consideration of the recommendations as contained in that email which were:

(i) Discuss the contents of the email and attachment
(ii) Advise of any changes you would like
(iii) Delegate to officers agreement of any subsequent changes which are not fundamental to the intention of the Memorandum of Understanding
(iv) In relation to para 11 of Memorandum of Understanding agree the member to be appointed as our representation and a substitute.

This was formally moved by Councillor Haydn Bateman and seconded by Councillor Steve Wilson.

Steve Hibbert drew attention to Item 10, stating costs were to be recovered on an equal basis irrelevant of the net asset value. Mr Hibbert also suggested that the Chair be on a rota basis.

The Chief Executive stated that normally with All Wales arrangements costs are proportionate. He noted a rotating chair can often not be productive.

The Chief Executive also highlighted the need for strong leadership. Karen McWilliam agreed and suggested that an independent chair may assist. She noted that the MoU was purely for the Joint Chairs Group and was therefore just of a temporary nature and there would be an opportunity to feed into the formal permanent MoU or equivalent.

Mr Hibbert raised that accepting the temporary and fluid situation can become permanent so queries should be raised sooner rather than later.

Mrs Fielder updated the Committee on the procurement process for the Wales Pool Operator. She confirmed that Clwyd was asked by the Welsh Authorities to lead on Operator procurement. They had received a good number of expressions of interest and two engagement days had been held with potential providers presenting to assist the authorities in developing the specification. The plan is to commence the procurement process in the first week in November.

Mrs Fielder went on to explain that no letter to proceed had yet been received from DCLG/HMT but this was expected during the 1st week of October. She confirmed she would email the Committee members as soon as a response was received.

**RESOLVED**:

That the Committee:

(a) Delegate to officers agreement of any subsequent changes which are not fundamental to the intention of the Memorandum of Understanding; and

(b) In relation to para 11 of Memorandum of Understanding appoint Councillor Alan Diskin as the Clwyd Pension Fund member representation and Councillor Haydn Bateman a substitute on the Joint Chairs Group of the Wales Pool.

**28. GOVERNANCE UPDATE**

Karen McWilliam, Kieran Harkin and Anthony Kershaw left the room for this agenda item.

Alwyn Hughes, Pensions Finance Manager, introduced a report to provide a quarterly update on governance related issues. Mr Hughes reported on the main considerations, as detailed in the report, concerning the business plan 2016-17, the National Scheme Advisory Board, Local Pension Board, governance related policy/ strategy implementation and monitoring and the use of delegated responsibilities.

In 2008, the Fund put in place a framework which would allow for the effective and quick appointment of consultants when required. The term of the framework has now come to an end and the Fund needs to consider whether it wishes to bring the framework to a conclusion or run a further framework. Since the Clwyd Framework was launched, there have been a number of other frameworks relating to LGPS services. The key ones are run by the National LGPS Frameworks (managed by Norfolk County Council).

The officers of the Fund have carried out an analysis against the services available by the National LGPS Frameworks compared to the Clwyd Framework and it would appear the majority of the services are covered by the National LGPS Frameworks.

Using the National LGPS Frameworks in the future, rather than a Clwyd specific Framework would result in efficiencies for officers. The Fund could also still run individual procurement exercises for any services not covered by the National LGPS Frameworks.

The Committee was asked to approve that no further Clwyd Pension Fund Framework be established and that the National LGPS Frameworks be used in future where possible.

The Independent Advisor and Investment Consultant were appointed on 3 year contracts from April 2014 with the option to extend for a further 2 years. Following a performance review of both contracts the officer recommendation is to use the option to extend to March 2019. During this period the performance of both will be regularly monitored.

The Committee was asked to approve the option to extend the contract period for a further two years to March 2019.

Councillor Bateman requested clarification regarding any impact on the fees charged by the external advisor and consultants of extending their contracts for a further two years to March 2019. Mrs Fielder confirmed that under the current contracts there would be no increase in fees charged for these additional two years.

Mr. Hibbert asked whether Item 1.03 (G1 Review of CPF Adviser Procurement Framework) and 1.04 (G3 Review/ Tender Investment Consultancy and Independent Adviser Contracts) were linked. Additional background was given by Mrs Fielder regarding the Clwyd pension Fund framework agreements and the National LGPS Framework run by Norfolk County Council. If the contracts were not extended then the matter of procurement would be dependent on the outcome of whether to renew the local framework.

Councillor Andrew Rutherford asked whether moving onto the National Framework would affect the Pooling in Wales. Mrs Fielder explained that the Fund’s framework is out of date and that the involvement of the external advisor and consultants in the discussions around pooling possibly favoured extending the contracts for two years.

**RESOLVED:**

(a) That no further Clwyd Pension Fund Framework be established and that the National LGPS Frameworks be used in future where possible; and

(b) The option to extend the contract period for a further two years to March 2019 for the Independent Advisor and Investment Consultant contracts with ongoing review.

**29. LGPS UPDATE**

The Clwyd Pension Fund Actuary, Paul Middleman, drew attention to the following two points:

(i) The potential changes to the Education Sector insolvency arrangements which mainly apply to England. However, the insolvency elements will impact the covenant of educational establishments in Wales so will need to be borne in mind as part of the valuation and ongoing monitoring.

(ii) The proposals to restrict exit payments; which are also devolved to Welsh Government. He noted that payment of immediate unreduced benefits on early retirement may be removed in the future. It was also noted that this is distinct from other policies on limiting exit payments. There is still the intention to introduce the £95,000 and also the clawback provisions for those ex-employees who return to sector employment. The timeline for this is still uncertain.

The Chief Executive stated that Welsh discussions on the latter had gone cold as far as he was aware. He noted that if it is introduced in Wales, it could bring significant issues for the Employers as well as the Fund.

**RESOLVED:**

That the report be noted.

**30. PENSION ADMINISTRATION/ COMMUNICATIONS UPDATE**

Helen Burnham, Pensions Administration Manager, highlighted the key points from the report. She commented that the KPI reporting is not included as they are still being developed but it is hoped that they will be included for the next meeting. She also highlighted that progress can now commence on the procurement for a provider for GMP reconciliation as the national framework will shortly be available.

Mrs Burnham highlighted an increase in the volume of work with good progress being made with the backlog cases being managed within the Council. The backlog outsourced to Mercers had been delayed and is now targeting a completion by the end of November (subject to resolution of a number of issues), rather than September. This was due to office relocation, training and ICT operation and access issues.

She highlighted that all Annual Benefit Statement have been issued other than approximately 400 deferred cases which are delayed due to further guidance being required as a result of negative revaluation.

There are a number of new small employers joining the scheme, details of which will be available at the next meeting.

Mrs Burnham then highlighted the key administration and communications risks as outlined in paragraph 4.0 of the report. She referred to the initial risk around the inability to meet the Fund's legal and performance expectations due to employer issues. She explained that the idea had been shared with the steering group, involving the three unitary authorities, and they had welcomed the proposition to create an employer liaison team to assist with their responsibilities, with costs then being recharged to the employers. Helen Burnham then asked for Committee's approval to proceed with putting this team in place. The Committee agreed and asked for further information to be provided as this project progressed.

Councillor Andrew Rutherford enquired if these delays and issues were causing frustration with current staff as clearly these issued had been continuing for some time. Mrs Burnham responded stating that some of the employers are suffering cut backs and cannot uphold the Service Level Agreements. The Administration Team have been covering some of the employers' responsibilities for some time within their existing resources.

Mrs Burnham highlighted that the details of how the service will work are still to be developed and it is hoped this service could also be rolled out to other employers.

Mark Owen requested feedback on year end reconciliation sooner, to give an opportunity for corrections. Mrs Burnham assured Mr Owen that the members affected have low impact. Karen Williams responded stating reconciliation cannot be completed until all year end data has been received and matched, which gives very little time for employers then to respond by the year end deadlines.

**RESOLVED:**

That the report be noted.

## 31. INVESTMENT AND FUNDING UPDATE

Debbie Fielder, Pensions Finance Manager, gave an update on the Business Plan including the actuarial valuation which would be covered in more detail by Paul Middleman, asset pooling as covered in the previous agenda and the Investment Strategy Statement (ISS) which has been delayed due to new investment regulations which are yet to be released. She explained that the deadline for preparing the ISS is April 2017 and it is intended to arrange a briefing session for members at the November Committee. Officers have met with consultants to discuss ‘light touch’ review.

Mrs Fielder provided an explanation of the information included in the delegated responsibilities (Appendix 4) confirming cash was still being monitored. The tactical asset group is proving to be working well and benefiting the Fund. She confirmed that the significant risks in this area relate to the actuarial Valuation and Flightpath and would be covered in the update from Paul Middleman.

Anthony Kershaw, Fund Investment Consultants – JLT Group, provided an overview of the recent CEMs survey looking at data from 2013/14/15 with a mix of public and private sector schemes. He explained that it shows that, whilst the Fund does not compare favourably in relation to investment management costs, it achieved a very high 'net value-add' relative to other funds in the LGPS.

Steve Hibbert questioned the costs within the report and Debbie Fielder was able to confirm the Clwyd Pension Fund costs were accurate. A discussion then took place in relation to how Clwyd Pension Fund might benefit from pooling compared to other LGPS funds due to the complexity of the investment arrangements in the Fund.

Paul Middleman, Fund Actuary – Mercers, then went on to introduce the Government Actuary's Section 13 Report explaining its purpose was to identify any funding issues needing to be addressed by LGPS funds by highlighting areas of risk such as inappropriately low contributions or high risk investment strategies. Mr Middleman reported under the "dry run" report based on the 2013 valuation that Clwyd Pension Fund received green flags for all measures.

Mark Owen queried whether the Clwyd Pension Fund membership data had been submitted on time and Mr Middleman confirmed it had.

**RESOLVED:**

That the report be noted including the delegated responsibilities.

**32. ECONOMIC AND MARKET UPDATE**

Kieran Harkin, Fund Investment Consultant – JLT Group, presented the report to provide an economic and market update for the period ending 30 June 2016 highlighting that, despite on-going volatility in markets, assets have increased in value post the Brexit position.

Mr Harkin 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. He 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 report be noted, including how it sets the scene for the Investment Strategy and Manager Summary report.

## 33. INVESTMENT STRATEGY AND MANAGER SUMMARY

Kieran 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 30 June 2016.

Mr Harkin reported on market performance and volatility and advised that the Fund's total market value had increased by nearly £97.8m to £1.48b. He then noted that the liabilities had not been as positive and the funding level had decreased to 60% if you assess liabilities on the existing valuation basis but this had been updated as part of the 2016 valuation. Mr Harkin highlighted the Equity investment performance pointing out that Investec performance had been poor but that following previous periods of poor performance, Investec have demonstrated that the investment process tends to produce a strong recovery. He also noted that there had been a positive display in the diversified growth portfolio from Pyrford and the best ideas portfolio was now benefiting the Fund.

**RESOLVED:**

(a) That the report be noted; and

(b) 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.

## 34. 2016 ACTUARIAL VALUATION, FUNDING AND FLIGHT PATH UPDATE

Paul Middleman, Fund Actuary - Mercer, introduced the report to provide an update on the actuarial valuation project alongside an update on the flightpath strategy.

Mr Middleman advised that the Administration team had supplied data regarding the backlog which had been analysed and led to a reduction in the liabilities (and therefore total deficit) estimated to be approximately £0.5million. He explained that, as a part of the valuation project, they had considered the Fund's demographic experience e.g. ill health trends, life expectancy and withdrawal rates. The Clwyd Pension Fund had a positive liability experience as a result of lower ill health rates and higher pensioner death rates. Based on provisional assumptions the funding rate had moved from 68% to 76% from 2013 to 2016 and an average future service rate (Primary Rate) for the cost of ongoing benefits increasing to 15.3% of pay from 13.9% of pay. However, Mr Middleman also highlighted that a drop in the future service discount rate, the maturing membership and the removal of the 50/50 allowance all contributed to this increase with a slight offset due to the change in life expectancy assumptions.

Mr Middleman explained the consultation of the Funding Strategy Statement would take place over October/November starting with the AJCM in November with a view to reaching agreement on all the employer contribution rates early next year.

Karen McWilliam, Independent Adviser, queried whether the final work on the backlog could impact the liabilities. Mr Middleman confirmed this should not have a huge impact and is comfortable the existing data is fit for purpose and is therefore sufficient to proceed with signing off the results. Mercer will carry out further checks as the backlog is completed and an updated data cut is taken in 2017.

Mr Middleman then introduced the report on the Flightpath Risk Management Framework. He highlighted the potential changes to the Flightpath Framework including hedging against equity markets and noted that recommendations will be brought to the next Committee for consideration.

Steve Hibbert commented that there was no graph for the flightpath. Mr Middleman confirmed the funding check will be rebased once the new Funding Strategy Statement is agreed. He stated that if you measured the position on a consistent basis with the 2013 Valuation was slightly behind plan and the 2016 valuation was slightly ahead at the current time. This is principally to do with the 2013 valuation plan understating the expected future investment returns

**RESOLVED**:

(a) That the report be noted including the progress being made with the actuarial valuation project, the current position regarding the funding and flightpath framework and its review over the coming months; and

(b) That the preliminary results of the Clwyd Pension Fund valuation be noted.

## 35. 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 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).

## 36. INVESTMENT STRATEGY REVIEW

Kieran Harkin, Fund Investment Consult – JLT Group, presented the report on the Proposed Investment Strategy Review: Initial Update.. He highlighted a significant review of the strategy had been completed in 2014 and he would not expect to see significant changes at this time but the strategy should be reviewed in light of the 2016 valuation results and to take into accounting asset pooling.

Mr Harkin highlighted the three key considerations as being:

(i) Reduce equity risk as a proportion of total risk in the short (immediate) term

(ii) Increase the illiquidity premium in the medium to longer term

(iii) Maintain the Fund's Flightpath/De-Risking Framework though Mr Harkin highlighted that a review of this overall structure is still ongoing

The report details considerations relating to phasing to the new investment strategy and Mr Harkin noted they would need to consider fees, transition costs, manager selection and the impact of the Wales Pool. He did confirm that he expected the overall level of fees for the proposed strategy to be broadly in line with those currently paid, though this excludes any assessment of potential fee impact of moving to the All Wales Pool given there is currently no clarity on underlying mandate charges that could apply.

He highlighted that the proposed strategy review would have an expected return increasing from the current strategic portfolio of 6.4% to 6.5%, but this excluded the post Brexit JLT Market Forecast assumptions on expected asset returns. Mr Harkin confirmed that the revised post Brexit Market Forecast assumptions would be incorporated into the final modelling output that is due to be undertaken when the review of the Fund's Flightpath/De-Risking Framework is complete. He confirmed the expected return exceeds that assumed in the Funding Strategy Statement that is currently being considered.

