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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

10 February 2017

Dear Councillor

You are invited to attend a meeting of the Clwyd Pension Fund Committee which will be held at 10.00 am on Thursday, 16th February, 2017 in the Delyn Committee Room, County Hall, Mold CH7 6NA to consider the following items

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 3 - 12)

To confirm as a correct record the minutes of the last meeting on 8th November 2016.

GOVERNANCE

4 POOLING INVESTMENTS IN WALES (Pages 13 - 64)

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

5 GOVERNANCE UPDATE (Pages 65 - 98)

To provide Committee Members with an update on governance related issues

ADMINISTRATION AND COMMUNICATIONS

6 LGPS UPDATE (Pages 99 - 112)

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

7 PENSION ADMINISTRATION/COMMUNICATIONS UPDATE (Pages 113 - 132)

To update Committee Members on the Pensions Administration Section

INVESTMENT AND FUNDING

8 MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID) II (Pages 133 - 136)

To provide Committee Members with a presentation of MIFID II for discussion

9 INVESTMENT AND FUNDING UPDATE (Pages 137 - 158)

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

10 ECONOMIC AND MARKET UPDATE (Pages 159 - 176)

To provide Committee Members with an economic and market update.

11 INVESTMENT STRATEGY AND MANAGER SUMMARY (Pages 177 - 194)

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

12 FUNDING, FLIGHT PATH AND RISK MANAGEMENT FRAMEWORK UPDATE (Pages 195 - 206)

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

Yours sincerely



Robert Robins
Democratic Services Manager

CLWYD PENSION FUND COMMITTEE **8 NOVEMBER 2016**

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Tuesday, 8 November 2016.

PRESENT: Councillor Alan Diskin (Chairman)

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

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

APOLOGIES: Gary Ferguson (Corporate Finance Manager) and Debbie Fielder (Pensions Finance Manager)

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

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Paul Middleman and Adam Lane (Fund Actuary and Strategic Risk Adviser - Mercers), Kieran Harkin, Anthony Kershaw and Nick Buckland (Fund Investment Consultants – JLT Group).

Officers/Advisers comprising: Alwyn Hughes (Pensions Finance Manager), Helen Burnham (Pensions Administration Manager), Karen Williams (Principal Pensions Officer) 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.

39. DECLARATIONS OF INTEREST (including Whipping Declarations)

Councillor Stephen Wilson and Councillor Huw Llewelyn-Jones declared a personal interest as being members of the Clwyd Pension Fund for all items.

Karen McWilliam (Independent Adviser – Aon Hewitt) declared a personal interest as an employee of Aon Hewitt who may submit a tender submission to be the operator of the Wales Pool. Paul Middleman (Fund Actuary – Mercers) and Adam Lane (Strategic Risk Adviser – Mercers) also both declared a personal interest as employees of Mercer who may also submit a tender submission to be the operator of the Wales Pool.

40. MINUTES

The minutes of the meeting of the Committee held on 29 September 2016 were submitted.

RESOLVED:

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

GOVERNANCE

Philip Latham, Clwyd Pension Fund Manager, introduced two presentations to Committee:

- (i) Statutory DCLG guidance for the Investment Strategy Statement (ISS) that is a requirement of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and which replaces the Statement of Investment Principles (SIP) from 1st April 2017 and the Governance of Pooling.
- (ii) The CIPFA/Aon Guidance Investment Pooling Governance Principles.

41. NATIONAL GUIDANCE ON INVESTMENT STRATEGY STATEMENTS (ISS) AND POOLING GOVERNANCE

The Clwyd Pension Fund Manager, Mr Latham introduced Nick Buckland (Fund Investment Consultant – JLT Group) who gave a presentation on the new statutory DCLG guidance for the ISS. The presentation covered:

- the change in regulations,
- the requirement to publish an ISS,
- Directions by the Secretary of State
- the content of the ISS requirements including:
 - Requirement to have a wide variety of investments
 - To assess the suitability of Investments
 - Approach to risk
 - pooling and,
 - social, environmental and governance considerations and
 - the exercise of voting rights

Cllr Steve Wilson asked for clarification on boycotts and sanctions. Steve Hibbert commented on the Government response to the consultation (which received over 23,000 responses) noting no significant changes to the draft regulations were made as a result.

Karen McWilliam (Independent Adviser – Aon Hewitt) gave a presentation to the Committee on the CIPFA/ Aon Guidance on Investment Pooling Governance Principles covering:

- purpose of the guidance
- what we need to do to evolve our operations to adapt to the changes.
- changes to the reporting in the Annual Report.

- reviewing strategies, policies and processes reflecting the changes in the pooling governance.
- the requirements of the Joint Committee including:
 - terms of reference and
 - knowledge and skills policy for the decision makers.

Mrs McWilliam confirmed that the reporting from the Operator will need to be comprehensive and fit the individual requirements of each fund. She drew attention to the need for engagement of stakeholders, including employers and scheme members, regarding the implications of pooling for the Fund.

Further discussions centred on the implementation period for the Pool and the details around of the joint committee being set up for Wales. Mr Latham, Clwyd Pension Fund Manager, outlined how an officer working group would be making recommendations to the Joint Committee.

Mr Latham (Clwyd Pension Fund Manager) requested that the Chair agreed to a change in the order of the agenda with Agenda item 15 Pooled Investments be presented now. This was agreed.

42. 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).
Exclusion of press and Public

43. POOLED INVESTMENTS UPDATE

Mrs McWilliam and Mr Middleman left the room.

Mr Latham (Clwyd Pension Fund Manager) provided Committee Members with a verbal update on the outcome of a cross-pool meeting with Teresa Clay (Head of Local Government Pensions at Department of Communities and Local Government) regarding the proposals for the Investment Pooling.

Mr Latham also reported that there would be upcoming meetings between Marcus Jones, the Local Government Minister (DCLG), and representatives of the eight proposed pools prior to a written all-clear being issued to allow the pool's to move forward. A wide ranging discussion followed.

The Committee was also updated by Mr Latham on progress of the Wales Pool. An outline was given of the respective responsibilities of the Committee, Officers, Advisors and the Joint Chair's Committee during the transitional period, the period immediately following the awarding of the operator contract as well as the medium to long term.

A wide ranging discussion followed. Mr Latham informed the Committee that both he and the Chair, Cllr. Alan Diskin, would be attending a meeting on Friday with the Chairs of the other seven funds in Wales.

RESOLVED:

That the Members note the update.

44. FLIGHTPATH UPDATE

Mr Middleman (Fund Actuary – Mercer) and Mr Lane (Strategic Risk Adviser – Mercer) presented a report which gave:

- an overview of the existing Flight Path strategy
- confirmation that the current framework was operating well
- outlined of the review undertaken following the triennial actuarial valuation and Brexit. The following three strands were reviewed:
 - current mandate, with a view to identifying efficiencies
 - equity options, to protect current position
 - the triggers – with resulting adjustments being recommended to the Committee.

Mr Middleman explained that the current framework is in place to protect the Fund, capture favourable conditions and potentially bank any gains whilst ensuring that protection is not purchased at any price. The Committee approved the existing framework two years ago and it has made a significant difference to the Fund value. The Fund deficit would have been £125 million greater if the flight path had not been implemented. However, the review, which was discussed at the 27 September 2016 Committee, was necessary because there is a need to ensure that it remains fit for purpose and whether it could be improved further.

Mr Lane then outlined the report to the Committee with input, as appropriate from Mr Middleman and Mr Harkin (Fund Investment Consultant – JLT Group).

Mrs Brookes (Pension Board) asked whether the protection afforded by the use of equity options had always been available and whether the Fund had previously considered it. Mr Lane replied that the equity option market is an established market and that it was being considered now due to market conditions. Mr Latham added that that the current focus on the LGPS is on comparing returns on investments. There is a reputational risk if equities continue to climb whilst our returns continue to drag.

Mr Lane stated that if the equities market suffers a significant drop then we should outperform other LGPS funds due to the level of protection that the CPF has.

Discussions then moved onto the creation of a Funding and Risk Management Group (FRMG) to review the various triggers within the flight path. In response to a question by Mr Hibbert, Mrs McWilliam assured the

Committee that terms of reference for FRMG were being developed by officers and advisers, and the Committee would receive ongoing reports on the work of the Group.

Mr Lane explained that inflation and yield triggers would be looked at every valuation cycle unless there was a major change, for example, in Bank of England economic assumptions.

Following further discussion it was suggested that the recommendation to Committee be amended to add 'in principle' which would enable officers and advisers to work on the details rather than requiring further approval from the Committee.

Mr Harkin (Fund Investment Consultant – JLT Group) replied that the proposed group would work in a similar fashion to the existing Tactical Asset Allocation Group.

RESOLVED:

- a) That the Committee approve in principle the proposed changes and delegate decision making to Officers subject to the implemented changes not varying significantly and an update is given at the next Committee meeting.
- b) That the Committee notes the actions being taken within the current framework.

45. DELEGATED RESPONSIBILITIES AND URGENT DELEGATIONS

Mr Latham (Clwyd Pension Fund Manager) presented the report listing the delegations used across the areas of Governance, Administration and Communications, and Investments and Funding since the Committee on the 27 September 2016.

RESOLVED:

That the report be noted including the delegated responsibilities.

46. UPDATES:

Mr Latham (Clwyd Pension Fund Manager) stated that there were no updates in the following areas to report since Committee on the 27 September 2016.

- Governance
- Administration and Communications
- Investment and Funding

Mr Latham reminded Committee of the Annual Joint Consultative Meeting taking place that afternoon.

47. ECONOMIC AND MARKET UPDATE

Mr Harkin (Fund Investment Consultant – JLT Group) provided Committee Members with an economic and market update for the quarter ended 30 September 2016. Mr Harkin commented that 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 Dollar. However Commodity returns in US Dollar terms continued to rise in the third quarter.

RESOLVED:

That the report be noted.

48. INVESTMENT STRATEGY AND MANAGER SUMMARY

Mr Harkin (Fund Investment Consultant – JLT Group) presented a report to update Committee on the performance of both the Fund's investment strategy and investment managers for the quarter ended 30 September 2016.

Mr Harkin reported that the Fund had experienced a strong quarter from an Investment Strategy perspective, with positive returns from all strategic asset classes except the Managed Account Platform. Key points included:

- during the quarter the Fund's total market value increased by £106.3 million to £1.587 billion.
- funding level information could not be provided due to a change in the discount rate methodology used 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%, an outperformance of +2.4%.
- a number of the Fund's investment managers outperformed their respective targets during the quarter with particularly strong performance from the Fund's "Best Ideas" portfolio. The previously

poor three month performance of Investec had now started to recover.

RESOLVED:

That the report be noted.

49. 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).

Investment Strategy Review – Update on Implementation

Mr Harkin, Fund Investment Consultant – JLT Group, presented a report updating the Committee on the progress on implementing the Investment Strategy Review agreed at the 27th September 2016 Committee.

RESOLVED:

That the report be noted.

50. 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

Date of Meeting	Thursday 16 th February 2017
Report Subject	Pooling Investments in Wales
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The project to pool investments across the eight LGPS fund in Wales continues.

1. Attached is a draft Inter-Authority Agreement (IAA) which is a legally binding agreement between the eight funds. The Committee is asked to consider and support the recommendation to Council on 1st March 2017.
2. Some changes to the Council's Constitution are required to reflect delegations between the Council, the new Joint Governance Committee (JGC) and Clwyd Pension Fund Committee. An outline of these changes to be recommended to Council on 1st March 2017 is provided.
3. An update on the progress with the procurement of an operator is provided for noting by the Committee.

The IAA refers to a 'Host Authority' who will be Carmarthenshire County Council, the lead authority for the Dyfed Pension Fund. The responsibilities of the Host are explained within the IAA.

RECOMMENDATIONS

1	It is recommended that the Committee consider and approve the draft Inter-Authority Agreement (IAA) and support its recommendation to Council.
2	For reasons outlined in the report that the Committee delegates authority to the Chief Executive to approve any minor amendments to the IAA before submission to Council.
3	That Committee support the new delegations between the Council, new JGC and this Committee (paragraph 1.05), including recommending to Council the nominations in paragraph 1.06.
4	That Committee note the progress made with the procurement process for an operator.

REPORT DETAILS

1.00	Pooling Investment in Wales
1.01	<p>The Inter-Authority Agreement</p> <p>The eight LGPS funds in Wales are currently progressing this project through a Memorandum of Understanding. This created a Joint Chairs Group but this group has no decision making powers. The JCG has considered an Inter-Authority Agreement (IAA) drafted by Burgess Salmon the legal advisors for the project in consultation with Section 151, Monitoring Officers and practitioners across the eight funds.</p>
1.02	<p>The attached draft IAA remains work in progress but will not change fundamentally from the version attached to this report. It is being shared with pension fund committees or equivalent across Wales to be recommended to Councils for approval, and then will progress to the eight Councils (known as Constituent Authorities) for final agreement. Given that there are likely to be some further minor changes to the attached draft, this report also recommends delegation to the Chief Executive to make any changes before it is recommended to Flintshire County Council on 1st March 2017. The IAA is a legally binding agreement.</p>
1.03	<p>The main features of the IAA are:</p> <ul style="list-style-type: none"> • The formation of the JGC and Officer Working Group (OWG) and their Terms of Reference and Procedures (paragraph 3 and Schedules 3,4,6 & 8) • The requirements for a Business Plan for the Wales Pool, reporting by the JGC to Constituent Authorities and other governance policies and procedures (paragraphs 6 & 14 & Schedule 5) • The role of the ‘Host Council’, which will be Carmarthenshire County Council (Dyfed Pension Fund), and resourcing (paragraph 7, 8 & 9 + Schedule 7 on TUPE) • Allocation of costs (paragraph 12) • Delegations and matters reserved to Constituent Authorities (Schedule 2). This is discussed further below. • Arrangements for a Constituent Authority to leave the pool (paragraphs 21 & 22) and dispute resolution (paragraph 36)
1.04	<p>With reference to previous specific discussions at the Committee on the governance of the pooling arrangements the IAA includes provision for the following :</p> <ul style="list-style-type: none"> • A training policy (Schedule 5 and paragraph 3.7) • Both JGC & OWG to take proper advice (paragraph 3.5 & Schedule 8 (m)) • Each Constituent Authority’s representative member will have one vote (paragraph 7) • Although there is no scheme member representative co-opted onto the JGC, there is a requirement for the JGC under schedule 3 paragraph 10 to liaise with Pension Boards and hence their member representatives. The meeting of the JGC will be open to the public with the opportunity to ask questions. This will be facilitated by

	<p>rotating locations for the meetings and remote participation via video-conference (schedule 6 paragraph 2.2 & 2.4).</p> <ul style="list-style-type: none"> • The meetings and agendas and reports will be in English and Welsh with simultaneous translation.(schedule 6 paragraph 2.3) • 2 officer representatives from each Constituent Authority will be on the OWG (paragraph 4) • The principle for costs sharing is that governance costs are shared equally but each Constituent Authority are responsible for their own investment costs (paragraph 12). <p>Based on the above the Committee are asked to agree a recommendation to Council to approve the IAA.</p>
	<p>Delegations</p>
1.05	<p>In terms of the required delegations to each Constituent Authority as outlined in Schedule 2, it is recommended that these are delegated by Council to this Committee with the exception of major amendments to the IAA or the termination of the agreement (points 6 & 7).</p>
1.06	<p>The Monitoring Officer has advised that the nominations to the JGC (representative Member and Substitute) must be made by Council and cannot be delegated to this Committee. However, the Committee can make a recommendation to Council. The representative Member and Substitute must both be elected members of a Council and members of the Pension Fund Committee.</p> <p>The Committee are asked to agree a recommendation to Council that they agree to the treatment of delegations as outlined above.</p>
	<p>Operator Procurement</p>
1.07	<p>Officers and advisors to the pool continue to work on the procurement of an operator. The draft tender specification and scoring criteria for the procurement was confidentially circulated to Committee and Board members before Christmas. The original plan for issuing proved over ambitious and the tender has not been issued at the time of writing. Further specialist advice has been obtained on insurance requirements for the operator. The Committee are reminded that Flintshire County Council is facilitating the issuing of the tender. The content of the tender specification remains fundamentally unchanged but further details will be provided at Committee.</p>
1.08	<p>Officers and 'pool advisors' have been working on three documents:</p> <ol style="list-style-type: none"> 1. Operator Agreement (contract with the operator) 2. Selection Questionnaire (SQ), used at the first stage of the selection process under OJEU rules and includes further details on scoring criteria. 3. Invitation to Tender (ITT), the detailed questionnaire upon which the selection will be made.
1.09	<p>It is planned that a recommendation by OWG will be made to the JGC in July 2017 which under the Schedule 2 and 3 of IAA will then be recommended to Constituent Authorities for appointment.</p>

2.00	RESOURCE IMPLICATIONS
2.01	The costs of advisors appointed on behalf of the 8 funds is being shared equally between the 8 pension funds. The cost charged to the Fund for 2016/17 to date is £73k.
2.02	There has been considerable time allocated by the Clwyd Pension Fund Manager and Pension Finance Managers on this project which has impacted on time available for other Fund matters. This is expected to continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None.

4.00	RISK MANAGEMENT
4.01	How the Wales Pool operates will be key in enabling the Fund to implement its investment strategy in the future, and hence may contribute to the cost of the scheme to employers in future Actuarial Valuations.
4.02	This risk has been identified as significant in the Fund's risk register.

5.00	APPENDICES
5.01	Appendix 1 – The Draft Inter-Authority Agreement

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Earlier Committee reports on the progress of the Working Together in Wales project.</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	(a) CPF – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region

- (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.
- (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund
- (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.
- (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (f) **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.

NB: The Inter- Authority Agreement Section 1 provides a list of agreed terms.

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Dated _____ 2017

DRAFT

Inter-Authority Agreement between

Carmarthenshire County Council	(1)
City & County of Swansea Council	(2)
City of Cardiff Council	(3)
Flintshire County Council	(4)
Gwynedd Council	(5)
Powys County Council	(6)
Rhondda Cynon Taff County Borough Council	(7)
Torfaen County Borough Council	(8)

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THIS DEED is made on

2017

BY

- (1) **CARMARTHENSHIRE COUNTY COUNCIL** of [ADDRESS] ("**Carmarthenshire Council**")
- (2) **CITY & COUNTY OF SWANSEA COUNCIL** of [ADDRESS] ("**Swansea Council**").
- (3) **CITY OF CARDIFF COUNCIL** of [ADDRESS] ("**Cardiff Council**").
- (4) **FLINTSHIRE COUNTY COUNCIL** of [ADDRESS] ("**Flintshire Council**").
- (5) **GWYNEDD COUNCIL** of [ADDRESS] ("**Gwynedd Council**")
- (6) **POWYS COUNTY COUNCIL** of [ADDRESS] ("**Powys Council**")
- (7) **RHONDDA CYNON TAFF COUNTY BOROUGH COUNCIL** of [ADDRESS] ("**Rhondda Council**")
- (8) **TORFAEN COUNTY BOROUGH COUNCIL** of [ADDRESS] ("**Torfaen Council**")

(together referred to as the "**Constituent Authorities**" and individually as a "**Constituent Authority**")

BACKGROUND

- (A) The Constituent Authorities are committed to the development of a formal joint committee pursuant to section 101 and section 102 of the Local Government Act 1972 to ensure the effective operation of the arrangements for asset pooling within the LGPS under a framework of strong internal governance to achieve economies of scale and improved investment infrastructure.
- (B) The Constituent Authorities are all councils responsible for the administration of local government within their areas as set out in the Local Government Act 1972. The Department for Communities and Local Government in its letter dated 23 November 2016 has confirmed that the Constituent Authorities have been granted permission for each Constituent Authority to continue to collaborate with every other Constituent Authority to form a pool of assets in respect of each of their respective funds under the LGPS.
- (C) The Constituent Authorities shall carry on the Pooling Collaboration (as defined below) under the terms of this Agreement to oversee its governance.

AGREED TERMS

1 INTERPRETATION

1.1 The following definitions and rules of interpretation apply in this Agreement.

Business Day a day other than a Saturday, a Sunday or a public holiday in England when banks in London are open for business.

Business Plan has the meaning given by clause 6.

CIPFA Guidance means the guidance published in October 2016 by the Chartered Institute of Public Finance and Accountancy entitled *investment pooling governance principles for LGPS Administering Authorities*.

Commencement Date the date upon which all Constituent Authorities have signed this Agreement.

Constituent Authorities the parties to this Agreement, and all other administering authorities within the LGPS who are or become parties to this Agreement at any time.

Financial Year means in the case of the first Financial Year, the period from the Commencement Date to (and including) the following 31 March. For subsequent Financial Years the period between 1 April and 31 March (inclusive) and for the last Financial Year any lesser period necessary.

Host Council means the Constituent Authority appointed in accordance with clause 7 and whose duties are described within that clause.

Investment Pool means the pooled investments (whether held in single funds, multiple sub-funds or held in alternative structures outside of a collective investment vehicle) derived from assets held by the Constituent Authorities in their capacity as administering authorities within the LGPS for the purpose of the Pooling Collaboration described by this Agreement.

Investment Regulations means the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946).

Joint Governance Committee means the joint committee formed by this Agreement.

LGPS the Local Government Pension Scheme established pursuant to regulations made by the Secretary of State in exercise of powers under section 7 and 12 of the Superannuation Act 1972 and the provisions of the PSPA 2013.

Member in this Agreement means a member of the Joint Governance Committee appointed in accordance with clause 3.3 or their deputy appointed in accordance with clause 3.4.

Monitoring Officer means the person designated by each Constituent Authority for the purposes of section 5 of the Local Government and Housing Act 1989.

Operator means the operator of the pooled investment vehicle being an Authorised Contractual Scheme (as defined by the Operator Contract) pursuant to the Operator Contract.

Operator Contract means the agreement between the Constituent Authorities and the Operator.

OWG means the Officers Working Group described in clause 4.

Pension Board means a local pension board or a joint local pension board within the meaning given to each phrase by regulation 106 of the Local Government Pension Scheme Regulations 2013 (SI 2013/2356) and section 5 of the PSPA 2013.

Pooling Collaboration means the arrangements for asset pooling under the Investment Pool within a framework of strong internal governance to achieve economies of scale and improved investment in infrastructure carried on by the Constituent Authorities as described by this Agreement.

Pooling Contribution means as defined in clause 10.1.

PSPA 2013 means the Public Service Pensions Act 2013.

S151 officer means the person appointed by each Constituent Authority for the purposes of section 151 of the Local Government Act 1972.

Secretary of State means the Department for Communities and Local Government or such replacement department which has responsibility for the LGPS.

Submission means the document created by the Constituent Authorities entitled "*Submission by the Wales Pool to the Department for Communities and Local Government (DCLG) In response to the publication in November 2015: LGPS: Investment Reform Criteria and Guidance*" dated 15 July 2016.

Terms of Reference means the governing framework document concerning the functions and operations of the Joint Governance Committee.

TUPE means the Transfer of Undertakings (Protection of Employment) Regulations 2006.

- 1.2 Clause, schedule and paragraph headings shall not affect the interpretation of this agreement.
- 1.3 A **person** includes a natural person, corporate or unincorporated body (whether or not having a separate legal personality).
- 1.4 The schedules form part of this agreement and shall have effect as if set out in full in the body of this agreement. Any reference to this agreement includes the schedules.
- 1.5 A reference to a **company** shall include any company, corporation or other body corporate, wherever and however incorporated or established.
- 1.6 Unless the context otherwise requires, words in the singular include the plural and in the plural include the singular.
- 1.7 Unless the context otherwise requires, a reference to one gender shall include a reference to the other genders.
- 1.8 A reference to a statute or statutory provision is a reference to it as amended, extended or re-enacted from time to time and includes any subordinate legislation made from time to time under it.
- 1.9 A reference to **writing** or **written** includes faxes and email.
- 1.10 Documents in **agreed form** are documents in the form agreed by the parties and initialled by them or on their behalf for identification.
- 1.11 References to clauses and schedules are to the clauses and schedules of this Agreement; references to paragraphs are to paragraphs of the relevant schedule.
- 1.12 Any words following the terms **include, including, in particular** or **for example** or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding them.
- 1.13 Any obligation in this agreement on a person not to do something includes an obligation not to agree or allow that thing to be done.
- 1.14 Any reference to the title of an officer or any of the Constituent Authorities shall include any person holding such office from time to time by the same or any title substituted thereafter or such other officer of the relevant Constituent Authority as that Constituent Authority may from time to time appoint to carry out the duties of the officer referred to.

2 COMMENCEMENT AND CESSATION OF THE MEMORANDUM OF UNDERSTANDING

2.1 The Agreement shall commence on the Commencement Date. For the avoidance of doubt, this Agreement is only effective when each Constituent Authority has executed it and each Constituent Authority shall be of equal status with equal rights except where expressly stated otherwise and shall continue on the terms of this Agreement until the earlier of the following:

- (a) all Constituent Authorities agree in writing to its termination; or
- (b) there is only one remaining Constituent Authority who has not exited this Agreement in accordance with clauses 21 or 22.

2.2 The Constituent Authorities confirm that the memorandum of understanding between them relating to *The procurement of services by the administering authorities of the local government pension scheme in Wales* shall cease to have effect from the Commencement Date.

3 FORMATION OF THE JOINT GOVERNANCE COMMITTEE

3.1 The Constituent Authorities by this Agreement hereby form the Joint Governance Committee pursuant to section 101(5) and 102(1) of the Local Government Act 1972 for the purposes of overseeing and reporting on the performance of the Investment Pool. The Joint Governance Committee shall not be responsible for formulating or revising the investment strategy described by regulation 7 of the Investment Regulations in respect of each or any of the Constituent Authorities.

3.2 Meetings of the Joint Governance Committee are subject to the provisions of the Local Government Act 1972 including the provisions on access to information and meetings held in public.

3.3 The membership of the Joint Governance Committee shall be one elected member nominated by each of the Constituent Authorities provided that the elected member is a member of that Constituent Authority's pensions committee (or equivalent body) for the purposes of the Local Government Pension Scheme Regulations 2013.

3.4 For the purposes of clause 3.3, each Constituent Authority may appoint a named deputy who must be an elected member of the same Constituent Authority's pension committee (or equivalent body) for the purposes of the Local Government Pension Scheme Regulations 2013 as the Member for whom they are acting as deputy .

3.5 The Joint Governance Committee shall undertake its role and act in accordance with the Terms of Reference set out in Schedule 4 and undertake the matters set out in Schedule

3 and shall seek and have regard to the advice of the OWG and any professional advisors appointed in carrying out its functions under this Agreement.

- 3.6 Every meeting shall be governed by the procedure and requirements set out in Schedule 6.
- 3.7 A programme of training will be provided to Members and their deputies having regard to CIPFA Guidance and the training provided to Members in their roles on their respective Constituent Authority pension committees. In order to be eligible to participate in the Joint Governance Committee Members must attend and complete this training within [6 months] of being appointed to the Joint Governance Committee and must thereafter attend update and refresher sessions provided at intervals deemed appropriate by the Joint Governance Committee. If Members do not attend mandatory training sessions, they may be required to undertake such training at the cost of the Constituent Authority the Member represents. Any failure to undertake necessary training shall be a matter for consideration of the relevant Member's Constituent Authority pension committee who shall determine if the Member has complied with that Constituent Authority's code of conduct and whether they should remain appointed to the Joint Governance Committee.

4 OFFICERS WORKING GROUP

- 4.1 The Joint Governance Committee shall appoint the OWG on the following terms:
- (a) **Purpose:** the OWG shall support and advise the Joint Governance Committee on such matters as the Joint Governance Committee may reasonably request or any matters relating to the Pooling Collaboration which are raised by any Constituent Authority's Section 151 Officer or Monitoring Officer;
 - (b) **Membership:** each Constituent Authority shall nominate up to [two] officers employed by that Constituent Authority as its representatives on the OWG;
 - (c) **Remit:** the remit of the OWG shall be as set out in Schedule 8;
- 4.2 The OWG shall undertake its role and have regard to the Joint Governance Committee terms of reference set out in Schedule 4
- 4.3 Each Constituent Authority's Section 151 Officer and Monitoring Officer shall, where they are not members of the OWG, have the right to attend meetings of the OWG and receive copies of any papers.

5 DECISION MAKING

- 5.1 The Constituent Authorities have identified the following two categories of decisions together with the means by which they will be taken:

- (a) **"Joint Governance Committee Matter"**: a matter which is to be decided upon at a quorate meeting of the Joint Governance Committee by those present and entitled to vote and any such decision will be binding on all of the Constituent Authorities and such matters are identified in Schedule 3;
- (b) **"Matters Reserved to the Constituent Authorities"**: a matter which will have to be referred to each Constituent Authority for decision (having regard to any recommendation to be made thereon by the Joint Governance Committee) until the matter has been determined by all of the Constituent Authorities. If the Constituent Authorities fail to reach the same decision in respect of such matter then the matter shall be referred under clause 36 (Dispute Resolution) as a dispute for resolution, and such matters are identified in Schedule 2.

6 BUSINESS PLAN

6.1 The Joint Governance Committee shall, with the support of the OWG, produce a draft Business Plan to cover the medium term (being up to five years) having regard to the electoral cycle and the operational requirements of the Constituent Authorities for consultation with the Constituent Authorities. The draft Business Plan shall have regard to:

- (a) the strategic objectives of the Pooling Collaboration over the relevant plan period;
- (b) the financial budget for the relevant Business Plan period and/or any annual budget set;
- (c) the delivery plan produced by the Operator in connection with the Investment Pool including any costs or fees proposed by the Operator or any other supplier;
- (d) the requirements on each of the Constituent Authorities in their individual capacity as an administering authority pursuant to the Investment Regulations;
- (e) the requirements of each Constituent Authority's investment strategy;
- (f) the advice of appropriately qualified and authorised and regulated professional advisors;
- (g) the guidance issued from time to time by the Secretary of State as referred to in regulation 7(1) of the Investment Regulations;
- (h) such other matters that the Constituent Authorities may consider necessary to the furtherance of the Pooling Collaboration including (subject to clause 10.2), the proposal and development of ad hoc projects.

- 6.2 Consultation on the draft Business Plan shall be carried out by the OWG (with the Pension Boards, the Operator (where appropriate) and the Constituent Authorities and such other parties as it may deem necessary) who shall report on the outcome of that consultation. The Joint Governance Committee shall hold a meeting to discuss and, having had due regard to the consultation response report and the advice of the appropriately qualified and regulated professional advisors, agree a final Business Plan which may include such revisions to the draft as the Joint Governance Committee considers appropriate.
- 6.3 Following approval by the Joint Governance Committee the Business Plan shall be sent to all Constituent Authorities for their written approval.
- 6.4 The Business Plan will be reviewed by the Joint Governance Committee and the Constituent Authorities annually. Where any revisions are agreed by the Joint Governance Committee the revised Business Plan shall be sent to all Constituent Authorities for their written approval.
- 6.5 For the avoidance of doubt, final approval of the Business Plan shall be treated as a Matter Reserved to the Constituent Authorities (as defined in clause 5).

7 HOST COUNCIL

- 7.1 The Constituent Authorities have agreed, with effect from the Commencement Date, that *[insert name of Host Council]* will be the Host Council for the Pooling Collaboration which shall be carried out for and on behalf of itself and the Constituent Authorities and *[insert name of Host Council]* agrees to act in that capacity subject to and in accordance with and to the extent provided for by the terms of this Agreement. For the avoidance of doubt the role of Host Council includes:-
- (a) to act as the employing authority for any staff engaged in the discharge of the Pooling Collaboration's functions (appointing, employing or accepting the secondment of staff) in accordance with this Agreement;
 - (b) being the point of contact for the purposes of managing the Pooling Collaboration;
 - (c) providing such administrative resources and facilities that may be necessary for the purpose of discharging the Pooling Collaboration and hold all Pooling Contributions;
 - (d) providing such governance and administrative services that may be necessary for the purpose of supporting the Pooling Collaboration including arranging and clerking of meetings;
 - (e) providing training for Members to support their role on the Joint Governance Committee in line with the training plan and in accordance with clause 3.7.

- (f) provide appropriately qualified and experienced officers who will act as the primary legal and financial advisers to the Pooling Collaboration; **[Note: we would envisage that these functions are retained for management by the Joint Governance Committee, but please provide any views on this]**
 - (g) for the purposes of the Pooling Collaboration require their Section 151 Officer and Monitoring Officer (or their substitutes) to undertake oversight and review of the operation of the Pooling Collaboration and decisions of the Joint Governance Committee on behalf of all of the Constituent Authorities; **[For your consideration]**
 - (h) power to enter into contracts for supplies and services as required for the purposes of the Pooling Collaboration;
 - (i) liaise with the Operator on behalf of the Constituent Authorities in the manner and to the extent set out in the Contract Management, Co-ordination and Liaison with the Operator policy and procedure to be approved in accordance with Schedule 5 and to provide any contract management and co-ordination services for the purposes of the Pooling Collaboration set out in that policy and procedure.
- 7.2 [For the avoidance of doubt the duties and responsibilities of the Host Council pursuant to this Agreement shall only bind the Host Council to the extent that they have been resourced by the Constituent Authorities through this Agreement.]
- 7.3 Save and except where otherwise required by law all staff employed by the Host Council pursuant to this Agreement shall be employed on the Host Council's relevant terms and conditions of employment and related staff policies including salary structures.
- 7.4 A replacement Host Council may be appointed by a majority decision of the Constituent Authorities provided that the [current Host Council and] the replacement Host Council agrees.
- 7.5 If the Host Council withdraws from the Pooling Collaboration pursuant to clause 21 (Voluntary Exit) or clause 22 (Compulsory Exit) then a replacement Host Council will be appointed by a majority decision of the Constituent Authorities provided that the replacement Host Council agrees. The withdrawing Host Council will not have the right to vote in regard to any such appointment.
- 7.6 Where TUPE applies in connection with the appointment of any replacement Host Council, then the Constituent Authorities shall comply with the provisions of Schedule 7.
- 7.7 For the duration of this Agreement, the Host Council shall act diligently and in good faith in all its dealings with the other Constituent Authorities.

- 7.8 For the duration of this Agreement, the Constituent Authorities shall act diligently and in good faith in all their dealings with the Host Council and shall use their reasonable endeavours to assist the Host Council to support the Pooling Collaboration.

8 OPERATOR CONTRACT

- 8.1 Each Constituent Authority shall promptly execute the Operator Contract in counterpart and return the executed counterpart to the Host Council as soon as reasonably practicable following execution. The Host Council shall as soon as reasonably practicable confirm that the Operator Contract has been duly executed by all Constituent Authorities and is in force and effect.
- 8.2 The Constituent Authorities authorise the Host Council to carry out its duties pursuant to clause 7.1(i).
- 8.3 For the avoidance of doubt, any allocation of liability arising under the Operator Contract shall be apportioned between the Constituent Authorities pursuant to the terms of the Operator Contract.

9 LIABILITIES AND INDEMNITIES FOR THE HOST COUNCIL

- 9.1 Nothing in this Agreement will make the Host Council liable in respect of anything done or omitted to be done by a Constituent Authority up to the Commencement Date.
- 9.2 .The Host Council shall be indemnified from and against all liabilities, costs, expenses, damages and losses (including but not limited to any direct, indirect or consequential loss, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other reasonable costs and expenses) arising from the performance of its functions authorised pursuant to clause 7 save in the case of its wilful default or fraud.

