

Public Document Pack

Gareth Owens LL.B Barrister/Bargyfreithiwr
Chief Officer (Governance)
Prif Swyddog (Llywodraethu)



To: Cllr Alan Diskin (Chair)

CS/NG

Councillors: Haydn Bateman, Brian Dunn,
Ron Hampson and Matt Wright

30 October 2014

Co-opted Members

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

Maureen Potter 01352 702322
maureen.potter@flintshire.gov.uk

Dear Sir / Madam

A meeting of the **CLWYD PENSION FUND COMMITTEE** will be held in the **DELYN COMMITTEE ROOM, COUNTY HALL, MOLD CH7 6NA** on **WEDNESDAY, 5TH NOVEMBER, 2014** at **10.00 AM** to consider the following items.

Yours faithfully

Democracy & Governance Manager

A G E N D A

- 1 **APOLOGIES**
- 2 **DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)**
- 3 **MINUTES** (Pages 1 - 10)
To confirm as a correct record the minutes of the last meeting.

County Hall, Mold. CH7 6NA
Tel. 01352 702400 DX 708591 Mold 4
www.flintshire.gov.uk
Neuadd y Sir, Yr Wyddgrug. CH7 6NR
Ffôn 01352 702400 DX 708591 Mold 4
www.siryfflint.gov.uk

The Council welcomes correspondence in Welsh or English
Mae'r Cyngor yn croesawau gohebiaeth yn y Cymraeg neu'r Saesneg

GOVERNANCE

- 4 **TRAINING POLICY** (Pages 11 - 22)
To ask Committee Members to approve the Fund's Training Policy
- 5 **GOVERNANCE UPDATE** (Pages 23 - 86)
To provide Committee Members with an update on governance related issues.
- 6 **EXTERNAL AUDIT REPORT** (Pages 87 - 132)
To inform Committee Members of the Wales Audit Office 2013/14 audit findings

ADMINISTRATION AND COMMUNICATIONS

- 7 **LGPS UPDATE** (Pages 133 - 140)
To provide Committee Members with current issues affecting the management of the LGPS.
- 8 **PENSION ADMINISTRATION / COMMUNICATIONS UPDATE** (Pages 141 - 150)
To enable Committee Members to monitor the performance of the Pensions Administration

INVESTMENT AND FUNDING

- 9 **INVESTMENT AND FUNDING UPDATE** (Pages 151 - 156)
To provide Committee Members with an update of investment and funding matters for the Clwyd Pension Fund.
- 10 **ECONOMIC AND MARKET UPDATE** (Pages 157 - 170)
To provide Committee Members with an economic and market update.
- 11 **INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 171 - 186)
To update Committee Members on the performance of the Fund's investment strategy and Fund Managers
- 12 **FUNDING AND FLIGHT PATH UPDATE** (Pages 187 - 198)
To update Committee Members on the funding position and liability hedging undertaken as part of the Flight Path strategy for managing liability risks
- 13 **INVESTMENT STRATEGY REVIEW** (Pages 199 - 208)
To provide Committee Members with recommendations for changes to the Investment Strategy for the Clwyd Pension Fund

CLWYD PENSION FUND COMMITTEE **22 JULY 2014**

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Tuesday, 22 July 2014.

PRESENT: Councillor Alan Diskin (Chairman)

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

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

APOLOGIES: Councillor Ron Hampson

IN ATTENDANCE:

Advisory Panel comprising: Helen Stappleton (Chief Officer - People and Resources), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Mr. John Finch (Investment Consultant – JLT Group), Mr. Paul Middleman (Fund Actuary – Mercers)

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

Prior to the start of the meeting the Chairman welcomed and introduced Members, Co-opted Members, Karen McWilliam, Mr. John Finch, and Mr. Paul Middleman, to the meeting.

1. DECLARATIONS OF INTEREST (including Whipping Declarations)

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

2. GOVERNANCE POLICY STATEMENT

The Clwyd Pension Fund Manager introduced a report to seek approval of the Clwyd Pension Fund's Governance Policy Statement. He provided background information and referred to the key considerations in the report concerning the LGPS requirements and the Fund's Governance Policy Statement.