Mr Harkin then confirmed that the drafting of the Investment Strategy Statement incorporating these changes and which will be to replace the existing Statement of Investment Principles would be carried out in advance of the 1 April 2017 deadline.

**RESOLVED**:

That the report be noted and agree the proposed initial changes to the Fund's Investment Strategy.

## 37. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

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

(The meeting commenced at 10:00 am and ended at 1.10 pm)

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**Chairman**

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# CLWYD PENSION FUND COMMITTEE

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| **Date of Meeting** | Tuesday, 8 November 2016 |
| **Report Subject** | National Guidance |
| **Report Author** | Clwyd Pension Fund Manager |

## EXECUTIVE SUMMARY


Two sets of national guidance have recently been issued :

- DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement, and
- CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities.

Both documents contain key information that Flintshire County Council will need to have regard to when managing the Clwyd Pension Fund. The DCLG guidance on preparing an Investment Strategy Statement is statutory guidance and is referred to as such in the recently laid LGPS Investment Regulations 2016.

Presentations on the key elements will be given to the Committee by the Investment Consultant and the Independent Adviser.

This report outlines the Fund's plans to meet the requirements of the guidance, which will result in additional information being brought back to Committee for approval.


| **RECOMMENDATIONS** | |
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| 1 | That the Committee note and discuss the content of the presentations provided by the Independent Adviser and the Investment Consultant. |
| 2 | That the Committee agree the plans for action to meet the requirements of the two sets of guidance. |

**REPORT DETAILS**

| 1.00 | **NEW NATIONAL GUIDANCE** |
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| 1.01 | Recently there have been two sets of national guidance issued which apply to LGPS administering authorities in England and Wales:<br><br>• DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement, and<br>• CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities.<br><br>Both documents contain key information that Flintshire County Council will need to have regard to when managing the Clwyd Pension Fund. The DCLG guidance on preparing an Investment Strategy Statement is statutory guidance and is referred to as such in the recently laid LGPS Investment Regulations 2016.<br><br>Given the length of the guidance, only a brief overview is included within this report as presentations on the key elements will be given to the Committee by the Investment Consultant and the Independent Adviser, respectively. |
| 1.02 | **DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement**<br><br>This guidance was issued in September 2016 and relates to the requirements under the LGPS (Management and Investment of Funds) Regulations 2016 for administering authorities to prepare an Investment Strategy Statement (ISS). The guidance is statutory and is referred to in the Investment Regulations as such and lists the key points that administering authorities, like Flintshire County Council, will have to consider when preparing their first ISS.<br><br>The ISS will need to be prepared by 31 March 2017 and will need to include the Fund's approach in the following areas:<br><br>• Requirement to invest in a wide variety of investments<br>• An assessment of the suitability of investment types<br>• Risk management<br>• Pooling of investments<br>• Environmental, Social and Governance considerations<br>• Exercising voting rights.<br><br>The ISS must also set out the maximum percentage of the total value of all investments of Fund money that is to be invested in particular investments or classes of investment. Funds will also need to demonstrate that they have taken "proper advice" in assessing each of these areas. |
| 1.03 | As a result of the publication of this guidance, Flintshire County Council will need to produce an ISS for the Clwyd Pension Fund within the required time frame. Whilst the ISS is prescriptive in a number of areas, it also allows LGPS funds flexibility around the setting of limits for specific investments |

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| | and asset classes. The ISS will replace the existing Statement of Investment Principles (SIP). It is likely that most Funds will use the SIP as a starting point for the preparation of the ISS, as it covers a number of the required areas.<br><br>The ISS must be kept under review, revised from “time to time” and at least every three years.<br><br>As mentioned above, the guidance on the production of an ISS is statutory and the LGPS Investment Regulations 2016 refer to it as such. When the Government initially consulted on the Investment Regulations a petition was organised by the trade unions which, after receiving more than 100,000 signatures prompted a debate in the House of Commons. The debate was held on 24 October, and the Local Government Minister, Marcus Jones, defended the Regulations, and stated that the Government was “not directing” LGPS investment into UK infrastructure. The debate also focussed on the Secretary of State’s power of intervention, and the Minister also defended the position with regards to Responsible Investing, stating that administering authorities “must act in a way consistent with UK foreign and defence policy”.<br><br>The debate was concluded by Ian Blackford MP who asked the Government to re-consider the regulations, in particular its position with regard to the power of intervention, and suggested the Pensions Regulator may have a role to play. |
| 1.04 | **CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities**<br><br>This guidance was issued in October 2016 and was written by CIPFA in partnership with Aon Hewitt. The guidance has been produced to support Local Government Pension Scheme (LGPS) administering authorities in England and Wales in demonstrating best practice governance during the implementation of, and when participating in, LGPS investment pooling arrangements. It also considers the governance of the Joint Oversight Committees in the management of the pooling arrangements.<br><br>The guidance highlights how these investment pooling arrangements will have a fundamental impact on how LGPS pension fund investments are managed, including who makes decisions; and how these decisions are actioned and monitored. It notes that, although much of this responsibility will move to the investment pool operator, it is critical that administering authorities continue to operate strong governance arrangements, and a key part of this will be the transformation from their current investment performance monitoring to how they monitor the investment pooling arrangements.<br><br>The guidance then highlights some key elements that will need to be considered by administering authorities, including but not limited to:<br><br>• Knowledge and skills<br>• Conflicts of interest<br>• Business planning<br>• Mutual policies |

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| | • The impact on the Myners Principles<br>• The role of the Chief Finance Officer<br>The guidance also highlights specific elements that should be considered during the implementation period. |
| 1.05 | The guidance will assist Flintshire County Council to understand which elements of its existing policies and procedures will need to be updated as a result of the implementation of asset pooling. It is expected that a number of policies will be brought to the Committee for updating in the next 12 months.<br><br>Officers involved in the Wales Pooling working groups will also request that the guidance is considered as part of the pooling implementation, and will provide ongoing feedback on this aspect throughout the implementation project. |

| **2.00** | **RESOURCE IMPLICATIONS** |
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| 2.01 | There are no direct resource implications as a result of these sets of guidance. |

| **3.00** | **CONSULTATIONS REQUIRED / CARRIED OUT** |
|---|---|
| 3.01 | Updates to policies and procedures sometimes require consultation with interested stakeholders, such as employers. Should any policies requiring consultation be updated as a result of the guidance, then appropriate consultation will be carried out. |

| **4.00** | **RISK MANAGEMENT** |
|---|---|
| 4.01 | The following risks on the Fund's Risk Register may be affected by this guidance:<br><br>• Investment and/or funding objectives and/or strategies are no longer fit for purpose – legislation changes (funding & investment risk reference 6, current impact: critical/ likelihood: very high) – concern that external factors (e.g. Directions by the Secretary of State) can direct changes to investment strategy or to invest in specific assets. The requirement to take "proper advice" could assist in determining the appropriateness of such investments, however, the risk will continue to be high.<br>• The Fund's objectives/legal responsibilities are not met or are compromised – external factors (governance risk reference 5, currently impact: critical / likelihood: very high) – There continue to be ongoing concerns in relation to external influence, with asset pooling being the key area of concern at the moment. The CIPFA guidance could assist in influencing how good governance is achieved, particularly at the Joint Oversight Committee level. However, it is clearly just a small part of the jigsaw and the risk will continue to be high. |

| 5.00 | APPENDICES |
|---|---|
| 5.01 | None. |

| 6.00 | LIST OF ACCESSIBLE BACKGROUND DOCUMENTS |
|---|---|
| 6.01 | The DCLG guidance can be found here. Copies of the CIPFA guidance can be provided on request.<br><br>**Contact Officer:** Philip Latham, Clwyd Pension Fund Manager<br>**Telephone:** 01352 702264<br>**E-mail:** philip.latham@flintshire.gov.uk |

| 7.00 | GLOSSARY OF TERMS |
|---|---|
| 7.01 | (a) **CPF – Clwyd Pension Fund (The 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<br><br>(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.<br><br>(c) **PFC – Clwyd Pension Fund Committee (the Committee)** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund<br><br>(d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of<br><br>**(e) SIP – Statement of Investment Principles** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund. From 1st April 2017, this will be replaced by the Investment Strategy Statement (ISS)<br><br>(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.<br><br>(g) **DCLG – Department of Communities and Local Government** – the government department responsible for the LGPS legislation.<br><br>(h) **CIPFA – Chartered Institute of Public Finance and Accountancy** – the institute which develops professional guidance on finance and accountancy matters to which CPF should comply. |

| | |
|---|---|
| | (i) **Myners Principles** – a set of principles designed to enable best practice in the governance of pension schemes |

Agenda Item 5

CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

| CLWYD PENSION FUND COMMITTEE |
|---|

| | |
|---|---|
| **Date of Meeting** | 8 November 2016 |
| **Report Subject** | Flightpath Strategy Proposals |
| **Report Author** | Clwyd Pension Fund Manager |

## EXECUTIVE SUMMARY


At the 27th September Committee, a review of the Flightpath framework was proposed in light of current market conditions and the 2016 valuation. A cost / benefit analysis was needed before moving forward on elements of the project not included in the Business Plan and this has now been completed. The purpose of the report is to provide an update on the Flightpath strategy proposals and make recommendations for some changes which are not usually delegated to Officers.

It is proposed that the Fund move forward with the following elements of the review:

(i) Restructuring the current Insight LDI portfolio to make improve the efficiency of the mandate to the benefit of the Fund (net of initial transaction costs);

(ii) Implement "equity options" to protect against the impact on contributions of falls in the equity element of the current Insight mandate given the current market position.

(iii) As part of the Business Plan an in conjunction with (i) and (ii) update the funding, interest rate and inflation triggers and potential actions within the flightpath structure. This was in the current Business Plan.


| **RECOMMENDATIONS** | |
|---|---|
| 1 | It is recommended that Committee approve the updated interest and inflation figures plus the revised process for implementing the funding level trigger actions. |
| 2 | Note the actions being taken within the current framework in the restructuring of the Insight portfolio and implementation of the equity option protection against market falls (subject to reasonable market pricing of the options). |

**REPORT DETAILS**

| 1.00 | **Flightpath Strategy Proposal** |
|---|---|
| 1.01 | To ensure the Fund is managing risk at the most efficient levels with the intention to be in a better position to capture opportunities as cost effectively as possible, the Officers, Mercer and JLT have now reviewed the overall framework. This comprises:<br><br>1. *Reviewing the flightpath plus updating the interest rate and inflation triggers.* This review has taken into account for the current market outlook (post Brexit) plus updated Fund benefit cashflows following changes to the membership profile, updated market conditions and the actuarial valuation. This was already in the Fund's Business Plan. The Committee are required to approve any updated triggers to be incorporated into the Flighpath framework.<br>2. *Restructure the current LDI portfolio.* Insight and Mercer have identified an opportunity to restructure Insight's mandate that will be more efficient for the Fund. This will require a certain level of transaction costs and work has been done by Mercer which has been reviewed by both JLT and Officers to assess its cost versus its value to the Fund.<br>3. *Subject to fair pricing implement the use of "equity options" to protect against market falls on the Insight mandate.* This is being explored to provide further downside protection given the current equity market levels. Initial work has been done by Mercer which has been reviewed by both JLT and Officers to assess its cost versus its value to the Fund – further work is required, particularly in respect to market pricing but the initial due diligence has now been completed. |
| 1.02 | ***Reviewing the flightpath plus updating the interest rate and inflation triggers***<br><br>Officers have been working with Mercer and JLT to review the flightpath and update the interest rate and inflation triggers. These discussions have been based on the liability cashflows from the most recent actuarial valuation, the revised actuarial basis and also the proposed contribution schedule based on preliminary discussions with the Unitary Authorities.<br><br>The philosophy behind the flightpath is to maximise returns subject to an acceptable level of risk. As part of this approach the intention is to reduce risk <u>at reasonably affordable levels</u> subject to attractive market opportunities.<br><br>Progress has been made in respect to refreshing the interest rate and inflation triggers. The intention is to capture attractive, low risk, returns above CPI through a series of triggers to stabilise the cost of the Fund to employers. The current proposal is that the triggers be revised to fit with the 2016 actuarial valuation approach and updated position. |

As well as the interest rate and inflation triggers it is proposed that the funding level triggers and actions are updated. A key change is that when the trigger is breached the appropriate action delegated to Officers could be:

- No action; or
- increasing the interest rate and inflation hedging levels;
- reduce the level or nature of the growth assets;
- changing other aspects of the framework such as the level of the equity options; or
- a combination of the above.

The key reason for this more wide ranging potential actions is that in volatile market conditions it is often not possible to say that one particular action will be in the best interests of the Fund. Indeed in some instances no action may be the most appropriate action.

The appropriate governance structure will be agreed and documented in the form of a Risk Management Group comprising the Officers (to whom the decision is delegated), Actuary/risk advisor (Mercer) and investment advisor (JLT). It is proposed that in the normal course of events the funding plan will continue to be monitored monthly in more detail as a matter of course and consideration is given to the impact of market conditions on risk and funding cost levels. However, the funding level will still be monitored (approximately using market indices) on a daily basis.

The first funding level trigger where action will definitely be considered as above will be set at 85% which is an increase from the current structure where first trigger was 80%. This is to reflect views on the new market environment.

Details of the proposed interest/inflation triggers are included as an appendix. A recommendation to Committee to approve these revised triggers and the implementation as soon as reasonably practical by updating the instructions for Insight.