10 COMMITMENT OF THE CONSTITUENT AUTHORITIES AND CONTRIBUTIONS

- 10.1 Subject to clause 10.2, the Constituent Authorities agree to pay the contributions, which shall be calculated equally, of the estimated governance, procurement and administration costs included within the Business Plan (the "**Pooling Contributions**") except where the Business Plan provides otherwise.
- 10.2 The Constituent Authorities shall meet the costs of ad hoc projects to which they are a party equally between the Constituent Authorities who are parties only and any non-participating Constituent Authorities shall not be liable for any proportion of such costs.
- 10.3 The Constituent Authorities agree to pay the Pooling Contributions to the Host Council on such dates, and at such frequency, as is determined by the Business Plan. Any costs

incurred prior to the approval of the Business Plan shall be payable on being invoiced by the Host Council.

- 10.4 All Pooling Contributions shall be made by way of payment to the bank account notified to the Constituent Authorities by the Host Council for the purposes of the Pooling Collaboration. The Host Council shall maintain a separate account or accounts as appropriate for all monies received or expended in connection with the Pooling Collaboration in a manner which complies with their accounting arrangements.
- 10.5 Following the termination of this Agreement, once the costs of the Host Council have been met, the sum standing to the credit of the account or accounts in which Pooling Collaboration funds are held shall be returned to the then remaining Constituent Authorities in the proportions in which they were originally contributed.
- 10.6 Where any further contribution is required, or repayments are to be made, the Constituent Authorities shall decide the following:
- (a) the total amount;
 - (b) the apportionment of such contribution or repayment between the Constituent Authorities; and
 - (c) the form of such contribution or repayment.

In the absence of any agreement to the contrary, such contributions or repayments shall be by or to all of the Constituent Authorities equally.

- 10.7 For the avoidance of doubt, any charges incurred in respect of investment management of the Investment Pool shall be attributed to each Constituent Authority by reference to the assets under management for that Constituent Authority and the investment management charges applicable to each sub-fund (or assets held in any alternative investment structure), are not determined by this Agreement. The liability of each Constituent Authority to meet the fees of the Operator shall be determined by the Operator Contract and not this Agreement.

11 ACCOUNTS

- 11.1 The Host Council shall keep proper books of account (which expression shall include any computerised accounting system for the time being used by the Pooling Collaboration) and shall be responsible for ensuring that full and proper entries of all receipts and payments are promptly recorded in them. The books of account shall be kept at the premises of the Host Council and be made available for inspection by all of the Constituent Authorities (who may also take copies). The Host Council shall make available on reasonable request such information as is required by any Constituent Authority to prepare their own accounts or respond to any internal or external audit.

- 11.2 The Host Council shall ensure that the contributions and payments made by each Constituent Authority shall be held in an account in the name of the Host Council which does not breach regulation 6 of the Investment Regulations.
- 11.3 The Host Council shall be responsible for ensuring that the accounts relating to the Pooling Collaboration are audited where and when required by law or other competent authority and shall make copies of the audited accounts available to all of the Constituent Authorities.
- 11.4 The Host Council shall prepare annual accounts in relation to each Financial Year for the Pooling Collaboration in accordance with the Host Council's accounting policies (or such other accounting policy agreed by the Constituent Authorities) by no later than [31 May] in the following Financial Year.
- 11.5 The Joint Governance Committee may hold a reserve of funds for the purposes of meeting the costs of the Pooling Collaboration. Where the reserve exceeds [40%] of the budget for the forthcoming year then the amount by which the reserve exceeds that sum may be repaid to the Constituent Authorities and such repayment shall be in proportion to the total amount contributed by each.

12 INVESTMENT MANAGEMENT COSTS

- 12.1 In accordance with clause 10.8, each Constituent Authority shall bear its own costs in respect of investment management they incur or expect to incur in the Pooling Collaboration which shall include all transition costs for the investment and disinvestment of assets.

13 INTELLECTUAL PROPERTY

- 13.1 Any intellectual property developed by any Constituent Authority for the purposes of the Pooling Collaboration shall be retained by the Constituent Authorities and each Constituent Authority will grant all of the other Constituent Authorities a non-exclusive, perpetual, non-transferable and royalty free licence to use, modify amend and develop it for the purpose of the Pooling Collaboration whether or not the Constituent Authority granting the licence remains a party to this Agreement. All costs and expenses relating to such intellectual property shall be borne by the Constituent Authorities and the other Constituent Authorities shall indemnify the Constituent Authority or Constituent Authorities in whom such property is vested against all liabilities that may arise directly or indirectly in respect of the use of it.

14 REPORTS

- 14.1 The Joint Governance Committee shall oversee the Pooling Collaboration and ensure that it is provided in accordance with the Business Plan.
- 14.2 To ensure that the Constituent Authorities are kept up-to-date with the performance of the Pooling Collaboration, the Joint Governance Committee shall report quarterly and annually to the Constituent Authorities with progress measured against the Business Plan and the objectives of the Investment Pool.

15 INSURANCE

- 15.1 Where the operation of the Pooling Collaboration is not covered by any existing insurance of the Constituent Authorities, the Host Council shall effect and at all times keep in force (for the benefit of the Members of the Joint Governance Committee and the officers appointed to the OWG) such policies of insurance for such amounts as it shall decide. Such policies shall be maintained at the expense of the Constituent Authorities and shall be an administration cost of this Pooling Collaboration for the purposes of of clause 10.1.

16 DUTIES AND POWER

Each Constituent Authority shall at all times:

- (a) use its reasonable skills and endeavours to promote and carry on the Pooling Collaboration for the benefit of the Constituent Authorities, and conduct itself in a proper and responsible manner;
- (b) devote such time and attention as the Constituent Authorities may decide in writing to be necessary and appropriate to the Pooling Collaboration;
- (c) comply with all legislation, regulations, professional standards and other provisions as may govern the conduct of the Pooling Collaboration, or be determined by the Constituent Authorities as standards to be voluntarily applied to the Pooling Collaboration;
- (d) show the utmost good faith to the other Constituent Authorities in all transactions relating to the Pooling Collaboration and give them a true account of, and full information about, all things affecting the Pooling Collaboration;
- (e) inform the Constituent Authorities without delay on becoming party to any legal proceedings in connection with the Pooling Collaboration;
- (f) punctually pay and discharge its present and future debts and financial obligations;

- (g) shall not do or fail to do anything which shall bring any of the other Constituent Authorities, or itself, into disrepute;
- (h) obtain all necessary consents sufficient to carry on their duties to the Pooling Collaboration.

16.2 No action which would otherwise be a breach of this clause shall constitute a breach where the Constituent Authority was required to carry out that action in compliance with a statutory duty or order of any court, tribunal or ombudsman.

17 DELEGATION

17.1 Prior to the commencement of the Pooling Collaboration the Constituent Authorities shall put in place such authorisations as are required within their internal governance arrangements to:

- (a) delegate the making of the decisions set out in Schedule 3 (Joint Governance Committee Matters) to the Joint Governance Committee and shall authorise their Member and that Member's deputy to exercise the Constituent Authority's vote;
- (b) delegate any other matter which is required to comply with the obligations of this Pooling Collaboration, including delegations to its own officers and to the Host Council where required.

17.2 The Constituent Authorities shall review and where necessary amend their delegations throughout the duration of the Pooling Collaboration to ensure that they can comply with the provisions of this Agreement.

17.3 The Joint Governance Committee shall procure that for any purpose for which it may be given power to appoint agents to carry out its duties, the Joint Governance Committee shall act in good faith and with reasonable skill and care in the selection, use and monitoring of such agents.

18 OBLIGATIONS ON CONSTITUENT AUTHORITIES

18.1 Without prejudice to the terms of this Agreement, the Constituent Authorities, on an individual basis, commit to the implementation of the Pooling Collaboration consistently with the Submission (subject to any variation agreed by the Constituent Authorities) and to use their reasonable endeavours to ensure the success of the Pooling Collaboration.

18.2 Nothing in this Agreement shall fetter the discretion of each Constituent Authority to formulate and revise an investment strategy appropriate for their fund within the LGPS pursuant to regulation 7 of the Investment Regulations.

19 INDEMNITY

19.1 Subject to clause 8.3, any Constituent Authority who is in material breach of any of the provisions of this Agreement shall indemnify the other Constituent Authorities from and against all liabilities, costs, expenses, damages and losses, (including but not limited to any direct, indirect or consequential loss, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other reasonable costs and expenses) resulting from that breach, without prejudice to any other right or remedy of the other Constituent Authorities howsoever arising.

20 POLICIES AND PROCEDURES

20.1 The Joint Governance Committee shall prepare, maintain and adhere to the policies and procedures which are listed in Schedule 5 and any further policies and procedures which the Joint Governance Committee decides are appropriate, in accordance with applicable law and regulation, competent authority, and CIPFA Guidance, and having had regard to applicable guidance specific to local government management of funds or accounting and auditing requirements. The Joint Governance Committee shall provide them to the Constituent Authorities and OWG and provide them to sub-delegates and other necessary parties with the aim of achieving uniformity and efficiency in operating practices.

20.2 Where any policy or procedure provided for under this Agreement requires the Constituent Authorities to address or copy any communication or similar to any contract management or co-ordination function the Joint Governance Committee will advise the Constituent Authorities of that requirement in writing. As of the date of receipt of an advisory under this clause the Constituent Authorities shall address or copy any communication as advised.

21 VOLUNTARY EXIT

21.1 Any Constituent Authority (the "**VE Authority**") may exit from the Pooling Collaboration by giving not less than 18 (eighteen) months' written notice to the Host Council of its intention to exit the Pooling Collaboration and the date of expiration of that notice is the 31 March which next falls after or is coincident with the end of the 18 (eighteen) month notice period provided that the Constituent Authorities may agree with the VE Authority that a different notice period applies (the "**Exit Date**").

21.2 A VE Authority may exit the Pooling Collaboration and be released from its obligations under this Agreement (other than clause 23) provided that:

(a) it has satisfied all of its obligations up to the Exit Date;

- (b) it has satisfied its share of the costs and expenses up to the Exit Date, as well as any necessary costs and expenses to facilitate the exit whether or not incurred after the Exit Date;
 - (c) subject to clause 21.5 below, it redeems all of its investments from the Investment Pool;
 - (d) its representatives on the Joint Governance Committee and the OWG resign on or before the Exit Date.
- 21.3 With effect from the [date of the notice given by the VE Authority pursuant to clause 21.1][Exit Date] the Member (and any nominated deputy for the purposes of clause 3.4) nominated by the VE Authority for the purposes of clause 3.3 shall cease to have any voting rights for the purposes of the Joint Governance Committee and the VE Authority shall cease to be a Constituent Authority.
- 21.4 For the avoidance of doubt, the VE Authority shall remain liable to make the Pooling Contributions which are due prior to the Exit Date.
- 21.5 The Constituent Authorities recognise that there may be circumstances where the VE Authority may not be able to redeem all of its assets from the Investment Pool due to the nature of a particular investment (for example where an investment is illiquid or redeeming the asset would be in breach of contract) (the "**Retained Asset(s)**") provided that the Constituent Authorities and the VE Authority shall work together in good faith to redeem the Retained Asset(s) as soon as reasonably practicable. In such circumstances the VE Authority shall continue to make Pooling Contributions after the Exit Date until all of the Retained Asset(s) are redeemed from the Investment Pool. The Pooling Contributions shall be determined by the Business Plan which shall have regard to the relative value of the Retained Assets when compared to the assets applicable to the Constituent Authorities in the Investment Pool.

22 **COMPULSORY EXIT**

- 22.1 The Constituent Authorities (other than the CE Authority) may compulsorily require any Constituent Authority (the "**CE Authority**") to leave the Pooling Collaboration, by the Host Council giving the CE Authority written notice if the CE Authority:
- (a) commits any serious breach or persistent breaches of this Agreement;
 - (b) fails to pay any money owing by it to the Host Council within [14 (fourteen)] days of a written request for payment from the Host Council;
 - (c) fails to account for, or pay over or refund any money received and belonging to the Constituent Authorities within [14 (fourteen)] days after being so required by notice from the Host Council;

- (d) wilfully neglects, refuses or omits to perform its duties, obligations and responsibilities under this Agreement; or
- (e) is guilty of conduct which, in the reasonable opinion of the other Constituent Authorities, is likely to have a serious adverse effect on the Pooling Collaboration;

provided that in each case the CE Authority is first given [25 Business Days] following receipt of the written notice to remedy the breach or issue described in paragraphs (a) to (e) and the CE Authority has failed to remedy such breach or issue or to take reasonable steps to do so.

22.2 The effective date of the CE Authority being required to leave the Pooling Collaboration is the 31 March which next falls after or is coincident with the period of 18 (eighteen) month after the notice given in clause 22.1 above provided that the other Constituent Authorities may notify the CE Authority that a different notice period applies (the "**Compulsory Exit Date**").

22.3 The CE Authority shall exit the Pooling Collaboration from the Compulsory Exit Date and must prior to the Compulsory Exit Date:

- (a) have satisfied all of its obligations up to the Compulsory Exit Date;
- (b) have satisfied its share of the costs and expenses up to the Compulsory Exit Date, as well as any necessary costs and expenses to facilitate the exit whether or not incurred after the Compulsory Exit Date.
- (c) subject to the same circumstances in clause 21.5, it redeems all of its investments from the Investment Pool;
- (d) its representatives on the Joint Governance Committee and the OWG resign [on or before the Compulsory Exit Date].

22.4 With effect from the date of the notice given by the Host Council to the CE Authority pursuant to clause 22.1 the Member (and any nominated deputy for the purposes of clause 3.4) nominated by the CE Authority for the purposes of clause 3.3 shall cease to have any voting rights for the purposes of the Joint Governance Committee and shall cease to be a Constituent Authority.

22.5 For the avoidance of doubt, the CE Authority shall remain liable to make the Pooling Contributions which are due prior to the Compulsory Exit Date and liable to the continuing liability provisions of clause 23.

22.6 The Constituent Authorities recognise that there may be circumstances where the CE Authority may not be able to redeem the Retained Asset(s) provided that the Constituent Authorities and the CE Authority shall work together in good faith to redeem the Retained

Asset(s) as soon as reasonably practicable. In such circumstances the CE Authority shall continue to make Pooling Contributions after the Compulsory Exit Date until all of the Retained Asset(s) are redeemed from the Investment Pool. The Pooling Contributions shall be determined by the Business Plan which shall have regard to the relative value of the Retained Asset(s) when compared to the assets applicable to the Constituent Authorities in the Investment Pool.

23 FURTHER PROVISIONS RELATING TO A VE AUTHORITY OR A CE AUTHORITY

- 23.1 When any Constituent Authority ceases to be a Constituent Authority by virtue of being a VE Authority or a CE Authority, the continuing Constituent Authorities shall publish notice of the change in the Pooling Collaboration and shall give notice in writing of the change in the Pooling Collaboration to all third parties who have in the last 12 (twelve) months had any dealings with the Pooling Collaboration (as advised by the Host Council and whether as suppliers to the Host Council or as clients or customers of it).
- 23.2 The VE Authority or CE Authority (as applicable) irrevocably agree and undertake to execute and deliver within 5 working days of request all deeds and documents and to do all acts and things necessary to give effect to the terms of this Agreement and for vesting in the continuing Constituent Authorities the full benefit of the assets, rights and benefits to be transferred to the continuing Constituent Authorities under this Agreement.

Continuing liability

- 23.3 Where any Constituent Authority exits from this Agreement in accordance with Clause 21 or 22 they shall remain liable to the extent they would have been were they still party to this Agreement for any acts, omissions, costs and expenses arising from acts taken or decisions made during the period in which that Constituent Authority was a party to this Agreement.
- 23.4 Any Constituent Authority who enters this Agreement after the Commencement Date shall have liability for any acts, omissions, costs and expenses arising from acts taken or decisions made from the date of their entry only.

24 NEW CONSTITUENT AUTHORITY

- 24.1 The Constituent Authorities shall consider applications from other administering authorities of funds within the LGPS to join the Pooling Collaboration (a "**New Member Application**").
- 24.2 A New Member Application will be considered on the merits of its business case and the conditions which the Constituent Authorities consider appropriate from time to time.
- 24.3 A New Member Application will only be approved by the Constituent Authorities at their absolute discretion and, subject to regulation 8 of the Investment Regulations, there shall

be no obligation under the terms of this Agreement for a New Member Application to be accepted.

25 CONFIDENTIALITY

25.1 For the purposes of this Agreement, **Confidential Information** means, any information which has been certified as exempt information in accordance with Section 100I of the Local Government Act 1972 and all confidential information (however recorded or preserved) disclosed by a Constituent Authority or its representatives or advisers to another Constituent Authority and his representatives or advisers (except where by law the information cannot be retained as confidential) concerning:

- (a) any information relating to the prospective business, technical processes, computer software or intellectual property rights of the Pooling Collaboration;
- (b) all documents, papers and property that may have been made or prepared by, or at the request of, any Constituent Authority and which are marked as being exempt information or confidential and which come into any Constituent Authority's possession or under its control in the course of the Pooling Collaboration; and
- (c) compilations of two or more items of such information and all information that has been, or may be, derived or obtained from any such information which, at any time, comes into any Constituent Authority's possession or under its control in the course of the Pooling Collaboration and which the Pooling Collaboration regards or could reasonably be expected to regard as confidential, whether or not such information is, in itself, confidential, marked as "confidential" or reduced to tangible form.

25.2 Save as provided otherwise in this agreement either expressly or by implication, each Constituent Authority undertakes that it shall not, at any time, disclose to any person any Confidential Information of the other Constituent Authorities and shall use its reasonable endeavours to keep all Confidential Information of the other Constituent Authorities confidential (whether it is marked as such or not) except as permitted by clause 25.3.

25.3 Each Constituent Authority may disclose the other Constituent Authority's Confidential Information:

- (a) to its representatives or advisers who need to know such information for the purposes of carrying out the Constituent Authority's obligations under or in connection with this Agreement. Each Constituent Authority shall ensure that its representatives or advisers to whom it discloses the other Constituent Authority's Confidential Information comply with this clause.

- (b) as may be required by law, a court of competent jurisdiction or any governmental or regulatory authority including an ombudsman.

26 PENSIONS

- 26.1 The Constituent Authorities are scheduled employers in the LGPS. The employees employed by the Host Council in the Pooling Collaboration will be active members of the LGPS from and including the Commencement Date or later date of commencement of employment subject to the Local Government Pension Scheme Regulations 2013.

27 FREEDOM OF INFORMATION

- 27.1 Each Constituent Authority acknowledges that the other Constituent Authorities and the Joint Governance Committee are subject to the requirements of the Freedom of Information Act 2000 ("**FoIA**") and each Constituent Authority shall where reasonable assist and co-operate with the other Constituent Authorities [(at their own expense)] to enable the other Constituent Authorities to comply with these information disclosure obligations.

- 27.2 Where a Constituent Authority receives a request for information under the FoIA in relation to information which it is holding on behalf of any of the other Constituent Authorities in relation to the Pooling Collaboration, it shall:

- (a) transfer the request for information to the other Constituent Authorities as soon as practicable after receipt and in any event within 2 (two) Business Days of receiving a request for information;
- (b) provide the other Constituent Authorities with a copy of all information in its possession or power in the form that the Constituent Authorities reasonably require within 10 (ten) Business Days (or such longer period as the Constituent Authorities may specify) of the Constituent Authority requesting that information; and
- (c) provide all necessary assistance as reasonably requested by the other Constituent Authorities to enable the Constituent Authority to respond to a request for information within the time for compliance set out in the FoIA.

- 27.3 Where a Constituent Authority receives a request for information under the FoIA which relates to this Agreement or the Pooling Collaboration it shall;

- (a) advise the person making the request that the information is held by another public authority being the Joint Governance Committee and that the request has been passed to that public authority to respond;

- (b) transfer the request for information to the Host Council on behalf of the Joint Governance Committee as soon as practicable after receipt and in any event within 2 (two) Business Days of receiving a request for information;
 - (c) provide the Host Council with a copy of all information in its possession or power in the form that the Host Council reasonably require within 10 (ten) Business Days (or such longer period as the Constituent Authorities may specify) of the Constituent Authority requesting that information; and
 - (d) provide all necessary assistance as reasonably requested by the Host Council to enable the Host Council to respond to a request for information on behalf of the Joint Governance Committee within the time for compliance set out in the FoIA.
- 27.4 The Constituent Authorities or the Host Council shall be responsible for determining in their absolute discretion whether any information requested under the FoIA:
- (a) is exempt from disclosure under the FoIA;
 - (b) is to be disclosed in response to a request for information.
- 27.5 Each Constituent Authority acknowledges that the other Constituent Authorities and the Joint Governance Committee may be obliged under the FoIA to disclose information:
- (a) without consulting with the other Constituent Authorities where it has not been practicable to achieve such consultation; or
 - (b) following consultation with the other Constituent Authorities and having taken their views into account.

28 DATA PROTECTION

- 28.1 The Constituent Authorities shall comply with the Data Protection Act 1998.

29 DISSOLUTION

- 29.1 No Constituent Authority shall be capable of dissolving the Pooling Collaboration unilaterally by means of a notice.
- 29.2 The Pooling Collaboration and this Agreement shall be terminated upon the unanimous agreement of all of the Constituent Authorities.
- 29.3 Each Constituent Authority shall act in good faith in the wind up of the Pooling Collaboration following the unanimous decision to dissolve as soon as reasonably practicable thereafter, and all costs and expenses shall be borne equally by the Constituent Authorities.

30 ENTIRE AGREEMENT

- 30.1 This Agreement constitutes the entire agreement between the parties and supersedes and extinguishes all previous agreements, promises, assurances, warranties, representations and understandings between them, whether written or oral, relating to its subject matter.
- 30.2 Each Constituent Authority acknowledges that, in entering into this Agreement it does not rely on, and shall have no remedies in respect of, any statement, representation, assurance or warranty (whether made innocently or negligently) that is not set out in this agreement.
- 30.3 Each Constituent Authority agrees that it shall have no claim for innocent or negligent misrepresentation (or negligent misstatement) based on any statement in this agreement.
- 30.4 Nothing in this clause shall limit or exclude any liability for fraud.

31 NOTICES

- 31.1 Any notice, demand or communication in connection with this Agreement will be in writing and may be delivered by hand, post or facsimile addressed to the recipient as set out in Schedule 1 or any other address notified to the other party in writing in accordance with this clause as an address to which notices, invoices and other documents may be sent. The notice, demand or communication will be deemed to have been duly served:
- (a) if delivered by hand during business hours, at the time of delivery;
 - (b) if delivered by post, 48 hours after being posted (excluding Saturdays, Sundays and public holidays);
 - (c) if delivered by facsimile during business hours, at the time of transmission, provided that a confirming copy is sent by first class post to the other party within 24 hours after transmission; or
 - (d) if delivered by email or other electronic form of communication during business hours, at the time of transmission provided that a confirming copy is sent by first class post to the other party within 24 hours after transmission.
- 31.2 Where notice is served by hand, facsimile or email outside business hours, it will be deemed to have been served on the next business day.

32 CONTRACTS (THIRD PARTY RIGHTS)

- 32.1 The Constituent Authorities as parties to this Agreement do not wish that any of its terms will be enforceable by virtue of the Contract (Rights of Third Parties) Act 1999 by any person not a party to this Agreement.

33 SEVERANCE

- 33.1 If any provision or part-provision of this Agreement is or becomes invalid, illegal or unenforceable, it shall be modified to the minimum extent necessary to make it valid, legal and enforceable. If such modification is not possible, the relevant provision or part-provision shall be deemed deleted. Any modification to or deletion of a provision of part-provision under this clause shall not affect the validity and enforceability of the rest of this Agreement.
- 33.2 If one Constituent Authority gives notice to the other Constituent Authorities of the possibility that any provision or part-provision of this Agreement is invalid, illegal or unenforceable, the Constituent Authorities shall negotiate in good faith to amend such provision so that, as amended, it is legal, valid and enforceable, and, to the greatest extent possible, achieves the intended result of the original provision.

34 AMENDMENTS

- 34.1 No amendment to this Agreement shall be binding unless it is in writing and signed by a duly authorised representative of each of the Constituent Authorities and expressed to be for the purpose of such amendment.

35 GOVERNING LAW AND JURISDICTION

- 35.1 This agreement and any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with it or its subject matter or formation shall be governed by and construed in accordance with the law of England and Wales as it applies in Wales.
- 35.2 Each party irrevocably agrees that the courts of England and Wales have exclusive jurisdiction to settle any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with this agreement, its subject matter or formation.

36 ALTERNATIVE DISPUTE RESOLUTION

- 36.1 The Constituent Authorities agree:
- (a) to pursue a positive approach towards dispute resolution with an objective of reaching a consensus without formal dispute resolution and/or legal proceedings and maintaining a strong working relationship between the Constituent Authorities;

- (b) that any dispute between the Constituent Authorities in relation to matters covered by this Agreement will be referred to in the first instance to the Chief Executives of the Constituent Authorities who may, at their sole discretion, delegate the dispute to the appropriate senior officer within 10 Business Days of written notice of the dispute;
- (c) that if the Chief Executives or their delegates are not able to resolve the dispute within 5 Business Days of meeting or there is disagreement over a Member matter, then any Member may refer the matter to a mediation facilitated by the [Welsh Local Government Association] or to a suitably qualified and independent person, as recommended by the Chief Executives and the Constituent Authorities agree;
- (d) that where any dispute is agreed to be of a legal or technical nature the parties to the dispute may (but not must) jointly take the opinion of an appropriate expert including opinion of senior legal counsel where appropriate. Such expert opinion must be instructed through the OWG and be instructed within [] days of referral to Chief Executives under sub-clause (b) following which the opinion should be delivered within a further [] days. that, if after exhausting other methods of dispute resolution, one of the Constituent Authorities commences legal proceedings then this will be subject to the exclusive jurisdiction of the Courts of England and Wales.

All costs are borne equally between the Constituent Authorities which are party to the dispute unless agreed otherwise by the Joint Governance Committee or ordered by the Courts.

[Please consider what happens where a dispute is not merely contractual but a s151 or monitoring officer considers an action to be ultra vires or maladministration. Do you have a view on this aspect?]

[This document has been executed as a deed and is delivered and takes effect on the date stated at the beginning of it.]

Schedule 1

Contact Details

Carmarthenshire County Council
[Contact Name and Details]

City & County of Swansea Council
[Contact Name and Details]

City of Cardiff Council
[Contact Name and Details]

Flintshire County Council
[Contact Name and Details]

Gwynedd Council
[Contact Name and Details]

Powys County Council
[Contact Name and Details]

Rhondda Cynon Taff County Borough
[Contact Name and Details]

Torfaen County Borough Council
[Contact Name and Details]

Schedule 2

Matters Reserved to the Constituent Authorities

- 1 Appointment, termination or replacement of the Operator following the making of a recommendation by the Joint Governance Committee.
- 2 Approval of additional expenditure not included within the Business Plan which exceeds [30] % of the approved budget in the Business Plan in any one Financial Year.
- 3 Formulation, approval or revisions of each respective Constituent Authority's investment strategy for the purposes of regulation 7 of the Investment Regulations.
- 4 Admitting a new administering authority within the LGPS to the Investment Pool as a Constituent Authority.
- 5 Amendment of this Agreement.
- 6 Termination of this Agreement.
- 7 Material change to the nature of the Operator Contract.
8. Approval of the initial strategic objectives to allow preparation of the first Business Plan (which objectives shall reflect the objectives set out in the procurement of the Operator).
- 9 Approval of any evaluation or scoring criteria for any procurement of a replacement Operator.
- 10 Approval of Business Plan which shall include approval of the ongoing strategic objectives of the Investment Pool.
11. Determination of the timing of the transition of the assets held by the LGPS fund for which they are an administering authority into the Pooling Collaboration and the funds or sub-funds operated by the Operator.

Schedule 3

Joint Governance Committee Matters

Subject to the terms of the Agreement, the Joint Governance Committee shall undertake those matters which are not Matters Reserved to the Constituent Authorities which shall include (without prejudice to the generality of the foregoing):

- 1 Making a recommendation on the appointment, replacement or termination of the Operator to the Constituent Authorities.
- 2 Appointing and replacing service providers, advisers to the Joint Governance Committee (other than the Operator).
- 3 Approving the creation of new pooled vehicles for the Operator.
- 4 Approving the creation of new sub-funds provided by the Operator.
- 5 Approving the termination of sub-funds provided by the Operator.
- 6 Preparing a plan relating to the overall transition of assets in accordance with each Constituent Authority's asset transition plan.
- 7 Approving changes to the Operator Contract which are not material changes to the nature of the Operator Contract.
- 8 Dealing with the necessary general ongoing management of the Pooling Collaboration.
- 9 Delegation of tasks to the OWG, including the preparation of reports and draft documents and the undertaking of consultations.
- 10 Liaison with Pension Boards as appropriate in line with CIPFA Guidance, guidance issued by the Pensions Regulator and other applicable legislation or regulatory guidance.
11. Determining the best means of alternative investment structures for assets where a sub-fund is not being provided by the Operator.

Notwithstanding the above, for the avoidance of doubt, the Joint Governance Committee may not delegate its responsibilities.

Schedule 4

Joint Governance Committee - Terms of Reference

The Joint Governance Committee responsibilities are:

- Making recommendations to the Constituent Authorities on the termination of the Operator Contract before the conclusion of the fixed term contract, where the performance of the Operator is considered unacceptable;
- Ensuring that there are an appropriate range of sub-funds available in order to allow the Constituent Authorities to meet their strategic investment aims. Following representation from any, some or all of the Constituent Authorities, the Joint Governance Committee may direct the Operator to set up a sub-fund in a particular asset class. The Joint Governance Committee must be mindful at all times of the need to balance the requirement to provide a particular sub-fund with the benefits of holding aggregated assets;
- Monitoring the performance of the Operator against the agreed set of key performance indicators;
- Reporting on the performance of the Investment Pool, its costs and other activities, but not limited to, the Constituent Authorities, government, the Scheme Advisory Board and the general public;
- From time to time, to review the appropriateness of the existing structures, including the number and make-up of sub-funds and to make recommendations to the Constituent Authorities as to the respective merits of procuring Operator services by means of a third party or through ownership by the Constituent Authorities of the Operator;
- Liaising with the Operator, in such areas as the Operator seeks the preferences and views of the Joint Governance Committee, on the appointment of suppliers, for example manager preferences or the appointment of depositories;
- Liaising with the Constituent Authorities on the appropriate range of sub-funds to be provided in the Investment Pool;
- From time to time reviewing policies in respect of ethical, social and governance matters and voting rights and where appropriate make recommendations to the Constituent Authorities as to any changes deemed necessary;
- Applying any processes or policies that are assigned to it within this Agreement;

- Recommend a high level plan for initial transition of assets to the pool and further asset transitions in the event, for example, of new sub-funds being created or manager changes within sub-funds;
- Ensuring that the OWG acts within its remit as set out in clause 4 and Schedule 8 of this Agreement;
- Recommending the approval or otherwise of accounts to the Constituent Authorities; Monitoring the implementation and effectiveness of the policies listed in Schedule [5] and initiating reviews of these where required;
- Delivery and ongoing monitoring against the Pooling Collaboration objectives, Business Plan and budgets;
- Approving responses from the Pooling Collaboration in relation to consultations or other matters considered appropriate;
- Seeking advice from professional and authorised and regulated advisers where necessary;
- Agreeing the Business Plan to be put forward to the Constituent Authorities for approval;
- Report to the Constituent Authorities quarterly (and at any other time when the Joint Governance Committee considers it to be necessary) on the matters within their remit including but not limited to the performance of the Operator, the structure of the funds and the ongoing monitoring of the Business Plan;
- Agreeing criteria for the evaluation of bids or tenders for any procurement (other than the first appointment of the Operator) to be put forward for the approval of the Constituent Authorities.

Schedule 5

Policies and Procedures

- Training and Competence
- Complaints
- Breaches and Errors
- Conflicts of Interests
- Business Continuity Planning
- DSAR/FOI
- Contract Management, Co-ordination and Liaison with the Operator

Schedule 6

Joint Governance Committee Procedure

1 MEMBERSHIP

- 1.1 The membership of the Joint Governance Committee shall consist of one elected member or their deputy per Constituent Authority.
- 1.2 No substitutes other than deputies shall be allowed.
- 1.3 The Joint Governance Committee shall not include any non-voting or co-opted members.

2 MEETINGS

- 2.1 Meeting shall be held a minimum of four times per Financial year. The anticipated schedule of meetings and the locations in which they will be held will be agreed in advance of the commencement of the next Financial Year no later than the final meeting of the current Financial Year.
- 2.2 A meeting may be held at such time and place as the Chair of the Joint Governance Committee thinks fit provided that at least two meetings per annum shall be held in rotating locations between the Constituent Authorities to facilitate public access. The Constituent Authorities shall make available suitable accommodation for the holding of such meetings in public including the provision of Welsh Language translation, video-conferencing and webcasting services as appropriate.
- 2.3 All agendas, reports and minutes in relation to the Joint Committee shall be in both Welsh and English, and simultaneous translation of proceedings will be available throughout all meetings of the Joint Committee.
- 2.4 The Joint Governance Committee may decide to allow remote participation in meetings via video-conference or any similar medium. Any Member attending by video-conference shall be held to be in attendance at the meeting for the purposes of this Schedule.
- 2.5 A meeting of the Joint Governance Committee may be called by a proper officer of the Host Council on the request of the Chair. Members must declare any conflict of interest in respect of any business being conducted at the meeting which would likely to be regarded to prejudice the exercise of a person's function as a participant in the meeting.
- 2.6 The Chair is responsible for the running of meetings. The Chair shall invite Members expressing a desire to speak in turn. All discussion and debate shall be held through the Chair and the Chair may draw a discussion to a vote at any time where they consider that every Member has been given a fair opportunity to speak.

2.7 Minutes will be kept of all meetings. The Chair will sign the minutes of the proceedings at the next suitable meeting.

2.8 Notice of meetings

- (a) A notice of meeting specifying the place, date and time of the meeting and containing a statement of the matters to be discussed at the meeting, shall be served on all of the Members of the Joint Governance Committee by the appropriate governance officer of the Host Council;
- (b) Notice of each meeting, copies of the agenda and any reports to be presented at the meeting, shall be given to all Constituent Authorities by the Host Council no later than [14] clear days before the date of the meeting. The Constituent Authorities shall ensure that a minimum of five clear days' notice of all meetings is given in accordance with their normal procedures for notification of Council meetings and all papers made available at all of the Constituent Authorities head offices for inspection for those five days unless certified as confidential in which case agendas and any non-certified items are made available only.
- (c) If a meeting is required to be held with less than 5 days' notice, the Chair must agree it is required urgently, approve the shortened notice period and allow as much notice as possible to be given. Notice should be given in the same manner, and the documents should be made available to all of the Constituent Authorities for as many days as practicable before the meeting.