The Clwyd Pension Fund Manager gave an overview of the draft Statement which was appended to the report. He said it had been updated to incorporate the new governance structure relating to the Fund and in particular the establishment of the Pension Fund Committee and the recent review of officers' delegations. The opportunity had also been taken to

articulate some governance related objectives against which the effectiveness of the governance arrangements would be monitored. He reported that the Governance Compliance Statement, which was appended to the Statement, showed that the administering authority was fully compliant in all but one matter when compared to the Secretary of State's Governance Guidance.

The Clwyd Pension Fund Manager advised that the Statement would be updated late 2014 or early 2015 to incorporate information relating to the establishment of a local Pension Board. This was a new requirement to be implemented by 1 April 2015.

The Chairman invited members to raise questions.

Councillor Matt Wright commented on the risk contained in the draft Statement that changes in Pension Fund Committee membership of Flintshire County Council councillors and/or key officers would result in loss of continuity and potentially diminish knowledge and understanding. Officers advised that the length of service and number of members appointed to the Committee was stipulated in the Constitution. Whilst membership of Flintshire County Council councillors is renewed on an annual basis the issue of continuity will be taken into account.

Mr. Steve Hibbert commented on the need to act in the best interests of the Fund stakeholders. He suggested that the aims in relation to the governance of the Fund, detailed on page 7 of the draft Statement, be amended to include development of the objective that refers to having the best interest of the Fund stakeholders in mind and this was agreed by the Committee.

Mr. Hibbert also referred to the membership of the Pension Fund Committee and queried the lack of representation from Officers in Denbighshire and Wrexham Authorities. Officers responded to the comments and explained that the meeting of the Clwyd Pension Fund Committee was a public meeting at which any Employer or scheme member can attend. There could also be an opportunity for officers from employers other than Flintshire County Council to be represented on the new Local Board.

RESOLVED:

- (a) That the aims in the draft Statement in relation to the governance of the Fund be amended to include development of an objective to refer to having the best interest of the Fund stakeholders in mind; and
- (b) That subject to the above amendment, the revised Governance Policy Statement be approved.

3. WORKING PRACTICES

The Chairman invited Karen McWilliam, Independent Advisor - Aon Hewitt, to present a report to seek approval for the delegation of certain

functions to officers. She provided background information and advised that the proposed delegations and means for ongoing reporting on the use of those delegations, which in the main related to sub-sets of the Committee's functions, were appended to the report. She gave an overview of the information provided on delegation of functions and drew attention to the communication, monitoring, and use of delegation.

The Independent Advisor reported that one of the areas included in the proposed delegations related to the Administering Authority's Discretions Policy. To assist the Committee in understanding the matters being delegated the majority of the areas that were to be covered by the Discretions Policy were listed in Appendix B to the report.

RESOLVED:

That the matters outlined in Appendix A be delegated to officers as outlined in the appendix.

4. DRAFT GOVERNANCE REGULATIONS

Karen McWilliam, Independent Advisor - Aon Hewitt, introduced a report to provide an update on the draft LGPS Governance Regulations and initial plans for implementing the local Pension Board. She provided background information and advised that the Secretary of State for Communities and Local Government (DCLG) had issued a consultation on draft regulations detailing the expected changes to be made within the LGPS. The consultation closes on 15 August 2014. Final regulations were expected to be made in September or October 2014 with some of the provisions effective from 1 October 2014 to enable the establishment of bodies before 1 April 2015.

The Independent Advisor referred to the two key elements within the draft regulations which were that each LGPS administering authority was required to establish a local Public Service Pension Act (PSPA) Board no later than 1 April 2015, and the introduction of a national Scheme Advisory Board (SAB). She gave an overview of the establishment and membership of the PSPA Board and said it was expected that Flintshire County Council would be responsible for the formation of the Clwyd Fund's PSPA Board including its size, membership and role. She reported that the provisions relating to the establishment of the SAB were set out in the draft regulations contained in the consultation document appended to the report.