To provide some context for deriving the interest/inflation triggers the proposal is based on a long term view of inflation expectations and UK economic growth. The starting point for deriving the triggers is to calculate the “fair value” for both interest rates and inflation, namely we:

1. Assume a fair value for CPI is 2% which is equal to the current Bank of England target
2. Assume RPI will be 1% higher than CPI in the long run (we need this assumption as it is only currently possible to buy inflation linked bonds that reference RPI)
3. Assume the UK economy will grow at a rate of 1% above RPI in the long term

This implies that a fair value for CPI is 2% and a fair value for interest rates is 4% (namely inflation plus long term expected growth of the UK economy). In other words, the long term fair value expected return on UK gilts would then be CPI + 2% per annum.

| | |
|---|---|
| | Given current market conditions it is unlikely that the proposed triggers will be hit in the short term unless there is a material change in the economic outlook. This is appropriate given the long term nature of the Fund and will mean the Fund does not "lock in" at unattractive levels. |
| 1.03 | ***Restructure the current LDI portfolio***<br><br>Insight and Mercer have identified an opportunity to restructure Insight's mandate that will be more efficient for the Fund. This involves buying assets with a higher yield/return and selling an equivalent asset with a lower yield/return. The precise benefit to the Fund depends on prevailing market conditions.<br><br>Mercer provided a cost/benefit analysis and based on market conditions at 30 September 2016 the restructure would have been expected to generate a relative gain over time of £30m with associated transaction costs of £3m (i.e. a <u>net benefit</u> of £27m).<br><br>It is proposed that the restructure be implemented subject to the trade generating a minimum level of net benefit - for example at least a £25m net benefit. This figure and the details of this restructure are to be agreed between advisers and the officers. |
| 1.04 | ***Subject to fair pricing implement the use of "equity options" to protect against market falls on the Insight mandate***<br><br>Market conditions are particularly challenging and we are expecting further volatility over potentially a long period. It proposed that, subject to fair market pricing, we implement protection against potential falls in the equity markets via the use of "Equity Options".<br><br>In particular, the Fund's overall exposure to equity markets is around £750m – including developed market equities, emerging market equities and private equity. In 2008, equity markets fell as much as 50% - if this was to happen again then it would roughly equate to a c.£350m increase in the deficit which may then translate into an increase deficit contributions by as much as £30-35m per annum (all other things equal). In the current fiscal environment the budgetary impact of a major fall in equity markets may be damaging for the services provided by Employers. On balance protecting against the downside could be considered more critical than the potential upside impact that would come from a further sustained rally in equity markets.<br><br>The proposal is that an equity option strategy be explored with a view to mitigating this downside risk subject to it not reducing the overall level of expected return. The officers and advisers are working on a cost/benefit analysis with the next step to approach the market for firm pricing before implementation. The initial proposal is to implement this at a "nil premium" cost by giving up some market upside potential. |

| 2.00 | **RESOURCE IMPLICATIONS** |
|---|---|
| 2.01 | None directly as a result of this report. Resource requirements from advisors and the Fund to assess and implement the framework will be included in the Business Plan. |

| 3.00 | **CONSULTATIONS REQUIRED / CARRIED OUT** |
|---|---|
| 3.01 | None required. |

| 4.00 | **RISK MANAGEMENT** |
|---|---|
| 4.01 | This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):<br><br>• Governance risk: G2<br>• Funding and Investment risks: F1 - F6 |
| 4.02 | The recent market volatility has increased the relative risk levels in relation to CPF funding and risk framework. The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The proposed changes are designed to provide improved risk control and increase the likelihood of a more stable outcome for the Fund and its employers but at a reasonable market cost. |

| 5.00 | **APPENDICES** |
|---|---|
| 5.01 | 1. Framework trigger proposals |

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

| 7.00 | **GLOSSARY OF TERMS** |
|---|---|

| | |
|---|---|
| 7.01 | (a) **Clwyd Pension Fund (the 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<br><br>(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.<br><br>(c) **Clwyd Pension Fund Committee (the Committee)** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund<br><br>(d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of<br><br>(e) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund<br><br>(f) **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.<br><br>(g) **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.<br><br>(h) **Flightpath**<br>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.<br><br>(i) **Deficit**<br>The extent to which the value of the Fund's liabilities exceeds the value of the Fund's assets.<br><br>(j) **Funding level**<br>The difference between the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.<br><br>(k) **Hedging**<br>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. |

| | |
|---|---|
| | (l) **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.<br><br>(m) **Nil Premium Structure –** a financial structure whereby the premium associated with purchasing downside protection is exactly offset by a premium received for giving up a degree of upside potential and hence “nil premium”.<br><br>(n) **Equity option** A financial contract that can allows an investor to reshape their exposure to equity markets. In particular, an equity option strategy can be used to provide downside protection against falls in equity markets. |

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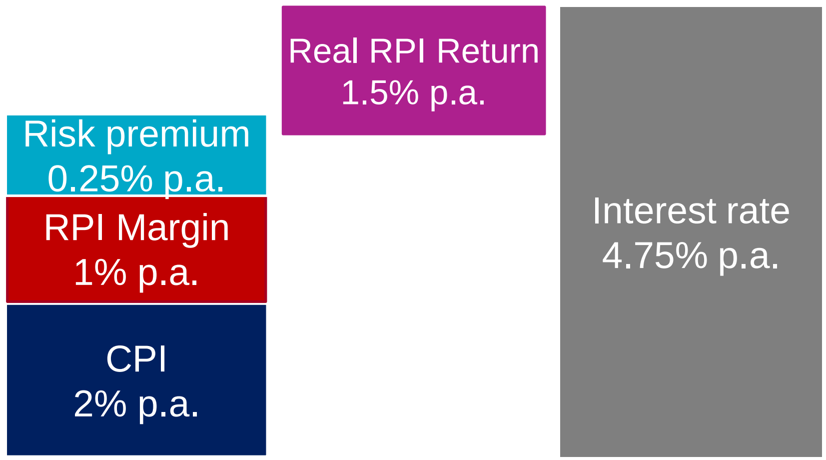
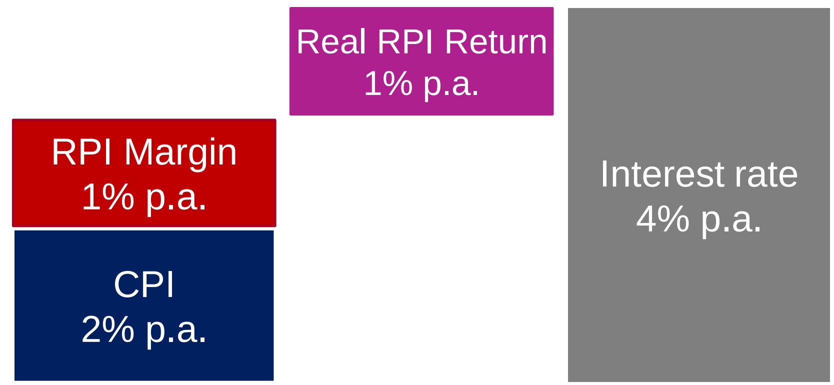
# LDI TRIGGERS
# UPDATING FOR MARKET CONDITIONS

**Previous "fair value" framework**






**Updated "fair value" framework**




**Previous fair value framework**

Starting point is CPI at 2% p.a. (Bank of England long term target). We then add on 1% for the expected difference between RPI and CPI.

- ✓ BoE expect the difference to be c1%-1.4% p.a.
- ✓ RPI higher due to "formula effect" and allowance for housing costs

The real return assumption is somewhat subjective but reflects the expect real growth of the UK economy over the long term.

All else being equal a higher target means more potential benefit if we can capture such an increase but also a lower chance of ever triggering. Since inception of the framework market conditions have changed significantly, most notably large falls in interest rates have been observed.

# LDI TRIGGER FRAMEWORK

## Current LDI triggers

| | | Interest rate triggers | | | | Inflation triggers | | | | Real rate above CPI | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Current triggers** | **Hedge ratio** | **15y** | **20y** | **30y** | **40y** | **15y** | **20y** | **30y** | **40y** | **15y** | **20y** | **30y** | **40y** |
| Trigger 1 | 20% | 3.36% | 3.56% | 3.76% | 3.85% | 3.35% | 3.40% | 3.45% | 3.48% | 1.01% | 1.16% | 1.31% | 1.37% |
| Trigger 2 | 30% | 3.43% | 3.63% | 3.84% | 3.94% | 3.32% | 3.37% | 3.41% | 3.43% | 1.11% | 1.26% | 1.43% | 1.51% |
| Trigger 3 | 40% | 3.49% | 3.71% | 3.92% | 4.03% | 3.29% | 3.33% | 3.37% | 3.39% | 1.20% | 1.38% | 1.55% | 1.64% |
| Trigger 4 | 50% | 3.56% | 3.78% | 4.00% | 4.12% | 3.25% | 3.29% | 3.33% | 3.35% | 1.31% | 1.49% | 1.67% | 1.77% |
| Trigger 5 | 60% | 3.63% | 3.86% | 4.09% | 4.20% | 3.22% | 3.25% | 3.29% | 3.30% | 1.41% | 1.61% | 1.80% | 1.90% |
| Trigger 6 | 70% | 3.69% | 3.93% | 4.17% | 4.29% | 3.19% | 3.22% | 3.24% | 3.26% | 1.50% | 1.71% | 1.93% | 2.03% |
| Trigger 7 | 80% | 3.76% | 4.01% | 4.25% | 4.38% | 3.15% | 3.18% | 3.20% | 3.21% | 1.61% | 1.83% | 2.05% | 2.17% |



## Proposed LDI triggers

| | | Interest rate triggers | | | | Inflation triggers | | | | Real rate above CPI | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Proposed triggers** | **Hedge ratio** | **15y** | **20y** | **30y** | **40y** | **15y** | **20y** | **30y** | **40y** | **15y** | **20y** | **30y** | **40y** |
| Trigger 1 | 30% | 3.25% | 3.25% | 3.25% | 3.25% | - | - | - | - | - | - | - | - |
| Trigger 2 | 40% | 3.40% | 3.40% | 3.40% | 3.40% | - | - | - | - | - | - | - | - |
| Trigger 3 | 50% | 3.55% | 3.55% | 3.55% | 3.55% | 3.15% | 3.15% | 3.15% | 3.15% | 1.40% | 1.40% | 1.40% | 1.40% |
| Trigger 4 | 60% | 3.70% | 3.70% | 3.70% | 3.70% | 3.10% | 3.10% | 3.10% | 3.10% | 1.60% | 1.60% | 1.60% | 1.60% |
| Trigger 5 | 70% | 3.85% | 3.85% | 3.85% | 3.85% | 3.05% | 3.05% | 3.05% | 3.05% | 1.80% | 1.80% | 1.80% | 1.80% |
| Trigger 6 | 80% | 4.00% | 4.00% | 4.00% | 4.00% | 3.00% | 3.00% | 3.00% | 3.00% | 2.00% | 2.00% | 2.00% | 2.00% |

Based on market conditions as at 30 September 2016

| CLWYD PENSION FUND COMMITTEE |
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| **Date of Meeting** | Tuesday, 8 November 2016 |
| **Report Subject** | Delegated Responsibilities and Urgent Delegations |
| **Report Author** | Clwyd Pension Fund Manager |

## EXECUTIVE SUMMARY

To enable Committee to monitor delegations to Officers they are usually included with the separate agenda items for governance, investment and funding and administration. However, due to the short period of time since the last Committee meeting on the 27 September no separate agenda items for those areas are provided at this Committee meeting. Consequently, the use of delegated responsibilities since the last Committee meeting is reported here, additionally, this agenda item includes details of two urgent delegations.

(a) There are none for Governance.

(b) Investment and Funding (Appendix 1) - 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.

(c) Administration (Appendix 2) - This details the responsibilities which have been delegated to officers since the last Committee meeting.

(d) Urgent Delegations (Appendix 3) – There are two urgent delegations which have been used since the last Committee meeting to enable progress with implementation of:

- Employer liaison team
- Altair hosting

| RECOMMENDATIONS | |
|---|---|
| 1 | That the Committee note the use of delegated responsibilities and urgent delegations. |

**REPORT DETAILS**

| 1.00 | **GOVERNANCE RELATED MATTERS** |
|---|---|
| | **Delegated Responsibilities** |
| 1.01 | The Pension Fund Committee has delegated a number of responsibilities to officers or individuals as follows:<br><br>(a) Governance<br>No delegated responsibilities were used since the last Committee meeting in relation to governance matters.<br>(b) Investment and Funding<br>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 1 updates the Committee on the areas of delegation used since the last meeting. To summarise:<br>• There is sufficient liquidity to meet short term requirements.<br>• Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG).<br>• The Fund's strategic allocation is mainly within the SIP ranges. The exception is Stone Harbour, Multi Asset Credit, who are marginally outside. No action has been taken at present due to the "light touch" Investment Review.<br>• There are no significant matters to bring to the attention of the Committee as a result of the Fund Manager monitoring meetings.<br>(c) Administration<br>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting. To summarise:<br>• A number of new employers have been admitted into the Fund. Expressions of interest continue to be received from various employers |
| 1.02 | Since the last Committee meeting officers have used two urgent delegations. Appendix 3 updates Committee on the these delegations which are summarised below:<br>• Employer Liaison Team – further work to develop the team has been undertaken in relation to the responsibilities the team which it is envisaged will consist of seven posts in total, two of which are existing posts.<br>• Altair hosting – Currently FCC IT Department provides the servers on which the Aquila Heywood Altair software is hosted. Following an issue with disaster recovery, which is ongoing, together with a number of benefits, work towards the implementation of external hosting of IT servers and data management by Aquila Heywood is progressing. |

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| 2.00 | **RESOURCE IMPLICATIONS** |
|---|---|
| 2.01 | It is envisaged that the employer liaison team will require an additional five posts with an additional salary budget in the region of £153,000. It is expected that a large proportion of this will be recharged to specific employers taking advantage of the services provided by this team. This will be done via an increase in the employers' pension contribution rate at the next Actuarial Valuation. It is expected that there will be some costs that will not be employer specific due to the team also being responsible for communication matters, as a minimum.<br><br>Externalising the hosting of IT servers and data management will result in additional costs. There will be a one-off cost of £24,585 for implementation together with an annual fee of £108,730. Implementation of the hosting prior to the implementation of member self-service has reduced costs by £54,000.<br><br>The Fund's Business Plan will be updated for these additional costs. |

| 3.00 | **CONSULTATIONS REQUIRED / CARRIED OUT** |
|---|---|
| 3.01 | The plan to create an employer liaison team has been shared with the three unitary authorities and other employers, who have welcomed the proposition. |

| 4.00 | **RISK MANAGEMENT** |
|---|---|
| 4.01 | The introduction of an employer liaison team and Altair hosting will positively impact on the following Administration and Communication Risks:<br><br>• A2: Employers are unable to allocate sufficient resources to pension matters thus impacting on the service to members or lead to breaches.<br>• A5: Systems are not kept up to date or not utilised appropriately.<br>• A6: System failure or unavailability. |

| 5.00 | **APPENDICES** |
|---|---|
| 5.01 | Appendix 1 - Delegated responsibilities – Funding and Investment<br>Appendix 2 - Delegated responsibilities – Administration<br>Appendix 3 – Urgent delegations |

| 6.00 | **LIST OF ACCESSIBLE BACKGROUND DOCUMENTS** |
|---|---|

| | |
|---|---|
| 6.01 | Clwyd Pension Fund Risk Register<br><br>**Contact Officer:** Philip Latham, Clwyd Pension Fund Manager<br>**Telephone:** 01352 702264<br>**E-mail:** philip.latham@flintshire.gov.uk<br><br>Clwyd Pension Fund Risk Register. |

| **7.00** | **GLOSSARY OF TERMS** |
|---|---|
| 7.01 | (a) **SIP (Statement of Investment Principles):** the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund.<br><br>(b) **Budget:** a statement expressing the Council's policies and service levels in financial terms for a particular financial year. In its broadest sense it includes both the revenue budget and capital programme and any authorised amendments to them.<br><br>(c) **Liquidity**: refers to the availability of those assets that are available to be used at very short notice (e.g. cash).<br><br>(d) **TAAG (Tactical Asset Allocation Group)**: this group comprises the Clwyd Pension Fund Manager and the Investment Consultant supported by officers of both the Fund and JLT and discusses how the 9% of the total fund assets are allocated on a tactical basis.<br><br>(e) **Altair (Altair LGPS**): this is a pension administration platform developed specifically for local government pension schemes. |

**DELEGATED RESPONSIBILITIES**

| | Delegation to Officer(s) | Delegated Officer(s) | Communication and Monitoring of Use of Delegation |
|---|---|---|---|
| 1.011 | 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 |

**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 has been agreed that any rebalancing will be deferred until any changes as a result of the "light touch" Investment Review are implemented.