2.9 Exclusion of the public and press

- (a) Where any item to be discussed forms exempt information the Chair shall move that the public and press are excluded from the meeting for the duration of the discussion and voting on that item. Motions to exclude the press and public do not require to be seconded and shall be determined by simple majority vote of the Members present.
- (b) Where the press and public are excluded under (a) above the Chair may invite any person to remain in the meeting where they consider it to be necessary or appropriate to do so and any members of the OWG present shall be presumed to be invited to remain unless the Chair specifies otherwise.
- (c) Any person may be excluded from a meeting or required to leave a meeting where in the opinion of the Chair they are causing a disturbance to the running of the meeting and have not desisted from doing following a request; or where any person is so disruptive that their conduct if allowed to remain would prevent the meeting from proceeding in a fair and acceptable manner.

- 2.10 The Joint Governance Committee may, through the Chair, invite any person to speak at a meeting.
- 2.11 Officers of the OWG presenting reports to the Joint Governance Committee may be asked questions following such presentation.
- 2.12 Section 151 officers and Monitoring Officers of any Constituent Authority are entitled to attend all meetings including any part of any meeting which is closed to the public and press.

3 QUORUM

- 3.1 The quorum shall be five Members.
- 3.2 Where a quorum is not present within 15 minutes of the start of the meeting and the Chair has not been notified that one or more Members have been delayed but will be attending, the meeting shall not be held and the Host Council will be ask to schedule and give notice of a replacement meeting.
- 3.3 Where, during any meeting there is no quorum present, then the meeting will adjourn immediately. If the Chair has been unable to ascertain within 15 minutes that the quorum can be restored the remaining business will be considered at another time and date fixed by the Chair.

4 CHAIR AND VICE CHAIR.

- 4.1 The Chair and Vice-Chair shall be Members and shall be appointed by vote for a term of 12 calendar months.
- 4.2 In the absence of the Chair, the Vice-chair shall be entitled to exercise all of the functions of the Chair.
- 4.3 The decision of the Chair of the meeting on all points of procedure and order and the Chair's interpretation of any rule in this schedule shall be final and no debate may ensue thereon. The Chair shall be entitled to take the advice of a governance officer in interpreting any rule or objection on procedure.
- 4.4 The Chair may be assisted during meetings by governance officer on procedural matters and such administrative officers as the Chair considers appropriate. Such governance and secretarial officers shall be entitled to remain in the meeting where the public and press are excluded.

5 AGENDA

- 5.1 An agenda shall be produced in advance for each meeting by the Host Council following consultation with the Chair.

- 5.2 The agenda for each meeting shall contain as the first substantive item the approval of the minutes of the previous meeting. The Chair will move that the minutes of the previous meeting be signed as a correct record. The only part of the minutes that can be discussed is their accuracy.
- 5.3 The OWG and the Constituent Authorities may ask the Chair to include any matter on the agenda which they consider should be discussed by the Joint Governance Committee.
- 5.4 The decision on whether to allow discussion on any other matter not on the agenda of a meeting at that meeting shall be made by the Chair.

6 MOTIONS

- 6.1 Any Member may propose a motion. All motions must be seconded. Motions which are opposed shall be put to a vote in accordance with the voting provisions of this schedule.
- 6.2 A Member may raise a point of order at any time. The Chair will hear them immediately. A point of order may only relate to an alleged breach of the provisions of this Schedule, or the law or other competent authority. The Member must indicate the provision or law or regulation and the way in which he/she considers it has been broken. The ruling of the Chair on the matter will be final. The Chair may take advice on the point of order from the appropriate officer.

7 VOTING

- 7.1 The Chair shall seek consensus wherever possible however where a vote is required the provisions of this section shall apply.
- 7.2 Each Member present will have one vote and voting will be by means of a show of hands. In the event of a tied vote, the Chair shall have a casting vote.
- 7.3 All decisions will be determined by simple majority.
- 7.4 In the event that a vote is taken, the voting positions and any abstentions of members will be recorded in the minutes.

8 SUB-COMMITTEES AND WORKING GROUPS

- 8.1 The Joint Governance Committee shall form such sub-committees and working groups as it considers expedient to performing its function. The Joint Governance Committee shall at the time of forming sub-committees or working groups set out the remit of the sub-committees or working groups, what the sub-committees or working groups are required to deliver and the timescale for that delivery.

- 8.2 Sub-committees and working groups shall be entitled to request the input and support of the OWG in the same manner as the Joint Governance Committee.
- 8.3 Each sub-committee and working group shall appoint a chair for that sub-committee or working group, who is to be one of the Members of the sub-committee or working group.
- 8.4 Working groups may invite any person who is not a Member to join the group in order to assist in carrying out its function.
- 8.5 The Chairs of sub-committees and working groups shall report to Joint Governance Committee at each meeting of that committee on the process of the matters within their remit.
- 8.6 Sub-committees and working groups may be disbanded at any time on the vote of the Joint Governance Committee.

Schedule 7

TUPE

1 DEFINITIONS

1.1 The following definitions shall apply in this Schedule:

Data Protection Legislation means the Data Protection Act 1998, the Data Protection Directive (95/46/EC), the Regulation of Investigatory Powers Act 2000, the Telecommunications (Lawful Business Practice) (Interception of Communications) Regulations 2000, the Electronic Communications Data Protection Directive (2002/58/EC), the Privacy and Electronic Communications (EC Directive) Regulations 2003 and all applicable laws and regulations relating to the processing of personal data and privacy, including where applicable the guidance and codes of practice issued by the Information Commissioner.

Expected Transferring Employees means those Host Council Personnel who are reasonably expected by the Host Council to be a Transferring Employee.

Future Host Council means any relevant Constituent Authority who provides services which are identical or substantially similar to any of the Host Council Services (directly or indirectly) following the termination or expiry of this Agreement or the termination of the provision of any of the Host Council Services by the Host Council.

Host Council Personnel means the individuals employed or engaged by the Host Council or any other person in the provision of the Host Council Services under this Agreement from time to time.

Host Council Services means the services to be provided by the Host Council under this Agreement as more particularly described at clause 7.

Redundancy Costs means any notice pay (including payment in lieu of notice), holiday pay and statutory and/or contractual redundancy payments.

Sub-Contractor means any person to whom the provision of any of the Host Council Services may be sub-contracted by the Host Council.

Subsequent Transfer Date means the date on which responsibility for the provision of the Host Council Services, or any part of the Host Council Services, transfers from the Host Council to the Future Host Council.

Transferring Employee means an individual whose contract of employment has effect from and after the Subsequent Transfer Date, by virtue of the operation of TUPE, as if originally made between such person and the Future Host Council.

2 NO TRANSFER ON COMMENCEMENT

- 2.1 The Constituent Authorities agree that the neither the commencement of this Agreement nor the implementation of any of the arrangements contemplated within it shall give rise to a "relevant transfer" within the meaning of TUPE on or around the Commencement Date.

3 EMPLOYEE INFORMATION ON TERMINATION

- 3.1 Subject to the Data Protection Legislation, during the period of twelve months preceding the expiry of this Agreement, or at any time after the Host Council has given notice to withdraw from the Pooling Collaboration or at any time after the Host Council has actually ceased to provide any of the Host Council Services:

- (a) the Host Council shall within 28 days of the reasonable request by any Future Host Council disclose to that Future Host Council details of the number, age and terms and conditions of employment, in relation to any Host Council Personnel assigned to the provision of the Host Council Services or any relevant part of the Host Council Services;
- (b) the Host Council shall not and, if relevant, shall procure that any Sub-Contractor shall not, save in the ordinary course of business, materially vary the terms and conditions of employment or engagement of any Host Council Personnel or redeploy, replace or dismiss any Host Council Personnel, or employ or engage any additional individual in the provision of the Host Council Services, without the prior written consent of the Future Host Council (such consent not to be unreasonably withheld or delayed).

4 EMOLUMENTS

All wages, salaries, bonus and commission payments, contributions to pension schemes, entitlement to holiday pay and any other emoluments (whether monetary or otherwise), tax and national insurance contributions relating to the Transferring Employees shall be paid or borne by the Host Council (or Sub-Contractor) in relation to the period before the Subsequent Transfer Date (and the Host Council shall procure such payment by any Sub-Contractor) and by the relevant Future Host Council thereafter (and the Constituent Authorities shall procure such payment by any Future Host Council), and all necessary apportionments shall be made.

5 COMPLIANCE AND INDEMNITIES

- 5.1 The Host Council shall and/or, if relevant, shall procure that any Sub-Contractor shall:
- (a) comply with its or their obligations to inform and consult the Expected Transferring Employees pursuant to Regulation 13 of TUPE;

- (b) use reasonable endeavours to agree with the Future Service Provider, and deliver to the Expected Transferring Employees prior to the Subsequent Transfer Date, a suitable joint statement regarding the proposed transfer of their employment to the Future Host Council on the Subsequent Transfer Date; and
 - (c) give employees of the Future Host Council such access to the Expected Transferring Employees prior to the Subsequent Transfer Date as the Future Host Council may reasonably require for the purposes of consultation or of effecting an efficient transfer of the Host Council Services and Transferring Employees with effect from the Subsequent Transfer Date.
- 5.2 The Host Council shall indemnify and keep indemnified the Future Host Council against all and any costs, expenses, liabilities, damages and losses arising out of or in connection with any claim, demand, action or proceeding which is made or brought against the Future Host Council in relation to:
- (a) the employment or termination of employment of any Transferring Employee during the period before the Subsequent Transfer Date; or
 - (b) the Host Council's failure or alleged failure to comply with its obligations under Regulation 13 of TUPE, save to the extent that any such failure or alleged failure is as a result of or in consequence of a failure by the Future Host Council to comply with its obligations under Regulation 13(4) of TUPE.
- 5.3 If a claim or allegation is made by any person who is not a Transferring Employee (a **"Non-Disclosed Transferring Employee"**) that his contract of employment has or should have effect as if originally made between himself and the Future Host Council by virtue of the operation or alleged operation of TUPE:
- (a) the Future Host Council shall notify the Host Council in writing as soon as reasonably practicable of any such claim or allegation and the Future Host Council shall then allow the Host Council (or any relevant Sub-Contractor) a period of 10 working days to consult with any such Non-Disclosed Transferring Employee concerning his claim or allegation;
 - (b) the Future Host Council shall give to the Host Council (or any relevant Sub-Contractor) such co-operation or assistance as the Host Council (or relevant Sub-Contractor) may reasonably require;
 - (c) if, following the period of 10 working days referred to in paragraph 4.3(a) above, any Non-Disclosed Transferring Employee continues to assert that his contract of employment has or should have effect as if originally made between himself and Future Host Council, the Future Host Council may, within a further period of 20 working days (or such other period as may be agreed in writing between the

Host Council and Future Host Council), serve notice to terminate the employment or alleged employment of such Non-Disclosed Transferring Employee with immediate effect; and

- (d) subject to the Future Host Council's compliance with this paragraph 5.3, the Host Council shall indemnify and keep indemnified the Future Host Council against all and any costs, expenses, liabilities, damages and losses arising out of or in connection with any claim, demand, action or proceeding which is made or brought by any such Non-Disclosed Transferring Employee in relation to any sums paid or payable to such Non-Disclosed Transferring Employee up to the date of the termination of such Non-Disclosed Transferring Employee's employment or alleged employment, and in relation to such termination.

5.4 The Future Host Council shall indemnify and keep indemnified the Host Council (for itself and any Sub-Contractor) against all and any costs, expenses, liabilities, damages and losses arising out of or in connection with any claim, demand, action or proceeding which is made or brought:

- (a) by any Transferring Employee in relation to any act or omission of the Future Host Council on or after the Subsequent Transfer Date and/or in relation to any events or circumstances relating to the employment or termination of employment of any Transferring Employee occurring or arising on or after the Subsequent Transfer Date;
- (b) in relation to any failure or alleged failure of the Future Host Council to comply with their obligations under Regulation 13 of TUPE; or
- (c) in relation to any substantial change made or proposed by the Future Host Council in the working conditions of any of the Transferring Employees, or any individual who would have been a Transferring Employee but whose employment terminated prior to the Subsequent Transfer Date, where that change is to the detriment of such Transferring Employee(s) or such individual(s).

6 REDUNDANCY COSTS

6.1 The Constituent Authorities shall indemnify and keep indemnified on a joint and several basis the Host Council (for itself and any Sub-Contractor) against all and any Redundancy Costs arising out of or in connection with any claim, demand, action or proceeding which is made or brought against the Host Council (or Sub-Contractor) arising out of or in connection with the termination or alleged termination of employment of any Host Council Personnel by reason of redundancy within 6 months of the Subsequent Transfer Date, where the employment such Host Council Personnel does not transfer to a Future Host Council (under TUPE or otherwise) on the cessation of the provision of any or all of the

Host Council Services, provided that the Host Council shall, or shall procure that any Sub-Contractor shall, use reasonable endeavours to:

- (a) mitigate the amount of any such Redundancy Costs;
- (b) search for and, if available, offer alternative employment within the Host Council's or the Constituent Authorities' (or, as the case may be, the Sub-Contractor's) organisation to any Host Council Personnel at risk of redundancy and shall give that Host Council Personnel a reasonable opportunity to accept any such offer of alternative employment before terminating that Host Council Personnel's employment; and
- (c) comply with any applicable statutory obligations.

Schedule 8 - Officers Working Group Remit

The remit of the OWG shall include:

- (a) proposing to the Joint Governance Committee and procuring external support requirements (including legal, governance, tax and other financial support) relevant to the Pooling Collaboration;
- (b) proposals to the Joint Governance Committee on governance arrangements including how the Operator should be held to account by reference to the Operator Contract;
- (c) proposals to the Joint Governance Committee on the most appropriate means of accessing different asset types, the structure of the Investment Pool including the number and make-up of sub-funds and where appropriate use of any external or national investment vehicles;
- (d) proposing high level transition plans for the transfer of assets to pool;
- (e) challenging and contributing to the development of the Pooling Collaboration to enable the Pooling Collaboration and the Joint Governance Committee to achieve its objectives;
- (f) making recommendations to the Joint Governance Committee on the appointment, replacement or termination of the Operator including recommendations on whether to use a third party supplier or an owned entity;
- (g) monitoring and reviewing the performance of the Operator in meeting its objectives, service levels and key performance indicators and reporting to the Joint Governance Committee within the quarterly reports and on other occasions as required;
- (h) receiving reports on performance of the assets and reporting to the Joint Governance Committee;
- (i) external reporting on the pool and its performance no less than quarterly;
- (j) liaison with other pools as required;
- (k) consider and make recommendations to the Joint Governance Committee in relation to the Business Plan, prepare a draft Business Plan for consideration by the Joint Governance Committee, consulting upon the approved draft and reporting on the outcomes of such consultation including proposing any revisions to the draft to the Joint Governance Committee;

- (l) develop and keep under review the programme of training to be delivered to Members ensuring that it complies with all relevant regulations and applicable guidance, which programme of training shall have regard to the training undertaken in Members' roles on their respective Constituent Authority pension committees and shall seek to avoid duplication of training;
- (m) seek advice from professional advisors that are authorised and regulated by competent authorities;
- (n) managing the procurement process for the procurement of any replacement Operator including proposing criteria for the evaluation of bids or tenders
- (o) such other matters as the Joint Governance Committee shall request or delegate to the OWG.

[Execution clauses to be inserted]

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday, 16 th February 2017
Report Subject	Governance Update
Report Author	Pensions Finance Manager

EXECUTIVE SUMMARY

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

- (a) Business Plan 2016/17 update (Appendix 1) for governance.
- (b) Current Developments and News, providing an update on the development of the National Scheme Advisory Board's Investment Cost Code of Transparency. In terms of local news, Philip Latham, the Clwyd Pension Fund Manager, has been appointed to the Pension and Lifetime Savings Association Local Authority Steering Committee.
- (c) Governance related policy/strategy implementation and monitoring including details of future events that Committee members should consider (Appendix 2), training undertaken (Appendix 4) and the Breaches Register (Appendix 6).
- (d) Calendar of future events (Appendix 2)

It also provides a summary of the key governance elements in the current risk register (Appendix 3), with some of the key areas of concern being associated with asset pooling and staff workloads.

RECOMMENDATIONS

1	That the Committee consider the update and provide any comments.
2	That the Committee approve the recommendation to move task G4 (Key Man Risk) of the Business Plan to 2017/18.
3	That the Committee approve the updated Officers' Delegations incorporating changes to Funding Risk Management decisions.

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
	Business Plan 2017/18 Update
1.01	<p>Appendix 1 provides a summary of progress against the governance section of the Business Plan up to the end of quarter 3 (October to December 2016). The majority of items are as originally planned but the Committee is asked to note the following:</p> <ul style="list-style-type: none"> • Key task G4 (Key Man Risk). This has not commenced due to uncertainty around resource requirements within the asset pooling environment. It is recommended that it be moved to 2017/18 when more clarity will be known around pooling.
1.02	<p>Appendix 1 also includes progress against the projected cash-flows and budgeted operating costs for 2016/17. The Committee is asked to note the following:</p> <ul style="list-style-type: none"> • There are no areas of concern highlighted either within the projected cash flows or the operating budget. • However, the following points are noted in respect of the operating budget: <ul style="list-style-type: none"> ○ Governance overspend – this reflects additional work required during the triennial valuation as well as the impact of pooling. ○ Administration underspend – the majority of the underspend is in relation to the costs of the GMP reconciliation project which will now commence in 2017/18. The staffing underspend is due to vacant posts which are currently being advertised. The member self-service underspend is due to a proportion of costs that will not be incurred until 2017/18.
1.03	The Committee is asked to note the contents of the business plan update and approve the recommendations in relation to G4 above.
	Current Developments and News
1.04	<p><i>National Scheme Advisory Board Update:</i></p> <p>Investment costs – Code of Transparency. As previously reported to Committee (27th September 2016), the SAB is working to develop a voluntary code of transparency a key element of which is a template for use by LGPS asset managers. This is to aid funds to better comply with the accounting standards and the pools to be able to produce transparent costs. The initial template is designed to cover the listed markets of equities, bonds and pooled funds but it is envisaged that, over time, this will expand to encompass other asset classes. Whilst the Code has yet to be formally launched work is continuing. Further information can be viewed at:</p> <p>http://www.lgpsboard.org/index.php/structure-reform/cost-transparency</p>
1.05	<i>Local Pension Board Update:</i>

	The minutes of the Board meeting held on the 13 th October 2016 were circulated to the Committee on the 2 nd November 2016. They are, however, included at appendix 5.
1.06	<p><i>Local News:</i></p> <p>Philip Latham, Clwyd Pension Fund Manager, has been appointed to the Pension and Lifetime Savings Association (PLSA) Local Authority Steering Committee. As well as Philip bringing his expertise to the PLSA, we expect there to be advantages to the Fund in Philip being involved in national policy matters.</p>
	Policy and Strategy Implementation and Monitoring
1.07	<p><i>Training Policy:</i></p> <p>The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to</p> <ul style="list-style-type: none"> • have training on the key elements identified in the CIPFA Knowledge and Skills Framework • attend training sessions relevant to forthcoming business • attend at least one day each year of general awareness training or events.
1.08	Appendix 4 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training.
1.09	<p>Appendix 4 also includes training and various external events attended by Committee Members, Pension Board members and Senior Officers during 2016/17 as well as The Pension Regulator modules undertaken. Appendix 2 includes details of all future training planned including forthcoming events considered suitable for general awareness training. Members should note the following in particular</p> <ul style="list-style-type: none"> • The LGC Investment Seminar being held at Carden Park, Cheshire on the 2nd to 3rd March 2017 - places have already been booked for this conference. • PLSA Local Authority Conference being held in Gloucestershire from 15th – 17th May 2017 – members interested in attending should contact the Pensions Finance Manager.
1.10	<i>Recording and Reporting Breaches Procedure</i> – The Fund’s procedure requires that the Clwyd Pension Fund Manager maintains a record of all breaches of the law identified in relation to the management of the Fund and this information will be reported to the Pension Fund Committee at each meeting.
1.11	<p>Two additional Breaches (Reference 04 and 05) has been recorded since the 29th September Committee and are detailed at Appendix 6. In terms of the Breaches recorded and ongoing:</p> <ul style="list-style-type: none"> • Reference 01 and 03: work is progressing with system reports to identify those deferred benefits affected • Reference 04: mostly resolved although Officers are visiting one employer to attempt to resolve issues. A review of internal processes will be undertaken. • Reference 05: This is a historical issue that will again be raised with the

	employer. A review of employer notification procedures will be undertaken.
	Delegated Responsibilities
1.12	<p>There are a number of areas which the Pension Fund Committee has delegated to officers, to ensure that:</p> <ul style="list-style-type: none"> • there is sufficient time available at Pension Fund Committee meetings to consider business items, • the items considered at Pension Fund Committee are the more strategic and high risk matters, and • decisions can be made in a timely manner. <p>Due to a recent review of the Flightpath Risk Management Strategy, it is recommended that the existing officer delegation is reworded as shown in Appendix 6 to make it clear that the Pension Fund Manager has some flexibility in considering what changes to implement, whilst still remaining within the overall constraints of the Investment Strategy. The updates are shown in bold in the appendix. This will avoid situations of switches in investments at points where it may be inappropriate to do so due to market conditions. The delegation continues to be to the Pension Fund Manager (having regard to ongoing advice of the Investment Consultant and Pensions Advisory Panel). Recognising that the new delegation provides some additional flexibility, to ensure a robust decision making process a Funding Risk Management Group (FRMG) has been established where all matters will be considered by the Pension Fund Manager having regard to the advice of the Pension Finance Manager, Fund Actuary and Investment Consultants. The FRMG minutes will be shared with the Pensions Advisory Panel on an ongoing basis.</p>
1.13	In relation to the existed delegated responsibilities, none were used in the last quarter in relation to governance matters.
	Calendar of Future Events
1.14	Appendix 2 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates.

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

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

4.00	RISK MANAGEMENT
4.01	Appendix 3 provides the dashboard showing the current risks relating to governance. In addition, in relation to these risks, it provides details of: <ul style="list-style-type: none"> • the key risks (i.e. ranked 15 or above in the above dashboard) • any new risks • risks that have changed by a score of 3 or more and • risks that have been removed since the previous report.
4.02	Since the last update, reported to the 27 September Committee, there have been no changes to the Governance Risk Register. However, a review of the risk register is being undertaken and will be presented at the March Committee.

5.00	APPENDICES
5.01	Appendix 1 - 2016/17 Business plan update Appendix 2 - Calendar of events Appendix 3 - Risk register update Appendix 4 - Training undertaken Appendix 5 - Local Board minutes Appendix 6 – Breaches of Law Appendix 7 – Updated Officer Delegations

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Business Plan 2016/17 to 2018/19 – 22 March 2016. Contact Officer: Alwyn Hughes, Pension Finance Manager Telephone: 01352 701811 E-mail: alwyn.hughes@flintshire.gov.uk

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

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| <p>(d) LPB or PB – Local Pension Board or Pension Board – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.</p> <p>(e) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(f) TPR – The Pensions Regulator – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF.</p> <p>(g) SAB – The national Scheme Advisory Board – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG.</p> <p>(h) DCLG – Department of Communities and Local Government – the government department responsible for the LGPS legislation.</p> |
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Business Plan 2016/17 to 2018/19 – Q3 Update

Governance

Budget

All the costs associated with the management of the Fund are a charge to the Fund and not to the Council. Final out-turn figures for 2014/15, 2015/16, together with projected 2016/17 figures, are shown below:

Cash-flow

	2014/15	2015/16	2016/17 £000s			
	£000s	£000s	Budget	Actual	Projected for full year	Final under/over
Opening Cash	(30,520)	(43,735)	(13,640)	(13,640)		
Payments						
Pensions	50,415	52,932	57,300	40,390	55,440	(1,860)
Lump Sums & Death Grants	17,317	14,906	20,000	11,963	17,000	(3,000)
Transfers Out	2,036	5,889	2,800	3,397	4,100	1,300
Expenses (including In House)	2,691	4,881	4,500	4,444	5,664	1,164
Support Services	219	167	250	155	155	(95)
Total Payments	72,678	78,775	84,850	60,349	82,359	(2,491)
Income						
Employer Contributions	(29,608)	(30,506)	(33,250)	(27,546)	(33,250)	0
Employee Contributions	(14,532)	(14,535)	(15,200)	(7,981)	(14,200)	1,000
Employer Deficit Payments	(28,079)	(27,872)	(28,500)	(27,928)	(28,500)	0
Transfers In	(2,347)	(1,791)	(4,000)	(998)	(1,300)	2,700
Pension Strain	(3,030)	(3,204)	(1,200)	(817)	(1,800)	(600)
Income	(223)	(74)	(170)	(105)	(120)	50
Total Income	(77,819)	(77,982)	(82,320)	(65,375)	(79,170)	3,150
Cash-flow Net of Investment Income	(5,141)	793	2,530	(5,026)	3,189	659
Investment Income	(2,847)	(2,497)	(3,000)	(2,476)	(3,000)	0
Total Net of In House Investments	(7,988)	(1,704)	(470)	(7,502)	189	659
In House Investments						
Draw downs	40,212	34,021	40,955	35,320	49,112	8,157
Distributions	(59,824)	(64,836)	(71,043)	(44,156)	(61,170)	9,873
Net Expenditure /(Income)	(19,612)	(30,815)	(30,088)	(8,836)	(12,058)	18,030
Total Net Cash-Flow	(27,600)	(32,519)	(30,558)	(16,338)	(11,869)	18,689
Rebalancing Portfolio	14,385	62,614	30,000	(1,378)	12,622	(17,378)
Total Cash Flow	(13,215)	30,095	(558)	(17,716)	753	
Closing Cash	(43,735)	(13,640)	(14,198)	(31,356)	(12,887)	

Operating Costs

	2014/15	2015/16	2016/17			
	Actual	Actual	Budget	Actual	Projected for full year	Projected under/over
	£000s	£000s	£000s	£000s	£000s	£000s
Governance Expenses						
Employee Costs (Direct)	218	225	229	177	229	0
Support & Services Costs (Internal Recharges)	13	12	19	0	19	0
Premises	8	8	17	0	17	0
IT (Support & Services)	12	11	10	1	10	0
Other Supplies & Services)	49	54	56	4	56	0
Audit Fees	37	39	40	3	40	0
Actuarial Fees	205	222	304	381	454	150
Consultant Fees	403	371	389	331	431	42
Advisor Fees	142	225	188	125	188	0
Legal Fees	21	35	30	26	50	20
Total Governance Expenses	1,108	1,202	1,282	1,048	1,494	212
Investment Management Expenses						
Fund Manager Fees*	16,127	14,971	11,028	2,308	11,028	0
Custody Fees	32	28	34	17	32	(2)
Performance Monitoring Fees	20	30	25	27	54	29
Total Investment Management Expenses	16,179	15,029	11,087	2,352	11,114	27
Administration Expenses						
Employee Costs (Direct)	592	603	711	472	635	(76)
Support & Services Costs (Internal Recharges)	53	46	90	0	90	0
Outsourcing	32	404	1,240	147	405	(835)
Premises	33	33	75	6	75	0
IT (Support & Services)	218	243	250	188	250	0
Member Self Service	0	0	107	0	54	(53)
Other (Supplies & Services)	75	61	70	48	65	(5)
Miscellaneous Income	(1)	0	0	0	0	0
Total Administration Expenses	1,002	1,390	2,543	861	1,574	(969)
Total Costs	18,289	17,621	14,912	4,261	14,182	(730)

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

Key Tasks

Key:

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

Governance Tasks

Ref	Key Action –Task	2016/17 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
G1	Review CPF Adviser Procurement Framework		x	x	x		
G2	Review constitution and delegations in relation to asset pooling		x	x	x		
G3	Review/Tender Investment Consultancy and Independent Adviser Contracts		x	x	x		
G4	Consider Key Person Risk			x	x	xM	

G1 – Review CPF Adviser Procurement Framework

What is it?

Clwyd Pension Fund’s adviser procurement framework agreement ceases in 2016/7 and we will need to consider whether there is a need to renew it or take part in the national procurement framework. This needs to be completed prior to G3.

Timescales and Stages

Carry out review:

2016/17 Q2

Put in place new CPF procurement framework

2016/17 Q2-4

Resource and Budget Implications

To be confirmed.

G2 - Review constitution and delegations in relation to asset pooling

What is it?

It will be necessary to review the Council's delegations (within the Council's Constitution and the PFC's Scheme of Delegation) in relation to pension matters in relation to any changes being implemented as a result of asset pooling (see Funding and Investment section). In particular, the Administering Authority will need to determine what decisions will need to be made and by whom.

Timescales and Stages

Review and recommend updates to delegations: 2016/17 Q1/2

Resource and Budget Implications

To be led by Pension Fund Manager, liaising with Monitoring Officer and taking advice from Investment Consultant and Independent Adviser. There will be external adviser costs associated with this exercise but they are not expected to be significant.

G3 – Review/Tender Investment Consultancy and Independent Adviser Contracts

What is it?

The Fund's investment consultancy and independent Adviser contracts reach their initial break point on 31 March 2017 albeit they can be extended for up to 2 years. A decision should be made as to whether these are retendered or extended. The implications of the Government changes to investment regulations, including, pooling will need to be considered.

Timescales and Stages

Carry out review/decide whether to tender or extend existing contracts	2016/17 Q2
Pension Fund Committee agree way forward (27 th September 2016)	2016/17 Q2/3
Potential tender if contracts are not extended	2016/17 Q4

Resource and Budget Implications

To be led by Pension Fund Manager within existing budget.

G4 – Consider Key Person Risk

What is it?

The Council needs to review any key person risk within the Pensions Finance team; it is recognised that there is also a potential risk for the Pensions Administration team. This is a particular concern for the Pensions Finance team due to its small size and age group concentration.

Timescales and Stages

Review risk and staffing levels: 2016/17 Q3/4

Resource and Budget Implications

To be led by Pension Fund Manager. All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget.

CLWYD PENSION FUND - CALENDAR OF EVENTS APRIL 2017 ONWARDS

Appendix 2

Month	Date	Day	Committee	Training	Pension Board	Advisory Panel	Other	Location
2017								
May	09 May	Tuesday				All day		County Hall
	15-17	Mon - Wed		PLSA Local Authority Conference				Gloucestershire
June	08 Jun	Thursday		Day 1 Induction/ Refresher				tba
	13 Jun	Tuesday	PM			AM		County Hall
	28 Jun	Wednesday			PM			County Hall
	28 Jun	Wednesday		CIPFA and Barnett Waddingham: Local Pension Boards - Two Years On...				London
July	4-6	Tue - Thur		LGA Trustee Conference				Birmingham
September	6-8	Wed-Fri		LGC Investment Summit				Newport
	20 Sep	Wednesday	PM	Employer Risk Mgt				County Hall
November	29 Nov	Wednesday	AM					County Hall
December	6-8	Wed-Fri		LAPFF				Bournemouth
2018								
February	21 Feb	Wednesday	Special Committee AM					
March	21 Mar	Wednesday	PM					County Hall
June	13 Jun	Wednesday	AM					County Hall

NOTE: Committee dates to be confirmed at FCC AGM

NOTE: Training will normally take place immediately before each Committee

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		Governance Risks					Impact	Funding & Investment Risks (includes accounting and audit)							
		4	3					Negligible					7		
		7	1	2				Marginal				5	8		
					6	5		Critical		6	1	2	3	4	
								Catastrophic							
Likelihood		Unlikely	Very Low	Low	Significant	Very High	Extremely High		Extremely High	Very High	Significant	Low	Very Low	Unlikely	Likelihood
								Catastrophic	<p>Key</p> <ul style="list-style-type: none"> 1 Each risk is represented in the chart by a number in a square. <ul style="list-style-type: none"> - The number denotes the risk number on the risk register. - The location of the square denotes the current risk exposure. 1 The background colour within the square denotes the target risk exposure. 1 New risks since the last reporting date are denoted with a blue and white border. -----> An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure. 						
			3	5		2	Critical								
			4	1			Marginal								
		6						Negligible							
		Administration & Communication Risks					Impact								

Clwyd Pension Fund - Control Risk Register

Governance Risks

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

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

Risk no.	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)	
1	Losses or other detrimental impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognising that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low	Orange	1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to each PFC 3 - Advisory panel meets at least quarterly discussing changing environment etc 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Marginal	Low	Orange	☺	None	CPFM	31/03/2017	14/04/2016	Marginal	Low	Orange		
2	Inappropriate or no decisions are made	Governance (particularly at PFC) is poor including due to: - short appointments - poor knowledge and advice - poor engagement/preparation/commitment - poor oversight	G1 / G2 / G3 / G4 / G5 / G6 / G7	Marginal	Significant	Orange	1 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Annual check against TPR Code 4 - Training Policy, Plan and monitoring in place for PC and PB members 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities. 6 - Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. 7 - Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed.	Negligible	Low	Yellow	☹	Current impact 1 too high Current likelihood 1 too high	1 - Complete Training Needs Analysis/consider engagement 2 - Speak to Democratic Services before FCC elections to assist with continuity/retaining knowledge	CPFM	30/09/2016	14/04/2016	Marginal	Significant	Orange	
3	Our legal fiduciary responsibilities are not met	Decisions, particularly at PFC level, are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers	G1 / G2 / G4 / G6 / T2	Negligible	Very Low	Green	1 - Conflicts of Interest policy focussed on fiduciary responsibility regularly discussed and reviewed 2 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 3 - All stakeholders to which fiduciary responsibility applies represented at PFC and PB 4 - Training Policy, Plan and monitoring in place for PC and PB members including section on responsibilities 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities. 6 - Clear strategies and policies in place with Fund objectives which are aligned with fiduciary responsibility	Negligible	Very Low	Green	☺	None	CPFM	31/03/2017	14/04/2016	Negligible	Very Low	Green		
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low	Green	1 - Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored	Negligible	Unlikely	Green	☹	Current likelihood 1 too high	1 - Ensure work relating to annual monitoring is completed	Pension Finance Managers	30/06/2016	14/04/2016	Negligible	Very Low	Green	
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such as scheme change and asset pooling	G1 / G4 / G6 / G7	Critical	Very High	Red	1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Involvement of CEO / links to W/LGA and W/G 3 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 4 - Key areas of potential change identified as part of business plan (ensuring ongoing monitoring)	Marginal	Low	Orange	☹	Current impact 1 too high Current likelihood 2 too high	1 - Regular ongoing monitoring by AP to consider if any action is necessary	CPFM	08/12/2016	08/09/2016	Critical	Very High	Red	
6	Services are not being delivered to meet legal and policy objectives	Inefficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	G3 / G6 / G7 / T1	Critical	Significant	Red	1 - 2016/17 business plan identifies key officer risk 2 - Review of admin structure in 2015/16 3 - Quarterly update reports consider resourcing matters 4 - Advisory Panel provide back up when required 5 - Additional resources, such as outsourcing, considered as part of business plan	Negligible	Very Low	Green	☹	Current impact 2 too high Current likelihood 2 too high	1 - Review key officer risk (on Business Plan)	CPFM	30/09/2016	14/04/2016	Critical	Significant	Red	
7	Legal requirements and/or guidance are not complied with	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches)	G3 / G6 / T1 / T2 / B1 / B2	Marginal	Very Low	Yellow	1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliance areas (relevant individuals provided with a copy and training provided) 4 - Training policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures 7 - Strategies and policies often included statements or measures around legal requirements/guidance 8 - Wide range of advisers and AP in place 9 - Independent adviser in place including annual report which will highlight concerns	Negligible	Very Low	Green	☹	Current impact 1 too high	1 - Ongoing work to ensure breaches are identified and the procedure used appropriately 2 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure	CPFM	30/09/2016	14/04/2016	Marginal	Very Low	Yellow	

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

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

FLINTSHIRE COUNTY COUNCIL (As Lead Authority for the Clwyd Pension Fund)

CLWYD PENSION FUND BOARD

Minutes of the meeting of the Clwyd Pension Fund Board of Flintshire County Council (as Lead Authority for the Clwyd Pension Fund), held at County Hall, Mold, on Thursday, 13 October 2016 at 2pm.