The Independent Advisor referred to views sought on other policy matters in the consultation. Due to the short timeframe for responses to the consultation, members were asked to consider delegating responsibility for developing a response to the Clwyd Pension Fund Manager, subject to formal approval by the Chairman of the Committee, or the Vice-Chair in his absence.

Councillor Steve Wilson commented on the financial and workload implications due to the creation of the local PSPA Board and the SAB. The

Independent Advisor acknowledged the points made and explained that costs could be recharged to the Clwyd Pension Fund.

RESOLVED:

- (a) That the report be noted,
- (b) That responsibility for developing a response to the consultation be delegated to the Clwyd Pension Fund Manager, subject to formal approval by the Chairman of the Pension Fund Committee, or the Vice-Chair in his absence; and
- (c) That the Clwyd Pension Fund Manager works with Democratic Services officers to progress the establishment of the PSPA Board, subject to ongoing updates to and input from the Chairman of the Pension Fund Committee, or the Vice-Chair in his absence.

5. SERVICE PLAN 2014/15

The Clwyd Pension Fund Manager introduced a report on the Clwyd Pension Fund Service Plan 2014/15 for approval. He explained the purpose of the draft Plan which was appended to the report and drew attention to the priorities and improvements for 2014/15, achievements in 2013/14, corporate responsibilities, and operational tasks relating to Governance, Pensions Finance and Pensions Administration.

During discussion Mr. Steve Hibbert raised a question concerning employer contribution rates. Officers responded to the query and provided further clarification around the contributions paid by employees and employers and referred to the national cost control mechanism in place.

RESOLVED:

That the Clwyd Pension Fund Service Plan for 2014/15 be approved.

6. GOVERNANCE UPDATE

The Clwyd Pension Fund Manager introduced a report to provide an update on governance related issues. He gave background information and referred to the key considerations as detailed in the report. The Clwyd Pension Fund Manager advised that a governance update would be provided to the Committee on a quarterly basis.

Members were asked to note the response to the Government's consultation on 'Opportunities for collaboration, cost savings and efficiencies' which was appended to the report. During discussion Officers responded to the comments made by Mr. Steve Hibbert around the opportunity for local investment. Mr. Hibbert also commented on the opportunity for collaboration between the Clwyd Pension Fund and the Welsh Government and referred to the possible social and financial benefits for Wales of such an arrangement.

Karen McWilliam agreed to provide information to the Committee on the Queen's Council's (QC) opinion on responsibilities of administering Authorities when making investments.

The Clwyd Pension Fund Manager drew attention to the draft Pension Fund Accounts, the outcomes of the internal audit reports and progress of the Fund's service plan.

The Clwyd Pension Fund Manager advised that one of the areas covered in the 2014/15 Service Plan was the delivery of training for Pension Fund Committee members throughout the year and drew attention to the current events tabled in the report. Councillor Brian Dunn expressed the view that all members of the Committee and appropriate officers should be invited to attend training events to improve knowledge and understanding. He cited the LGC Investment Summit as an example and suggested that the number of places should not be restricted to four. The Clwyd Pension Fund Manager explained that members were encouraged to attend at least one event a year and that further events were to be scheduled into the training programme. It was agreed that officers would liaise with all members of the Committee to determine the events they wished to attend. The Clwyd Pension Fund Manager also highlighted to members of the Committee that Private Equity Training would be provided on 12 November 2014.

The Clwyd Pension Fund Manager referred to the Independent Review of Governance Performance for 2013/14 which was appended. Councillor Steve Wilson asked if it would be appropriate for the Committee to thank the previous Independent Consultant / Advisor, Mr Bob Young, for his Independent Review and his past work for the Fund. The Committee agreed that officers should write to Mr Young to convey their thanks.

RESOLVED:

- (a) That the response to the government's consultation on 'Opportunities for collaboration, cost savings and efficiencies' be noted;
- (b) That the draft Pension Fund Accounts 2013/14 be noted;
- (c) That the conclusion from the internal audit reports, the independent review of governance performance for 2013/14 and the Service Plan update be noted; and
- (d) That Officers write to Mr. Bob Young, previous Independent Consultant/Advisor, to thank him for his Independent Review and his past work for the Fund.