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 September 2016 was £37.7m (£45.3m at 30th June 2016). 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.

| | | | |
|---|---|---|---|
| 1.012 | 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 |

**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 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.

The following areas have been identified since the last Committee:

- Crystallise some profits from Equity Linked Bonds and reduce holding to £20m (returned 30% since inception in September 2015)
- Invest in Emerging Market Equities

The transition of these assets has been actioned in October resulting in the following allocations within the portfolio:

- Commodities (3%)
- Japanese Equities (1%)
- US Equities (2%)
- Equity Linked Bonds (1.5%)
- Emerging Market Equities (1.5%)

As at the end of September, the Best Ideas portfolio has both outperformed its target and added value to the investment return at total Fund level.

| | Delegation to Officer(s) | Delegated Officer(s) | Communication and Monitoring of Use of Delegation |
|---|---|---|---|
| 1.084 | 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 |

**Action taken** –
The in – house team monitor the Fund's managers on a regular basis. The next meetings have been scheduled for November. A record of the managers monitored is shown in the following table. Further ongoing monitoring and details on the managers are reported by JLT, the Fund's Investment Consultant, in a separate agenda item of the committee papers. There are no strategic issues to report.

| Manager | Mandate | Strategic Weight % | Dec 2015 | Mar 2016 | Jun 2016 | Sept 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 | ✓ | ✓ | | |

**Appendix 2**

## DELEGATED RESPONSIBILITIES

<table>
<tr><th></th><th>Delegation to Officer(s)</th><th>Delegated Officer(s)</th><th>Communication and Monitoring of Use of Delegation</th></tr>
<tr><td>1.01(c)</td><td>Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.</td><td>PFM and either the CFM or COPR after taking appropriate advice from the FA.</td><td>Ongoing reporting to PFC for noting</td></tr>
<tr><td colspan="4">Action taken –<br><br>Following expressions of interest a number of Community Councils and other employers have joined the Clwyd Pension Fund and are now paying contributions. These Community and Town Councils are Acton, Bagillt, Cefn Mawr, Denbigh, Hope, Gwernymynydd, Marchwiel, Penyffordd and Ruthin. The other employers are Freedom Leisure and Glyndwr Students Union.<br><br>Other Community Councils, and other employers, have also expressed an interest in joining the Fund and information has been forwarded to them.</td></tr>
</table>

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**Appendix 3**

## DELEGATED RESPONSIBILITIES

| | **Delegation to Officer(s)** | **Delegated Officer(s)** | **Communication and Monitoring of Use of Delegation** |
|---|---|---|---|
| 1.01(d) | Other urgent matters as they arise. | PFM and either the CFM or COPR, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale). | PFC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PFC. |

**Action taken –**

(a) The Committee held on the 27th September 2016 agreed to the creation of an Employer Liaison Team (ELT) within the Pension Administration Team. Since this meeting, further work to develop plans in relation to the responsibilities of the ELT have been carried out. It is envisaged that the ELT will consist of:

- One Principal Pensions Officer (new post)
- Four Pension Officers (new posts)
- One Pension Officer (existing post)
- One Communications Officer (existing post)

The additional salary costs relating to the five new posts is estimated to be in the region of £153,000 including salary on-costs. It is expected that a large proportion of this will be recharged to employers taking advantage of the services provided by this team via an increase in the employers' pension contribution rate.

(b) At the Advisory Panel on 11 October 2016, Mrs Helen Burnham, Pension Administration Manager, provided information relating to upgrading the existing service provided by Aquila Heywood (the administration system provider) to include external hosting of IT servers and data management. This 'Altair hosting' enhancement provides the following:

- Install, configure and test servers
- Ensure connectivity with the hosting service
- Network and system monitoring
- Installation of service packs, security and core application patches
- Data backup and restore
- Disaster recovery
- Security management
- Technical support
- Third-party software, including licensing

Currently FCC IT Department provides the servers on which the software is hosted and carries out regular backups although there is a recent issue with disaster recovery where the disaster recovery operating system had not been maintained by FCC IT department. The issue was still ongoing meaning that there will be a major issue if a disaster were to take place. Under hosting, Heywood would be responsible for this so it should remove what is currently a critical risk. Implementation of hosting prior to the implementation of Member Self-Service would result in a saving of £54,000 resulting in an additional one-off implementation cost of £24,585 and an annual fee of £108,730 (excluding VAT).

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CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

# CLWYD PENSION FUND COMMITTEE

| | |
|---|---|
| **Date of Meeting** | Tuesday, 8 November 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 30 September 2016.

The economic and market environment during the third quarter continued to be dominated by the UK's decision to leave the EU. Key contributors driving sentiment include:

- The sharp fall in Sterling
- Political uncertainties such as the impact of Brexit and the run up to the US Presidential election
- Central Bank intervention

Despite the continued uncertainty in markets, positive returns were seen across all Equity markets with returns to the Sterling investor boosted by the fall in the currency. Property returns were negative over the quarter whilst the Sterling based Commodities index return was negative due to the sharp depreciation of Sterling relative to the US$. However Commodity returns in US$ terms continued to rise in the third quarter.

| RECOMMENDATIONS | |
|---|---|
| 1 | To note and discuss the Economic and Market Update 30 September 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 | **Economic and Market Update 30 September 2016**<br>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:<br><br>• **Market Background** – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies.<br>• **Economic Statistics** – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing<br>• **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 | Economic and Market risks will impact on the Fund's investment return.<br><br>Funding and Investment Risks F3 & F4 |

| 5.00 | **APPENDICES** |
|---|---|
| 5.01 | Appendix 1 – Economic and Market Update Period Ending 30 September 2016. |

| 6.00 | **LIST OF ACCESSIBLE BACKGROUND DOCUMENTS** |
|---|---|
| 6.01 | Economic and Market Update Period Ending 30 June 2016.<br><br>**Contact Officer:** Debbie Fielder, Pension Finance Manager |

| | |
|---|---|
| | **Telephone:** 01352 702259<br>**E-mail:** debbie.a.fielder@flintshire.gov.uk |
| **7.00** | **GLOSSARY OF TERMS** |
| 7.01 | A list of commonly used terms are as follows:<br><br>(a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark.<br><br>(b) **Annualised –** Figures expressed as applying to 1 year.<br><br>(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.<br><br>(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.<br>(e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows.<br><br>(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.<br><br>(g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum.<br><br>(h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows.<br><br>(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.<br><br>**A comprehensive list of investment terms can be found via the following link:**<br><br>http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf |

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# CLWYD PENSION FUND
## ECONOMIC AND MARKET UPDATE
## PERIOD ENDING 30 SEPTEMBER 2016

# TABLE OF CONTENTS

# 1 MARKET BACKGROUND
# PERIOD ENDING 30 SEPTEMBER 2016

## MARKET STATISTICS

| Market Returns Growth Assets | 3 Mths % | 1 Year % | 3 Years % p.a. |
|---|---|---|---|
| UK Equities | 7.8 | 16.8 | 6.6 |
| Global Developed Equities | 8.0 | 30.6 | 14.6 |
| USA | 7.0 | 34.2 | 19.3 |
| Europe | 9.1 | 21.8 | 8.0 |
| Japan | 12.1 | 31.3 | 12.2 |
| Asia Pacific (ex Japan) | 12.4 | 38.2 | 10.7 |
| Emerging Markets | 12.3 | 36.7 | 7.4 |
| Frontier Markets | 5.7 | 18.2 | 7.9 |
| Property | -2.3 | 4.2 | 12.9 |
| Hedge Funds | 5.9 | 22.3 | 11.0 |
| Commodities | -1.4 | 2.4 | -16.2 |
| High Yield | 8.3 | 31.6 | 12.3 |
| Emerging Market Debt | 4.0 | 16.2 | 8.2 |
| Senior Secured Loans | 3.1 | 5.7 | 4.7 |
| Cash | 0.1 | 0.4 | 0.5 |

| Market Returns Bond Assets | 3 Mths % | 1 Year % | 3 Years % p.a. |
|---|---|---|---|
| UK Gilts (>15 yrs) | 4.2 | 23.0 | 16.0 |
| Index-Linked Gilts (>5 yrs) | 11.0 | 27.0 | 16.0 |
| Corporate Bonds (>15 yrs AA) | 8.8 | 26.0 | 14.2 |
| Non-Gilts (>15 yrs) | 10.1 | 25.8 | 13.6 |

| Exchange Rates: Change in Sterling | 3 Mths % | 1 Year % | 3 Years % p.a. |
|---|---|---|---|
| Against US Dollar | -2.8 | -14.2 | -7.1 |
| Against Euro | -3.9 | -14.8 | -1.1 |
| Against Yen | -4.1 | -27.5 | -6.1 |

| Inflation Indices | 3 Mths % | 1 Year % | 3 Years % p.a. |
|---|---|---|---|
| Price Inflation – RPI | 0.7 | 2.0 | 1.7 |
| Price Inflation – CPI | 0.5 | 1.0 | 0.7 |
| Earnings Inflation* | 0.4 | 2.3 | 2.0 |

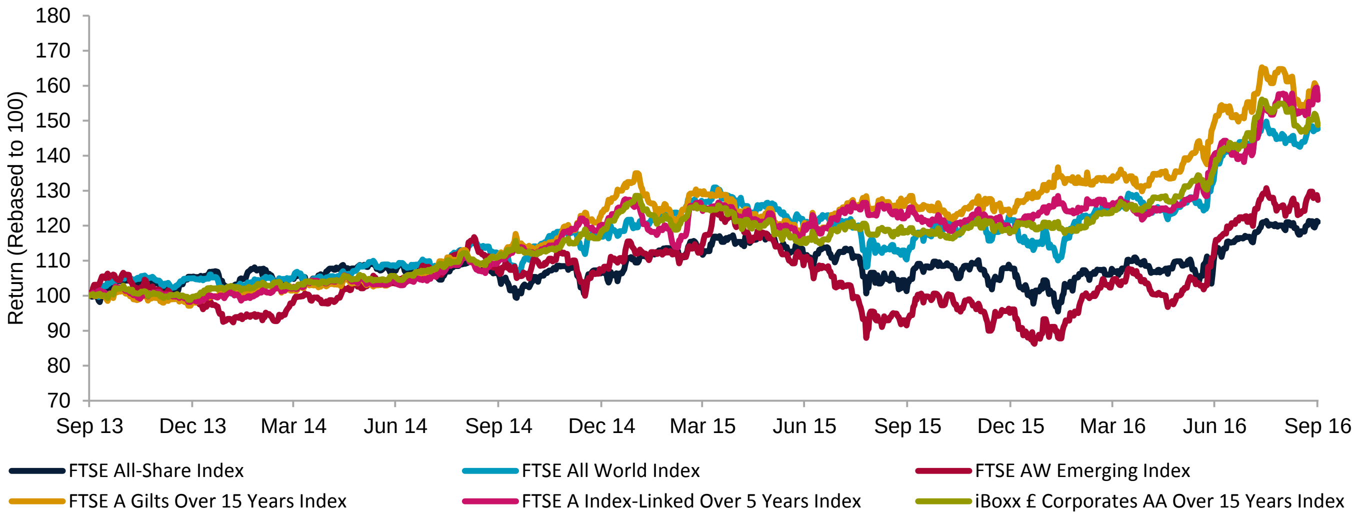
| Yields as at 30 September 2016 | % p.a. |
|---|---|
| UK Equities | 3.46 |
| UK Gilts (>15 yrs) | 1.42 |
| Real Yield (>5 yrs ILG) | -1.79 |
| Corporate Bonds (>15 yrs AA) | 2.22 |
| Non-Gilts (>15 yrs) | 2.60 |

| Absolute Change in Yields | 3 Mths % | 1 Year % | 3 Years % p.a. |
|---|---|---|---|
| UK Equities | -0.20 | -0.25 | 0.05 |
| UK Gilts (>15 yrs) | -0.19 | -0.96 | -1.99 |
| Real Yield (>5 yrs ILG) | -0.40 | -0.95 | -1.75 |
| Corporate Bonds (>15 yrs AA) | -0.53 | -1.40 | -2.09 |
| Non-Gilts (>15 yrs) | -0.59 | -1.36 | -1.91 |

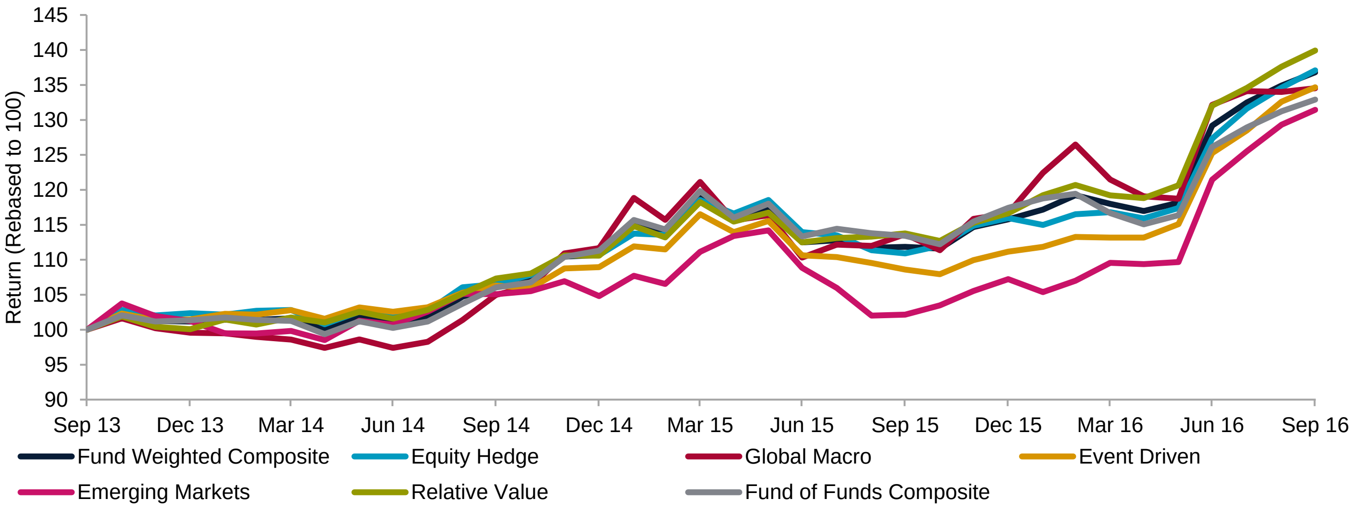
**Source**: Thomson Reuters and Bloomberg
**Note:** * subject to 1 month lag