THE BOARD:

Present:

Chair: Mrs Karen McWilliam (Independent Member)

Member Representatives: Mrs Gaynor Brooks, Mr James Duffy

Employer Representatives: Mr Steve Jackson, Mr Mark Owen

IN ATTENDANCE

Mr Philip Latham (Clwyd Pension Fund Manager and Secretary to the Board)

Mr Alwyn Hughes (Pension Finance Manager)

Mrs Sandra Beales (Principal Pensions Officer - Operational)

Mr D O'Keefe-Williams (Aquila Heywood) – part meeting only

Actions

1. APOLOGIES

There were no apologies.

2. DECLARATIONS OF INTEREST

The Chair declared that she was an employee of Aon which both sells specific Local Board liability insurance (agenda item 10) as well as likely to submit a bid to provide a platform for the Welsh LGPS pooling of investments (agenda item 8). These potential conflicts are both being managed and in neither case is the Chair personally responsible for any decisions for the Fund.

3. MINUTES AND MATTERS ARISING

The minutes of the meeting held on the 6 July 2016 had previously been confirmed as a correct record by all Board members via e-mail.

There were no matters arising. Completed and/or outstanding actions were considered as part of agenda item 4 Action Tracker.

4. ACTION TRACKER

The Chair introduced this item explaining that the document was designed to track all action points identified by the Board, identify completed or outstanding actions and also ensure that none are overlooked.

The contents of the Action Tracker were discussed. The Chair highlighted that she had not received a response from The Pensions Regulator (1st March 2016 Item 9) and so will pursue it. Mr Owen commented that Compliments and Complaints was not included in the agenda as had previously been agreed at the last meeting as part of the discussions on agenda item 5. **The Board Secretary agreed to add to the action tracker and to ensure it is added to future agendas** as a standard item.

Board Secretary

RESOLVED:

The Board noted the action tracker.

5. OVERVIEW OF MEMBER SELF SERVICE

The Chair explained the introduction of Member Self-Service (MSS) is included in the Administration business plan for quarters 3 and 4 of 2016/17 and quarter 1 of 2017/18.

She welcomed and introduced Mr Dave O’Keefe-Williams, from Aquila Heywood. Mr O’Keefe-Williams gave an overview of MMS module including a demonstration of its functionality, from the perspective of both an active and a retired member.

He explained its purpose is to provide members with an easy-to-use interface to the pensions section. The functionality will allow members access to information, to update details, view their documents and carry out benefit projections online.

Mr O’Keefe-Williams stated that a number of funds have gone live with MSS. He would also advice taking a phased approach with access being rolled out across members.

At this stage Mr O’Keefe-Williams left the meeting.

The Board stated that they found the presentation very useful and were very positive regarding the introduction of MSS.

The Board Secretary introduced the possibility of hosting all our current services together with MSS through Aquila Heywood which would

Actions

result in a cost saving for MSS, would provide more seamless management into the Altair system and would be the same for iConnect. Agenda item 7 expands on this.

The Board Secretary confirmed that the budget for 2016/17 included the estimated cost of MSS but not for hosting; this would require a special delegation to move quickly forward.

Following discussions, Mr Owen asked about intellectual property rights of the Welsh language version and it was agreed that the **Board Secretary would pursue the issue of intellectual property rights for the translation of MSS into Welsh** given it appeared that Clwyd would be the first Welsh fund using MSS.

Board Secretary

Following a suggestion by the Chair the Board agreed that the **Board Secretary would arrange for a demonstration of the i-Connect module at the next meeting.**

Board Secretary

6. ADMINISTRATION

A presentation on the progress in developing the administration team's key performance indicators (KPIs) was given by Mrs Beales who also shared handouts of the output to date.

Mrs Beales explained that eight items would be reported against three targets namely, legal requirements, overall case target and Clwyd Pension Fund element target. Work continues to be undertaken in developing the reports with clarifications around legal requirements being sought in some cases. The report highlights the twenty four outcomes using colour highlights of red, amber. As previously reported to the Board there it is not possible to collect timescales for historical tasks thus the KPIs reflect cases being measured rather than all cases; this will resolve itself over time as historical tasks are completed.

A discussion then followed at which the following points were raised.

Mrs Brooks asked whether the team was working incrementally to improve matters or whether they were concentrating on specific areas. Mrs Beales replied that whilst all areas are being worked on, they are concentrating on priority areas.

The Board Secretary commented that the underlying issue is data quality. Resolving this issue, by whatever method, will help all.

Mr Owen asked how much time was being diverted from operational matters to produce these reports. Mrs Beales replied that whilst some time has been spent on the reports over the last few weeks some of them are auto-generated. Additionally, for manual collation around 2 –

Actions

3 days of Modern Apprentice time is allocated monthly.

The Board Secretary commented that introducing such a KPI system was not at all common across the LGPS. The Chair added that she was aware of at least one large fund that were looking at the legal KPIs but also acknowledged the lack of consistency in measuring between funds.

Mr Owen asked whether the team could concentrate on those areas that caused most queries. Mrs Beales replied that they do as this generally involved members being paid; however, they were usually waiting for information with data quality being an issue.

The Board Secretary raised the issue that member self-service will need caveating so that members understand that it is an estimate based on the information that the Fund currently holds against members.

The Board thanked Mrs Beales for her update, noting that recognised the good work that was taking place and understood the KPIs would not be green overnight but they were encouraged the team were making continued process, alongside other projects such as i-Connect. The Board noted that they were thankful to the administration team for being open about the ongoing issues.

The Board Secretary then updated the Board on the Employer Liaison Team proposal. The purpose of this team, which is likely to be seven in total, is to start to solve employer data quality issues by taking on-board some employer responsibilities as detailed in the Fund's Administration Strategy. The aim is to try and streamline as far as possible with the team being headed by a new Principal Pensions Officer which requires a business case. Discussions are under way with Flintshire HR who seem to be reasonably content with the proposal.

The Chair commented that this, if it goes ahead, will impact on other elements in the Business Plans as well as ongoing service levels as some people are likely to take on different roles which will require backfilling of posts.

The Board Secretary added that the Administration Team were fully supportive of this development.

Mr Jackson commented that this is appeared to be about tackling the root cause of many of the issues that the team faces. Mrs Beales replied that this is why the team is supportive as the current situation is very frustrating due to delays in getting some of the required information.

Mr Owen stated that the information held in the Fund systems needs

to be accurate so this must change, however, there are two bodies concerned, namely the employer and the Fund, where the data must match. The employer currently cannot see whether the Fund data is correct or incorrect. It is positive step that a team member will be able to look at both systems.

Both the Chair and the Board Secretary agreed with Mr Owen but added that with around 30 employers differing approaches will be required, however, for some employers iConnect will help.

The Board agreed they were supportive of this initiative.

7. DISASTER RECOVERY

The Board Secretary introduced this agenda item explaining the disaster recovery plans for most of the ICT systems used by the Fund were generic FCC plans, as they are generic Flintshire systems. A key element of this is that all Fund officers are able to work from home. Contract requirements ensure that the various companies and organisations that we deal with have their own disaster recovery plans. For the Fund the biggest issue is member data and processes on the Altair system.

Mrs Beales then proceeded to detail the set up for protecting member data and processes. All data is held on two dedicated Altair servers located remotely from County Hall; one is the live system and the other a test system. All data is backed up nightly and there is a disaster recovery server which would be used to continue working on should something happen to the live system. ICT run a disaster recovery test annually.

Mrs Beales then went on to explain an issue that had arisen in the last few weeks. As the test was due mid-October ICT was contacted to determine whether everything was ready for the test. It then became apparent that whilst software on the Altair itself had been regularly updated on both the live and test servers, it had not been updated on the disaster recovery server. Consequently the version of Altair on the disaster recovery server is different to that on the live and test systems. This has not previously occurred.

The Fund was not informed that ICT had not updated Altair on the disaster recovery server. This can be resolved but is likely to entail additional charges. The Board agreed that the key issue is to resolve this problem as urgently as possible.

As she had originally raised this issue, Mrs Brookes suggested that the Board should escalate this issue and that she was extremely concerned and wanted an urgent resolution regarding data back up and

Actions

the need for Internal Audit's risk register to be updated to record and test disaster recovery particularly in relation to members data and ongoing service continuity.

Mr Jackson added that this was also a matter for Internal Audit as the current disaster recovery plan was clearly not working.

The Chair noted that this would have to be resolved urgently despite any additional cost.

The Board Secretary referred back to the earlier discussion regarding the possibility of hosting the system by Aquila Heywood (agenda item 5) which would include disaster recovery procedures, albeit it was noted that this may take some weeks to put place.

The Board's view was that the Chair would email Flintshire's Chief Officer (Governance) with their concerns, and additionally the Fund's risk register would need to be amended.

Resolved – That:

- a. ***the Chair will email Flintshire's Chief Officer (Governance), and***
- b. ***that the Board Secretary would update the Fund's Risk Register to reflect the increased risk.***

Chair

Board Secretary

8. CONSIDERATION OF 27th SEPTEMBER 2016 PENSION FUND COMMITTEE MEETING PAPERS

The Chair opened this item up to the Pension Board.

Mr Jackson stated how positive it was that they were able to attend and how this helped put issues into context enabling a better understanding of the issues involved.

Mr Owen commented that this Committee was a long one and some of the key agenda items were toward the end of the agenda. Consideration should be given to revising the order of the agenda. **The Board Secretary agreed to give this matter some consideration.**

Board Secretary

The Chair stated that it was beneficial that Board members attended the Committee and were engaged with the meeting; she hoped that this would continue.

The Chair reminded the Board of the Fund's Employer Meeting (20th

Actions

October) and Annual Meeting (8th November) to which they are invited. **The Chair agreed to circulate the agendas** for the events. The Chair highlighted that there was a slot in the annual meeting for the Board and asked whether Board members wished to present this rather than her. The Board agreed they could share the presentation of their annual report. **Mr Owen agreed to email the other Board members with a suggested split of the report.**

Chair

Mr Owen

9. INPUT INTO ADVISORY PANEL AND CPF COMMITTEE

Mr Jackson commented that they recognised that the KPI's are work in progress which is progressing well. Starting to reflect on how to improve but timescale likely to be over the next two years.

Mr Owen commented that he was happy that the Fund is open with the Board as they are there to help; disaster recovery being a good example of this.

10. PENSION BOARD INSURANCE

The Chair excused herself for the duration of this item having previously highlighting her potential conflict of interest.

The Pension Finance Manager updated the Board on progress to date including discussions that he had had with both Flintshire's insurance provider and their insurance brokers.

Flintshire's insurance providers do not include the required cover within Flintshire's policy and were of the opinion that it was not necessary. The Pensions Finance Manager stated that he had written asking whether this could be added to the policy at little or no cost – there being no perceived risk as far as they were concerned. A reply has not yet been received.

This issue was also discussed with Flintshire's insurance brokers who commented on the lack of suitable products other than that offered by Aon Risk Solutions the details of which were then discussed.

Following the discussions the Board reiterated their desire for liability cover and opted for the lowest liability cover offered provided that an alternative was not available from Flintshire's insurance providers. **It was agreed that the Board Secretary would pursue the required liability cover and also that any additional costs would be met from the existing budget.**

Board Secretary

Resolved – That:

- a. *Liability cover for the Board should be taken with Aon Risk***

Actions

Solutions provided that Flintshire's existing insurer was unable to offer an alternative.

- b. *The Board's budget would remain at the current level with any additional cost met from the existing budget.***

11. FUTURE WORK PLAN

The Chair, having re-joined the meeting, presented the future work plan and initiated discussion. It was suggested that disaster recovery should be added to the work plan for the next meeting as well as updates via email in the meantime. Other items agreed to be added included:

- Administration and asset pooling as standard items.
- 2016/17 budget.

The Chair agreed to update the work plan and action plan to ensure ongoing update relating to disaster recovery.

Chair

12. PENSION BOARD BUDGET MONITORING

The Pension Finance Manager shared a budget update report with the Board and also gave a verbal update to the Board regarding the 2016/17 budget. No issues were raised and it was noted the cost of any insurance would come out of the budget. Mr Hughes explained that, for this year, sufficient funds existed to absorb the part year cost of the insurance but that consideration should be given as to how it would be included within the budget for 2017/18.

Resolved – That:

The Board accepted the budget monitoring report.

13. FUTURE DATES

The Board Members were reminded of the future Board meeting dates already agreed, namely 02/03/17 and 28/06/17. The Chair asked the Board to advise her if there was an issue with any of these dates.

As a presentation of iConnect is to be made at the next meeting it was agreed that the meeting would run from 1.30pm to 4.00pm.

Mr Hughes also reminded the Board about potential training events including the CIPFA Pension Board event and noted that the LGC Investment Seminar will be taking place at Carden Park in March.

14. ANY OTHER BUSINESS

Actions

The Chair noted that they had received a book of compliments and complaints from Mrs Jayne Taylor, Principal Pensions Officer (Operations). It was agreed that a short summary extracting the information would be useful for future meetings. **The Chair asked the Board Secretary agreed to arrange this.**

Board Secretary

No further business was raised. It was agreed that the **draft minutes would be circulated.**

Board Secretary

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CURRENT BREACHES OF THE LAW

Reference	01	Date recorded	11/3/2016	Date breach resolved	Ongoing
Category	Administration	Owner	H Burnham	Reported to TPR	To be decided
Description and cause of breach	Notification of deferred benefit entitlement for those who have left the scheme not sent within the legally prescribed timescale. Whilst it is acknowledged that there are a number of these breaches there is no detail yet available regarding numbers affected.				
Possible effect and wider implications	The impact of the breach will vary dependant on the individuals concerned but as a minimum will mean they do are not fully aware of the benefits they will eventually become entitled to.				
Reaction to breach	Still trying to identify cases. Backlog project put in place including using external resource (Mercers) to assist with rectifying the situation as soon as possible. Methods of internal working reviewed to focus on older cases including greater focus on identifying cases and monitoring.				
Outcome of report and/ or investigations	Ongoing				
Outstanding actions	Information being collated to quantify deferred benefit notifications over 2 months late together with reasons why there is a delay and what steps are being taken to prevent a recurrence of the breach. Meeting of officers and advisors being held on the 14 th February 2017 to determine reasons and extent of issue, and further action to be taken.				

Reference	03	Date recorded	19/9/2016	Date breach resolved	Ongoing
Category	Administration	Owner	H Burnham	Reported to TPR	To be decided
Description and cause of breach	There are a number of cases where we are not notifying the amount of retirement benefits within the legal timescales (1 month from date of retirement if on or after Normal Pension Age or 2 months if before NPA).				
Possible effect and wider implications	The impact of the breach will vary dependant on the individuals concerned but as a minimum will mean a delay in payment and uncertainty for scheme members. Delays in payments will incur interest cost to the Fund.				
Reaction to breach	Still trying to determine reasons for, and extent of, delays. Officers and Advisors to review performance results and identify method of improvement where appropriate.				
Outcome of report and/ or investigations	Ongoing				
Outstanding	Meeting of officers and advisors being held on the 14 th				

actions	February 2017 to determine reasons and extent of issue, and further action to be taken.
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Reference	04	Date recorded	16/01/17	Date breach resolved	Ongoing
Category	Contributions	Owner	A Hughes	Reported to TPR	To be decided
Description and cause of breach	<p>We have recently reviewed our procedure in recording late payment of contributions. It has been identified that there have been nine employers who have been late in paying their contributions this financial year; the delays vary from 1 to 7 months:</p> <ul style="list-style-type: none"> • One of the employers was late as historically their contributions were paid by their local Council. When this arrangement ceased, they were unaware of how to make payments. The late payments should have been received by 19th April and 19th May respectively and were received in one payment in July 2016. • Six of the employers were newly admitted to the Fund and they were not aware of the process to make contributions which then led to delays. There were 25 late payments in total ranging between 1 month and 7 months being late. These have now all been paid • The final two were existing employers; one had one payment that was one month late and is resolved. The remaining employer has only made one payment, with no explanation, and is not making regular payments. Currently there are 9 outstanding payments spanning the whole of 2016/17. 				
Possible effect and wider implications	<p>Late payments has a negative impact on the Fund, resulting in less assets available (although generally this has minimal impact). The employer could be charged interest on the late payments. In extreme situations, the Fund Actuary could be asked to take non-adherence around monthly contributions into account when setting employer contributions. Further, there are legal requirements to report non-payment of contributions to the Regulator in cases which could be significant to him. A review of the processes around notification of new employers admitted to the Fund may be necessary.</p>				
Reaction to breach	<p>In all but one of the nine cases, the outstanding employers' payments have been pursued by officers and have been received as required. Officers from the Fund are due to meet with the remaining employer.</p>				
Outcome of report and/ or investigations	<p>In most cases resolved. In the remaining case this is ongoing.</p>				
Outstanding actions	<p>Meeting with one employer to resolve the issue on 10th February 2017. Decision on whether to charge interest in relation to the</p>				

	<p>outstanding amounts. Review processes around new employers being admitted to the Fund.</p>
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Reference	05	Date recorded	16/01/17	Date breach resolved	Ongoing
Category	Contributions	Owner	A Hughes	Reported to TPR	To be decided
Description and cause of breach	Three employers provide pensionable pay analysis at the year-end rather than monthly as required. Two of these employers use the third employer as their payroll provider.				
Possible effect and wider implications	Historically this has not led to any issues; however, this is not to say problems could not arise in the future. It is possible that employers do not understand the legal requirements.				
Reaction to breach	To be confirmed				
Outcome of report and/ or investigations	Ongoing				
Outstanding actions	<p>Discussion with employer to help them understand the legal requirements.</p> <p>Standard form to be updated and circulated round all employers with explanation of changed requirements.</p>				

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Delegation of Functions to Officers by Pension Fund Committee – February 2017

Key:

PFC – Pension Fund Committee

CFM – Corporate Finance Manager

FA – Fund Actuary

PAP - Pension Advisory Panel

CEO - Chief Executive Officer

IA – Independent Advisor

PFM – Pension Fund Manager

IC – Investment Consultant

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

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
	Investment Strategy.		
	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers	PFM, CFM and CEO (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
Agreeing the terms and payment of bulk transfers into and out of the Fund.	Selection, appointment and dismissal of Fund Managers	PFM, CFM and CEO (having regard to ongoing advice of the IC) and subject to ratification by PFC	Notified to PFC via ratification process.
	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Exceptions to this would be where there is a dispute over the transfer amount or it relates to significant assets transfers relating to one employer or the Fund as a whole	PFM and either the CFM or CEO after taking appropriate advice from the FA.	Ongoing reporting to PFC for noting

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	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.	PFM and either the CFM or CEO after taking appropriate advice from the FA.	Ongoing reporting to PFC for noting
Discretions – determining how the various administering authority discretions are operated for the Fund.	Approving administering authority discretions policy other than in relation to: <ul style="list-style-type: none"> • any key strategy/policies and • matters relating to admission bodies and bulk transfers as included in the preceding two rows. 	CFM and CEO (having regard to the advice of the rest of the PAP)	Copy of policy to be circulated to PFC members once approved.
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PFC.	PFM and either the CFM or CEO, subject to agreement with Chairman and Deputy Chairman (or either, if only one available in timescale)	PFC advised of consultation via e-mail (if not already raised previously at PFC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PFC for noting.

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice ¹	CEO	Regular reports provided to PFC and included in Annual Report and Accounts.
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pension Fund Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pension Fund Committee.	Other urgent matters as they arise	PFM and either CFM or CEO, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	PFC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PFC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PFC and subject to monitoring agreed at that time.

¹ CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday 16th February 2017
Report Subject	LGPS Current Issues
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide an update on the key issues affecting the LGPS as at February 2017 and makes recommendations for Members to review the update document as per Appendix 1 from Mercer covering many of the current ongoing issues, in particular:

- An update on the Brexit position as at the time of writing
- The Consultation on Indexation and Equalisation of GMPs, including the proposals put forward by the Government
- An update on Employment Tribunal that held that transitional protections favouring older judges are discriminatory
- A paper titled The LGPS: A Lost Decade from Michael Johnson at the Centre for Policy Studies relating to the management of the LGPS which could generate queries for the Fund from third parties
- And commentary on other developments on LGPS Regulations and Consultations or items in the pipeline.

RECOMMENDATIONS

1	It is recommended that all PFC members note this report and make themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the CPF.
2	In particular, members are asked to note that the Employment Tribunal ruling, and the consultation regarding GMPs, which may have a significant impact on the CPF and lead to further action in the future.

REPORT DETAILS

1.00	LGPS Current Issues
1.01	<p>The purpose of this report is to provide a general update to PFC Members on various current issues affecting the LGPS.</p> <p>Appendix 1 sets out a brief update on a number of significant specific issues, and also wider issues affecting the whole of the pensions industry.</p>
1.02	<p>Key points to be aware of are:</p> <ul style="list-style-type: none">• A pensions perspective update on “Brexit”.• An update on the Education Sector employers, including Academies in England (for Member’s information only)• The GMP consultation which proposes three options. Each of these will have operational and pension cost implications of varying degrees. The least operationally challenging will pose the largest funding strain for the Fund.• Cost Management and the Deficit Working Group. GAD are currently working on their Cost Management calculations that may lead to compensatory benefit or member contribution changes from April 2019. The Deficit Working Group has also been reconstituted by SAB specifically to look at three employer groups; tax payer backed employers, academies (for England) and private sector employers with no central or local authority guarantee.• A paper titled The LGPS: A Lost Decade from Michael Johnson at the Centre for Policy Studies relating to the management of the LGPS. This could generate interest in the LGPS and CPF and we have already seen some Press coverage on the report.

2.00	RESOURCE IMPLICATIONS
2.01	<p>Some of the actions arising out of the issues identified will take significant input from Fund officers, including responding to the GMP consultation. Further consultation responses may also be needed on the implementation of the New Fair Deal principles, Freedom and Choice for AVCs, Exit Cap and Recovery Regulations.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>None directly as a result of this report but noting the developments in the highlighted areas.</p>

4.00	RISK MANAGEMENT
4.01	<p>This report addresses some of the risks identified in the Fund’s Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none">• Governance risks: G2 & G7.

4.02	<p>Some key risks need to be considered. In particular the cost impact GMP consultation, outcomes of the Cost Management process, the findings of the Deficit Working Group and situation concerning the Employment Tribunal on the Judges Scheme. There are also key risks as highlighted attached to the MiFID II proposals, but these are covered in a separate report. Matters arising will need to be dealt with under the overall Governance objectives.</p> <p>This report also is also intended to support the Knowledge & Understanding of the PFC and officers thereby reducing risk around decision making as per the Risk Register noted in 4.01.</p>
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5.00	APPENDICES
5.01	Appendix 1 – LGPS Current Issues - February 2017 edition

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

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

- (f) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (g) **DCLG - Department for Communities and Local Government** - Central Government department responsible for the LGPS
- (h) **LGA - The Local Government Association** - a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. Performs various Secretariat and support roles for the LGPS.
- (i) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.
- (j) **GMP – Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.
- (k) **CARE – Career Average Revalued Earnings** – With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.
- (l) **Annual Allowance** – the annual allowance is a limit on the amount that individuals can contribute to their pension each year, while still receiving tax relief.
- (m) **Fair Deal** - guidance issued by the Government which applies to compulsory transfers of employment out of the public sector. Updated guidance was issued in October 2013, referred to as “New Fair Deal”, which amends some of the previous guidance.
- (n) **MiFID** - the EU Markets in Financial Instruments Directive (MiFID) introduced in 2007. MiFID II refers to the updates with the aim of improving the functioning of financial markets in light of the financial crisis and to strengthen investor protection.

FEBRUARY, 2017

LGPS CURRENT ISSUES

NEWS IN BRIEF

BREXIT UPDATE

At the end of last year, the UK Government challenged the High Court's ruling that Parliament must be allowed to vote before the Government can give formal notice of the UK's decision to withdraw from the European Union (that is, to trigger Article 50). On 24 January the Supreme Court published its judgment that an Act of Parliament will indeed be required. Further, the Supreme Court held that the Scottish Parliament and the Wales and Northern Ireland Assemblies do not have a veto on the UK's decision to withdraw from the EU.

The briefly worded European Union (Notification of Withdrawal) Bill has now been published, and at the time of writing will be given priority over other business by Parliament.

Rather than blocking the triggering of Article 50, it is likely that "remainers" will seek concessions from the Government on the terms of the UK's withdrawal. The Prime Minister, Theresa May, made a key speech on 17 January about her plans for a "hard" Brexit, and has since announced that the Government will set out its plans formally in a white paper.

The plans include:

- Taking the UK out of Europe's single market. The intention is that the UK pursues the greatest possible access to the single market, on a fully reciprocal basis, through a comprehensive free trade agreement.
- Taking control of who enters the UK from Europe. The intention to reach an early deal to guarantee the rights of EU nationals living in the UK, and UK nationals living in the EU.

IN THIS ISSUE

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- [Other Things in the Pipeline...](#)
- [Taxation Round Up](#)
- [Dates to Remember](#)
- [Contacts](#)



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LONDON EC3R 5BU

- The UK taking back control of making its own laws. The Government will adopt EU law in the Great Repeal Bill, and Parliament will then decide what laws it wants to change. In addition, the Prime Minister does not intend the UK to be bound by decisions of the Court of Justice of the EU after Brexit.
- A phased transitional deal for Brexit. This will vary in length for different aspects of Brexit.

Although the Government has set out what it is seeking from Brexit, it will not be certain until a deal is concluded on what can be negotiated with the EU. In the meantime, markets will continue to react to developments around Brexit and perhaps more widely to the changes in the political and fiscal outlook globally and in particular the changes in the US.

CENTRE FOR POLICY STUDIES REPORT ON LGPS

A further report titled the [The LGPS: A Lost Decade](#) has recently been published by Michael Johnson at the Centre for Policy Studies which has resulted in further commentary in the Press. It discusses the management of the LGPS; in particular their running costs and performance. His report considers aggregate and individual data on administration and investment costs that he has compiled and ranked accordingly. In his report, he also makes 15 wide ranging proposals that he believes the LGPS should adopt going forward. The report itself does not say a great deal more than he has said previously although it does make a recommendation that the Government should create an Infrastructure-focused Sovereign Wealth Fund using all LGPS assets and making the Scheme unfunded as per other Public Service Schemes.

ONS INFLATION ANNOUNCEMENT AND SEPTEMBER 2016 CPI

On 10 November, it was announced that the Office for National Statistics (ONS) will make CPIH – a variant of the standard Consumer Price Index (CPI) – its preferred measure of consumer price inflation from March 2017. For September 2016, the rate of CPIH was 1.2%.

The announcement has led to speculation that CPIH will be used by the Government for the uprating of social security benefits and indexation of pensions. There is, however, no indication at the moment that the Government plans to use CPIH as its measure for uprating public service pensions.

In recent years the Government has based both pension increases and revaluation of pension accounts to be applied in April, on the Consumer Prices Index (CPI) rate of inflation for September of the previous year. On 18 October 2016, the Office for National Statistics (ONS) announced that the Consumer Prices Index (CPI) rate of inflation for September 2016 was 1.0%. We await confirmation, although it is our expectation that this rate will be applied for the LGPS.

INDEXATION AND EQUALISATION OF GMPs

On 28 November 2016, the Government issued a [consultation](#) about equalisation and indexation of Guaranteed Minimum Pensions (GMPs) for public service scheme members who reach State Pension Age (SPA) after 5 December 2018.

The consultation aims to address two issues simultaneously, namely:

1. The equalisation of male and female GMPs accrued after 17 May 1990
2. Historic commitments by previous Governments that all public sector workers will receive full indexation on their pensions (including GMPs).

Under the proposals, the burden of providing indexation on GMPs will now fall on the public service schemes themselves and all the associated employers in those schemes, whether public sector or not. This is because these increases will no longer be provided through the Additional State Pension (ASP) following recent changes to state pension provision.

The proposals are either administratively complex and costly, or increases the cost of the LGPS, or possibly both. Currently there appears to be no expectation that extra funding might be available to LGPS to cover the cost. As part of the consultation the Government have asked for alternative proposals. We are currently finalising our response to the

consultation and intend to put forward our suggested alternative to Treasury. The consultation closes on 20 February 2017.

END OF CONTRACTING-OUT

HMRC have confirmed that they will automatically close all open periods of contracted out employment held on their records (i.e. for active members) in December 2016. HMRC will then be contacting pension schemes with their data (active members only) between January 2017 and March 2017 to allow schemes to reconcile their active member records. HMRC countdown [bulletin 21](#) provides information on how to obtain “closure scan” data for your active members. Funds are reminded to complete and return a [closure scan request form](#) as soon as possible. We would urge Administering Authorities who have not yet looked at reconciling their GMP data to send any queries in relation to deferred and pensioner members to HMRC as soon as possible. Speak to your usual Mercer consultant if you would like any assistance with this.

AGE DISCRIMINATION CHALLENGE TO JUDICIAL PENSION SCHEME SUCCEEDS

An Employment Tribunal has [held](#) that transitional pension protections that favoured older judges are discriminatory. When the public service pension arrangements for the judiciary were reformed by the Government, older judges were permitted to remain in the old scheme, while younger judges were required to leave it for a scheme with much less favourable benefits, either immediately or at the end of their protection period.

This decision could open the way to further challenges, indeed we are aware that a similar case has been brought by the Fire Brigades Union in respect of changes made to the Firefighters’ Pension Scheme.

Although Employment Tribunal decisions are not binding on other tribunals or the courts, the ruling could have implications for the other public service pension schemes, where some similar reforms were made and protections for older members were included. For the LGPS a Statutory Underpin was introduced, but only applied to those within 10 years of retirement in 2012. The Government may appeal the decision and so we await developments.

THE PENSIONS REGULATOR (TPR)

Following a recent survey that the Regulator undertook with regards to record keeping standards in occupational pension schemes, it found that little improvement had been made on standards recently. Improving record keeping standards will be a continued focus for the Regulator over the next year. It has published a short guide to assist managers of pension schemes in meeting their duties.

The Regulator has also published a self-assessment tool for those involved in running public service pension schemes to assess how they are getting on with both meeting their legal requirements and complying with the guidance set out in the Regulator’s code of practice number 14.

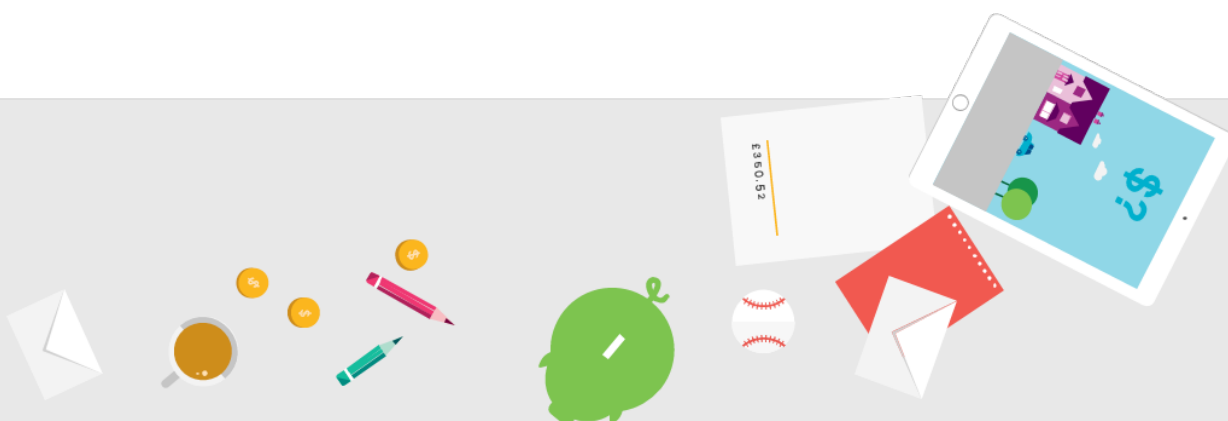
Building upon the survey TPR carried out last year on the governance and administration of public service pension schemes, it started work on its 2016 survey during November. More focus will be given to record-keeping, internal controls and communications as part of this survey.

ALTERNATIVE DELIVERY MODELS

In October 2016, CIPFA published “a practical guide to alternative delivery models”. This [publication](#) is designed to be a resource for people working in or with alternative delivery vehicles and for those who may be considering or are participating in setting one up. It will be useful for managers and officers involved in commissioning services or looking at new service delivery models. It can be read as a whole or dipped into for information on specific areas. Mercer can provide additional training to employers and managers to assist understanding in this area. If this is something you or your employers are considering, we would recommend involving your Mercer consultant at the earliest possible opportunity.

OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATIONS

- On 23 September 2016 the LGPS (Management and Investment of Funds) Regulations 2016 were laid before parliament effective from 1 November 2016. The [regulations](#) facilitate the pooling of investment funds and introduce:
 - A requirement to publish an investment strategy no later than 1 April 2017 in accordance with guidance issued by the Secretary of State.
 - A power for the Secretary of State to intervene where an authority fails to comply with its statutory obligations as regards its pension fund or were it fails to act in accordance with guidance.
- **MiFID II** - the EU Markets in Financial Instruments Directive (MiFID) introduced in 2007 is now being revised with the aim of improving the functioning of financial markets in light of the financial crisis and to strengthen investor protection. The changes are due to take effect on 3 January 2018 and the new provisions will be known as MiFID II. In the UK, the FCA is responsible for implementing the changes. They have been [consulting](#) on this, and one aspect included the impact on local authorities (and LGPS Funds). A critical area in this regard is the categorisation of investors (i.e. whether they are eligible counterparties, professional clients or retail clients) based on certain criteria. Under the new proposals, Local Authorities will be classified as retail clients, which could ultimately limit the range of investments available as well as the access to professional investment advice. Local Authorities will, however, be able to “opt-up” should they meet a series of qualitative and quantitative tests. At the current time there is some concern that Local Authorities would not necessarily be able to satisfy the opt-up criteria which would have potentially severe consequences. Interested parties are working with the FCA on this to ensure the process is clear and sensible to avoid any unintended consequences. Separately it is expected that the new investment “pools” will automatically qualify as “professional clients”. Funds should seek further input from their advisors on the implications of this and we will update on progress in due course.



