

**FLINTSHIRE COUNTY COUNCIL**

**REPORT TO:** **CLWYD PENSION FUND COMMITTEE**

**DATE:** **26<sup>th</sup> NOVEMBER 2015**

**REPORT BY:** **CHIEF OFFICER (PEOPLE AND RESOURCES)**

**SUBJECT:** **INVESTMENT AND FUNDING UPDATE**

**1.00 PURPOSE OF REPORT**

1.01 To provide Committee Members with an update on investment and funding related issues.

**2.00 BACKGROUND**

2.01 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:

- Business Plan 2015/16 update (Appendix 1)
- Risk register update (Appendix 2)
- Delegated responsibilities (Appendix 3)

**3.00 BUSINESS PLAN UPDATE – QUARTER 2**

3.01 Appendix 1 provides a summary of progress against the investment and funding section of the Business Plan up to the end of quarter 2 to 30 September 2015. All the items except for FI5 are on target or achieved as originally planned. All tasks relating to quarter 3 are also on target.

3.02 FI5 relates to the review of admission and termination policy. The original timescale for this was quarter 2 and 3. This task has now been split into 2 tasks. FI5a will review the application of the existing policy for the remainder of the year and the review is now covered in FI5b for 2016/17.

3.03 There are two new tasks which have been added to the Business Plan and are linked to G8 in the Governance section, “Allow for external factors”.

- FI16 - Collaboration across Welsh Funds for pooling of Passive Assets
- FI17 - Implement CIV for Welsh Funds

**4.0 RISK REGISTER UPDATE**

4.01 Appendix 2 provides the dashboard showing the current risks relating to investment and funding. In addition, in relation to these risks, it provides details of:

- the key risks (i.e. ranked 8 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 Currently there are no key risks which score above 8 or any new risks to report. However, Funding and Investments by nature are significant risks but these are currently being managed and discussed with the Fund's Actuary and Consultant.

## **5.00 CURRENT DEVELOPMENTS AND NEWS**

### ***LGPS Pooling of Investments***

5.01 Further details relating to pooling of investments across the LGPS and the collaborative projects across the 8 Welsh Funds are both covered in individual agenda items 5 and 6 within this committee agenda.

### ***Annual Accounts and Investment Costs***

5.02 As reported in agenda item 4, Governance Update, the accounts were given an unqualified opinion by Wales Audit Office. Whilst the accounts followed the same basic format as previous years there is was one important addition, namely the need to fully disclose all manager fees including the annual management charge (AMC), underlying fees, performance fees and transaction fees. CIPFA consider that the full disclosure of these fees is best practice and, as such, this recommendation was followed.

5.03 The consequence of this had no impact on the bottom line of the Fund, fees have always been paid either directly or indirectly. The 2014/15 fund management fees totalled £16.127m which compares to £15.359m for 2013/14 if the accounts had been restated. Whilst fees do generally rise and fall with the value of the Fund a full review was undertaken during 2014/15 that should, on a full year basis, lead to a reduction of approximately £1.5m on the AMC.

5.04 This is a European wide issue as reported by Investments & Pensions Europe (IPE). They suggested that much of the quality of the cost data within Pension Fund Annual Reports (both LGPS and Corporate Schemes) varies as Funds do not work with the same standards or information. As a result, it is exceedingly difficult to make meaningful comparisons between Funds. It was estimated that costs could be more than twice those calculated as Funds are not asking the right questions to keep track of their expenses. Such discrepancies can result in the perverse situation where those who are most open about their full range of costs can suffer as a result and be punished as appearing at the top end of the cost scale.

### ***Markets in Financial Instruments Directive II (MiFID)***

5.05 MiFID II is a proposal by the European Commission to amend and expand on the original MiFID directive which came into force on 1<sup>st</sup> November 2007. The two core aims are to improve transparency in financial markets and to further strengthen investor protection. The updated directive has been passed into European Law and the final rules were originally expected to be effective from

January 2017. This date now looks likely to be delayed as the European Commission has accepted that more time may be needed for its implementation due to the large amount of technical work involved.

- 5.06 The potential impact for local authorities is that they will be categorised as retail clients with the ability to opt – up to elective professional status where they meet specific qualifying criteria (based on the assessment of the client's expertise, experience and knowledge of the transactions or services concerned).

## **6.00 DELEGATED RESPONSIBILITIES**

- 6.01 The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 3 updates the Committee on the areas of delegation used since the last meeting.

- 6.02 As can be seen in paragraph 6.03 of the delegated responsibilities, the Fund has committed £8 million to the Foresight Regional Development Fund. This is a collaborative venture with other LGPS including Greater Manchester and South Yorkshire. The Fund is focused on investments in SME's in the North West of England and North East Wales and will look to invest between £1m and £5m in smaller growth businesses to deliver sustainable economic and social benefits in those targeted regions.

## **7.00 RECOMMENDATIONS**

- 7.01 That Committee Members discuss and note the report and agree to the amendments to the Business Plan in paragraphs 3.02 – 3.03.

## **8.00 FINANCIAL IMPLICATIONS**

- 8.01 None directly as a result of this report.

## **9.00 ANTIPOVERTY IMPACT**

- 9.01 None directly as a result of this report.

## **10.00 ENVIRONMENTAL IMPACT**

- 10.01 None directly as a result of this report.

## **11.00 EQUALITIES IMPACT**

- 11.01 None directly as a result of this report.

## **12.00 PERSONNEL IMPLICATIONS**

- 12.01 None directly as a result of this report

## **13.00 CONSULTATION REQUIRED**

- 13.01 None directly as a result of this report.

## **14.00 CONSULTATION UNDERTAKEN**

14.01 None directly as a result of this report.

## **15.00 APPENDICES**

15.01 Appendix 1 - 2015/16 Business plan update

15.02 Appendix 2 - Risk register update

15.03 Appendix 3 – Delegated Responsibilities

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## **LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**

Background Papers: 24<sup>th</sup> March 2015 Pension Fund Committee  
- Clwyd Pension Fund Business Plan 2015/16 to 2017/18  
- Clwyd Pension Fund Risk Policy and Register

Contact Officer: Philip Latham, Clwyd Pension Fund Manager  
Tel: 01352 702264  
Fax:01352 702279  
e-mail: philip.latham@flintshire.gov.uk