# MARKET SUMMARY CHARTS

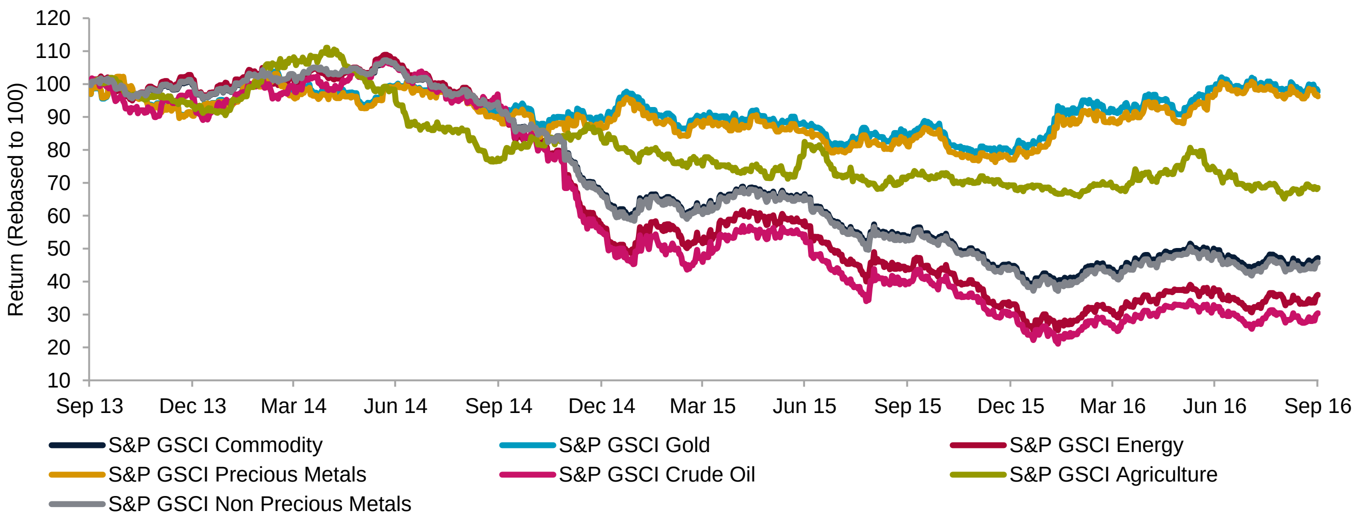
## Market performance – 3 years to 30 September 2016




## Hedge Funds: Sub-strategies performance – 3 years to 30 September 2016

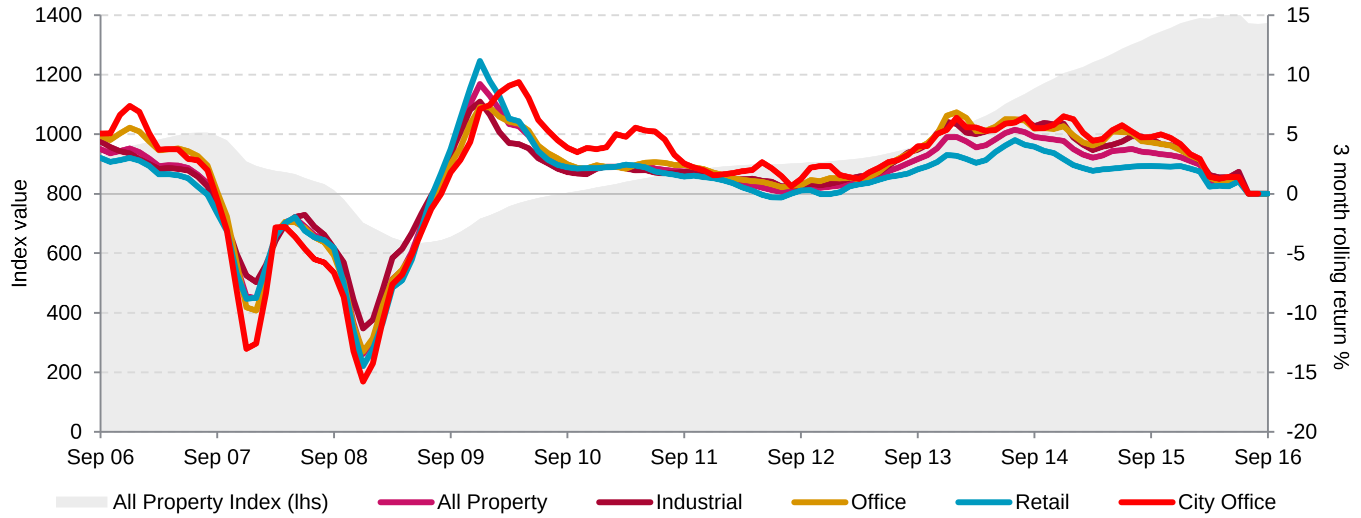



## Commodity sector performance – 3 years to 30 September 2016

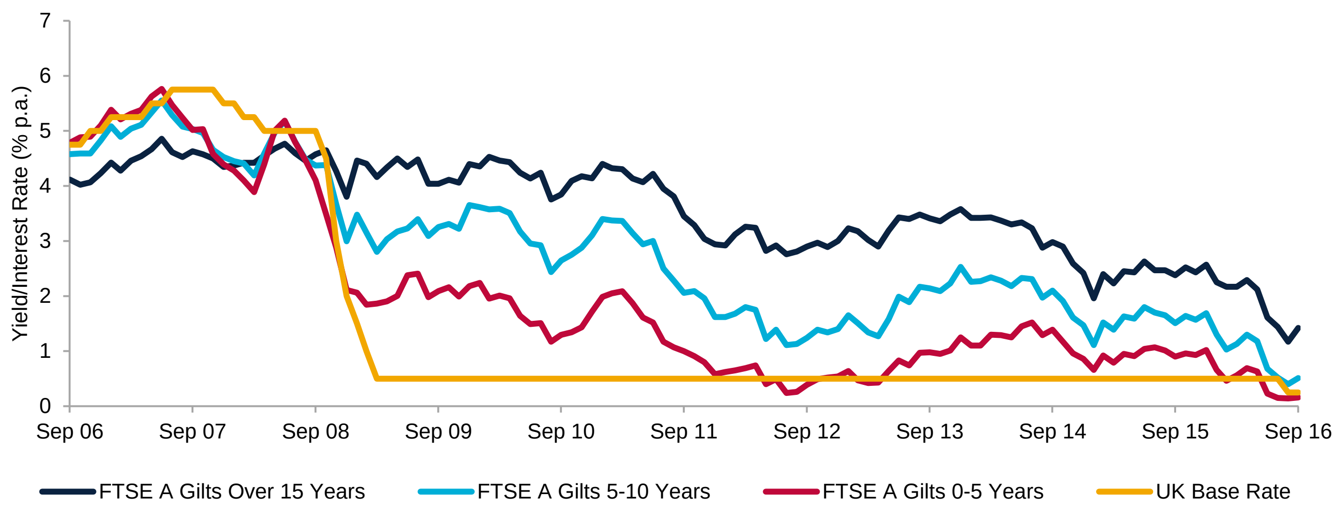



**Source**: Thomson Reuters

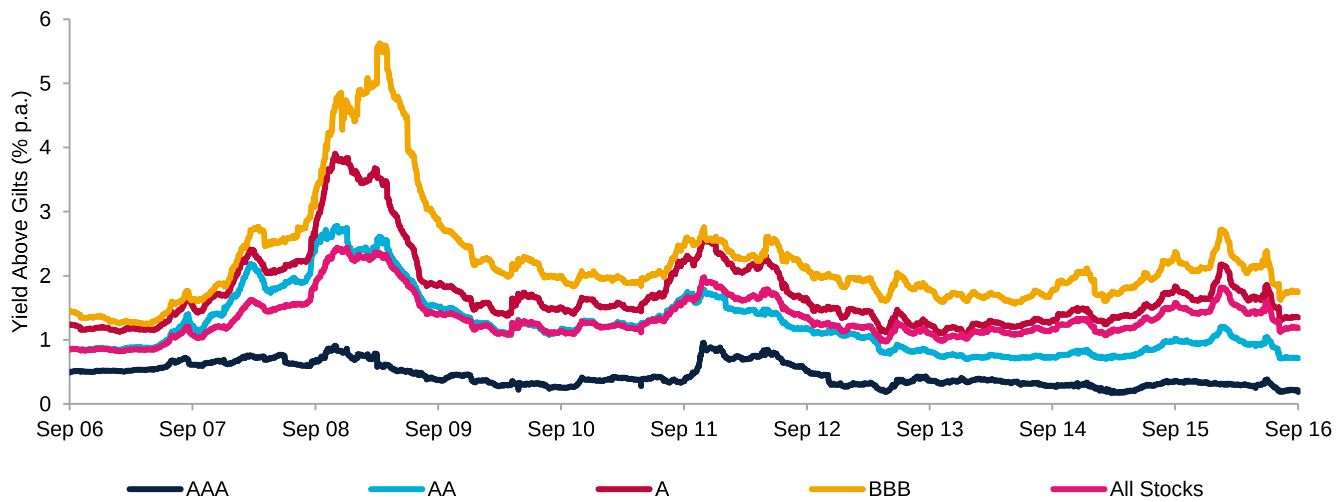
## Property sector performance – 10 years to 30 September 2016




## UK government bond yields – 10 years to 30 September 2016




## Corporate bond spreads above government bonds – 10 years to 30 September 2016




**Source**: Thomson Reuters

# 2 ECONOMIC STATISTICS

| Economic Statistics as at: | 30 Sep 2016 | | | 30 June 2016 | | | 30 Sep 2015 | | |
|---|---|---|---|---|---|---|---|---|---|
| | UK | Euro[1] | US | UK | Euro[1] | US | UK | Euro[1] | US |
| Annual Real GDP Growth[2] | 2.1% | 2.6% | 1.3% | 1.9% | 2.8% | 1.6% | 2.4% | 3.1% | 3.0% |
| Annual Inflation Rate[3] | 1.0% | 0.4% | 1.5% | 0.5% | 0.1% | 1.0% | -0.1% | -0.1% | 0.0% |
| Unemployment Rate[4] | 4.9% | 10.1% | 4.9% | 4.9% | 10.3% | 4.9% | 5.4% | 11.0% | 5.2% |
| Manufacturing PMI[5] | 55.4 | 52.6 | 51.5 | 52.1 | 52.8 | 51.3 | 51.5 | 52.0 | 53.1 |

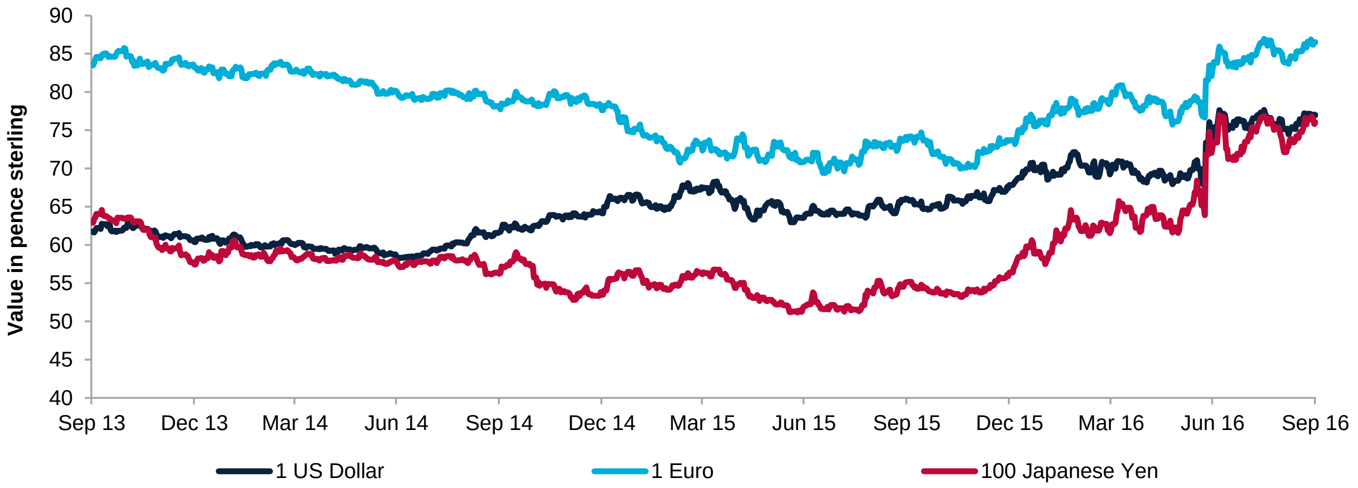
| Change over periods ending: | 3 months | | | 12 months | | |
|---|---|---|---|---|---|---|
| 30 Sep 2016 | UK | Euro[1] | US | UK | Euro[1] | US |
| Annual Real GDP Growth[2] | 0.2% | -0.2% | -0.3% | -0.3% | -0.5% | -1.7% |
| Annual Inflation Rate[3] | 0.5% | 0.3% | 0.5% | 1.1% | 0.5% | 1.5% |
| Unemployment Rate[4] | 0.0% | -0.2% | 0.0% | -0.5% | -0.9% | -0.3% |
| Manufacturing PMI[5] | 3.3 | -0.2 | 0.2 | 3.9 | 0.6 | -1.6 |

**Notes**: 1. Euro Area 19 Countries. 2. 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 | |
|---|---|---|---|---|---|
| | 30 Sep 16 | 30 Jun 16 | 30 Sep 15 | 3 months | 12 months |
| 1 US Dollar is worth | 76.98p | 74.81p | 66.02p | -2.8% | -14.2% |
| 1 Euro is worth | 86.51p | 83.10p | 73.69p | -3.9% | -14.8% |
| 100 Japanese Yen is worth | 76.02p | 72.92p | 55.12p | -4.1% | -27.5% |

### Exchange rate movements – 3 years to 30 September 2016




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

# 3 MARKET COMMENTARY

## INTRODUCTION

A full quarter has elapsed following the UK's decision to leave the EU. Britain has a new Prime Minister in Theresa May and it has recently been announced that Article 50 will be triggered by March 2017, starting a formal two year negotiation period.