- **Education Sector** – Following the conclusion of the Government consultation undertaken earlier this year to introduce insolvency provisions for further education and sixth form colleges in England, the Government will now take forward their plans via primary legislation. Also in the education sector, on 27 October 2016 the Government reported that it had dropped its bill to require all schools in England to convert to academy status by 2022. This will still be encouraged by the Government but it will now be on a voluntary basis and as such no new primary legislation will be needed.
- **New Fair Deal** – following the [consultation](#) carried out last year, further details and clarifications needed have been identified. We believe that a further consultation may be needed on an updated set of provisions to apply the principles of New Fair Deal to the LGPS.
- **Freedom and Choice for AVCs** – similar to the above, further work has been identified and so our understanding is that a further consultation is likely. Separately a working party has been established to consider the practicalities in potentially implementing changes to the LGPS money purchase AVCs, with regards to making UFPLS payments.
- **Exit payments** – In September, the government [responded](#) to the further consultation on exit payments confirming that it intends to proceed with plans for further reform. The response confirms that the government expects departments to produce packages consistent with the framework set out and consult on these where appropriate with the aim of having completed negotiations and made the necessary amendments to exit arrangements within nine months of the publication of the government response (i.e. by 26 June 2017). A working group of the LGPS advisory board is considering whether it wishes to make a recommendation to DCLG on the reforms it wishes to see made.

There is still no hard deadline for the implementation of the public sector exit payment cap or recovery regulations, as the secondary legislation is still being finalised. It is our understanding that further consultant will be undertaken before it formally comes into effect.

- **Plans for Single Financial Guidance Body** – Free and impartial financial guidance to individuals is currently provided by three public services: The Money Advice Service, The Pensions Advisory Service and Pension Wise. However, the Government is [consulting](#) on plans to change this model with the creation of a single financial guidance body (SFGB).

The Government is of the view that there are gaps, as well as duplication, in the guidance currently available, and that a SFGB would be better suited to respond to the different financial needs of consumers.

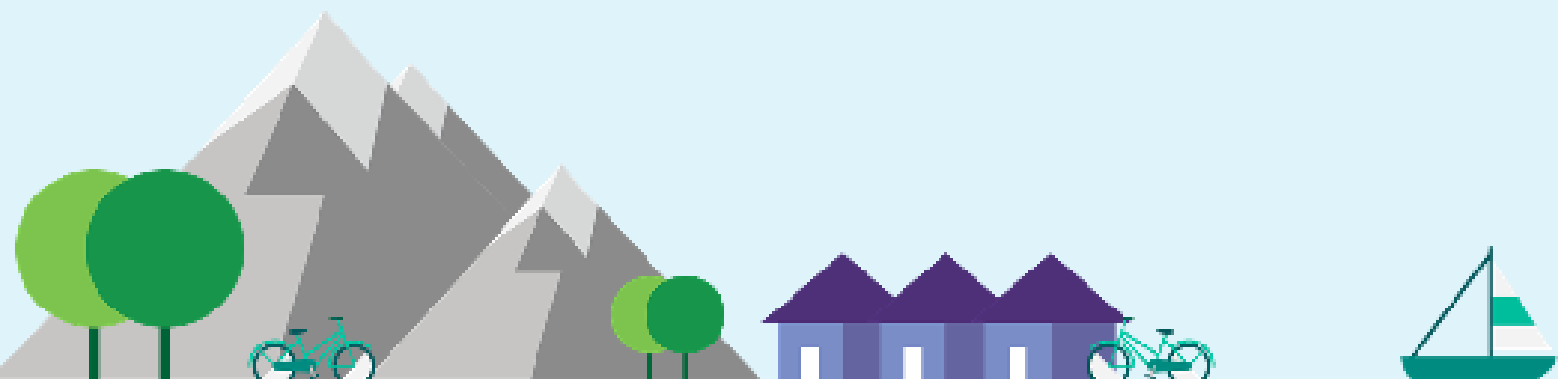
The Government is seeking feedback as to whether the proposed model would allow consumers to access the guidance they need to make effective financial decisions. The consultation closes on 13 February 2017 and it is anticipated that the SFGB will be launched no earlier than autumn 2018.

- **State Pension Age** – An independent report on the review of State Pension Age is expected early in 2017, and the Government must publish the outcome of the review by 7 May.
- **The General Data Protection Regulation** is expected to come into effect from 25 May 2018. Administering authorities should consider, in partnership with legal advisors what action may need to be taken during 2017 to ensure compliance.



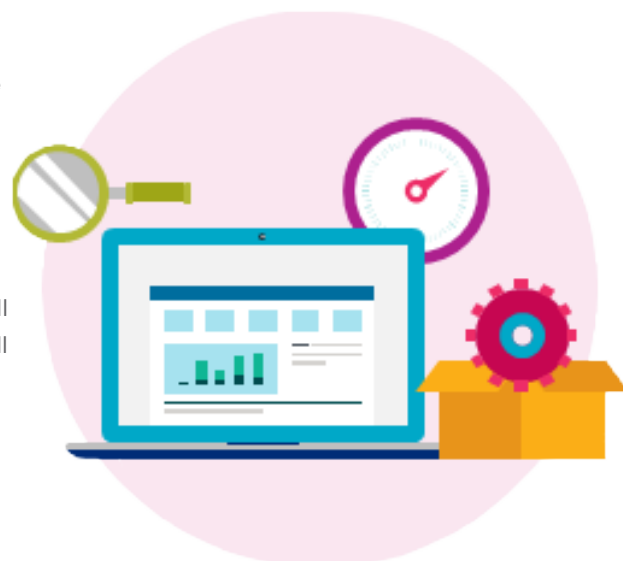
OTHER THINGS IN THE PIPELINE...

- **ACADEMIES REVIEW** – PWC have been appointed to carry out a full review of the possible options and implications for Academies and Funds within the LGPS framework. Nothing has been ruled in, or out at present and we await their report with interest (currently expected in March). We have provided our direct input into the process on behalf of our clients.
- **COST MANAGEMENT 2016** – The GAD have been provided with the required data from the LGPS Funds and we await their findings in anticipation of potential action with effect from 1 April 2019. Funds should be mindful that current expectations are that the costs of the scheme will have increased (not least due to lack of 50:50 take-up), although we await more information – initial results are expected in May/June.
- **COST MANAGEMENT TRANSACTIONAL DATA** – The data request has been finalised, but we have yet to see any evidence that production of the transactional data in the required format is achievable for Funds. We will keep our clients updated as and when further details emerge.
- **DEFICIT WORKING GROUP** – This has been reconstituted and we attended a meeting on 8 November 2016 to consider a work plan for the coming months. Deficit management will be considered for three distinct groups; tax payer backed employers, academies and private sector employers with no central or local authority guarantee. Further separate pieces of work are underway and we will keep our clients updated on developments.
- **TRANSFER CLUB MEMORANDUM UPDATE** – A new transfer club memorandum is due to be released to coincide with the release of the revised Club Transfer Factors, proposed to be effective from 1 March 2017. We will keep Administering Authorities updated as more details emerge.



TAXATION ROUND UP

- The Finance Act 2016 received Royal Assent on 15 September. The key pension aspects of the Act for the LGPS were the reduction in the lifetime allowance to £1 million (effective from 6 April 2016), the introduction of new individual and fixed protections to enable members to protect a higher allowance in certain circumstances and the higher limits for trivial lump sums.
- Automatic Enrolment – previous powers for employers to exclude an individual from the automatic enrolment requirements where they held an active lifetime allowance protection have not currently been extended to include the new fixed protection 2016 or individual protection 2016. Until an amendment is made to the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010, an employer must automatically enrol (or re-enrol) an eligible jobholder into the LGPS even where that individual holds fixed protection 2016 or individual protection 2016. It will be up to the individual to make sure they opt-out of automatic enrolment (or re-enrolment) to maintain their tax protection if required. An individual who holds individual protection 2016 will not lose their tax protection if they make further pension savings but any pension savings in excess of their protected lifetime allowance will be subject to a lifetime allowance charge.
- Scheme Pays – Following the introduction of the Tapered Annual Allowance with effect from April 2016. Some affected members may not have the right to the “mandatory” scheme pays requirements and it is up to individual pension schemes to agree whether to allow “voluntary” scheme pays for those members. The LGA are currently seeking urgent legal advice on whether administering authorities have the power to agree to voluntary scheme pays without an amendment to the Regulations and will issue further comment in due course.
- Termination payments with effect from April 2018, which are over £30,000, will be subject to employer NICs as well as income tax. The first £30,000 of a termination payment will remain exempt from both.
- The income tax personal allowance threshold will rise to £11,500 for the 2017/18 tax year and the higher rate threshold will rise to £45,000. The Government intends to increase these further over the next few years, up to £12,500 and £50,000 respectively.
- Scottish taxpayers – If your scheme has any pensioner members resident in Scotland, you will need to ensure that your pensioner payroll is set up to handle the new higher-rate tax threshold (£43,430) that will apply for Scottish taxpayers from April 2017.



DATES TO REMEMBER

DATE	ISSUE	SUMMARY
31 March 2017	Actuarial valuation	Deadline for Funding Strategy Statements to be formally updated in order for Actuarial Valuation to be signed off by the Fund Actuary.
31 March 2017	Actuarial valuation	Deadline for the 2016 England and Wales actuarial valuation exercises to have been formally signed off by the Fund Actuary. Effective date of the Scottish LGPS actuarial valuations.
April 2017	Pensions Advice Allowance	The Government plans to introduce an allowance from this month for members to use against the cost of regulated financial advice. Subject to consultation.
April 2017	Lifetime ISA	The new Lifetime Individual Savings Account will be launched this month.
1 April 2017	Investments	Deadline for the new Investment Strategy Statement (ISS) to be published by the LGPS Funds.
6 April 2017	Scottish Income tax	The Scottish Parliament is proposing to vary the higher rate threshold for Scottish taxpayers from this date.
7 May 2017	State Pension Age	Deadline for publication of the first report on the independent review of the State Pension age.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday, 16 th February 2017
Report Subject	Pension Administration and Communications Update
Report Author	Pensions Administration Manager

EXECUTIVE SUMMARY

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

- (a) Business Plan 2016/17 update (Appendix 1) for administration and communication – two areas have been extended due to staffing changes.
- (b) Current Developments and News including an update on the Employer Liaison Team (ELT), i-connect and the Judges' pension ruling.
- (c) Administration and communications related policy/strategy implementation and monitoring – this includes the latest statistics on the number of cases being dealt with by the administration team, which highlights a high volume of work continuing to be received (Appendix 4).

It also provides a summary of the key administration and communication elements in the current risk register (Appendix 2).

RECOMMENDATIONS

1	That the Committee consider the update and provide any comments.
2	That the Committee agree to delegate the decision regarding the appointment of the GMP reconciliation provider to Philip Latham, Pension Fund Manager and Gary Ferguson, Corporate Finance Manager.

REPORT DETAILS

1.00	ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS
1.01	<p data-bbox="304 443 767 477">Business Plan 2016/17 Update</p> <p data-bbox="304 555 1375 696">Appendix 1 provides a summary of progress against the administration and communications section of the Business Plan up to the end of quarter 3 (October to December 2016). The majority of items are as originally planned but the Committee is asked to note the following:</p> <ul data-bbox="352 741 1375 1106" style="list-style-type: none"><li data-bbox="352 741 1375 920">• The GMP Reconciliation (A10) tender document has been sent and submissions received on the 3rd February. To enable the project to commence, the Committee is asked to delegate the decision regarding the appointment of the provider to the Clwyd Pension Fund Manager and Corporate Finance Manager.<li data-bbox="352 920 1375 994">• I-connect (A12) implementation for Denbighshire County Council was delayed slightly until January.<li data-bbox="352 994 1375 1106">• Backlog to 31 March 2013 (Mercers) (A4) – This continues to run behind schedule and will continue into Q4 of 2016/17. Further information is provided later in this report.
1.02	<p data-bbox="304 1149 1375 1256">The Committee is asked to note the contents of the business plan update and agree the recommendation to delegate responsibility for appointing the successful provider for the GMP Reconciliation project.</p>
1.03	<p data-bbox="304 1294 810 1328">Current Developments and News</p> <p data-bbox="304 1368 1375 1547">The Employer Liaison Team (ELT) has been set up since 1st December 2016 and will provide assistance to Fund Employers by providing accurate and complete notifications to the Fund (and other Employer duties) in a timely manner. The progress made by the ELT will be monitored and reported on a regular basis.</p> <p data-bbox="304 1592 1375 1733">The employer on-line data transmission tool, I-connect, has now been successfully implemented for Bodelwyddan Castle Trust, Prestatyn Town Council and Denbighshire County Council. Work is now underway to progress with other employers as per the business plan.</p> <p data-bbox="304 1778 1375 2080">It was announced on Monday 16th January that the London Central Employment Tribunal has upheld a claim by 210 judges that they suffered age, race or sex discrimination as a result of the protections given to older judges when changes were made to the judiciary's pension arrangements for post 2015 accrual. The outcome of this case may have implications for public service schemes including the LGPS. There is no immediate action to take but it is worth being aware of a longer-term risk to scheme finances (and potential benefit for certain members) if this judgment is ultimately</p>

upheld and found to apply more widely.

Following the GMP reconciliation exercise a consultation concerning the proposed methodology for equalising pensions for the effect of GMP's was issued in November 2016. It is intended to respond to the consultation and a verbal update will be provided at the Committee.

1.04

Policy and Strategy Implementation and Monitoring

Administration Strategy – To provide some context to the magnitude of the services provided by the Administration Section, the latest membership figures for the Fund in relation to the last six months are as follows:

LGPS						
Status	Jul	Aug	Sep	Oct	Nov	Dec
Active	15,837	15,786	16,007	15,872	15,865	15,897
Undecided Leaver	2,590	2,742	2,658	2,769	2,726	2,701
Leaver	9,948	9,984	10,014	10,062	10,100	10,136
Deferred	10,779	10,864	10,969	11,085	11,188	11,238
Pensioner	9,964	9,985	10,038	10,073	10,123	10,145
Spouse/Dependant	1,619	1,614	1,614	1,613	1,613	1,622
Death	6,792	6,816	6,845	6,880	6,906	6,934
Frozen	1,020	1,035	1,048	1,058	1,062	1,059
Opt out*	1,013	1,045	1,064	1,084	1,107	1,123
Total	59,562	59,871	60,257	60,496	60,690	60,855

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

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

Councillors Scheme						
Status	July	Aug	Sept	Oct	Nov	Dec
Active	53	57	57	57	57	56
Undecided Leaver	1	1	1	1	1	2
Leaver	0	0	0	0	0	0
Deferred	7	7	7	7	7	10
Pensioner	22	22	22	22	22	22
Spouse/Dependant	4	5	5	5	5	5
Death	7	7	7	7	7	7
Frozen	0	0	0	0	0	0
Total	94	99	99	99	99	102

1.05

In relation to staffing and resource matters, there are currently 5 pension assistant posts going through the recruitment process. These posts have become available due to the promotion of the current pension assistants to pension officers following the establishment of the Employer Liaison Team (ELT).

1.06

The latest monitoring information (to 31 December 2016) in relation to administration is outlined below:

- Day to day tasks – Appendix 4 provides the analysis of the numbers of

	<p>tasks received and completed on a monthly basis. As can be seen:</p> <ul style="list-style-type: none"> ○ Current workloads – statistics had improved since the last review but due to staffing changes referred to in paragraph 1.05 these have temporarily dipped. This was expected during this period of change. ○ There is ongoing progress with the completion of older outstanding cases which have been reduced considerably during this financial year. ○ Mercers backlog cases - included as Appendix 3 is a summary of the backlog work that is being carried out by Mercers in relation to 2014/5 cases. Note these are counted in a different way to the items included in Appendix 4 which shows tasks within a case, (whereas Appendix 3 is the actual cases). The majority of cases will be completed by the end of February 2017. There are a number of pre 2003 cases where further interpretation of the payroll data is required. A revised completion date will be provided once interpretation has been agreed. 																																																												
1.07	<ul style="list-style-type: none"> ● Key performance indicators – more work is being undertaken and results will be presented at the next committee. 																																																												
1.08	<ul style="list-style-type: none"> ● Internal dispute resolution procedures – Below is a summary of the internal dispute resolution cases that have been received in the last 12 months. Of the appeals received against Employers at Stage 1 in the current year 2016/17, 3 are based on the non-payment of ill health benefits, 2 are based on the date of payment of benefits with a further 2 relating to the refusal of flexible retirement. There has been 1 appeal received against the Administering Authority which is in relation to an incorrect estimation of benefits. This has now proceeded to a Stage 2 appeal. All of the appeals received against Employers at Stage 2 in 2016/17 relate to the early release of benefits not being granted which were rejected at Stage 1. <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th colspan="4" style="text-align: center;">2016/17</th> </tr> <tr> <th></th> <th style="text-align: center;">Received</th> <th style="text-align: center;">Upheld</th> <th style="text-align: center;">Rejected</th> <th style="text-align: center;">Ongoing</th> </tr> </thead> <tbody> <tr> <td>Stage 1 - Against Employers</td> <td style="text-align: center;">7</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">6</td> <td style="text-align: center;">1</td> </tr> <tr> <td>Stage 1 - Against Administering Authority</td> <td style="text-align: center;">1</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">1</td> <td style="text-align: center;">_____</td> </tr> <tr> <td>Stage 2 - Against Employers</td> <td style="text-align: center;">3</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">3</td> </tr> <tr> <td>Stage 2 - Against Administering Authority</td> <td style="text-align: center;">1</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">1</td> </tr> <tr> <th></th> <th colspan="4" style="text-align: center;">2015/16</th> </tr> <tr> <th></th> <th style="text-align: center;">Received</th> <th style="text-align: center;">Upheld</th> <th style="text-align: center;">Rejected</th> <th style="text-align: center;">Ongoing</th> </tr> <tr> <td>Stage 1 - Against Employers</td> <td style="text-align: center;">6</td> <td style="text-align: center;">3</td> <td style="text-align: center;">3</td> <td style="text-align: center;">_____</td> </tr> <tr> <td>Stage 1 - Against Administering Authority</td> <td style="text-align: center;">2</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> <td style="text-align: center;">_____</td> </tr> <tr> <td>Stage 2 - Against Employers</td> <td style="text-align: center;">1</td> <td style="text-align: center;">1</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> <tr> <td>Stage 2 - Against Administering Authority</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> </tbody> </table>		2016/17					Received	Upheld	Rejected	Ongoing	Stage 1 - Against Employers	7	_____	6	1	Stage 1 - Against Administering Authority	1	_____	1	_____	Stage 2 - Against Employers	3	_____	_____	3	Stage 2 - Against Administering Authority	1	_____	_____	1		2015/16					Received	Upheld	Rejected	Ongoing	Stage 1 - Against Employers	6	3	3	_____	Stage 1 - Against Administering Authority	2	1	1	_____	Stage 2 - Against Employers	1	1	_____	_____	Stage 2 - Against Administering Authority	_____	_____	_____	_____
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Stage 2 - Against Administering Authority	_____	_____	_____	_____																																																									
1.09	<p><i>Communications Strategy</i> – The Communication Officer has provided the following services since the last update in September 2016.</p> <ul style="list-style-type: none"> ● 2 Pre retirement Presentations ● Leaver’s Fayre ● An All Wales Communications Group meeting 																																																												
1.10	<p>The following communication has been distributed during this period:</p> <ul style="list-style-type: none"> ● At the September Committee, it was reported that approximately 																																																												

	400 deferred members who left service in 2015/16 had not received their annual benefit statement due to us awaiting guidance from DCLG. This issue has since been resolved and all members concerned have now received an up to date statement.
1.11	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to administration and communication matters.</p>

2.00	RESOURCE IMPLICATIONS
2.01	The cost of the GMP reconciliation project is included in the current budget and any further costs expected on receipt of tenders to complete the work will be incorporated into the 2017/18 business plan which will be brought to the March Pension Fund Committee.

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

4.00	RISK MANAGEMENT
4.01	<p>Appendix 2 provides the dashboard showing the current risks relating to administration and communications. In addition, in relation to these risks, it provides details of:</p> <ul style="list-style-type: none"> • the key risks (i.e. ranked 15 or above in the above dashboard) • any new risks • risks that have changed by a score of 3 or more and • risks that have been removed since the previous report.
4.02	Since the last update, reported to the 27 September Committee, there have been no changes to the Administration Risk Register. However, a review of the risk register is being undertaken and will be presented at the March Committee.

5.00	APPENDICES
5.01	<p>Appendix 1 - 2016/17 Business plan update</p> <p>Appendix 2 – Risk Register Update</p> <p>Appendix 3 – Mercer Backlog Progress</p> <p>Appendix 4 – Analysis of tasks received and completed</p>

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







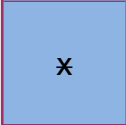
7.00	GLOSSARY OF TERMS
7.01	<p>(a) CPF – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) Administering authority or scheme manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) PFC – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) TPR – The Pensions Regulator – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF.</p>

Business Plan 2016/7 to 2018/9 – Q3 Update

Administration and Communications

Key Tasks

Key:

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

Administration (including Communications) Tasks

Ref	Key Action –Task	2016/17 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
A1	Pension Administration and Communication Strategies - final implementation including the set-up of performance monitoring	x	x	x			
A2	Tax Changes (Potentially from Spring Budget)	x					
A3	3rd Party Administrators Framework	x	x	x			
A4	Backlog to 31 March 2013 (Mercers)	x	x	x			
A5	Backlog from 1 April 2014 (Internal)	x	x	x	x		
A6	Preparation of Member Data for Valuation	x	x	x			
A7	Document production and word integration	x	x	x	x		
A8	Electronic and Centralised internal procedures	x	x	x	x		
A9	Website Update	x	x	x	x	x	
A10	GMP Reconciliation	x	x	x	x	x	x
A11	Trivial Commutation		x	x	x		
A12	i-Connect		x	x	x	x	x
A13	Member Self Service			x	x	x	

Administration and Communication Task Descriptions

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

What is it?

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

Timescales and Stages

Implementation and Commencement of Strategies

2016/17 Q1

Resource and Budget Implications

All internal costs are being met from the existing budget

A2 – Tax Changes (potentially from the Spring Budget)

What is it?

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

Timescales and Stages

Communicate as necessary

2016/17 Q1

Resource and Budget Implications

All internal costs are being met from the existing budget.

A3 - 3rd Party Administrators Framework

What is it?

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

Timescales and Stages

Appointment to Framework

2016/17 Q1/2

Resource and Budget Implications

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

A4– Backlog to 31 March 2013 (Mercers)

What is it?

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

Timescales and Stages

Clear cases externally, eliminating backlog.

2016/17 Q1/2

Resource and Budget Implications

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

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

What is it?

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

Timescales and Stages

Clear cases internally for period to 31 March 2015

2016/17 Q1/2

Clear any further backlogs that have accumulated since

2016/17 Q3/4

Resource and Budget Implications

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

A6 – Preparation of Member Data for Valuation

What is it?

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

Timescales and Stages

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

Resource and Budget Implications

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

A7 Document Production and Word Integration

What is it?

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

Timescales and Stages

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

Resource and Budget Implications

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

A8 – Electronic and Centralised internal procedures

What is it?

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

Timescales and Stages

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

Resource and Budget Implications

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

A9 – Website Update

What is it?

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

Timescales and Stages

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

Resource and Budget Implications

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

A10 – Scheme/GMP Reconciliation

What is it?

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

Timescales and Stages

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

Resource and Budget Implications

This project is currently being led by the Technical Team with some assistance from the Operational Team. Some external assistance from Heywoods (our software provider) has been provided, this external assistance is at a minimal cost at present. However, it is anticipated that due to the significant additional resource required to

complete this project, further external resource will be sought. This has been estimated as £840,000 and is included in the budget.

A11 – Trivial Commutation

What is it?

This is where a member who is entitled to a small pension can elect to give up the entirety of that pension and instead receive their benefit as a single lump sum payment. This should reduce the administrative burden on Funds paying a large number of very small pensions over a number of years as well as providing greater clarity from a funding perspective.

The government has recently increased the allowable limit for members to trivially commute their pension in relation to their single pension (£10,000 value) and total benefits (£30,000) and this has meant that more members are now eligible to choose this. The pension administration team will need to identify all historical cases that are eligible in the two categories and communicate with them to determine whether they would like to commute their pensions for lump sums. In addition, they will need to update their processes for all future retirements.

Timescales and Stages

Identify members eligible to commute under £10,000:	2016/17 Q2/3
Communicate with eligible members and pay lump sums:	2016/17 Q2/3
Identify members eligible to commute under £30,000:	2016/17 Q3/4
Communicate with eligible members and pay lump sums:	2016/17 Q3/4

Resource and Budget Implications

Led by the Technical Team with some assistance from the Operational Team. All internal costs to be met by existing budget.

A12 – iConnect

What is it?

On-line computer module that will allow information to be submitted by employers more directly and efficiently into the pension administration system. It involves employers uploading data directly into iConnect from their payroll systems. iConnect will be available to all large employers of the Fund. The first stage will be ensuring that the correct member records are held on the administration system before entering into testing and live roll out of the system. This will be done on a phased basis by employer.

Timescales and Stages

Denbighshire CC	2016/17 Q2/3
Coleg Cambria/North Wales Fire/Glyndwr	2016/17 Q3/4
Wrexham CBC and Flintshire CC	2017/18

Resource and Budget Implications

Time and resource for Employers required. All internal costs are being met from existing budget.

A13 - Member Self Service

What is it?

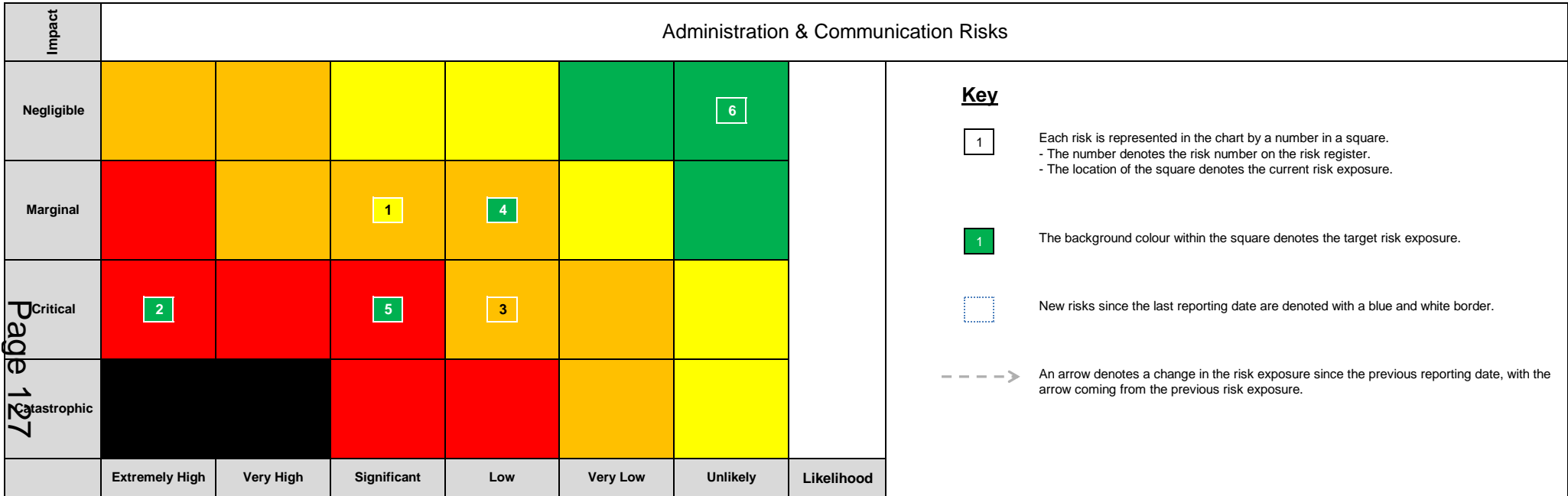
Member Self-Service will provide members with an easy-to-use interface to the pensions section. This will enable them to access information, undertake data amendments, view their documents and carry out benefit projections online without taking up valuable administration staff time.

Timescales and Stages

Obtain costings and gain approval from Pension Committee	2016/17 Q3/4
Implement System	2017/18 Q1

Resource and Budget Implications

To be led by the Pensions Administration Manager and implemented by the Technical Team with assistance from the Operational Team. The indicative cost for this is £106,800.



Clwyd Pension Fund - Control Risk Register
Administration & Communication Risks

- Objectives extracted from Draft Administration Strategy (02/2016) and Draft Communications Strategy (02/16):**
A1 Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
A2 Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
A3 Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
A4 Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
A5 Maintain accurate records and ensure data is protected and has authorised use only
C1 Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
C2 Communicate in a clear, concise manner
C3 Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
C4 Look for efficiencies in delivering communications through greater use of technology and partnership working
C5 Regularly evaluate the effectiveness of communications and shape future communications appropriately

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

CLWYD PENSION FUND BACKLOG CLEARANCE PROJECT

PROGRESS UPDATE - 31 JANUARY 2017

Set out below is an update on the progress made on the project to 31 January 2017.

Employer	Cases in scope	Cases completed				Cases remaining		Cases in WIP	Cases to be started	
		2015	2016	2017	Total	Number	%	Number	Number	%
DCC	309	242	67	0	309	0	0	0	0	0
FCC	1,178	594	491	50	1,135	43	3	37	6	1
WCBC**	530	24	391	13	428	102	19	17	85	16
WCBC (pre2003)	195	0	2	4	6	189	96	7	182	93
Others	155	23	69	2	94	61	39	23	38	24
Total in scope	2,367	883	1,020	69	1,972	396	16	85	311	13

* calendar year to reporting date

** excluding pre-2003 Wrexham cases

Notes:

- We have shown above the information regarding the completions, but also more detail on the current progress of “Work in Progress” (WIP). These constitute cases currently being worked on, or where queries have been raised with the nominated individuals.
- There are 60 cases that are currently being queried across FCC, WCBC and other body contacts.
- For the pre 2003 cases we are working with the Wrexham payroll department, in partnership with the Fund, to ensure all payroll data is being interpreted correctly before completion. This is important for data quality and internal control purposes given the format of the data.
- Resources have been put in place to ensure all cases (excluding the pre2003 Wrexham cases) are completed by the end of February 2017. We will advise the target completion date for the pre-2003 cases once interpretation has been agreed with Wrexham.

Mercer Limited
February 2017

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Tasks 16/17

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
DCC Start Total	1,083	1,116	1,035	1,047	1,000	1,030	1,209	1,257	1,234			
DCC Completed	1,276	938	963	858	913	1,371	1,180	1,207	756			
DCC Added	1,323	863	983	815	945	1,561	1,231	1,188	812			
DCC Remaining	1,130	1,041	1,055	1,004	1,032	1,220	1,260	1,238	1,290			
DCC 14/15	117	75	72	66	65	61	47	38	35			
Apr-Dec	209	185	185	168	147	126	117	112	105			
FCC Start Total	2,033	1,995	1,956	1,848	1,805	2,018	2,067	2,071	2,068			
FCC Completed	1,294	1,068	1,263	1,058	1,147	1,746	1,383	1,186	858			
FCC Added	1,266	1,034	1,153	1,025	1,368	1,796	1,391	1,180	1,002			
FCC Remaining	2,005	1,961	1,846	1,815	2,026	2,068	2,075	2,065	2,212			
FCC 14/15	69	55	32	30	27	18	12	10	10			
Apr-Dec	374	324	308	295	279	240	229	198	188			
WCBC Start Total	1,631	1,588	1,646	1,504	1,527	1,558	1,569	1,638	1,741			
WCBC Completed	1,489	1,053	1,087	896	830	1,097	964	857	681			
WCBC Added	1,458	1,127	956	924	880	1,116	1,052	960	736			
WCBC Remaining	1,600	1,662	1,515	1,532	1,577	1,577	1,657	1,741	1,796			
WCBC 14/15	36	13	13	12	12	10	5	2	2			
Apr-Dec	196	178	168	162	152	140	131	131	128			
Other Start Total	708	651	643	609	654	698	707	728	697			
Other Completed	790	603	607	535	651	807	641	646	393			
Other Added	733	602	562	579	679	802	638	614	443			
Other Remaining	651	650	598	653	682	693	704	696	747			
Other 14/15	42	14	12	12	8	8	8	7	6			
Apr-Dec	72	68	61	55	52	47	43	43	42			
All Start Total	5,455	5,350	5,280	5,008	4,986	5,304	5,552	5,694	5,740			
All Completed	4,849	3,662	3,920	3,347	3,541	5,021	4,168	3,896	2,688			
All Added	4,780	3,626	3,654	3,343	3,872	5,275	4,312	3,942	2,993			
All Remaining	5,386	5,314	5,014	5,004	5,317	5,558	5,696	5,740	6,045			
14/15	264	156	129	120	112	97	72	57	53			
Apr-Dec	851	755	722	680	630	553	520	484	463			
Plan	3,759	3,580	3,938	3,759	3,938	3,938	3,759	3,938	3,043	3,759	3,580	4,117
Month against Plan	4,849	3,662	3,920	3,347	3,541	5,021	4,168	3,896	2,688			
Positive/Negative	1,090	82	- 18	- 412	- 397	1,083	409	42	- 355			
Cummulative against Plan	1,090	1,172	1,154	742	345	1,428	1,837	1,879	1,524			

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday 16 February 2017
Report Subject	Markets in Financial Instruments Directive II
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The Financial Conduct Authority (FCA) defines Markets in Financial Instruments Directive (MiFID) as the EU legislation that regulates firms who provide services to clients linked to “financial instruments” (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

MiFID was applied in the UK from November 2007, and is now being revised with the aim of improving the functioning of financial markets in light of the financial crisis and to strengthen investor protection. The changes are due to take effect from 3 January 2018, with the new legislation being known as MiFID II.

The main impact is LGPS funds will be categorised as retail investors instead of professional investors. The potential implications of this are discussed in the report and a presentation will be given to the Committee by the Fund’s Investment Consultant, JLT.

The LGPS pools are forming a small group of practitioners to discuss MiFID II with the FCA. Practitioners at the Clwyd Fund have agreed to represent the Wales Pool.