The UK equity market fell sharply after the vote, but has since recovered and driven higher. Sterling has been a major casualty, falling sharply on Brexit uncertainty and a quick lowering of interest rates by the Bank of England. The FTSE 100 has, however, benefitted immensely from the currency weakness, with the overseas earnings of the constituents receiving a boost from the fall in Sterling.

Gilts have experienced a strong quarter overall, but signs of exhaustion have crept in during September – something we haven't seen for many months.

Political events around the globe continue to grab our attention, in particular those in the US, where a Presidential election is almost upon us. The US electorate go to the polls in November; history tells us that equity markets are usually unaffected by the outcome, but this could be one of the exceptions.

The continued flow of Central Bank liquidity is providing fuel for equity markets, but the continual effects of monetary policy are now being questioned.

There are frailties, particularly among European Banks, and Japan has used up almost all of its ammunition to drive reform and investment. One key question is, how will risk assets react when the central bank liquidity 'drug' is withdrawn?

Fundamentals are being ignored and that is of concern, but many would say that fundamentals have been ignored for many a year.

Interesting decisions again lay ahead and uncertainty remains, but markets, both equity and fixed interest, have surfed the liquidity wave.

## UNITED KINGDOM

- Brexit understandably continues to dominate conversations and media attention in the UK. At the time of writing the last review, there was a much higher level of political uncertainty in the UK. Things have settled slightly since Theresa May became Prime Minister and selected her Government. The opposition have re-confirmed their leader, Jeremy Corbyn, but still appear to be in disarray.
- Mrs May has now confirmed that Article 50 will be invoked by March 2017. Upon this announcement, markets once again reacted with Sterling falling and global companies in the FTSE 100 rising on the back of a beneficial weakness in Sterling to their earnings.
- There can be no doubt that the UK equity market and Sterling are still very Brexit sensitive despite the recent rise in the equity markets.
- The Bank of England base rate has been cut to 0.25% in what could now be considered by many as a knee-jerk Brexit reaction. The annual UK inflation rate (CPI) has risen marginally and the increase can primarily be attributed to items that typically respond quickly to exchange rate movements, such as fuel and alcoholic drinks.
- UK equities performed well in August and held ground in September as the market upheavals of June and July moderated. The Bank of England launched a series of monetary easing measures in the wake of economic

uncertainty following the UK's vote to leave the European Union. Investors however, continued to look for indications of the Brexit impact.

- Since the day of the EU referendum vote, the FTSE 100 has prospered. The index was initially hit hard in the first couple of trading sessions following the vote, but took less than a week to recover its losses. Also, the domestically focused FTSE 250 index recovered, and is above its pre-Brexit trading level.
- The ongoing weakness in Sterling could well help the FTSE 100 hold on to its gains. The interest rate cut and an expanded stimulus package, in all likelihood, should help leading shares, and keep the pressure on Sterling. But with the continuing political uncertainty and the prospect of some crucial negotiations between the UK and the EU about their future association, there is likely to be continuing volatility in the market.
- The FTSE 100 represents the largest companies in the UK by market capitalisation, but they do not necessarily reflect the strength of the UK economy. The lack of exposure to the UK has shielded many large cap stocks, largely due to the fall in Sterling. The FTSE 100 (an index measured in Sterling but with a substantial proportion of US Dollar earnings and dividends) has increased substantially since June 24, as the market has revalued shares higher, pricing in greater earnings from the currency uplift.
- The advantages of a weaker currency, accommodative monetary policy and potential interest rate cuts in the near future, should be supportive of the UK equity markets.

## EUROPE EX UK

- Amongst the big four nations, Germany witnessed a deceleration in growth with output rising at the slowest pace in fifteen months. Spain posted encouraging data with the growth rate rising to a two month high. France finally moved into expansionary territory with growth accelerating to a ten month high. Initial indicators are signalling that the period of sustained job creation over the past eight years might finally be ending. The rate of employment growth slowed to a three month low backed by a slowdown in hiring, by both manufacturers and service providers. Germany, Italy and Spain experienced a slowdown in employment growth rates while France posted job losses.
- The current market conditions might portray an illusion of calmness with volatility nearing all time lows. However, a range of political risks, lacklustre economic growth and a fragile banking system threaten to disrupt the tranquillity in the markets.
- A host of political events are brewing across the Eurozone, with the Brexit vote having encouraged right-wing parties in the Netherlands and France who want to follow in the UK's footsteps and leave the EU. Italy is a hotbed for concern with the constitutional referendum to be held this autumn taking centre stage. This, coupled with the teetering banking sector could have the capacity to inflict some damage.
- Investors, who are already erring on the side of caution after the Brexit vote are now increasingly becoming concerned on the health of Europe's banking sector. Banks are being dragged down by weak earnings, high levels of non-performing loans and a negative rate environment. While the ECB has tried to calm the markets by conducting stress tests, investors are clearly reading between the lines.
- Concerns over Deutsche Bank's finances and the company's ability to handle a large US Department of Justice fine of £14bn have put further pressure onto the banking sector.
- The Eurozone continues to post strong data on the macroeconomic front, however the potential political risks facing the region threaten to derail the current market rally. The ECB continues to use almost every tool at its disposal in order to support the economy and support inflation. These efforts are appearing to yield results with inflation moving further into the positive territory since June.
- The short term performance of Eurozone equities will continue be dependent on the resilience of EU companies to potentially volatile political and economic conditions.
- It is unlikely that the European economy will escape completely unscathed over the coming months.

## NORTH AMERICA

- The US is deep into election campaigning season ahead of the November Presidential elections. This is undoubtedly the major local and indeed global topic and much has been said and written about the potential candidates. Historically, the change in President has had little effect on markets and their valuations but could this time be different?
- The US market has had a strong third quarter and potential interest rate rises will be important when assessing the short term value of the asset class. The tone of the Federal Reserve speakers has been key and every word monitored for an indication of their intentions. Macroeconomic data, particularly those in the employment market, have remained strong. While this started to build up a case for a rate hike, the latest macroeconomic releases possibly indicate that the level of improvement that was gauged by previous releases may have been inadequate. Key data points include the lower than expected non-farm payroll data, manufacturing data (which pointed towards the fact that the turnaround in the manufacturing sector may not be as robust as expected and the picture for non-manufacturing industries may not be as rosy) and consumer sentiment data (which has slumped in the last few months) released by the University of Michigan.
- Despite these recent data releases, the US economy is showing signs of improved life. Improving employment numbers and better than expected earnings could drive a potential rise in interest rates in the latter part of this year, although the chances of this appear to be reducing. Nonetheless the equity market may react to any indication of a rate hike.
- Some concerns remain that valuations are rich, but the high quality and more defensive nature of the US market makes it attractive to hold and arguably supports a higher than average valuation to the rest of the world.
- With all these mixed signals, the S&P500 continues to maintain its record levels. Fundamentals are not driving this market - the central bank liquidity push is fuelling this “risk-on” environment.

## JAPAN

- Japanese equities have seen massive outflows this year and domestic investors have invested record amounts of money in foreign assets. Despite this the Yen has appreciated significantly this year.
- Despite the poor performance of Japanese exports this year, equities have continued to rise, albeit at a subdued pace compared to other global indices.
- The combination of a strong currency, low inflation and weak macroeconomic numbers are proving detrimental for Japanese equities. Japan faces large challenges, namely deteriorating demographics, which have sapped productivity growth and a government debt burden that amounts to c.229% of GDP. Despite low interest rates, companies are holding cash rather than investing it because the demand outlook is so poor. The slowdown in China and falling energy prices have exacerbated the underlying structural weaknesses that are keeping economic growth and inflation low.
- The challenges facing Japan would indicate that more stimulus measures are warranted from the authorities, but the Bank of Japan is approaching the limits of known policy effectiveness. There is a high probability that the next move from the Bank of Japan or Prime Minister Abe will be bold or that Abe honours his promise on meaningful fiscal stimulus action in the autumn, which could prove beneficial in the near-term for Japanese equities.

## ASIA PACIFIC EX JAPAN / EMERGING MARKETS

- Emerging markets have had a strong run off of their lows and have attracted a significant amount of assets. The high levels of inflow have been mainly on account of higher returns offered by emerging markets, stabilising commodity prices and also improved macroeconomic fundamentals in the emerging markets.
- Fading concerns over China’s growth following the stabilisation of the economy in the second quarter also buoyed investor sentiment. The outlook for India’s economy remains favourable - the passing of the Goods and

Services Tax (GST) bill is being viewed as a sign of commitment to reform and fiscal consolidation. Elsewhere, with the recent appointment of a business friendly President, the business climate in Brazil has been optimistic.

- Also, tensions between Russia and the West have eased to an extent. The Mexican economy too saw improved GDP growth and also received assurance from the Mexican Central Bank about the recovering economy that buoyed market sentiments.
- Recent cabinet changes in Indonesia increase the prospects for reforms such as anti-corruption measures. Supportive monetary policy, fuel price deregulation and infrastructure spending is also likely to support the Indonesian market in the months to come.
- On the flip side, the South African market has fallen with the Rand depreciation amplifying declines. This was a result of press reports that the Finance Minister was set to face charges related to his former role as Chief of the South Africa Revenue Service.
- We continue to believe that Emerging Market equities will remain attractive in the medium-term owing to stabilising commodity prices, recovery in China's growth momentum as well as waning risks in other countries, especially in Latin America.
- However, in the long term, the geo-political tensions in Turkey continue to be a concern. In addition, if the US Federal Reserve raises rates, a subsequently rising US Dollar will prompt further fund flows out of emerging markets and exacerbate already existing problems faced by companies with US Dollar debt. Concerns over a slowdown in China continue to remain a dominant factor in the trends affecting the Asia Pacific region. Weak external demand and US policy normalisation are expected to be headwinds for the economies in this area.
- Emerging markets are trading at a significant discount and continue to look attractive versus their developed market peers on a pure valuation basis. In the short-term, the rally in emerging markets is likely to continue because of the weaker US Dollar and improved data from China. Investors' sentiment towards the area has improved and if currencies continue to gain ground and we see some firming in commodity prices, we could see this asset class attracting further capital inflows.

## FIXED INCOME

- Fixed income assets have broadly delivered exceptionally strong returns in 2016 so far, however the last month of this quarter has seen a reversal in valuations. Sterling denominated bonds have seen pressure following Brexit as foreign investors consider the implications of a weaker Sterling.
- Gilts however still remain a significant beneficiary of flights to safety, as investors digest the implications of Brexit. Yields remain low and capital prices show little value at these levels, but further interest rate cuts, an extension of the Quantitative Easing programme or even further debt issuance could all be catalysts for gilt prices to rally.
- From a corporate perspective, Company balance sheets remain in relatively good shape and default levels are not an issue currently. Since the announcement of the stimulus package by the Bank of England, corporate bond yields have fallen significantly.
- Given the demand for safe haven assets combined with the bond purchases by the Bank of England and extraordinarily low interest rates, we expect to see gilt yields relatively compressed for some time to come.
- Demand is strong for index-linked gilts, with very little liquidity particularly on shorter dated issues. The outperformance of index-linked gilts when compared to conventional gilts can be attributed to the increasing expectations of an inflation tick-up in the coming months.
- With the involvement of Central Banks, any additional increase in inflation above the Bank's target would require a response, which may restrict the returns from index-linked gilts.
- Increasing oil production and higher inventories in the US could impose some downward pressure on oil prices, which may consequently increase default rates in the high yield market.
- The global economy continues to face headwinds with investors taking a flight to safety in the aftermath of Brexit. Global bond markets experienced a significant move upwards but the rumblings of a second US interest rate rise are growing, given the strength in the labour market.
- European bonds remain supported by European Central Bank (ECB) buying whilst a rising Euro will likely prove a headwind for inflation expectations.

- The Bank of Japan's bond-buying programme and negative interest rate policy have driven valuations into expensive territory. Action by the Bank of Japan – including a pledge to aim for an overshoot of its inflation objective and adopting a 0% target for 10-year bond yields – appears to have had a short-lived effect which has left the big picture unchanged. Scepticism about the effectiveness of unconventional central bank actions remains very much in the backdrop.

## ALTERNATIVES

- Hedge Fund capital rose to a record level of $2.972 trillion over the quarter, beating its previous record of $2.969 trillion set in the second quarter of 2015. The record total capital level was partially offset by the fourth consecutive quarter of investor outflows, as redemptions increased to $28 billion, the largest quarterly outflow since the second quarter of 2015. Investor outflows and liquidations were concentrated in several of the industry's largest and most well established firms. Hedge Funds (in Sterling terms) returned 5.9% over the quarter; this was primarily due to the US dollar strengthening against Sterling, as hedge funds returned 2.9% in US dollar terms. In Sterling terms, Emerging Markets (+8.2%) were the strongest strategies, whilst Global Macro (+1.8%) were the worst performing.
- UK commercial property declined 2.3% over the quarter, the first quarterly decline since June 2009. The negative return over the quarter was mainly due to a reduction in capital values, which decreased by 3.6%. Rental income generated by the properties returned 1.4%. All sectors posted negative returns; Industrials declined by 0.7%, followed by retail and office sectors which decreased by 2.4% and 3.5% respectively. City offices were the worst performing sector, declining by 4.3%. As at the end of September, the annual property yield stood at 5.5%.
- Commodity prices continued to rise in the third quarter from their lows in early 2016. Within the energy sector, coal prices surged 30%, reflecting strong import demand and tightening supply in China following restrictions on production aimed at reducing pollution. Natural gas also increased by 21%, largely due to developments in the US; strong demand for air conditioning, falling production and increased exports to Mexico and South America. The agricultural price index remained virtually unchanged, however, the components of the index varied considerably. Metals prices continued to rebound from first quarter lows on supply constraints, rising demand and falling stocks. Precious metals prices rose 8% on the back of strong investment demand following the US Federal Reserve's delay of an expected interest rate increase. The Commodities index shown in the market background statistics is Sterling based and the return has been impact by the sharp depreciation of Sterling relative to the US$.

## CONCLUSION

Warren Buffet once stated “I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful”.