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RECOMMENDATIONS

1	That the Committee note and discuss the content of the presentation provided by the Fund’s Investment Consultant.
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REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>The Markets in Financial Instruments Directive (MiFID) is the EU legislation that regulates firms who provide services to clients linked to “financial instruments” (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded. MiFID was applied in the UK from November 2007, and is now being revised with the aim of improving the functioning of financial markets in light of the financial crisis and to strengthen investor protection. The changes are due to take effect from 3 January 2018, with the new legislation being known as MiFID II.</p>
1.02	<p>The Financial Conduct Authority (FCA), who is responsible for implementing MiFID II in the UK, recently consulted on this. This specific consultation covered the impact on local authorities (including LGPS funds) and sought views on a number of areas of implementation. The MiFID regime uses client “categories” to recognise that investors have different levels of experience, knowledge and expertise, and looks to tailor the regulatory protections accordingly.</p> <p>Under the current MiFID regime Local Authorities are classified as “per se professional” investors provided they meet the appropriate criteria in the FCA Conduct of Business rules. Where these criteria are not met the ability to “Opt-up” is available provided a different set of criteria is met. Under the new proposals Local Authorities will be classified as “retail” clients.</p>
1.03	<p>The consequences for LGPS funds being classified as a retail investor are potentially significant, and could severely limit the range of investments and portfolio management tools available; many investment managers currently only work with professional clients.</p> <p>The FCA consultation received a range of high profile responses all making similar points about the potential impact on Local Government Pension Schemes, the potential pit falls of the opt up process and the effect that it could all have on the pooling agenda. The response from the Pensions and Lifetime Savings Association (PLSA) was particularly strong and highlighted the impact that it could have on the Government’s desire for LGPS funds to invest more in Infrastructure.</p> <p>The consultation closed on 4 January 2017, and it is expected that a response will be received from the FCA towards the end of the first quarter of 2017.</p> <p>Currently the focus is on investment management, however, there could be wider implications as it is understood that this will also impact on</p>

	whether certain investment consultants can advise retail investors.
1.04	<p>The Fund's investment consultant advises that the MiFID II implementation as it currently stands does pose significant issues to LGPS funds such as Clwyd, and the operating models of each of the 8 pools will need to ensure that they can still deliver to the underlying funds. However, they also believe that given the level of response the FCA will have received, and the strength of the arguments being made, it is likely that the criteria will be modified as a result of the consultation.</p> <p>JLT understand that the FCA did not intend to impose a process on the LGPS that will be unworkable, and they have stated as much at their meeting with the LGPS and within the text of the consultation. We believe it is more likely that they were unaware of the implications of the proposal.</p> <p>JLT remain reasonably confident that they will hear the representations being made and make changes to their proposals. Whether the result is separately classifying LGPS funds as per se professional clients, or whether it is ensuring the opting up process is simpler, is yet to be seen. However, either outcome would make the implementation of MiFID II much easier for LGPS funds.</p>
1.05	<p>The LGPS pools are forming a group of practitioners to communicate the issues to the FCA and the Clwyd Fund has agreed to represent Wales. The Clwyd Pension Fund Manager has raised the issue with the legal advisors for the Wales Pool so any risks to the current procurement process for an operator are considered.</p>

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

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>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 new MiFID regime, then appropriate consultation will be carried out.</p>

4.00	RISK MANAGEMENT
4.01	<p>The following risk on the Fund's Risk Register may be affected by the implementation of the new Directive:</p> <ul style="list-style-type: none"> 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. implementation of MiFID II) can affect the Fund's ability to implement its investment strategy, which could ultimately increase employer costs.
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5.00	APPENDICES
5.01	None

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	A copy of the full FCA consultation paper can be provided on request. Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	<p>(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.</p> <p>(b) 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.</p> <p>(c) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of.</p> <p>(d) FCA – Financial Conduct Authority – the conduct regulator for 56,000 financial services firms and financial markets in the UK.</p> <p>(e) MiFID – Market in Financial Instruments Directive – European legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.</p>



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday, 16 February 2017
Report Subject	Investment and Funding Update
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

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

- (a) The Business Plan 2016/17 update for quarter 3 (October to December 2016) is attached as Appendix 1. To summarise, the following tasks are on target for completion, Triennial Actuarial Valuation, Flight Path “Health Check” review and Investment Strategy review. Asset Pooling is continuing and the Investment Strategy Statement and review of Additional Voluntary Contributions (AVC) have commenced.
- (b) Current Developments and News – News and development continues to be dominated by the Pooling debate across the LGPS which has been covered in agenda item 4. MiFID II is also at the forefront of the news and has been covered in agenda item 8 with a presentation from the Fund’s Consultants, JLT.
- (c) Funding & investment related policy/strategy implementation and monitoring – This section updates members on the progress in the following areas:
 - Investment Strategy Statement
 - Implementation of the “light touch” review of Investment Strategy
 - Actuarial Valuation and Employer Covenant Exercise
- (d) Delegated responsibilities (Appendix 2). This details the responsibilities which have been delegated to officers since the last Committee meeting. These include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

RECOMMENDATIONS

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

1.00	INVESTMENT AND FUNDING RELATED MATTERS
	Business Plan Update
1.01	<p>Appendix 1 provides a summary of progress against the Investment and Funding section of the Business Plan up to the end of quarter 3 to 31 December 2016.</p> <ul style="list-style-type: none"> • The Actuarial Valuation will be completed by 31st March (paragraph 1.05). • The Flight Path “Health Check “is on target to be completed by 31st March and details are provided in agenda item 12. • The review of Investment Strategy was completed in Q3, details of the results and implementation are provided in paragraph 1.06. • Asset pooling is continuing. • The review of AVC’s has commenced. • The Investment Strategy Statement has commenced now the DCLG have issued the new investment regulations and guidance.
	Current Developments and News
	Working Together in Wales.
1.02	<p>An update on the current position on Pooling of Investments within Wales has been provided as part of agenda 4 of this Committee.</p>
	Policy and Strategy Implementation and Monitoring
1.03	<p>In August 2016, the Fund’s consultants, JLT, commenced a “light touch” review of the Fund’s investment strategy. The results were presented to the September 2016 Committee and the following strategic changes agreed:</p> <ul style="list-style-type: none"> • Current 8% Global Equity Mandate to be reduced by 4% and reinvested in a Smart Beta Mandate • 2.5% allocated to Frontier Market Mandate to be redeemed in full • Increase allocation for “Best Ideas” from 9% to 11% • 3% allocation to Private Credit • Reduce Property exposure (over time) from 7% to 4% • Increase Infrastructure exposure (over time) from 4% to 8% <p>The transition to implement the new strategy is underway along with rebalancing of the Fund’s assets to the strategic ranges. To date, the following transactions have been actioned:</p> <ul style="list-style-type: none"> • Redeemed £30m from Aberdeen, Frontier Market • Additional subscription of £21m to Investec Diversified Growth Fund • Additional subscription of £16m to Pyrford Diversified Growth Fund
1.04	<p>The Fund has started the process with Consultants, JLT, to appoint one or more managers for the 3% allocation to Private Credit. This will be approximately £50m in total. Questionnaires have been issued to participating managers with a view to interviewing short listed candidates’ week commencing 3rd April 2017.</p>

1.05	<p>Actuarial Valuation - The valuation needs to be signed off by 31 March at the latest and the Funding Strategy Statement (FSS) will need to be agreed by the Committee beforehand.</p> <p>All individual employers' results have been communicated, and the FSS consultation process has also been completed. A small number of employers responded with comments on the FSS which have been taken into account where appropriate. The Fund will shortly be writing to employers to confirm final contribution requirements for the period from 1 April 2017 to 31 March 2020. The final FSS will be tabled at the March Committee for agreement. The Actuary will then produce his final valuation report and Rates & Adjustment Certificate as required under the LGPS Regulations.</p>
1.06	<p>Investment Strategy Statement (ISS) – The Fund's Business Plan identifies the requirement to produce an Investments Strategy Statement which will replace the current Statement of Investment Principles (SIP). This was originally due to commence in quarter 2 but was delayed awaiting the DCLG guidance on preparing the statements along with revised Investment Regulations. These were received in quarter 3 and a briefing session was provided at the November Committee. The draft ISS is currently being progressed and will be presented at the Committee on 21st March 2017 for approval in advance of the publication deadline of 1st April 2017.</p> <p>The implementation and monitoring of the Fund's current Statement of Investment Principles (SIP) continues to be undertaken through delegated responsibilities as outlined below.</p>
1.07	<p>Delegated Responsibilities</p> <p>The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the areas of delegation used since the last meeting.</p> <p>To summarise:</p> <ul style="list-style-type: none"> • There is sufficient liquidity to meet short term requirements • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG). • The Fund's strategic allocation is being rebalanced to its strategic ranges alongside the implementation of the recommendations of the Strategic Review which were agreed by the Committee in September 2016. • Within the "In House" portfolio, 3 further commitments have been made in the Real Asset and Private Markets portfolios totalling a sterling equivalent of £24 million. All these commitments follow the strategy agreed by the AP for these asset classes. • There are no significant matters to bring to the attention of the Committee as a result of the Fund Manager monitoring meetings. • A full redemption of the Aberdeen Frontier Market Equity mandate has been completed in line with the strategic investment review recommendations agreed previously by the Committee.

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

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Fund Employers have been consulted on the Funding Strategy Statement.

4.00	RISK MANAGEMENT
4.01	Appendix 3 provides the dashboard and risk register showing the current risks relating to Investments and Funding matters.
4.02	None of the risks in Investments and Funding are substantially different to the target risks with most being just one step away from their targets. Risks F1, F2, F3 and F6 are the significant or very high likelihoods and all relate to matters considered as part of the Actuarial Valuation.
4.03	A review of the risks is being undertaken and will be presented at the March Committee. It is anticipated that the Actuarial Valuation and Flight Path review will assist in bringing these risks closer to their targets.

5.00	APPENDICES
5.01	Appendix 1 - 2016/17 Business plan update Appendix 2 – Delegated Responsibilities Appendix 3 – Risk dashboard and register – Investments and Funding

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

7.00	GLOSSARY OF TERMS
7.01	(a) CPF – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region

- (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.
- (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund
- (d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant.
- (e) **AP – Advisory Panel** – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor.
- (f) **PERAG – Private Equity and Real Asset Group** – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund’s Investment Consultant and monitored by AP.
- (g) **In House Investments** – Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG.
- (h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of
- (i) **SIP – Statement of Investment Principles** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund. This will be replaced by the **Investment Strategy Statement (ISS)**
- (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund
- (k) **MiFID II** – this and the Regulation on Markets in Financial Instruments and Amending Regulation (“MiFIR”) are both European Commission legislation and are commonly referred to as "MiFID II". Together they seek to provide a European-wide legislative framework for regulating the operation of financial markets in the EU.
- (l) A full glossary of Investments terms can be accessed via the following link.
<http://www.fandc.com/uk/private-investors/tools/glossary/>

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Business Plan 2016/7 to 2018/9 – Q3 Update

Funding and Investments

Key Tasks

Key:

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

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2016/17 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
F1a to j	Triennial Actuarial Valuation and associated tasks	x	x	x	x		
F2a to d	Asset Pooling	x	x	x	x	x	x
F3	Produce Investment Strategy Statement		x	x	xM		
F4	Flight-path “Health check” Review			x	x	x	
F5	AVC Review			x	x	x	
F6	Review of Investment Strategy			x	x	x	x

Funding and Investments (including accounting and audit) Task Descriptions

F1a – Triennial Actuarial Valuation

What is it?

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

Timescales and Stages

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

Resource and Budget Implications

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

F1b – Review of Fund policy around employer risk management

What is it?

The Fund agreed a policy in 2013 relating to the admission of employers into the Fund and to how termination of participation is dealt with, the primary aim of the policy being to protect the Fund against incurring any unfunded liabilities as far as possible.

The policy has different requirements depending on the nature of the admitted employer but includes the use of pre-admission risk assessments, contingent security where deemed necessary, monitoring of the employer and termination funding. The detail and application of this policy should be regularly reviewed, especially in light of regulatory changes, to ensure it remains appropriate and is not exposing the Fund to funding risk. In addition as part of this review the Fund will look to implement a process to monitor covenant and funding risk for employers. The level of detail needed will depend on the specific employer type.

The Fund is subject to funding risks in respect of employers who cease to participate without the Fund being able to recover the full exit contributions due under the Regulations. This can be mitigated by increasing contributions and/or requesting a contingent bond or guarantee to be provided to protect against the possibility of an unrecoverable debt. A risk-monitoring framework would identify and monitor participating employers who may be more likely than average to pose such a risk. This would monitor funding positions and covenant strength on a proportionate basis to flag any potential issues at an early stage. The governance around the framework would include ensuring employers are aware they should inform the Fund of any significant changes in membership numbers or underlying demographics.

Timescales and Stages

Review existing policy:	Q2 2016/17
Implement changes:	Q3 2016/17

Resource and Budget Implications

Fund Actuary will liaise with the Fund to review policy and process, updating documentation appropriately as well as implementing the covenant monitoring where appropriate. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1c – Further refine operational structure applying for admissions and terminations

What is it?

The admission and termination policies are in force but the administration team may need assistance when dealing with queries from employers or implementing the policies. In particular, a review of the admission and termination policies, any checklists and information provided to employers will be required.

Timescales and Stages

Review of Fund policies to be performed during 2016/17 alongside the drafting of the Funding Strategy Statement:

- Initial review Q2 2016/17
- Review commences 2016/17 Q2 and closes during Q3 2016/17
- The policies will be formally signed off Q4 2016/17

Ongoing assistance also provided as and when required.

Resource and Budget Implications

The Fund Actuary will carry out the review and will assist the administration team with any implementation requirements. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1d – Consider funding impact of 2016 end of contracting out

What is it?

With effect from April 2016 contracting-out ceases and employers and employees will be required to pay higher National Insurance contributions (respectively by 3.4% and 1.4% of earnings between the Lower Earnings Limit and the Upper Accrual Point). Employers will be considering how to mitigate the additional employment cost. The LGA is negotiating with HMT on a national basis in terms of rebating some of the costs, given the LGPS benefit structure cannot be changed to offset the cost for employers.

In addition, consideration also needs to be given to whether the LGPS will pay Post 88 GMP pension increases for members who reach their State Pension Age after 5 April 2016. This will be considered and costed as part of the 2016 valuation process as it could have funding implications.

Timescales and Stages

Legislation effective 6 April 2016
Consider potential impacts/costs further as part of the 2016 triennial valuation as part of affordability considerations for employers Q2 and Q3 2016/17.

Resource and Budget Implications

Budget implications for employers are potentially significant and will affect the affordability of normal pension Fund contributions. Employers are likely to also assess their own costs based on their total payroll, but may request information from the Fund. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1e – Test data quality in advance of the valuation

What is it?

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

Timescales and Stages

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

Resource and Budget Implications

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

F1f – Consider the potential impact of Alternative Delivery Models (ADMs) on Fund profile and maturity

What is it?

As part of the 2016 valuation, the Fund will need to consider what impact ADMs (including those in the pipeline) have had i.e. on the Council that they have transferred from and on the Fund as a whole. As a result of ADMs, there will be more employers in the Fund and more resources required in the running of it.

Timescales and Stages

To be performed Q2 and Q3 2016/17
(alongside the 2016 actuarial valuation. In particular an analysis of cash flow projections will be performed in different scenarios.)

Resource and Budget Implications

Exercise will be performed by Fund officers and the Fund Actuary. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1g – Review the Funding Strategy Statement

What is it?

The Fund is required to prepare a Funding Strategy Statement and this should be reviewed whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles. The FSS will need to be updated to reflect any changes to policy that emerge as part of the actuarial valuation and also the updated results and assumptions.

Timescales and Stages

To be performed during 2016/17 alongside the 2016 actuarial valuation:

- The initial drafting of the strategy will take place Q2 2016/17
- The consultation will commence during Q2 and with close during Q3
- The strategy will be formally signed off by the Committee Q4 2016/17

Resource and Budget Implications

Exercise will be performed by Fund officers and the Fund Actuary. Employers will be formally consulted as part of the process. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1h – Provide information required in relation to Section 13 of the Public Service Pensions Act 2013

What is it?

Section 13 of the Public Service Pensions Act 2013 provides for a review of the LGPS valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where it is considered appropriate. The Government Actuary's Department (GAD) will undertake this review based on Fund data received from each Scheme Actuary based on the results of the 2016 actuarial valuations. A report will be provided upon completion of the GAD analysis.

Timescales and Stages

The data request is expected to be received from GAD Q4 of 2016/17

Resource and Budget Implications

Exercise will be performed by the Fund Actuary as part of the 2016 actuarial valuation. The results will be provided to the GAD. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1i – Review the Fund's KPI's and perform updated calculations

What is it?

The LGPS Scheme Advisory Board (SAB) is undertaking a mandatory exercise to benchmark the performance of all LGPS funds in England and Wales (linked to 2016 triennial valuations). A suite of self-assessment key indicators (KPIs) have been derived. Additional calculations will be required in order for the Fund to assess itself against these KPIs.

Timescales and Stages

To be performed Q2 and Q3 of 2016/17

Resource and Budget Implications

Exercise will be performed by Fund officers and the Fund Actuary. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1j – Cost Control

What is it?

Under the new framework, the costs of the LGPS must be periodically assessed to ensure that the reforms are affordable and sustainable. There will be two mechanisms used to do this:

- the employer cost cap process as operated by HM Treasury, and
- the future cost cap process as operated by the LGPS Scheme Advisory Board

Both processes could lead to changes to the scheme design or to the level of members' contributions if the costs of the LGPS are shown to have moved sufficiently from the target.

Timescales and Stages

Information expected to be provided to the GAD Q3 2016/17

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and sent on directly to the Government Actuary's Department in the required format. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F2a – Asset Pooling Responses

What is it?

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

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

Timescales and Stages

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

Resource and Budget Implications

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

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

What is it?

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

Timescales and Stages

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

Resource and Budget Implications

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

F2c - Preliminary plans for implementation of transition of applicable assets to Pooling vehicle

What is it?

This relates to Asset Pooling and will be dependent on two key points:

- i) The response by Government to the CPF Asset Pooling submission (and how much of the CPF asset portfolio can remain to be managed as is)
- ii) The final decision in respect of the Asset Pooling vehicle and how quickly this is established

Timescales and Stages

This is expected to impact both on 2016/17 (Q4) and beyond (2017/18 and thereafter).

Resource and Budget Implications

This review will be jointly carried out by JLT as Investment Adviser, the Pension Fund Manager and Finance Manager(s). Advisor's estimated costs in relation to this exercise are included in the 2016/17 budget. There might be additional advisor costs depending on the final pooling arrangements.

F2d - Changes in procedures to accounting for assets included in Pool

What is it?

This relates to Asset Pooling and how the accounting policies/reporting for the CPF's assets that are held in the Pool will be outside of the current (Officer led) arrangements. There will be a requirement to discuss the treatment of accounting reporting/responsibilities with the Asset Pool, post establishment.

Timescales and Stages

This is expected to impact both on 2016/17 (Q4) and beyond (2017/18 and thereafter).

Resource and Budget Implications

Communication/discussions with the Asset Pool will be jointly carried out by the Pension Finance Managers.

F3 – Produce Investment Strategy Statement

What is it?

As part of the planned changes to the existing Investment Regulations, each LGPS Fund will be required, having taken proper advice, to produce an Investment Strategy Statement which covers a range of specified areas.

Timescales and Stages

ISS must be produced no later than six months after new regulations come into force (currently drafted as 1 October 2016).

Resource and Budget Implications

This document will be produced by JLT as Investment Adviser with the finalised content agreed with the Pension Fund Manager and Finance Manager(s). The Investment Adviser's estimated costs in relation to this exercise are included in the 2016/17 budget.

F4 – Flight-path Health-check Review

What is it?

The Administering Authority implemented a "Flightpath" risk management investment strategy with effect from 1 April 2014, with the aim of more effectively controlling and limiting interest and inflation risks (as these factors can lead to significant changes to liability values and therefore the deficit). The overall funding Flightpath strategy is to consider and structure the investment strategy to determine a balance between return-seeking and risk-hedging assets. Further details are in the Fund's Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS).

Ongoing monitoring includes a "traffic light" analysis of whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required. However annually the strategy will require a "health-check" to ensure its aims remain appropriate and it is still fit for purpose.

Timescales and Stages

A “Health check” will be carried out alongside the 2016 actuarial valuation which will consider any changes needed in the derivation of the overall discount rate. This will include consideration of the yield and funding triggers. The health-check is expected to be done at least annually thereafter.

Key stages include:

- Initial consideration of LDI portfolio in light of proposed 2016 valuation approach – Q1 2016/17
- Refresh hedging strategy using updated benefit cashflow projections from the valuation – Q3 2016/17
- Detailed consideration of trigger strategy in light of updated information – Q3 and Q4 2016/17
- Implement any necessary changes to align funding, investment and risk management strategies – Q4 2016/17

Resource and Budget Implications

To be led by the officers, Fund Actuary and investment advisors, with the findings being implemented by the Advisory Panel under the delegations. The Advisors' estimated costs in relation to this exercise are included in the 2016/17 budget.

F5 – AVC Review

What is it?

This is to review the offering to members for the investment of Additional Voluntary Contributions (AVCs) and their suitability. This should normally be carried out every three to five years. The review of Prudential will include analysis of:

- The range of investment funds and recommendations for change if required
- The performance of the investment funds
- The administration of and communications from the providers
- The competitiveness of the charges/services

Provision of an update to members with holdings with Equitable Life will also be completed given the recent changes proposed.

Timescales and Stages

Carry out review	2016/7 Q3/4
Consider impact of results of the review	2017/8

Resource and Budget Implications

This review will be carried out by Mercer and then considered by the Advisory Panel and reported to PFC. The Adviser's estimated costs in relation to this exercise are included in the 2016/17 budget.

F6 – Review of Investment Strategy

What is it?

This relates to the triennial review of the Investment Strategy once the Actuarial Valuation has been finalised and the Funding Strategy agreed. If required, there may be a need to undertake a light touch review (asset modelling scenarios) of the Fund's strategy and asset allocation position to feed into the actuarial valuation process.

Timescales and Stages

This is expected to take place early in 2017/18 following completion of the 31 March 2016 AVR.

Should there be a requirement for an initial light touch review during the actuarial valuation process this will take place as and when the preliminary actuarial valuation data is available (anticipated to be Q3 2016/17).

Resource and Budget Implications

The majority of work will be carried out by JLT as Investment Adviser together with the CPF Manager and Finance Manager(s) prior to final submission of proposals to Advisory Panel and Pension Fund Committee. The Investment Adviser's estimated costs in relation to this exercise are included in the 2016/17 budget.

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DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.071	Rebalancing and cash management	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP
<p>Action taken –</p> <p>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 (January to March 2017) the Fund's strategic allocation will be rebalanced in conjunction with implementing the agreed strategic review. To date, the following have been actioned:</p> <ul style="list-style-type: none"> • Investec Diversified Growth Fund rebalanced to 6% using part redemption of Aberdeen Frontier Markets Mandate • Pyrford Diversified Growth Fund rebalanced to 6% using In House cash balances. <p>Cash flows are monitored and reconciled quarterly to report to Committee but cash balances are monitored on a regular basis to ensure the availability of cash to meet payments of pensioner benefits and calls on drawdowns for In House investments. The cash balance as at 31st January 2017 was £17.3m (£31.4m at 31st December 2016). This reflected the additional payment to Pyrford. The cash flow will be monitored to ensure there is sufficient monies to pay benefits and capital calls for the In House investments and any surplus will be invested.</p>			

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.072	Short term tactical decisions relating to the 'best ideas' portfolio	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP
<p>Action taken –</p> <p>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". This allocation has been increased to 11% as agreed in the Strategic Review. Additional investments are still to be implemented. Detailed minutes of the TAAG identifying the rationale behind any decisions agreed are circulated to the Advisory Panel.</p> <p>The following areas have been identified since the last Committee:</p> <ul style="list-style-type: none"> • Crystallise some profits from Investec Commodities and rebalance the Commodity exposure between Wellington and Investec (Investec returned 49.6% since inception in May 2016) • Further reduce holdings in Equity Linked Bonds to £10m • Increase exposure to US Equities • Increase exposure to Emerging Market Equities <p>The transition of these assets was actioned in January resulting in the following allocations within the portfolio:</p> <ul style="list-style-type: none"> • Commodities (3%) • Japanese Equities (1%) • US Equities (2%) • Equity Linked Bonds (1%) • Emerging Market Equities (2%) <p>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.</p>			

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.073	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP
<p>Action taken –</p> <p>Within the investment areas which fulfil the criteria which was agreed in the last review of the In-House portfolio of Private Equity and Real Asset holdings , the Fund has undertaken due diligence on one Property and two Private Equity investments and agreed the following commitments since the last Committee:</p> <ul style="list-style-type: none"> • \$10 million to North Haven Real Estate IX (Global Real Estate Fund targeting 10 - 15% Net IRR) • £8 million to Bridges Ventures Fund IV (UK Sustainable Private Equity Fund targeting 15 - 20% Net IRR) • €8 million to Access Capital Fund VII (European Private Equity Fund targeting 10 – 13% Net IRR) <p>All three commitments are follow on investments with existing managers. Officers are continuing to look at any opportunities which fulfil the agreed strategy for In House investments.</p>			

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.074	Ongoing monitoring of Fund Managers	PFM, CFM and CEO (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 February. 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.

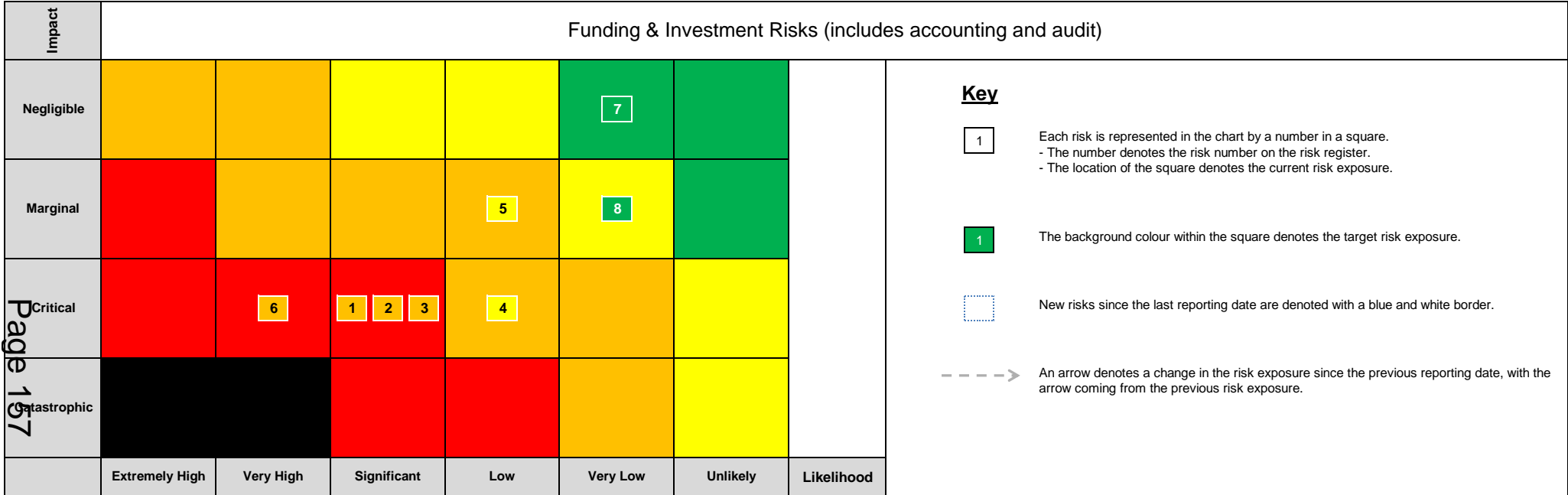
Manager	Mandate	Strategic Weight %	Mar 2016	Jun 2016	Dec 2016	Mar 2017
Insight	LDI	19	✓			
Stone Harbor	Multi Asset Credit	15	✓	✓	✓	✓
Investec	Global Equity (8) & DGF (5)	13	✓	✓	✓	✓
MAN FRM	Managed Account Platform	9	✓		✓	
Wellington	Emerging Market Equity	6.5	✓		✓	✓
Pyrford	DGF	5	✓			✓
Aberdeen	Frontier Market Equity	2.5	✓		✓	

1.075	Selection, appointment and dismissal of Fund Managers	PFM, CFM and CEO (having regard to ongoing advice of the IC) and subject to ratification by PFC	Notified to PFC via ratification process.
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Action taken –

The strategy changes agreed by Committee as a result of the “light touch” strategic review included redeeming in full from Aberdeen Frontier Markets Mandate. This was actioned in 4 stages due to the illiquidity of the asset class and has now been completed.

The allocation to Private Credit will result in the appointment of one or more managers. A search is currently underway for the selection of those managers.



Clwyd Pension Fund - Control Risk Register
Funding & Investment Risks (includes accounting and audit)

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

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

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



CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday, 16 February 2017
Report Subject	Economic and Market Update
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

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

This report covers the period ending 31 December 2016.

The economic and market environment during the fourth quarter was dominated by the election of US President Donald Trump. Key contributors driving sentiment include:

- A weaker Sterling
- An environment of higher inflation expectations
- Rising Commodities prices

Despite the continued uncertainty in markets surrounding the implementation of Donald Trump's policies all Equity markets produced positive returns with returns to the Sterling investor boosted by the weaker currency. Emerging Markets Equity was the worst performer suffering from a strengthening US Dollar and rising rates in US fixed income markets. UK Government bond yields began to rise on the back of rising inflation expectations leading to capital value falls in UK fixed income assets.

RECOMMENDATIONS

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

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Economic and Market Update 31 December 2016 The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee. The report contains the following sections:</p> <ul style="list-style-type: none">• Market Background – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies.• Economic Statistics – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing• Market Commentary – section provides detailed commentary on the economic and market performance of major global regions and financial markets (including alternative assets).
2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.
3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.
4.00	RISK MANAGEMENT
4.01	None.
5.00	APPENDICES
5.01	Appendix 1 – Economic and Market Update Period Ending 31 December 2016
6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update Period Ending 30 September 2016.

	<p>Contact Officer: Debbie Fielder, Pension Finance Manager Telephone: 01352 702259 E-mail: Debbie.A.Fielder@flintshire.gov.uk</p>
7.00	<p>GLOSSARY OF TERMS</p>
7.01	<p>A list of commonly used terms are as follows:</p> <ul style="list-style-type: none"> (a) Absolute Return – The actual return, as opposed to the return relative to a benchmark. (b) Annualised – Figures expressed as applying to 1 year. (c) Duration – The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) Market Volatility – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) Money-Weighted Rate of Return – The rate of return on an investment including the amount and timing of cashflows. (f) Relative Return – The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) Three-Year Return – The total return on the fund over a three year period expressed in percent per annum. (h) Time-Weighted Rate of Return – The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) Yield (Gross Redemption Yield) – The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. <p>A comprehensive list of investment terms can be found via the following link:</p> <p>http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf</p>

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

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1 MARKET BACKGROUND

PERIOD ENDING 31 DECEMBER 2016

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	3.9	16.8	6.1
Global Developed Equities	7.2	29.0	15.1
USA	9.0	33.4	19.7
Europe	5.4	21.2	8.0
Japan	5.1	22.7	14.0
Asia Pacific (ex Japan)	0.9	28.7	11.0
Emerging Markets	0.8	33.1	7.8
Frontier Markets	5.7	23.0	8.4
Property	2.6	2.6	11.8
Hedge Funds	6.4	25.9	12.9
Commodities	11.2	32.8	-12.5
High Yield	5.6	36.9	13.8
Emerging Market Debt	0.0	32.9	4.8
Senior Secured Loans	1.6	7.4	4.5
Cash	0.1	0.4	0.4

Yields as at 31 December 2016	% p.a.
UK Equities	3.47
UK Gilts (>15 yrs)	1.76
Real Yield (>5 yrs ILG)	-1.67
Corporate Bonds (>15 yrs AA)	2.62
Non-Gilts (>15 yrs)	3.01

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-6.0	18.5	14.4
Index-Linked Gilts (>5 yrs)	-3.0	27.4	15.2
Corporate Bonds (>15 yrs AA)	-5.0	19.4	12.3
Non-Gilts (>15 yrs)	-5.3	18.5	11.7

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-4.9	-16.2	-9.3
Against Euro	1.3	-13.7	-0.9
Against Yen	9.6	-18.7	-6.1

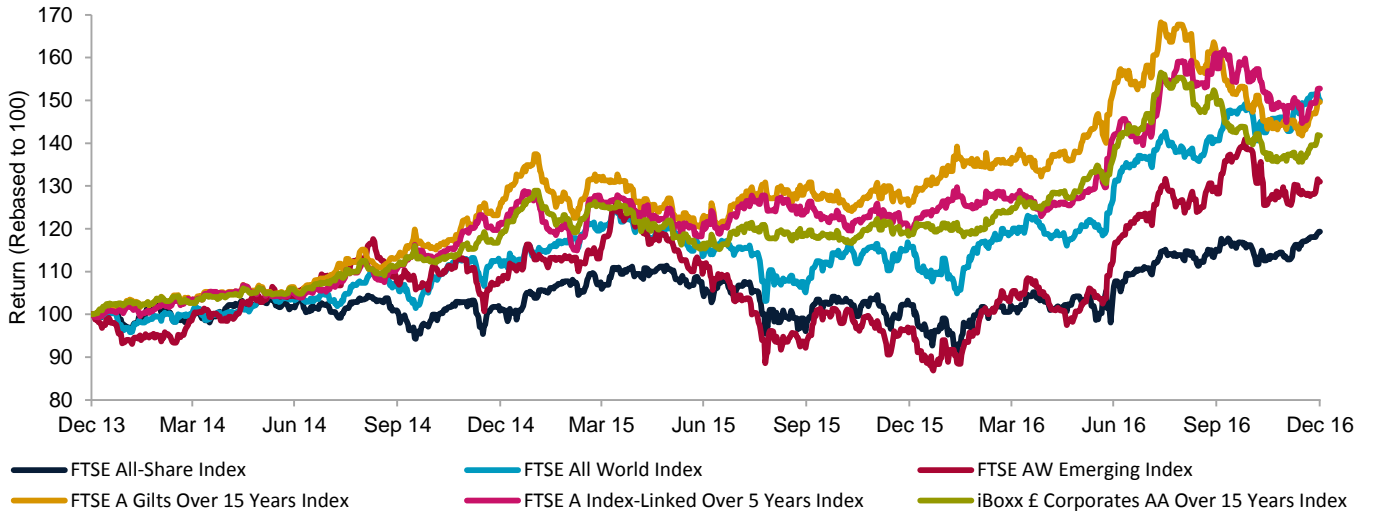
Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.8	2.5	1.8
Price Inflation – CPI	0.8	1.6	0.8
Earnings Inflation*	0.3	2.7	2.2

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.01	-0.23	0.19
UK Gilts (>15 yrs)	0.34	-0.81	-1.82
Real Yield (>5 yrs ILG)	0.12	-0.96	-1.70
Corporate Bonds (>15 yrs AA)	0.40	-1.06	-1.80
Non-Gilts (>15 yrs)	0.41	-0.99	-1.62

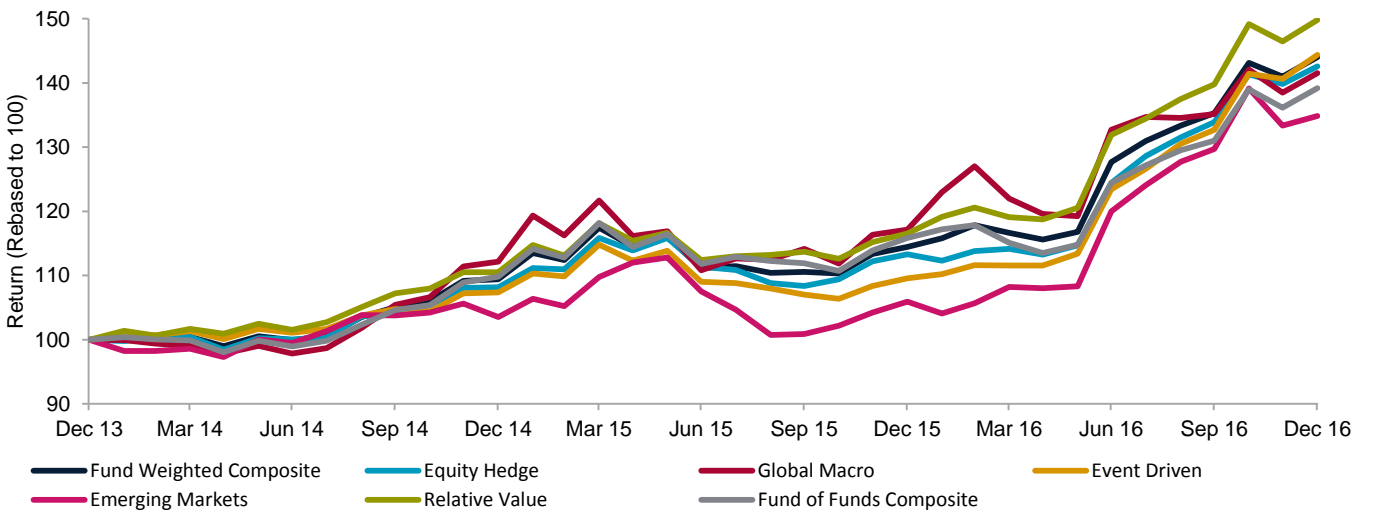
Source: Thomson Reuters and Bloomberg
Note: * subject to 1 month lag

MARKET SUMMARY CHARTS

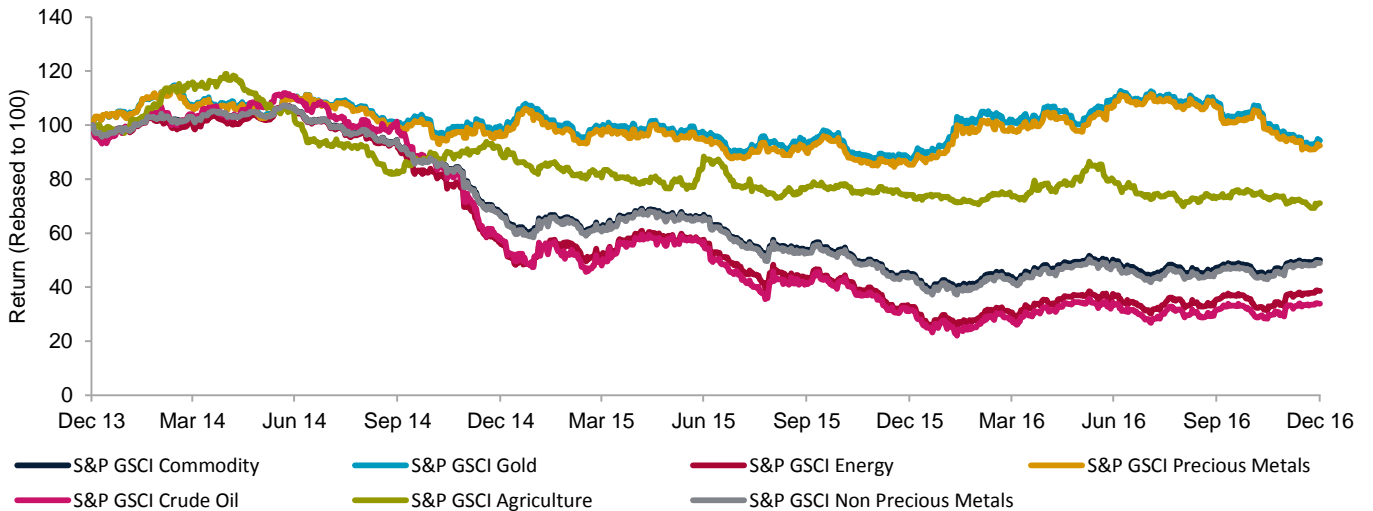
Market performance – 3 years to 31 December 2016



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

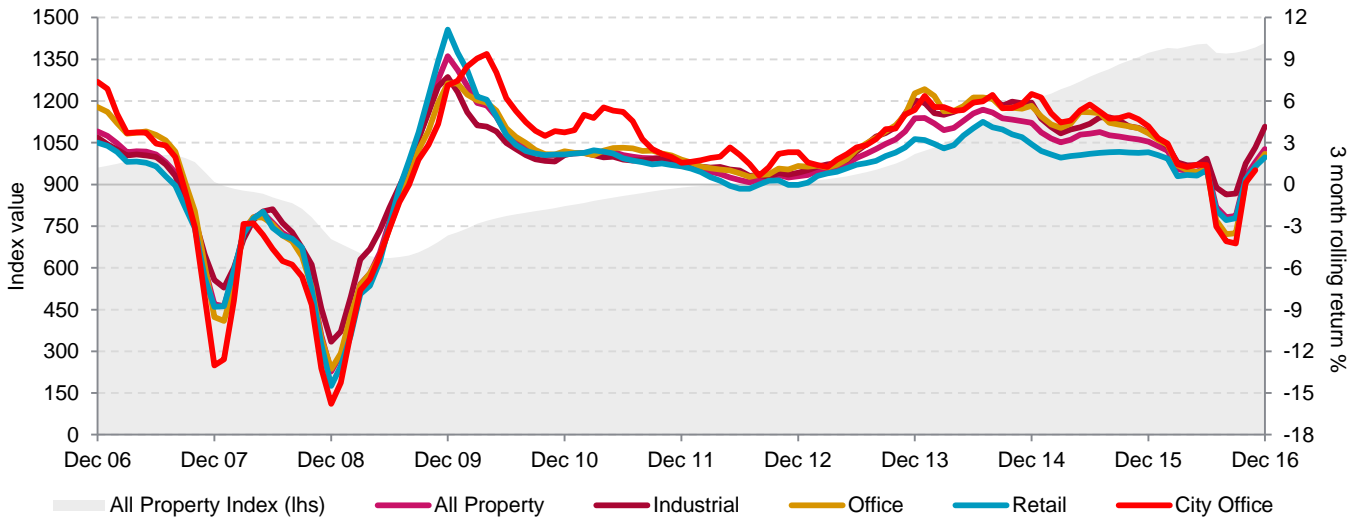


Commodity sector performance – 3 years to 31 December 2016

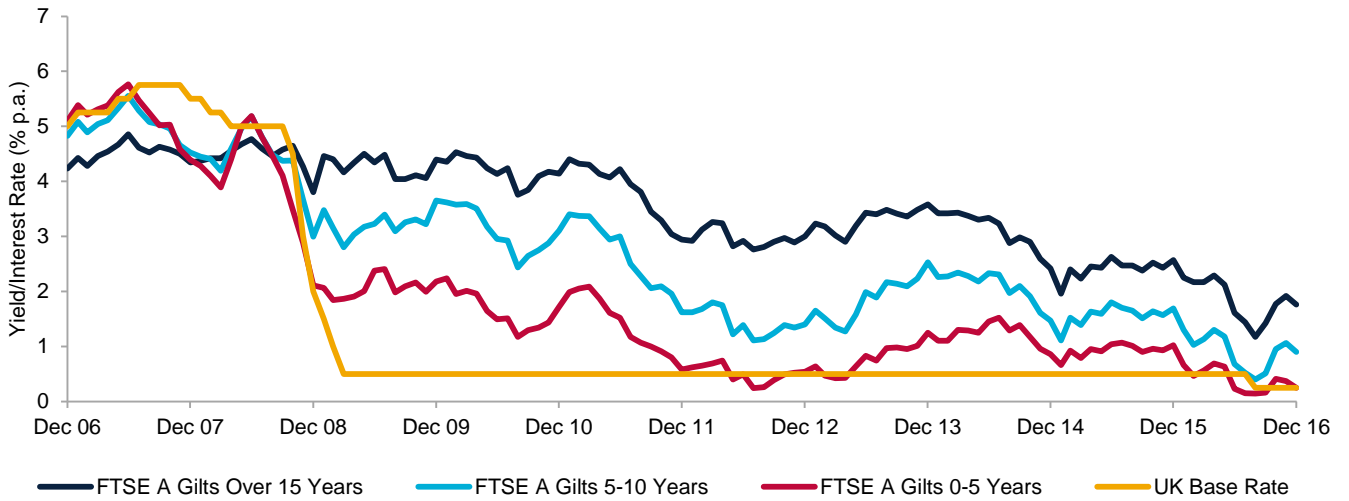


Source: Thomson Reuters

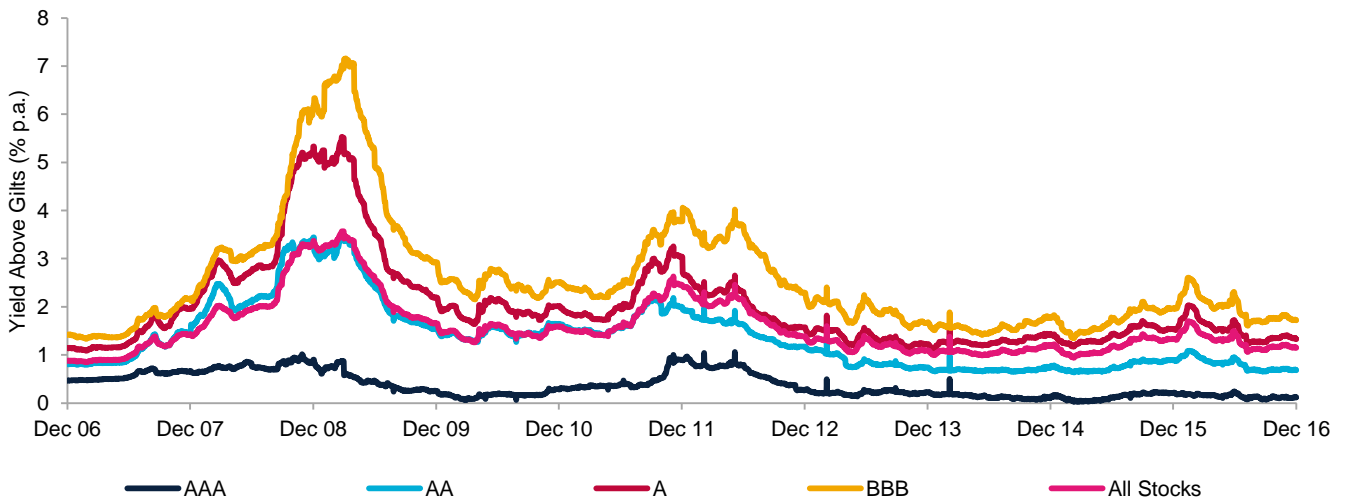
Property sector performance – 10 years to 31 December 2016



UK government bond yields – 10 years to 31 December 2016



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



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	31 Dec 2016			30 Sep 2016			31 Dec 2015		
	UK	Euro ¹	US	UK	Euro ¹	US	UK	Euro ¹	US
Annual Real GDP Growth ²	1.5%	1.7%	1.4%	2.2%	2.7%	1.7%	1.7%	3.3%	1.9%
Annual Inflation Rate ³	1.6%	1.1%	2.1%	1.0%	0.4%	1.5%	0.2%	0.2%	0.7%
Unemployment Rate ⁴	4.8%	10.0%	4.7%	4.9%	10.1%	4.9%	5.1%	10.7%	5.0%
Manufacturing PMI ⁵	56.1	54.9	54.3	55.5	52.6	51.5	51.4	53.2	51.2

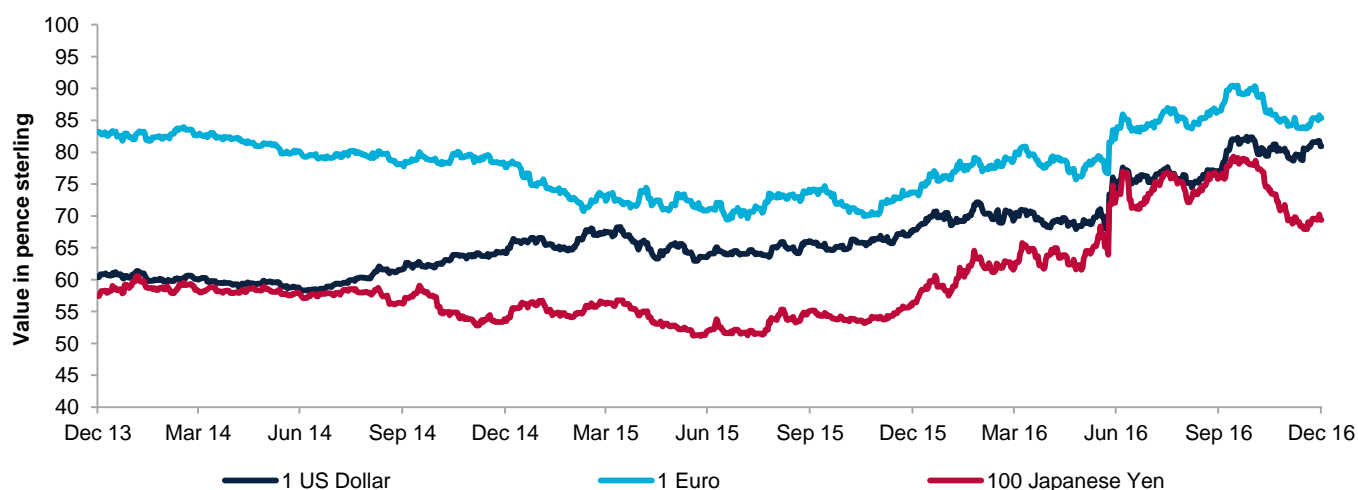
Change over periods ending:	3 months			12 months		
	UK	Euro ¹	US	UK	Euro ¹	US
31 Dec 2016						
Annual Real GDP Growth ²	-0.7%	-1.0%	-0.2%	-0.1%	-1.6%	-0.4%
Annual Inflation Rate ³	0.6%	0.7%	0.6%	1.4%	0.9%	1.3%
Unemployment Rate ⁴	-0.1%	-0.1%	-0.2%	-0.3%	-0.7%	-0.3%
Manufacturing PMI ⁵	0.6	2.3	2.8	4.7	1.7	3.1

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

EXCHANGE RATES

Economic Statistics as at:	Value in Sterling (Pence)			Change in Sterling	
	31 Dec 16	30 Sept 16	31 Dec 15	3 months	12 months
1 US Dollar is worth	80.93p	76.98p	67.85p	-4.9%	-16.2%
1 Euro is worth	85.36p	86.51p	73.70p	1.3%	-13.7%
100 Japanese Yen is worth	69.39p	76.02p	56.40p	9.6%	-18.7%

Exchange rate movements – 3 years to 31 December 2016



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

3 MARKET COMMENTARY

INTRODUCTION

'In America, anybody can be President. That's one of the risks you take' said Adlai Stevenson II, who was twice defeated by Dwight Eisenhower in his bids to become president in the 1950s. Extremely relevant 60 plus years later where Donald Trump rose from a no-hoper to President elect in a matter of months.

2016 was definitely a year of surprises with both Brexit and the US election providing results which just prior to each event, would have provided you with handsome odds. Once again the prediction accuracy of opinion polls came into serious question and one thing is for sure, we are definitely entering a different era when it comes to populist uprising.

A well-publicised call by RBS in January 2016 to 'sell everything ahead of a cataclysmic crisis' backfired immensely as despite a number of troublesome events, several markets ended the year on all-time highs. It was fair to say that several market commentators and participants shared that initial pessimism, however 2016 proved to be a positive year despite the perceived headwinds that arose.

We have yet to see resolutions to many of the events of 2016. Brexit is still a long way from any kind of clear outcome and Mr Trump is yet to be inaugurated. There are issues in other regions too. Populism is on the rise in Europe, China and Russia have growing policy ambitions, the Syrian conflict continues with no solution in sight and the ISIS threat looms globally.

Henry Ford once said 'When everything is going against you, remember that the airplane takes off into the wind, not with it'.

We enter 2017 with plenty of unknowns and indeed plenty to consider. The US president could provide a source of further surprises to both the positive and negative and governing by 'tweet' could become an interesting new paradigm. Europe has its challenges, particularly on the political front with elections scheduled for the Netherlands, France, Germany and potentially Italy.

UNITED KINGDOM

- A weaker Sterling continues to provide a tailwind for large cap multinationals, as revenue growth is revised higher. From a macro perspective, the post Brexit economic data has been mostly positive, but there has been little 'hard data' to go on.
- The real impact of Brexit is yet to be felt. 2017 could see the economy slow down markedly. Business investment and capital expenditures have experienced sharp falls over the past few months and this could lead to cuts in employment. As anticipated, inflation has started creeping higher, which could add downward pressure on household spending.
- That said, accommodative monetary policy and potential fiscal support from the government via infrastructure spending should be supportive of equity markets if enacted.
- The ECB has warned that UK shares are relatively expensive and more vulnerable to a crash than equities in most other major global markets. Figures in its Financial Stability Review report, published in November, showed that the UK was the most overvalued market in October, followed by the US, Europe and Emerging Markets.
- An environment of high inflation with low growth seems to be brewing in the UK. The labour market is tight with the unemployment rate very close to multi-decade lows and wage growth consistently beating expectations. All of this, coupled with a lack of coordination between monetary and fiscal policies, could prove a potential

headwind for UK equities exposed to the domestic economy. Also, if a scenario of continued Sterling strengthening was to play out, UK equities with global exposure, which have been reaping the benefits of a plunging currency for quite some time now, would struggle to find a friendly breeze to sail through.

- Additionally, with inflationary forces from rising prices of imported goods, lower interest rates and global commodities rally at play, inflation has the potential to rise steeply. Besides, with OPEC reaching a landmark deal to reduce oil output, it is likely that the output cut will help shrink a supply glut, which has depressed oil prices for more than two years. This in turn will erode the purchasing power of British consumers and trigger a painful rise in input costs for UK plc - both potentially negative for UK equities.
- Looking ahead to 2017, there are several challenges that may force a reassessment of the asset class. One of them is the dearth of overall corporate profit growth, which would have seen another year of stagnancy in 2016 had there been no significant devaluation in Sterling. The underlying earnings outlook for 2017 therefore is a key factor to watch out for - simply not relying on the relative weakness or otherwise of the currency. In addition, the political brinkmanship between the UK and its European counterparts has become more complicated and time-consuming. Without doubt, given 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. Moreover, the reappearance of inflation, coupled with the ongoing uncertainty around Brexit, might put a brake on UK employment levels and investment intentions, further moderating activity in the domestic economy.

EUROPE EX UK

- The shock of Brexit to the Eurozone economy could be significant, with the IMF cutting its growth forecasts in the wake of the result. The Italian banking issue continues to cause concern, which has the potential to spill over into the broader economy.
- Expectations for European companies' earnings in 2016 were reduced post-Brexit, putting annual profits on course for their fourth decline in five years. Financials have withstood the worst of the sell-off in Europe, as margins are squeezed further amid the negative interest rate policy, which is being adopted.
- Political risk is likely to take centre stage in the region with general elections in the Netherlands, France and Germany this year.
- The Eurozone is in for a long and gruelling election season, which was kicked off by the recently concluded constitutional referendum in Italy, leading to the ousting of Prime Minister Matteo Renzi. In a departure from the response to Brexit and Trump's election win, markets remained relatively tranquil as investors looked past the political turmoil in Italy.
- The prospect of rising instability in Italy does not bode well for its teetering banking sector, especially the beleaguered Monte Dei Paschi Di Siena (MPS) which is in the midst of a complex recapitalization exercise. A power vacuum in Italy and jittery financial markets will make life difficult for MPS. Any failure in MPS' EUR 5 billion recapitalization might deal a severe blow to other banks like UniCredit SpA which is expected to seek EUR 7 billion in fresh capital to bolster its balance sheet. This could have a knock on effect on the already fragile European banking sector.
- The ECB, in its December meeting, announced the extension of its Quantitative Easing (QE) programme until November 2017, at the pace of EUR 60 billion a month, down from the current pace of EUR 80 billion a month. A weaker Euro, as a result of the QE extension, might boost exports, giving Europe a much needed shot in the arm.
- Looking past the shroud of political uncertainties surrounding Europe, the current valuation levels in the Eurozone might be an opportunity for investors to pick up equities at attractive valuations. Rising commodity prices, a rebound in Emerging Markets and a supportive ECB also make the case for an earnings rebound in 2017 more compelling.
- The road ahead for European equities is littered with obstacles in the form of a taxing election calendar and a struggling banking sector.

NORTH AMERICA

- US equities have continued to rally to all time highs despite valuations remaining stretched. As mentioned in the summary, we expect there to be both negative and positive surprises from the incoming President.
- Economic data continues to paint a relatively positive picture of the US economy, including upward revisions to GDP, a tight labour market and also signs that wage growth is picking up.
- President-Elect Donald Trump, has promised tax cuts and higher spending, particularly on infrastructure and defence. This combination suggests stronger domestic activity.
- The repatriation of overseas earnings could also be a boost for US equities, especially if US corporates implement share buyback strategies, while the proposed one-off tax charge may contribute to the government's spending budget.
- Macroeconomic data released in the final quarter of 2016 has continued to throw a positive overtone, although inflation levels still remain below the Federal Reserve's target level of 2.0%. However, an upwardly revised GDP growth rate and overall improving indicators may lead to further hikes in interest rates which could tighten conditions and ultimately lead to a slowing of growth.
- The valuation of the S&P 500 is way above longer term historical averages. However, the valuation levels when translated in terms of earnings yields make equities still look attractive in comparison to yields of US corporate bonds and a much better source of yield compared to US government bonds.

JAPAN

- The appreciating Yen has been a headwind for corporate margins for much of the year, however, given more fiscal stimulus there is potential up side for the economy next year. The Exchange Traded Fund buying programme by the Bank of Japan (BoJ) could limit significant moves to the downside.
- Over the near-term, the BoJ has reiterated its commitment to achieve its inflation target of 2% along with its intentions to lower real rates by moving interest rates further into negative territory. In light of these developments, a case could be made for the Yen to depreciate in the coming months, which would be beneficial for Japanese equities.
- The Yen has depreciated significantly post the US elections primarily due to an unabated Dollar rally on the back of increased inflation expectations and rising yields in the US. If inflation expectations do indeed pick up and the unemployment rate remains steady at current levels in the US economy, the Federal Reserve might be prompted to increase the pace of tightening interest rates which would only add to the US Dollar's strength. In addition, fiscal stimulus in Japan is likely to boost domestic growth and inflation expectations. This, when viewed in conjunction with consolidating oil prices, could widen the current account deficit of Japan, thus further suppressing the Japanese Yen.
- The outflow from Japanese equities was overdone for much of 2016. Improved growth prospects and the possibility of an earnings revival will potentially prompt the foreign investors to return to Japanese equities. The BoJ is likely to continue with its asset purchase program to the tune of JPY 6 trillion. It will not need to cut back its asset purchase program in a bid to keep 10-year yield at zero percent as increased inflation expectations would mean that yields do not fall dramatically. On the contrary, in an environment of rising yields, the BoJ would need to accelerate its asset purchase to maintain the 10-year yield at around 0%. This will keep the market awash with liquidity. The GPIF, the largest public pension fund, has room to buy equities of around 3.1 trillion Yen to reach its target of a neutral domestic equity weighting. In addition, the BoJ has reiterated its commitment to overshoot the inflation target of 2%. This places Japan in a unique situation as it would be the only major developed economy where both fiscal and monetary policies are accommodative in nature. Confluence of foreign inflows, ongoing asset purchases by BoJ and GPIF would bode well for Japanese equities.
- Since Japan is the second largest trading partner of the US, improving growth prospects in the US would likely serve it favourably. However, if protectionist policies come to the fore, it might negatively impact Japanese exports. In addition to this, protectionist policies, coupled with a strong US Dollar, would likely cause outflow from the Chinese economy (Japan's largest trading partner).

ASIA PACIFIC EX JAPAN / EMERGING MARKETS

- November saw huge capital outflows from the Emerging Markets primarily due to the victory of Donald Trump in the US presidential election and the increased possibility of an interest rate hike by the Federal Reserve. A strengthening US Dollar along with a sharp rise in rates of US fixed income markets, has hurt Emerging Market equities and currencies. China, Brazil and Mexico were amongst the most adversely affected as their relations with the US have not been all that amicable.
- The improving fundamentals of Emerging Markets should have a positive feed through to the economies in this region because of the trade linkages. Nevertheless, the cloudy outlook for China continues to remain a dominant factor in the trends affecting the Asia Pacific region. US policy normalisation is expected to be a headwind for economies in this area.
- Investor sentiment towards the area remains positive and growth momentum is improving relative to developed markets. While the economic backdrop in China remains opaque, the People's Bank of China is likely to remain accommodative, with further fiscal support expected. Commodity prices have shown signs of firming, including an agreement between the OPEC and non-OPEC members to cut production output.
- The prospect of tighter US monetary policy, a stronger Dollar and fears of higher trade tariffs under the new US Administration, mean the near-term outlook now looks a little more uncertain. While Emerging economies are in a much better shape compared to the 2013 taper tantrum, we believe volatility levels may increase.
- Falling inflation expectations within some of the countries in the universe could lead to more policy easing or potentially fewer rate increases. However, both geographical allocation and security selection remain crucial for this asset class given the diverse range of political risks in Emerging economies.
- The fundamental picture in Emerging Markets continues to brighten, given that GDP growth is expected to recover this year and current account balances are improving. However, the victory for Trump has led to an upward revision for inflation expectations in the US, causing rising US Treasury yields and Dollar strength.
- Emerging Markets are trading at a significant discount and continue to look attractive versus their developed market peers on a pure valuation basis. 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.
- As of now, there remains ambiguity over Donald Trump's campaign promises and real policy action.
- Several Central Banks (Indonesia, India and South Korea) have intervened directly or indirectly to protect their respective currencies. In addition, inflation levels are under control or declining which has prompted Central Banks to reduce interest rates in the last few months to support growth. Foreign exchange reserves continue to be healthy in many economies. Growth in Brazil and Russia has been improving, following a recessionary situation a year ago. Indonesia continues to post healthy growth aided by strong domestic growth and pro-market reforms. Also, China may not be affected extensively by Trump's trade policy given its policy flexibility.

FIXED INCOME

- Fixed income assets have seen strong returns in 2016 but were tempered somewhat in the final quarter. Sterling denominated bonds have continued to see pressure following Brexit, particularly as the currency weakened on significant uncertainty.
- UK Government Bonds have seen rising yields on the back of rising inflation expectations, which has led to them weakening and losing capital value. Uncertainty surrounding Brexit, corresponding policy decisions and geopolitical changes may trigger further volatility in the bond market. The evolution of political outcomes in Europe and clarity in policy decisions in the US will set the path of long term interest rates and the outlook for the fixed income asset class in the near to medium term.
- UK company balance sheets remain in relatively good shape and default levels are not an issue currently. Contrary to the Bank of England's intentions, there has been a rise in the cost of borrowing for companies as gilt yields have increased amid stronger UK economic growth and rising inflation expectations.
- A firming in oil prices has benefitted the high yield market, particularly in the US which has a high energy bias, as investors continue their search for yield in a low interest rate environment.

- Expansionary fiscal spending under the new US presidency is likely to mean higher yields for bonds in an economy where employment is almost at its peak. US Treasuries are exposed to interest rate increases, along with inflationary risks as the Federal Reserve allows the economy to build.
- European Bonds remain supported by the European Central Bank buying; however, yields are vulnerable to changes in rhetoric from the bank.
- The Bank of Japan's (BoJ) bond-buying programme and negative interest rates have driven valuations expensive. Action by the BoJ – including a pledge to aim for an overshoot of its inflation target 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 for the third consecutive quarter, surpassing the \$3 trillion milestone for the first time. Total assets increased by \$46.8 billion over the quarter, ending the year at \$3.02 trillion. Over 2016, the total hedge fund industry capital increased by \$121 billion, the largest annual increase since 2014. The growth of hedge fund assets occurred against a challenging backdrop of continued investor withdrawals, as redemptions totalled \$18.7 billion over the quarter. In Sterling terms, all strategies generated positive returns over the quarter, 12 month and 3 year periods to the end of December 2016. Event Driven were the strongest strategies over the quarter and 12 month period as they returned (+8.8%) and (+31.8%) respectively.
- UK commercial property gained 2.6% over the quarter, driven by an increase in capital values of 1.1% and 1.4% in rental income. In a reversal of last quarters negative performance which was affected by investor sentiment on the back of Brexit and new stamp duty reforms, all sectors posted positive returns; Industrials increased by 4.2%, followed by city offices which returned 2.7%. Office and retail sectors grew by 2.2% and 1.9%, respectively. At the end of December, the annual property yield stood at 5.6%.
- Commodity prices for most industrial sectors continued to rise in the quarter, whilst most agricultural prices declined. In the energy sector, coal prices surged 38%, on strong demand and supply tightness in China resulting from government efforts to reduce coal capacity. Crude oil prices rose 7% over the quarter, following agreements by both OPEC and non-OPEC producers to reduce output by nearly 1.8 million barrels per day in the first half of 2017. Non-precious metals prices rose by 7% due to strong demand in China and tightening supply, notably for zinc and lead due to the closure of several large mines in Australia, Canada and Ireland. Precious metals fell on weakening demand due to a rising dollar and higher real interest rates. The agricultural index declined by nearly 3%, led by declines in its beverage and food components.

CONCLUSION

There are many forks in the road ahead, where important decisions will have widespread impacts on global economies and investment markets. Never has the world felt so intertwined with local (albeit national) decisions having such widespread implications. It is important not to look at one strand in isolation, we must examine how those strands are all woven together.

It is always important to set out the threats to asset classes and investments, but opportunities do exist even when impending doom is predicted or when election results don't go the way they are expected to. 2016 is a classic example of this. Whether 2017 continues this trend remains to be seen, however global growth is gradually creeping upwards and interest rates in some parts of the world are starting the path to normalisation. Some equity markets are, at the time of writing, near or at all-time highs, but as Richard Branson once said 'Records are there to be broken, it is in man's nature to continue to strive to do just that'.

Political risk is of course high across the globe, with some important decisions already taken in 2016, many more will have to be made in 2017. One would argue that unusually the developed world faces the most challenges on this front, however ramifications will be felt far and wide.

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 GBI-EM 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

Note: All indices above are denominated in Sterling.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday, 16 February 2017
Report Subject	Investment Strategy and Manager Summary
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

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

The report covers the quarter ending 31 December 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 31 December 2016, the Fund's total market value increased by £41.6m to £1,628,193,381.
- 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 3.2% compared with a composite target of 2.6%.

The Fund's investment strategy was reviewed (on a light touch basis) as part of the Actuarial Valuation Process and agreed by Committee in September 2016. The benchmarks are reflective of the new strategic weightings although full implementation of the strategy is on going.

There was mixed performance amongst the Fund's investment managers in terms of outperforming or underperforming their respective targets during the quarter. There was particularly strong performance from the Fund's Best Ideas portfolio and In-House Assets.

RECOMMENDATIONS

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

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	<p>Investment Strategy and Manager Summary 31 December 2016</p> <p>Over the 3 months to 31 December 2016, the Fund's total market value increased by £41.6m to £1,628,193,381.</p> <p>Total Fund assets returned 3.2% over the quarter, compared with a composite target of 2.6%.</p> <p>Over the one year period, Total Fund assets returned 17.8%, compared with a composite target of 15.6%.</p> <p>Over the last three years, Total Fund assets returned 10.8% p.a., compared with a composite target of 9.8% p.a.</p> <p>The strongest absolute returns over the quarter came from the In-House assets, the Equity allocation and the Best Ideas portfolio assets.</p> <p>The Fund's asset portfolio is broadly within the new strategic ranges set for the asset classes as agreed in the recent strategy review. However there are a number of deviations which are being addressed as part of the rebalancing and implementation process.</p>
1.02	<p>At this time, there are no concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates.</p> <p>The strategic allocations have now been changed following full sign off of the 2016 Investment Strategy Review.</p> <p>The Fund's investment consultant has reviewed and agreed a number of mandate specifications for some of the manager positions following meetings in November with the managers. A Private Credit search tender is underway. There have been initial discussions with BlackRock, the All Wales passive provider, in respect of their Smart Beta offering.</p>

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

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

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

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

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>Investment Strategy and Manager Summary 30 September 2016.</p> <p>Contact Officer: Debbie Fielder, Finance Manager Telephone: 01352 702259 E-mail: Debbie.A.Fielder@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>A list of commonly used terms are as follows:</p> <p>(a) Absolute Return – The actual return, as opposed to the return relative to a benchmark.</p> <p>(b) Annualised – Figures expressed as applying to 1 year.</p> <p>(c) Duration – The weighted average time to payment of cashflows (in</p>

years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.

- (d) **Market Volatility** – The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.
- (e) **Money-Weighted Rate of Return** – The rate of return on an investment including the amount and timing of cashflows.
- (f) **Relative Return** – The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark.
- (g) **Three-Year Return** – The total return on the fund over a three year period expressed in percent per annum.
- (h) **Time-Weighted Rate of Return** – The rate of return on an investment removing the effect of the amount and timing of cashflows.
- (i) **Yield (Gross Redemption Yield)** – The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows.

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

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

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

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1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

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

OVERALL

Over the 3 months to 31 December 2016, the Fund's total market value increased by £41.6m to £1,628,193,381.

Over the quarter, total Fund assets returned 3.2% compared with a composite target of 2.6%. Total Fund (ex LDI) returned 2.2% against a target of 1.8%. With the exception of the Managed Account Platform which returned -3.5% over the quarter, In House assets (+3.9%), the Best Ideas Portfolio (+3.7%), total Equities (+3.0%), Multi-Asset Credit (+2.3%) and the LDI Portfolio (+5.8%) all delivered positive returns over the period.

In relative terms, total Fund assets returned 0.6% above the target, which was mainly attributable to the In-House, Multi-Asset Credit and Best Ideas portfolios which outperformed their targets by 2.4%, 2.0% and 2.2% respectively.

The Equity Portfolio returned 3.0% against a composite target of 4.5%, contributing 0.5% to total Fund performance but detracting 0.3% from total Fund's outperformance of its target.

Multi-Asset Credit, which is 1.0% underweight the strategic benchmark, added 0.2% to relative performance.

Managed Futures and Hedge Funds fell 3.5% over the quarter, which detracted 0.4% from relative outperformance.

In-House assets returned 3.9% over the quarter, above their target by 2.4% and added 0.5% to relative returns. Within the In-House portfolio, Infrastructure assets enjoyed a strong quarter, gaining by 14.7% over the quarter.

Insight's LDI portfolio rose by 5.8% as rising yields offset strong equity market gains in the synthetic equity portfolio. Overall this added 0.5% to the total Fund's relative outperformance.

EQUITIES

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

Over the final quarter of 2016, the performance of equity markets and financial markets in general was dominated by the outcome of the US presidential election. Markets were positioning towards a Hillary Clinton victory at the beginning of the quarter, only for many investors to be wrong footed when Donald Trump won the contest.

Japanese equities, supported by yen weakness, saw significant positive returns. A bank-led recovery in December boosted the quarterly performance of continental European equities, while large cap UK equities continued to benefit from Sterling weakness. US equities rallied after the election, although there was considerable performance dispersion between sectors in the US, with cyclical sectors outperforming defensive sectors. Concerns on President-elect Trump's suggested trade policies weighed on the performance of Asian ex Japan equities, which were the laggard among the main equity markets.