Undoubtedly challenges lay ahead, political uncertainties are prevalent both in the developed and the emerging world and central banks can change the investment landscape in an instant.

Brexit discussions will of course impact UK investors and the impact of changes in Sterling must be considered strongly at present, particularly when assessing overseas denominated assets and earnings.

# 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

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## CLWYD PENSION FUND COMMITTEE

| | |
|---|---|
| **Date of Meeting** | Tuesday, 8 November 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 30 September 2016.

The Fund experienced a strong quarter from an Investment Strategy perspective, with positive returns from all strategic asset classes except the Managed Account Platform. Key facts covered in the report are as follows:

- Over the 3 months to 30 September 2016, the Fund's total market value increased by £106.3m to £1,586,595,093.

- Funding level information has not been provided. The previous liability roll forwards were based on the discount rate methodology from the 2013 Actuarial Valuation. The methodology has changed to a CPI basis for the 2016 Actuarial Valuation, the results of which have yet to be finalised.

- Over the quarter, total Fund assets returned 8.1% compared with a composite target of 5.7%.

The Fund's investment strategy was reviewed (on a light touch basis) and the initial results (covering the Fund's assets excluding the Flightpath/De-Risking framework) presented to Committee in September 2016.

A number of the Fund's investment managers outperformed their respective targets during the quarter. There was particularly strong performance from the Fund's "Best Ideas" portfolio.

| RECOMMENDATIONS | |
|---|---|
| 1 | To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 30 September 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 | **Investment Strategy and Manager Summary 30 September 2016**<br>Over the 3 months to 30 September 2016, the Fund's total market value increased by £106.3m to £1,586,595,093.<br><br>Total Fund assets returned 8.1% over the quarter, compared with a composite target of 5.7%.<br><br>Over the one year period, Total Fund assets returned 17.4%, compared with a composite target of 15.4%.<br><br>Over the last three years, Total Fund assets returned 10.5% p.a., compared with a composite target of 9.5% p.a.<br><br>The strongest returns over the quarter came from the Equity allocation and the "Best Ideas" portfolio assets.<br><br>The Fund's asset portfolio was within the existing strategic ranges set for all asset classes, except Multi-Asset Credit, during the period. However the Multi-Asset Credit allocation is close to the proposed new strategic weight. |
| 1.02 | 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.<br><br>The strategic allocation and mandates will change following the implementation of the 2016 Investment Strategy Review.<br><br>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. Meetings with the managers have been arranged for November 2016. |

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

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

| 4.00 | RISK MANAGEMENT |
|---|---|
| 4.01 | The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk.<br><br>Funding and Investment Risks (F4)<br><br>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.<br><br>Funding and Investment Risks (F3) |

| 5.00 | APPENDICES |
|---|---|
| 5.01 | Appendix 1 – Investment Strategy and Manager Summary 30 September 2016 |

| 6.00 | LIST OF ACCESSIBLE BACKGROUND DOCUMENTS |
|---|---|
| 6.01 | Investment Strategy and Manager Summary 30 June 2016.<br><br>**Contact Officer:** Debbie Fielder, Pension Finance Manager<br>**Telephone:** 01352 702259<br>**E-mail:** debbie.a.fielder@flintshire.gov.uk |

| 7.00 | GLOSSARY OF TERMS |
|---|---|
| 7.01 | A list of commonly used terms are as follows:<br><br>(a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. |

| | |
|---|---|
| | (b) **Annualised –** Figures expressed as applying to 1 year.<br><br>(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.<br><br>(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.<br><br>(e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows.<br><br>(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.<br><br>(g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum.<br><br>(h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows.<br><br>(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.<br><br>**A comprehensive list of investment terms can be found via the following link:**<br><br>http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf |

# CLWYD PENSION FUND

## INVESTMENT STRATEGY AND MANAGER SUMMARY PERIOD ENDING 30 SEPTEMBER 2016

# TABLE OF CONTENTS

# 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 30 September 2016, the Fund's total market value increased by £106.3 million to £1,586,595,093.

Over the quarter, total Fund assets returned 8.1% compared with a composite target of 5.7%. Total Fund (ex LDI) returned 4.4% against a target of 2.6%. With the exception of the Managed Account Platform which returned -2.6% over the quarter, all strategic asset classes delivered positive absolute returns. Equities (+12.4%), the Best Ideas Portfolio (+7.5%) and the LDI Portfolio (+19.6%) delivered the majority of the Fund’s total return, whilst Multi-Asset Credit increased by 2.1% over the period.

In relative terms, total Fund assets produced a return 2.4% above the target, mainly due to the Equity and Best Ideas portfolios which outperformed their targets by 2.4% and 6.2% respectively. Multi-Asset Credit, which is 3.9% underweight the current strategic benchmark, added 0.2% to relative performance.

In-House assets returned 2.5% over the quarter, above their target by 2.3% and added 0.5% to relative returns. The Equity Portfolio outperformed its target by 2.4% and contributed 1.8% to total Fund performance but just 0.1% to the total Fund’s outperformance of its target.

Within the In-House portfolio, Opportunistic assets rebounded from a poor trailing 12 months, increasing by 7.8% over the quarter and ending the last 12 months down by 22.0%.

Insight’s LDI portfolio rose by 19.6% as yields slumped to record lows in August following the Brexit and central bank policy announcements in the UK, EU and US. Overall this added 1.0% to the total Fund’s relative return.

## EQUITIES

Global equity markets continued to rise over the quarter, with positive returns seen in all major regions.

Equity markets rallied strongly over the third quarter of 2016, on the back of continuing accommodative monetary policy from central banks following the uncertainty around Brexit, the US election and the broader health of the global economy. Investor’s risk appetites increased as they showed a preference towards higher risk assets over the quarter.

In the US, equities rose as the economic recovery continued to gain traction and the US Federal Reserve held back on a rate hike. UK equities also rose as the economy proved to be more resilient than expected and international companies, in particular, benefited from a weak Sterling. European equities gained as the effects of Brexit appeared to be less severe than expected and further stimulus from the European Central Bank remained a possibility. Overall, the third quarter of 2016 proved to be much calmer and a more constructive period for markets with the only real volatility occurring during September, occurring around central bank activity.

In Developed markets, Asia Pacific (ex Japan) equities provided the strongest returns increasing by 12.4%. Japanese equities closely followed, as they rose by 12.1%. European equities returned 9.1%, followed by UK and US equities which posted positive returns of 7.8% and 7.0%, respectively.

Over the last 12 months, Asia Pacific (ex Japan) equities provided the strongest returns, increasing by 38.2%. UK equities experienced the lowest return of the developed markets, increasing by 16.8%.

Emerging Markets and Frontier Markets were both up by 12.3% and 5.7% respectively over the quarter, both markets saw a positive annual return of 36.7% and 18.2%, respectively.

Total Equity assets returned 12.4%, which was 2.4% ahead of their composite target. All the Funds in the strategy generated positive returns. The Investec Global Strategic Equity Fund was the best performing of the equity assets on a relative basis, as the Fund returned 11.9% and outperformed its target by 2.9%.Wellington Emerging Markets (Local) was the only Fund that underperformed its target returning 11.7%, against a target of 12.9%.

Global equity exposure to financials, industrials and consumer staples were the main contributors to performance, while healthcare, telecommunication services and consumer discretionary were the largest detractors from returns.

In Emerging Markets, exposures to India and China (both strategically overweight at a country level) contributed to the majority of gains, although this was offset to some extent by exposures in Indonesia and Turkey.

In Frontier Markets, stock selection in Asia was the primary driver of performance. The overweight allocation to Sri Lanka also proved to be beneficial, as the market rebounded from recent lows on a more stable economic outlook. Additionally, the Fund's exposure to Eastern European banks boosted relative returns. Meanwhile, the Fund's non benchmark position in Egypt hurt relative performance as uncertainty around the currency's potential devaluation weighed on the portfolio's consumer related holdings.

## MULTI-ASSET CREDIT

Global credit markets continued an exceptional period of strong growth during the third quarter of 2016. Strong demand for fixed income was driven by investors seeking safer havens for their assets coupled with a number of central bank policy announcements.

Momentum in credit markets did shift towards the end of September as the US Federal Reserve held off a rate rise, but firmly hinted that it expects to make an increase in December 2016 or Q1 2017. Stimulus measures announced by the Bank of Japan, setting out its intention to target yields in a bond buying programme rather than continue with further Quantitative Easing had a short lived effect, but pushed valuations into expensive territory.

The Bank of England's Quantitative Easing programme and increased demand from investors seeking higher quality assets pushed the yield on long dated UK government bond to a low of 1.13% in August.

Elsewhere, rising commodity prices (particularly metals) and a stabilisation of oil has led to a strengthening in High Yield and Emerging Market Debt, however there has been an increase in default rates which has risen significantly over the last 12 months

Over the quarter, long dated fixed interest gilts, long-dated index-linked gilts and long-dated corporates generated positive returns of 4.2%, 11.0%, and 8.8% respectively. Global bond markets also rose, as High Yield, Investment Grade and Emerging Market Debt returned 8.3%, 9.0% and 4.0% respectively.

Total Multi-Asset Credit generated a return of 2.1% over the quarter, ahead of its target by 1.7%. Overall, this made a marginal contribution of 0.2% to total Fund relative performance. Investment Grade (+0.7%), High Yield (+0.7%) and Emerging Market Debt (+0.4%) all added to the performance of the strategy, although Global Rates detracted (+0.1%).

In Emerging Market Debt, Latin America, where the portfolio is overweight, added the largest contribution to return, overweight exposures in oil producing countries Argentina and Venezuela benefitted from oil price stabilisation. But the overweight allocation to Mexico was detrimental as fears and uncertainty grew in the lead up to the US Presidential election.

High Yield positions benefitted from rising commodity prices and strengthening of US High Yield sectors, Energy, Steel and Metals/Mining which continued their rally from the start of the year.

## HEDGE FUNDS

Hedge Fund capital rose to a record level of $2.972 trillion over the quarter, beating its previous record of $2.969 trillion set in the second quarter of 2015. The record total capital level was partially offset by the fourth consecutive quarter of investor outflows, as redemptions increased to $28 billion, the largest quarterly outflow since the second quarter of 2015. Investor outflows and liquidations were concentrated in several of the industry’s largest and most well established firms.

Hedge Funds (in Sterling terms) returned 5.9% over the quarter; this was primarily due to the US dollar strengthening against Sterling, as hedge funds returned 2.9% in US dollar terms. In Sterling terms, Emerging Markets (+8.2%) were the strongest strategies, whilst Global Macro (+1.8%) were the worst performing.

ManFRM’s Managed Futures & Hedge Funds strategy had a negative return of -1.5%, underperforming its target by 2.5% and detracting 0.2% from relative performance.

ManFRM Hedge Funds (Legacy) portfolio which consists of Duet, Liongate and Pioneer (until August 2016) assets returned -14.4% over the quarter, behind their target of 1.0%.

## TACTICAL ALLOCATION PORTFOLIO

### *DIVERSIFIED GROWTH*

Total Diversified Growth assets returned 3.0%, ahead of their absolute target by 1.3%. Overall, this contributed 0.1% to total Fund relative performance.

Pyrford returned 3.0% compared to a target of 1.8%.  Overseas equities drove performance over the period as Sterling fell against all major currencies following the UK's vote to leave the European Union. The Fund's UK equity exposure, whilst delivering a strong, positive return, underperformed the FTSE All Share Index due to tactical positioning on the defensive side which saw the Fund avoid housebuilders and banks; two sectors that were hit heavily towards the end of the previous quarter, but rallied strongly throughout the third quarter. Overseas bonds also contributed to positive performance over the quarter, again driven by the fall in the value of Sterling whilst UK bonds were flat. Specific currency positions detracted on the whole over the period.

Investec’s portfolio generated a return of 3.0% compared to a target of 1.6%.The Fund's underlying growth sub-portfolio drove positive returns during the quarter, as significant contributions were seen in high yield bonds, global equities and specific baskets of Japanese, Chinese and emerging market equities. Material contributions came from long currency positions in the Colombian peso and Indonesian rupiah. The uncorrelated sub-portfolio made a marginal contribution to returns over the quarter, with the Fund's infrastructure basket delivering the bulk of the returns alongside a notable contribution from gold, which benefitted from Sterling depreciation. Unsurprisingly during a period where markets have rallied, the Fund's defensive sub-portfolio was a detractor over the period.

### *BEST IDEAS PORTFOLIO*

The Best Ideas portfolio returned 7.5%, above its target by 6.2%. Overall, this made a contribution of 0.5% to total Fund relative performance. Over the last 12 months, the strategy has delivered a substantial return of 20.7% and outperformed its target of UK CPI +3.0% p.a. by 16.7%.

F&C’s UK Equity-Linked Gilts (+14.2%), LGIM Japanese Equities (+7.6%) and Investec Global Natural Resources (+7.2%) all produced strong total returns over the quarter, contributing 0.3%, 0.1% and 0.1% respectively, to relative performance of the Fund.

Wellington’s Commodities Fund (-0.7%) was the only negative contributor to the portfolio.

During the third quarter, the portfolio traded out of BlackRock European Equities and into the LGIM North American (Hedged) Equities. The cash holding resulting from exiting Japanese (Unhedged) Equities was placed into the two commodity funds, namely Wellington Commodities Fund and Investec Global Natural Resources Fund.

## IN-HOUSE ASSETS

Total In-House assets returned 2.5%, ahead of their composite target by 2.3%. Overall this contributed to 0.5% to both the total Fund performance and total Fund relative performance.

Opportunistic assets were the best performing of the In-House assets, returning 7.8% and outperforming its target by 6.4%.

Private Equity, which is overweight the existing strategic allocation by 1.0%, produced a return of 4.3% and outperformed its target by 2.9%.

Timber/Agriculture returned 2.3%, ahead of its target by 0.9%.

Property delivered a return of 0.5%, outperforming its target by 2.7% and adding 0.2% to relative performance.

Infrastructure were the only In-House assets that generated negative returns, returning -0.2% and underperforming the benchmark by 1.6%.