There was a clear distinction in the performance between developed and emerging markets over the quarter, with the latter significantly underperforming, as a result of the aggressive emerging markets equities sell off following the US election.

In Developed markets, US equities provided the strongest returns increasing by 9.0%. European equities returned 5.4%, closely followed by Japanese equities which rose by 5.1%. UK equities and Asia Pacific (ex Japan) equities posted returns of 3.9% and 0.9%, respectively.

Over the last 12 months, all regions posted positive returns, with US equities providing the strongest returns, increasing by 33.4%. UK equities experienced the lowest return of the developed markets, increasing by 16.8%.

Emerging Markets and Frontier Markets were both up by 0.8% and 5.7% respectively over the quarter, both markets saw a positive annual return of 33.1% and 23.0%, respectively.

Total Equity assets returned 3.0%, which was 1.5% below the composite target. All the Funds in the strategy underperformed their respective targets over the quarter, with the Investec Global Strategic Equity Fund the only equity fund to produce positive performance as the Fund returned 6.0% but underperformed its target by 1.0%.

Global equity exposure to financials and healthcare were the main contributors to performance, while information technology and telecommunication services were the largest detractors from returns. An underweight exposure to the US and overweight positions in Emerging Markets and Japan were detrimental.

In Emerging Markets, exposures to South Korea and Turkey contributed to the majority of gains, although this was offset to some extent by exposures in India and Taiwan.

In Frontier Markets, consumer staples, pharmaceuticals and similarly defensively-positioned companies generally underperformed, while cyclical stocks enjoyed increased momentum on expectations of reflationary policies in the US and continued stimulus in China. The underweight allocation to Argentina was beneficial as the economic recovery failed to gain traction. Stock selection in Pakistan was also advantageous, with the fund's seven holdings rising on the back of good results and positive momentum ahead of the country's re-classification to emerging market status by MSCI.

MULTI-ASSET CREDIT

Global credit markets in the fourth quarter of 2016 were impacted by rising yields, increased inflation expectations and a growing risk appetite post the US election. This was supported by upbeat economic data and a rise in the US interest rate. A strong US dollar contributed to US Treasuries underperforming other developed market debt.

The Bank of England's Monetary Policy Committee voted to continue the £60 billion Government bond purchases, however, policy makers hinted to a shift towards a neutral stance. The European Central Bank extended its quantitative easing programme but at a lower rate of EUR 60 billion of monthly purchases.

Credit spreads tightened across all major asset classes during December with US and European High Yield bond spreads tightening by 46bps and Emerging Market Debt by 17bps.

Over the quarter, Long Dated Fixed Interest Gilts, Long Dated Index-Linked Gilts and Long Dated Corporate Bonds produced negative returns of -6.0%, -3.0% and -5.0% respectively. Global Bonds were negative -3.6%, however, High Yield Bonds rose by 5.6% and Emerging Market Debt whilst down almost 5% in US Dollar Terms was broadly flat in Sterling terms due to the weakening of Sterling over the quarter.

Total Multi-Asset Credit returned 2.3% over the quarter, ahead of its target by 2.0%. Overall this made a marginal contribution of 0.2% to total Fund relative performance. The main contributors to the strategy were Investment Grade (+0.7%) and Global Rates (+0.7%) whilst High Yield (+0.5%) and Loans (+0.3%) also added to the strategy. Emerging Market Debt was marginal (+0.1%).

Within High Yield, the commodities sector significantly outperformed the other sectors with Steel, Metals/Mining and Energy also performing strongly.

In Emerging Market Debt, Latin America, in which the portfolio is overweight was the largest detractor over the quarter. However, this region recovered to be the largest contributor in December, led by Argentina, Mexico and Venezuela posting strong results in the last month.

HEDGE FUNDS

Hedge Fund capital rose for the third consecutive quarter, surpassing the \$3 trillion milestone for the first time. Total assets increased by \$46.8 billion over the quarter, ending the year at \$3.02 trillion. Over 2016, the total hedge fund industry capital increased by \$121 billion, the largest annual increase since 2014. The growth of hedge fund assets occurred against a challenging backdrop of continued investor withdrawals, as redemptions totalled \$18.7 billion over the quarter.

In Sterling terms, all Hedge Fund strategies generated positive returns over the quarter, 12 month and 3 year periods to the end of December 2016. Event Driven were the strongest strategies over the quarter and 12 month period as they returned (+8.8%) and (+31.8%) respectively.

ManFRM's Managed Futures & Hedge Funds strategy had a negative return of -3.8%, underperforming its target by 4.8% and detracting 0.4% from relative outperformance.

ManFRM Hedge Funds (Legacy) portfolio which consists of Duet, Liongate and Pioneer (until August 2016) assets returned 0.2% over the quarter, behind their target of 1.0%.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets returned 0.9% over the quarter, behind the absolute target by 1.0%. Overall, this detracted 0.1% from total Fund relative outperformance.

Pyrford returned 0.6% compared to a target of 1.9%. The positive absolute performance was attributable to the portfolio's allocation to bonds and equities which both contributed positively. The short duration position aided performance. The unhedged position in Canadian bonds benefitted from a weakening Sterling which also boosted performance of global equities. However, UK equities underperformed against the wider market. Positioning in defensive sectors suffered, as the market reacted to rising yields by rotating out of sectors sensitive to rising bond yields.

Investec's portfolio generated a return of 1.1% compared to a target of 1.9%. The Fund's underlying growth and defensive sub-portfolios produced a positive return during the quarter, whilst uncorrelated assets detracted. The growth sub-portfolio was driven by strong returns in US and Japanese equity markets. A US Banks vs US Utilities position was positive in a period of rotation out of traditionally defensive equities into more cyclical characteristics. Global High Yield provided an additional boost to the fund, whilst notable detractors were a Sterling vs US Dollar position, together with Mexican Government Bonds and Property. A short Euro position proved beneficial to the defensive sub-portfolio, whilst duration exposure, specifically in the form of New Zealand and South Korean Government Bonds, detracted notably. A sell-off in gold over the quarter drove negative returns in the uncorrelated sub-portfolio, whilst infrastructure also contributed negatively.

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio returned 3.7% above its target by 2.2%. Overall this made a contribution of 0.3% to total Fund performance and 0.2% to total Fund relative outperformance. Over the last 12 months, the total Best Ideas Portfolio delivered a particularly strong return of 18.9% and outperformed its target of UK CPI +3.0% p.a. by 14.3%.

The LGIM Japanese Equities Fund (+15.0%) and Investec Global Natural Resources Fund (+12.5%) were the strongest performers in the portfolio both contributing to 0.1% to relative Fund performance.

During the quarter the Portfolio took some profits from the F&C UK Equity-Linked Gilts Fund by transferring £19.5m from the fund into the BlackRock Emerging Markets Equity Fund.

IN-HOUSE ASSETS

Total In-House Assets returned 3.9%, ahead of their composite target by 2.4%. Overall this contributed to 0.8% to total Fund performance and 0.5% total Fund relative performance. As part of the new strategy, In-House assets now comprises of two sub-sections, the Real Assets Portfolio that returned 4.4% and the Private Markets Portfolio that returned 3.3%.

It should be noted that the revised strategic weightings to Property and Infrastructure differ to the actual allocations as these are a longer term allocation which will be reached once the final portfolio has been fully constructed.

Infrastructure was the best performing section of the portfolio, returning 14.7%, ahead of its target by 13.4%.

Timber/Agriculture (+5.1%) and Private Equity (+3.6%) outperformed their targets by 3.8% and 2.3% respectively.

Property (+1.8%) and Opportunistic assets (+0.2%), underperformed their targets by -0.7% and -1.1% respectively.

2 STRATEGIC ASSET ALLOCATION

31 DECEMBER 2016

Allocation by underlying asset class

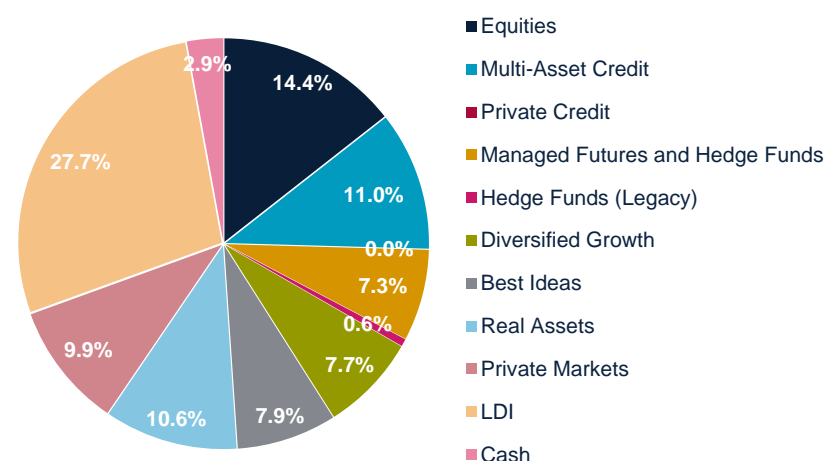
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	124,438,445	7.6	8.0	-0.4	5.0 – 10.0
Emerging Market Equities	95,662,844	5.9	6.0	-0.1	5.0 – 7.5
Frontier Market Equities	14,776,508	0.9	0.0	+0.9	–
Multi-Asset Credit	179,396,442	11.0	12.0	-1.0	10.0 – 15.0
Private Credit	0	0.0	3.0	-3.0	2.0 – 5.0
Managed Futures and Hedge Funds	118,242,293	7.3	9.0	-1.7	7.0 – 11.0
Hedge Funds (Legacy)*	9,633,820	0.6	0.0	+0.6	–
Diversified Growth	125,441,798	7.7	10.0	-2.3	8.0 – 12.0
Best Ideas	129,057,425	7.9	11.0	-3.1	9.0 – 13.0
Property	113,219,004	7.0	4.0	+3.0	2.0 – 6.0
Infrastructure / Timber / Agriculture	59,091,797	3.6	8.0	-4.4	5.0 – 10.0
Private Equity & Opportunistic	161,939,930	9.9	10.0	-0.1	8.0 – 12.0
LDI & Synthetic Equities	450,372,580	27.7	19.0	+8.7	10.0 – 30.0
Cash	46,920,494	2.9	0.0	+2.9	0.0 – 5.0
TOTAL CLWYD PENSION FUND	1,628,193,381	100.0	100.0	0.0	

Notes: * Hedge Funds (Legacy) includes the S.A.R.E (Due) and Liongate portfolios.

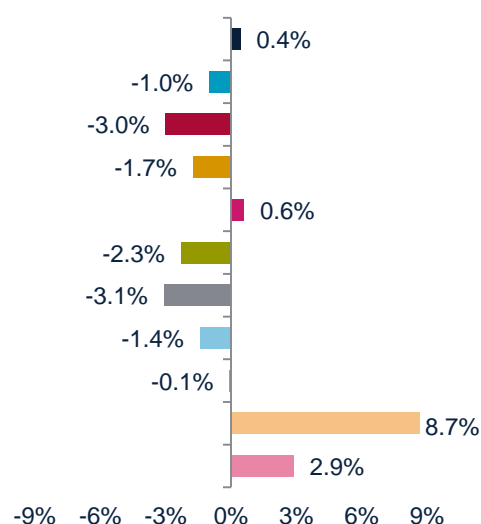
Points to note

- Asset allocation reflects the strategy to be implemented as part of the 2016 Investment Strategy Review, as such a number of asset classes will be underweight for an interim period until the portfolio is fully constructed.
- Total allocation to LDI rose by 0.9% over the quarter and is 8.7% overweight relative to its strategic allocation.

Strategic Asset Allocation as at 31 December 2016



Deviation from Strategic Allocation



Note: Totals may not sum due to rounding

3 VALUATION AND ASSET ALLOCATION AS AT 31 DECEMBER 2016

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Investec	Global Strategic Equity	124,438,445	7.6	4.0	5.0 – 10.0 ⁽¹⁾
Wellington	Emerging Market Equities (Core) [#]	46,788,489	2.9	3.0	5.0 – 7.5
Wellington	Emerging Market Equities (Local) [#]	48,874,355	3.0	3.0	
Aberdeen	Frontier Markets [#]	14,776,508	0.9	0.0	–
Total Equity		234,877,797	14.4	14.0⁽¹⁾	
Stone Harbor	Libor Multi-Strategy Portfolio	179,396,442	11.0	12.0	10.0 – 15.0
Total Credit Portfolio		179,396,442	11.0	15.0⁽²⁾	10.0 – 20.0⁽²⁾
ManFRM	Managed Futures and Hedge Funds	118,242,293	7.3	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	9,633,820	0.6	0.0	–
Managed Account Platform		127,876,114	7.9	9.0	7.0 – 11.0
Pyrford	Global Total Return	65,326,794	4.0	5.0	–
Investec	Diversified Growth	60,115,004	3.7	5.0	–
Total Diversified Growth		125,441,798	7.7	10.0	8.0 – 12.0
BMO	UK Equity-Linked Gilts	18,273,130	1.1		
LGIM	Japanese Equities (Hedged)	11,997,948	0.7		
Investec	Global Natural Resources	27,550,528	1.7	11.0	–
Wellington	Commodities	21,754,659	1.3		
LGIM	North American Equities (Hedged)	30,634,817	1.9		
BlackRock	Emerging Markets Equities	18,846,344	1.2		
Best Ideas Portfolio		129,057,425	7.9	11.0	9.0 – 13.0
Tactical Allocation Portfolio		254,499,223	15.6	21.0	15.0 – 25.0
In-House	Property	113,219,004	7.0	4.0	2.0 – 6.0
In-House	Infrastructure	29,814,621	1.8	8.0	5.0 – 10.0
In-House	Timber / Agriculture	29,277,176	1.8		
Real Assets Portfolio		172,310,801	10.6	12.0	10.0 – 15.0
In-House	Private Equity	145,748,190	9.0	10.0	8.0 – 12.0
In-House	Opportunistic	16,191,740	1.0		
Private Markets Portfolio		161,939,930	19.9	10.0	8.0 – 12.0
Total In-House Assets		334,250,731	20.5	22.0	
Insight	LDI Portfolio	450,372,580	27.7	19.0	10.0 – 30.0
Total LDI		450,372,580	27.7	19.0	10.0 – 30.0
Trustees	Cash	46,920,494	2.9	–	0.0 – 5.0
TOTAL CLWYD PENSION FUND		1,628,193,381	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.

1 Includes a 4.0% strategic allocation to Smart Beta.

2 Includes a 3.0% strategic allocation to Private Credit

4 PERFORMANCE SUMMARY

PERIODS ENDING 31 DECEMBER 2016

Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance vs Objective	
		Fund	Target	Fund	Target	Fund	Target		
● Investec	Global Strategic Equity	6.0	7.0	24.4	31.8	14.2	16.7	Target not met	
● Wellington	Emerging Markets (Core) [#]	-0.9	1.1	31.2	34.3	6.8	8.9	Target not met	
● Wellington	Emerging Markets (Local) [#]	-2.1	1.3	24.4	35.7	9.5	10.0	Target not met	
● Aberdeen	Frontier Markets [#]	-0.4	5.3	13.9	24.0	3.2	7.8	Target not met	
Total Equity		3.0	4.5	24.9	31.9	10.3	12.6		
● Stone Harbor	Libor Multi-Strategy	2.3	0.3	5.6	1.4	2.0	2.1	Target not met	
Total Credit Portfolio		2.3	0.3	5.6	1.4	2.0	2.1		
n/a	ManFRM	Managed Futures & Hedge Funds	-3.8	1.0	-5.4	4.1	n/a	n/a	n/a
n/a	ManFRM	Hedge Funds (Legacy) [*]	0.2	1.0	-23.0	4.1	-3.2	4.9	n/a
Managed Account Platform		-3.5	1.0	-7.2	4.1	n/a	n/a		
● Pyrford	Global Total Return	0.6	1.9	9.8	7.1	5.3	6.5	Target not met	
n/a	Investec	Diversified Growth	1.1	1.9	3.8	6.2	n/a	n/a	n/a
Total Diversified Growth		0.9	1.9	7.0	6.6	3.1	6.2		
Best Ideas Portfolio		3.7	1.5	18.9	4.6	n/a	n/a		
Tactical Allocation Portfolio		2.3	1.5	12.7	4.6	n/a	n/a		
● In-House	Property	1.8	2.5	7.3	2.6	11.3	12.0	Target not met	
● In-House	Infrastructure	14.7	1.3	19.3	5.6	18.9	5.6	Target met	
● In-House	Timber / Agriculture	5.1	1.3	22.2	5.6	8.9	5.6	Target met	
Real Assets		4.4	1.7	n/a	n/a	n/a	n/a		
● In-House	Private Equity	3.6	1.3	19.3	5.6	13.6	5.6	Target met	
● In-House	Opportunistic	0.2	1.3	-19.8	5.6	-9.2	5.6	Target not met	
Private Markets Portfolio		3.3	1.3	n/a	n/a	n/a	n/a		
Total In-House Assets		3.9	1.5	13.4	4.4	12.1	7.7		
n/a	Insight	LDI Portfolio	5.8	5.8	45.9	45.9	n/a	n/a	n/a
Total (ex LDI)		2.2	1.8	11.4	9.4	6.3	6.5		
TOTAL CLWYD PENSION FUND		3.2	2.6	17.8	15.6	10.8	9.8		

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 total Fund benchmark now reflects the new strategic weightings agreed by the PFC on 27 September 2016.

5 STRATEGIC ASSET CLASSES

PERFORMANCE TO 31 DECEMBER 2016

Strategy	3 months	12 months	3 years
	%	%	% p.a.
Total Equities	3.0	24.9	10.3
Composite Objective	4.5	31.9	12.6
Composite Benchmark	4.0	29.4	10.4
Total Multi-Asset Credit	2.3	5.6	2.0
Objective	0.3	1.4	2.1
Benchmark	0.1	0.4	1.2
Managed Account Platform	-3.5	-7.2	n/a
Objective	1.0	4.1	n/a
Benchmark	1.0	4.1	n/a
Total Hedge Funds (Legacy)	0.2	-23.0	-3.2
Composite Objective	1.0	4.1	4.9
Composite Benchmark	1.0	4.1	4.9
Total Diversified Growth	0.9	7.0	3.1
Composite Objective	1.9	6.6	6.2
Composite Benchmark	1.9	6.6	6.2
Best Ideas Portfolio	3.7	18.9	n/a
Objective	1.5	4.6	n/a
Benchmark	1.5	4.6	n/a
Total In-House Assets	3.9	13.4	12.1
Composite Objective	1.5	4.4	7.7
Composite Benchmark	1.5	4.4	7.7
Total LDI Portfolio	5.8	45.9	n/a
Composite Objective	5.8	45.9	n/a
Composite Benchmark	5.8	45.9	n/a
Total (ex LDI)	2.2	11.4	6.3
Composite Objective	1.8	9.4	6.5
Composite Benchmark	1.7	8.8	5.8
Total Clwyd Pension Fund	3.2	17.8	10.8
Composite Objective	2.6	15.6	9.8
Composite Benchmark	2.5	15.0	9.2

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 total Fund benchmark now reflects the new strategic weightings agreed by the PFC on 27 September 2016.

6 SUMMARY OF MANDATES

Manager	Fund	Strategic Asset Class	Performance Objective (Net of Fees)	Strategic Allocation
Investec	Global Strategic Equity	Global Developed Equities	MSCI AC World NDR Index +2.5% p.a.	4.0% ⁽⁴⁾
TBC	Smart Beta	Global Developed Equities	TBC	4.0%
Wellington	Emerging Market (Global)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.0%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.0%
Aberdeen	Frontier Markets	Frontier Markets Equities	MSCI Frontier Equities Index +1.5% p.a.	-
Total Equity				14.0%
Stone Harbor	Libor Multi-Strategy Portfolio	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a. ⁽¹⁾	12.0%
TBC	Private Credit	Private Credit	TBC	3.0%
Total Credit Portfolio				15.0% ⁽⁵⁾
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0% ⁽³⁾
Managed Account Platform				9.0%
Pyrford	Global Total Return	Diversified Growth	UK Retail Price Index +4.5% p.a. ⁽²⁾	5.0%
Investec	Diversified Growth	Diversified Growth	UK Consumer Price Index +4.6% p.a.	5.0%
Best Ideas	Best Ideas	Best Ideas Portfolio	UK Consumer Price Index +3.0% p.a.	11.0%
Tactical Allocation Portfolio				21.0%
In-House	Private Equity	Private Markets	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Markets	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	IPD Balanced Funds Weighted Average	4.0%
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% p.a.	6.0%
In-House	Timber / Agriculture	Infrastructure	3 Month LIBOR Index +5.0% p.a.	2.0%
Total In House				22.0%
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%
Total Liability Hedging				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 Assets from Investec are to be apportioned to a Smart Beta Manager. Investec currently holds c. 8.0% of assets.
5 Current weighting represented by Stone Harbor benchmark.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Thursday 16 th February 2017
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

Members should note that:

- The estimate funding position at the end of January is 84% which is around c7% ahead of the expected position from the 2016 actuarial valuation.
- The level of hedging is estimated to be 19% for interest rate and 40% for inflation at the end of 2016. The revised interest rate and inflation triggers agreed at the November PFC have now been communicated to Insight and the required documentation will be updated in due course.
- It has been provisionally agreed that c£60m of collateral can be released into the portfolio from the hedging mandate to rebalance the holdings with Insight and bring it more into line with the strategic benchmark. Before implementation more detailed analysis will be undertaken and the final amount will be agreed and instruction will be provided to Insight.
- The instruction to restructure the LDI portfolio has been provided to Insight. At the time of writing they are awaiting appropriate market conditions to implement the target level of net benefit of at least £25m.
- The implementation of the Equity option in relation to the synthetic equity mandate with Insight is ongoing. Subject to reasonable market pricing the appropriate level of insurance cover will be put in place.

RECOMMENDATIONS

1	Note the updated funding and hedging position for the CPF and the progress being made on the various elements of the Risk Management Framework.
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REPORT DETAILS

1.00	FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE
1.01	<p><i>Update on funding and the flightpath</i></p> <p>The monthly summary report as at 31 January 2017 from Mercer on the funding position and an overview of the liability hedging mandate is attached in Appendix 1. This latest update allows for the results of the 2016 actuarial valuation. It includes a “traffic light” of the key components of the Flightpath and hedging mandate with Insight.</p>
1.02	<p>The estimated funding level is 84% at 31 January. In absolute terms the relative funding position is 7% ahead of the expected position at the end of January 2017 when measured relative to the 2016 valuation expected funding plan.</p>
1.03	<p>The revised interest rate and inflation triggers agreed at the November PFC have been communicated to Insight and the documentation will be updated in due course. None of the new triggers have been met.</p>
1.04	<p>The level of hedging was around 19% for interest rate and 40% for inflation at the end of 2016. The hedging implemented to date has provided some protection to the funding position against the changes in interest rates and inflation.</p>
1.05	<p>Based on data from Insight, the analysis shows that the management of the Insight mandate is rated as “green” meaning it is operating in line within the tolerances set by our strategic risk advisors.</p>
1.06	<p>It has been provisionally agreed that c£60m of collateral can be released into the portfolio from the hedging mandate to rebalance the holdings with Insight and bring it more into line with the strategic benchmark. Instruction will be given to Insight on the final appropriate figure once further analysis has been completed. It is currently expected this will be done towards the end of February or early March.</p>
1.07	<p><i>Update on Risk Management framework</i></p> <p>(i) Restructuring the Insight Portfolio</p> <p>As reported in the last meeting, Insight and Mercer 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 at the point of transaction and is quite volatile in nature.</p> <p>Instructions have been issued to Insight and they are awaiting appropriate market conditions to implement the restructure with a minimum level benefit (net of transaction costs) of £25m.</p>

1.08	<p>(ii) Implementation of Equity Option protection on the Insight mandate</p> <p>As reported in the last meeting, market conditions are particularly challenging and we are expecting further volatility over potentially a long period. It was provisionally agreed that, subject to fair market pricing, we implement protection against potential falls in the equity markets via the use of “Equity Options” potentially by giving up some market upside potential. This will provide further stability in employer contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality.</p> <p>The process is ongoing and the structure and level of protection is being agreed by the FRMG. Subject to fair market pricing this will then be implemented.</p>
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2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None required

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

5.00	APPENDICES
5.01	Appendix 1 - Monthly monitoring report - January 2017

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016.

6.02	<p>Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview.</p> <p>Contact Officer: Philip Latham, Clwyd Pension Fund Manager Telephone: 01352 702264 E-mail: philip.latham@flintshire.gov.uk</p>
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7.00	GLOSSARY OF TERMS
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7.01	<p>(a) CPF – Clwyd Pension Fund – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) Administering Authority or Scheme Manager – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) PFC – Clwyd Pension Fund Committee - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) LGPS – Local Government Pension Scheme – the national scheme, which Clwyd Pension Fund is part of</p> <p>(e) 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.</p> <p>(f) Actuary - A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary’s primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.</p> <p>(g) Flightpath A framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when “triggers” are hit, whilst still expecting to achieve the overall funding target.</p> <p>(h) Deficit The extent to which the value of the Fund’s liabilities exceeds the value of the Fund’s assets.</p> <p>(i) Funding level The difference between the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.</p>
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(j) **Hedging**

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

(k) **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.

(l) **Funding & Risk Management Group (FRMG)**

A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Consultant.

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HEALTH WEALTH CAREER

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT

February 2017

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Paul Middleman

Adam Lane

EXECUTIVE SUMMARY



= as per or above expectations

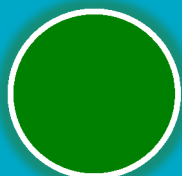


= to be kept under review



= action required

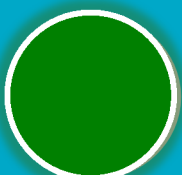
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Overall funding position

- Ahead of existing recovery plan
- Funding level just below the first trigger
- If trigger is breached possible action will be discussed at FRMG

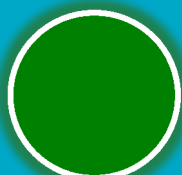
In absolute terms the funding position is 7% ahead of target. However there is continuing uncertainty in the outlook for future returns which could impact on the future funding requirements.



Liability hedging mandate

- Insight in compliance with investment guidelines
- Performance in line with benchmark since inception

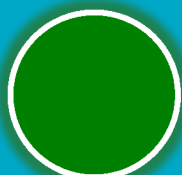
No action required. Restructuring of the mandate will take place when the net benefit at outset is expected to exceed £25m.



Synthetic equity mandate

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

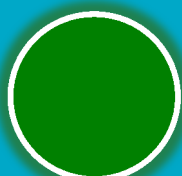
No action required. Implementation of equity protection on the TRS is ongoing.



Collateral and counterparty position

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

Collateral adequacy to be monitored following release of c.£60m of capital in February/March.



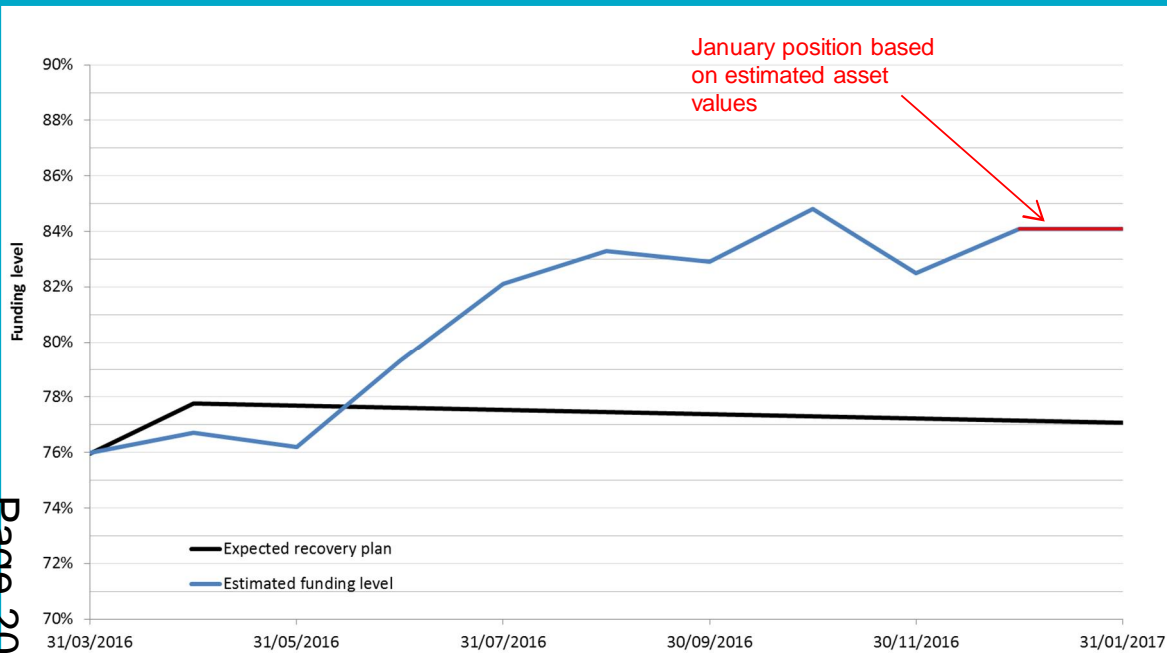
LIBOR Plus Fund

- LIBOR has outperformed its target since inception
- Management team stable and no change in manager rating
- Allocation of £50m remains appropriate

No action required.

FUNDING LEVEL MONITORING TO 31 JANUARY 2017

Estimated funding position since 31 March 2016



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Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2016 valuation based on the assumptions (and contributions) outlined in the 2016 actuarial valuation. The *expected* funding level at 31 January 2017 was around 77%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 31 December 2016. The **red line** shows the progression of the estimated funding level over the period since December 2016. At 31 January 2017, we estimate the funding level and deficit to be:

84% (£308m*)

This shows that the Fund's position was ahead of the expected funding level at 31 January 2017 by around 7% on the current funding basis.

The investment return outlook continues to be uncertain given external political and fiscal factors. This could potentially mean that the likelihood of achieving the assumed real returns going forward has fallen. To illustrate the impact a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by 3% to 81% with a corresponding increase in deficit of £83m to £391m.

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

Funding Level Triggers

The initial funding level trigger has been set at 85%. When the trigger is breached the possible action will be discussed at the FRMG. The possible outcomes are:

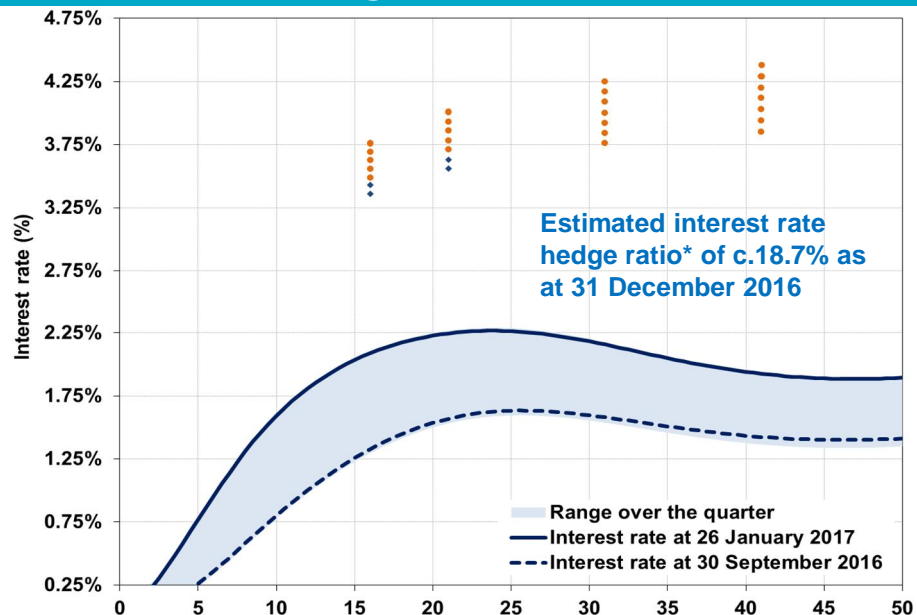
- i. No action
- ii. Increasing the interest rate and/or inflation hedging levels
- iii. Change the level or nature of the growth assets
- iv. Changing other aspects of the framework e.g. Equity options; or
- v. A combination of the above.

*Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 31 December 2016 to 31 January 2017. We will monitor this estimate over time against the actual position once final asset values are available, and update the asset values on a monthly basis.

UPDATE ON MARKET CONDITIONS AND TRIGGERS

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Change in interest rates



* Hedge ratio calculated with reference to 2013 valuation basis

- = agreed interest rate triggers
- ◆ = triggers breached in previous quarters

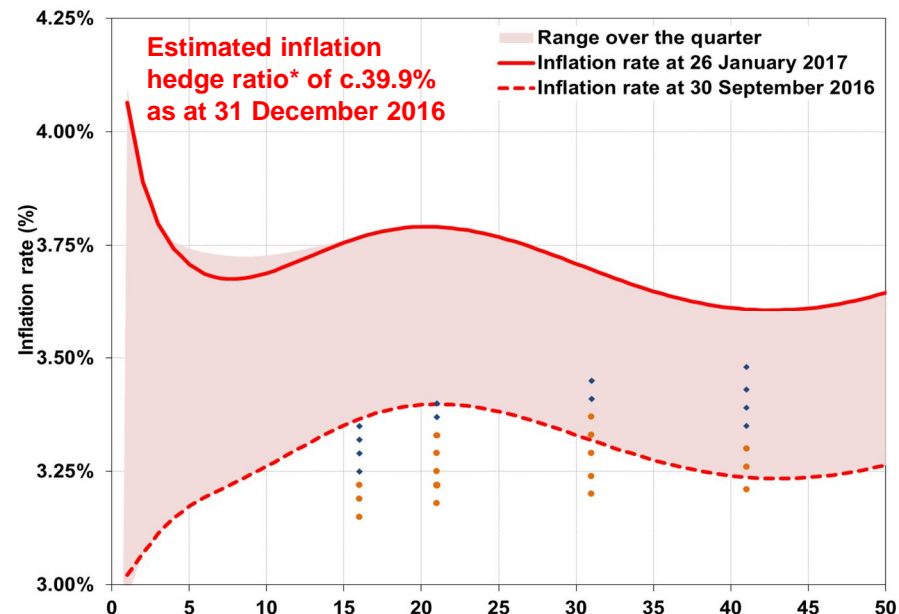
Comments

Interest rates rose materially over the period from 30 September 2016 to 26 January 2017, with increases of up to c.0.8% observed at short to medium durations.

No interest rate triggers were breached over the fourth quarter of 2016. The triggers have since been removed as part of the restructure of the LDI assets.

The revised interest rate triggers will be implemented as part of the on-going LDI restructure.

Change in inflation rates (note: different scale)



* Hedge ratio calculated with reference to 2013 valuation basis

- = agreed interest rate triggers
- ◆ = triggers breached in previous quarters

Comments

Inflation expectations rose sharply at all durations over the period from 30 September 2016 to 26 January 2017, with average increases of c.0.4% observed across the curve. The largest increases have been observed at the shortest durations.

The inflation hedge ratio remains around the maximum permissible level of 40% and Insight are therefore currently not monitoring the level of inflation hedging.

The revised inflation triggers will be implemented as part of the on-going LDI restructure.

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