# 2 STRATEGIC ASSET ALLOCATION
# 30 SEPTEMBER 2016

### Allocation by underlying asset class

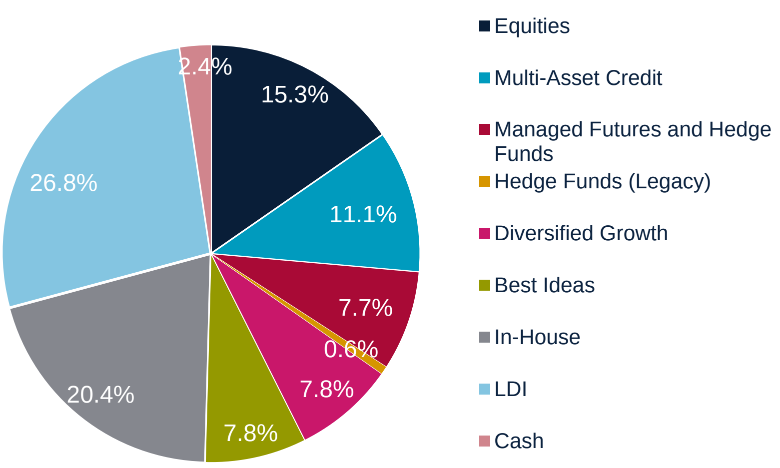
| Asset Class | Market Value £ | Weight % | Strategic Allocation % | Relative % | Strategic Range % |
|---|---|---|---|---|---|
| Global Equities | 115,613,820 | 7.3 | 8.0 | -0.7 | 5.0 – 10.0 |
| Emerging Market Equities | 97,117,991 | 6.1 | 6.5 | -0.4 | 5.0 – 7.5 |
| Frontier Market Equities | 30,642,032 | 1.9 | 2.5 | -0.6 | 1.0 – 4.0 |
| Multi-Asset Credit | 175,411,788 | 11.1 | 15.0 | -3.9 | 12.5 – 17.5 |
| Managed Futures and Hedge Funds | 122,794,921 | 7.7 | 9.0 | -1.3 | 7.0 – 11.0 |
| Hedge Funds (Legacy)* | 9,787,356 | 0.6 | 0.0 | +0.6 | – |
| Diversified Growth | 124,295,809 | 7.8 | 10.0 | -2.2 | 15.0 – 25.0 |
| Best Ideas | 124,442,205 | 7.8 | 9.0 | -1.2 | |
| Property | 113,120,152 | 7.1 | 7.0 | +0.1 | 5.0 – 10.0 |
| Private Equity & Opportunistic | 154,931,841 | 9.8 | 10.0 | -0.2 | 8.0 – 12.0 |
| Infrastructure / Timber / Agriculture | 55,249,522 | 3.5 | 4.0 | -0.5 | 2.0 – 7.0 |
| LDI & Synthetic Equities | 425,535,264 | 26.8 | 19.0 | +7.8 | 10.0 – 30.0 |
| Cash | 37,652,391 | 2.4 | 0.0 | +2.4 | 0.0 – 5.0 |
| **TOTAL CLWYD PENSION FUND** | **1,586,595,093** | **100.0** | **100.0** | **0.0** | |

**Notes**: * Hedge Funds (Legacy) includes the S.A.R.E (Due) and Liongate portfolios.
**The strategic allocation and mandates will change following full sign off and implementation of the 2016 Investment Strategy Review**
**Asset ranges, both strategic and conditional to be revised as part of the 2016 Investment Strategy Review**

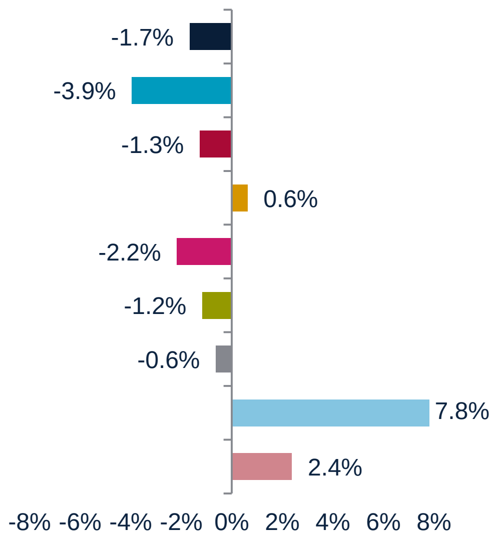
### Points to note

- Total allocation to LDI rose by 2.8% over the quarter and is 7.8% overweight relative to its strategic allocation.
- Multi-Asset Credit is 3.9% underweight its strategic allocation and is now 1.4% below its lower strategic range, however, this is more in line with the proposed strategic allocation in the 2016 Investment Strategy Review.

### Strategic Asset Allocation as at 30 Sept 2016




### Deviation from Strategic Allocation




Notes: Totals may not sum due to rounding

# 3 VALUATION AND ASSET ALLOCATION
## AS AT 30 SEPTEMBER 2016

| Manager | Fund | Market Value £ | Weight % | Strategic Allocation % | Strategic Range % |
|---|---|---|---|---|---|
| **Investec** | Global Strategic Equity | 115,613,820 | 7.3 | 8.0 | 5.0 – 10.0 |
| **Wellington** | Emerging Market Equities (Core)# | 47,218,992 | 3.0 | 3.25 | 5.0 – 7.5 |
| **Wellington** | Emerging Market Equities (Local)# | 49,898,999 | 3.1 | 3.25 | |
| **Aberdeen** | Frontier Markets# | 30,642,032 | 1.9 | 2.5 | 1.0 – 4.0 |
| **Total Equities** | | **243,373,843** | **15.3** | **17.0** | |
| **Stone Harbor** | Libor Multi-Strategy Portfolio | 175,411,788 | 11.1 | 15.0 | 12.5 – 17.5 |
| **Total Multi-Asset Credit** | | **175,411,788** | **11.1** | **15.0** | **12.5 – 17.5** |
| **ManFRM** | Managed Futures and Hedge Funds | 122,794,921 | 7.7 | 9.0 | 7.0 – 11.0 |
| **ManFRM** | Hedge Funds (Legacy)* | 9,787,356 | 0.6 | 0.0 | – |
| **Managed Account Platform** | | **132,582,277** | **8.4** | **9.0** | **7.0 – 11.0** |
| **Pyrford** | Global Total Return | 64,946,539 | 4.1 | 5.0 | – |
| **Investec** | Diversified Growth | 59,349,270 | 3.7 | 5.0 | |
| **Total Diversified Growth** | | **124,295,809** | **7.8** | **10.0** | **–** |
| **BMO** | UK Equity-Linked Gilts | 38,410,446 | 2.4 | 9.0 | – |
| **LGIM** | Japanese Equities (Hedged) | 10,434,659 | 0.7 | | |
| **Investec** | Global Natural Resources | 24,480,064 | 1.5 | | |
| **Wellington** | Commodities | 21,511,049 | 1.4 | | |
| **LGIM** | North American Equities (Hedged) | 29,605,987 | 1.9 | | |
| **Best Ideas Portfolio** | | **124,442,205** | **7.8** | **9.0** | **–** |
| **Tactical Allocation Portfolio** | | **248,738,014** | **15.7** | **19.0** | **15.0 – 25.0** |
| **In-House** | Property | 113,120,152 | 7.1 | 7.0 | 5.0 – 10.0 |
| **In-House** | Infrastructure | 27,435,045 | 1.7 | 2.0 | 2.0 – 7.0 |
| **In-House** | Timber / Agriculture | 27,814,477 | 1.8 | 2.0 | |
| **In-House** | Private Equity | 142,054,735 | 9.0 | 10.0 | 8.0 – 12.0 |
| **In-House** | Opportunistic | 12,877,106 | 0.8 | | |
| **Total In-House Assets** | | **323,301,515** | **20.4** | **21.0** | |
| **Insight** | LDI Portfolio | 425,535,264 | 26.8 | 19.0 | 10.0 – 30.0 |
| **Total LDI** | | **425,535,264** | **26.8** | **19.0** | **10.0 – 30.0** |
| **Trustees** | Cash+ | 37,652,391 | 2.4 | - | 0.0 – 5.0 |
| **TOTAL CLWYD PENSION FUND** | | **1,586,595,093** | **100.0** | **100.0** | |

**Notes**: * ManFRM Hedge Funds (Legacy) includes S.A.R.E (Duet) and Liongate portfolio and is provided by ManFRM.
# Wellington Emerging Markets Core and 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.

**The strategic allocation and mandates will change following full sign off and implementation of the 2016 Investment Strategy Review**
**Asset ranges, both strategic and conditional to be revised as part of the 2016 Investment Strategy Review**

# 4 PERFORMANCE SUMMARY

## PERIODS ENDING 30 SEPTEMBER 2016

| | Manager | Fund | 3 months % | | 12 months % | | 3 years % p.a. | | 3 Yr Performance |
|---|---|---|---|---|---|---|---|---|---|
| | | | Fund | Target | Fund | Target | Fund | Target | vs Objective |
| | Investec | Global Strategic Equity | 11.9 | 9.0 | 26.6 | 33.7 | 15.1 | 16.0 | Target not met |
| | Wellington | Emerging Markets (Core)# | 13.8 | 12.6 | 37.5 | 37.9 | 7.9 | 8.5 | Target not met |
| | Wellington | Emerging Markets (Local)# | 11.7 | 12.9 | 34.8 | 39.3 | 11.4 | 9.5 | Target met |
| | Aberdeen | Frontier Markets# | 7.6 | 6.1 | 15.9 | 19.9 | 3.9 | 6.7 | Target not met |
| **Total Equities** | | | **12.4** | **10.0** | **28.9** | **33.7** | **11.0** | **12.5** | |
| | Stone Harbor | Libor Multi-Strategy | 2.1 | 0.4 | 3.8 | 1.5 | 1.1 | 1.5 | Target not met |
| **Total Multi-Asset Credit** | | | **2.1** | **0.4** | **3.8** | **1.5** | **1.1** | **1.5** | |
| n/a | ManFRM | Managed Futures & Hedge Funds | -1.5 | 1.0 | -1.1 | 4.1 | n/a | n/a | n/a |
| n/a | ManFRM | Hedge Funds (Legacy)* | -14.4 | 1.0 | -21.1 | 4.9 | -1.3 | 4.9 | n/a |
| **Managed Account Platform** | | | **-2.6** | **1.0** | **-3.7** | **4.1** | **n/a** | **n/a** | |
| | Pyrford | Global Total Return | 3.0 | 1.8 | 11.7 | 6.6 | 5.3 | 6.3 | Target not met |
| n/a | Investec | Diversified Growth | 3.0 | 1.6 | 5.0 | 5.6 | n/a | n/a | n/a |
| **Total Diversified Growth** | | | **3.0** | **1.7** | **8.5** | **6.1** | **2.9** | **6.0** | |
| **Best Ideas Portfolio** | | | **7.5** | **1.3** | **20.7** | **4.0** | **n/a** | **n/a** | |
| **Tactical Allocation Portfolio** | | | **5.2** | **1.3** | **14.3** | **4.0** | **n/a** | **n/a** | |
| | In-House | Property | 0.5 | -2.2 | 7.8 | 3.1 | 11.2 | 12.9 | Target not met |
| | In-House | Infrastructure | -0.2 | 1.4 | 16.0 | 5.6 | 15.1 | 5.6 | Target met |
| | In-House | Timber / Agriculture | 2.3 | 1.4 | 15.2 | 5.6 | 5.8 | 5.6 | Target met |
| | In-House | Private Equity | 4.3 | 1.4 | 14.2 | 5.6 | 12.6 | 5.6 | Target met |
| | In-House | Opportunistic | 7.8 | 1.4 | -22.0 | 5.6 | -8.8 | 5.6 | Target not met |
| **Total In-House Assets** | | | **2.5** | **0.2** | **10.6** | **4.8** | **11.1** | **8.0** | |
| n/a | Insight | LDI Portfolio | 19.6 | 19.6 | 42.8 | 42.8 | n/a | n/a | n/a |
| **Total (ex LDI)** | | | **4.4** | **2.6** | **11.7** | **9.8** | **6.3** | **6.5** | |
| **TOTAL CLWYD PENSION FUND** | | | **8.1** | **5.7** | **17.4** | **15.4** | **10.5** | **9.5** | |

Notes: 'n/a' against the objective is for funds that have been in place for less than three years. .
* ManFRM Hedge Funds (Legacy) includes Duet, Liongate and Pioneer portfolios.
\# 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

**The strategic allocation and mandates will change following full sign off and implementation of the 2016 Investment Strategy Review**

# 5 STRATEGIC ASSET CLASSES
# PERFORMANCE TO 30 SEPT 2016

| Strategy | 3 months<br>% | 12 months<br>% | 3 years<br>% p.a. |
|---|---|---|---|
| **Total Equities** | **12.4** | **28.9** | **11.0** |
| Composite Objective | 10.0 | 33.7 | 12.5 |
| Composite Benchmark | 9.5 | 31.1 | 10.5 |
| **Total Multi-Asset Credit** | **2.1** | **3.8** | **1.1** |
| Objective | 0.4 | 1.5 | 1.5 |
| Benchmark | 0.1 | 0.5 | 0.7 |
| **Managed Account Platform** | **-2.6** | **-3.7** | **n/a** |
| Objective | 1.0 | 4.1 | n/a |
| Benchmark | 1.0 | 4.1 | n/a |
| **Total Hedge Funds (Legacy)** | **-14.4** | **-21.1** | **-1.3** |
| Composite Objective | 1.0 | 4.9 | 4.9 |
| Composite Benchmark | 1.0 | 4.9 | 4.9 |
| **Total Diversified Growth** | **3.0** | **8.5** | **2.9** |
| Composite Objective | 1.7 | 6.1 | 6.0 |
| Composite Benchmark | 1.7 | 6.1 | 6.0 |
| **Best Ideas Portfolio** | **7.5** | **20.7** | **n/a** |
| Objective | 1.3 | 4.0 | n/a |
| Benchmark | 1.3 | 4.0 | n/a |
| **Total In-House Assets** | **2.5** | **10.6** | **11.1** |
| Composite Objective | 0.2 | 4.8 | 8.0 |
| Composite Benchmark | 0.2 | 4.8 | 8.0 |
| **Total LDI Portfolio** | **19.6** | **42.8** | **n/a** |
| Composite Objective | 19.6 | 42.8 | n/a |
| Composite Benchmark | 19.6 | 42.8 | n/a |
| **Total (ex LDI)** | **4.4** | **11.7** | **6.3** |
| **Composite Objective** | 2.6 | 9.8 | 6.5 |
| **Composite Benchmark** | 2.5 | 9.1 | 5.8 |
| **Total Clwyd Pension Fund** | **8.1** | **17.4** | **10.5** |
| **Composite Objective** | 5.7 | 15.4 | 9.5 |
| **Composite Benchmark** | 5.6 | 14.9 | 9.0 |

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

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

**The strategic allocation and mandates will change following full sign off and implementation of the 2016 Investment Strategy Review**

# APPENDIX: SUMMARY OF EXISTING 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.

4 The strategic allocation and mandates will change following full sign off and implementation of the 2016 Investment Strategy Review.

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