7. LGPS UPDATE

Mr. Paul Middleman, Fund Actuary - Mercer, introduced a report to inform the Committee of the national and local issues concerning management and operation of the Local Government Pension Scheme. He

advised that a “current issues “document was appended to the report and gave an overview of the main considerations and referred to the Pension Fund policy review, software issues, and early retirements.

Mr. Middleman reported that on 21 July 2014, HM Treasury published the Government’s response to its consultation “Freedom and Choice in Pensions”. He summarised the key points and explained that this followed the Spring 2014 Budget announcement relating to changes in pension options for defined contribution members retiring from April 2015 and possible restrictions to transfer options for defined benefit pension scheme members. The intention was to legislate on these issues in Autumn 2014 through a Pensions Tax Bill and amendments to the recent Pensions Schemes Bill.

In response to the queries and concerns expressed by members Officers commented on the safeguards that were expected to be put in place concerning the transfer of pension benefits.

RESOLVED:

That the report be noted.

8. PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE

The Clwyd Pension Fund Manager introduced a report to enable the Committee to monitor the performance of the pension administration service and provide updates on:

- progress of administration and communication matters against the Service Plan for 2014/15
- progress against the Fund’s communications policy
- new and leaving employers and bulk transfers
- delegated functions

The report also highlighted any additional unplanned or unexpected areas as well as other material administration or communication matters.

The Clwyd Pension Fund Manager provided background information and advised that the report provided an update against the Fund’s annual Service Plan under the key areas of Projects and Improvements and Performance measurements against day to day tasks.

Councillor Huw Llewelyn Jones commented on the need to be mindful of Welsh Government plans for local government reorganisation. Officers said this had been included in the Service Plan although it was too early to determine the potential implications.

RESOLVED:

That the report be noted.

9. STATEMENT OF INVESTMENT PRINCIPLES

The Clwyd Pension Fund Manager introduced a report to provide the Fund's Statement of Investment Principles (SIP) for approval. He provided background information and advised that the SIP had been updated to reflect:

- Implementation of the Flight-path strategy from March 2014 which included the appointment of Insight Investment Management, the changing of Stone Harbor's benchmark to absolute return and the disinvestment from SSGA's passive equity mandates
- The change in the Fund's governance structure
- The changes of assumptions from the actuarial valuation
- Updates to statutory references

The Clwyd Pension Fund Manager gave an overview of the SIP which was appended to the report. He advised that the SIP would require a fundamental review to reflect changes resulting from the investment strategy review to be undertaken later in the year. The SIP would be published on the Fund's website and included in the Annual Report and Accounts 2013/14.

RESOLVED:

That the Fund's Statement of Investment Principles be approved.

10. ECONOMIC AND MARKET UPDATE

Mr. John Finch, Investment Consultant - JLT Group, introduced a report to provide the Committee with an economic and market update. He explained that the investment performance of the Fund would reflect global economic and market conditions and an understanding of "where we are" in economic and market cycles may impact on asset allocation decisions by the Advisory Panel going forward.

Mr. Finch presented the Economic and Market update for Quarter 1 2014, which was appended to the report. During discussion Mr. Finch responded to the query raised by Councillor Steve Wilson concerning exposure to Russia and the Middle East. In response to a further question from Councillor Haydn Bateman concerning definition of emerging markets, Mr. Finch agreed to supply information to Councillor Bateman following the meeting.

RESOLVED:

That the update be noted.

11. INVESTMENT STRATEGY AND MANAGER SUMMARY

Mr. John Finch, Investment Consultant - JLT Group, introduced a report to provide an update on the performance of the Fund's investment strategy and performance of fund managers.

Mr. Finch provided background information and presented the Investment Strategy and Manager Summary report for Quarter 1 2014 which was appended to the report. He also gave a verbal update for the quarter ending 30 June 2014.

Mr. Finch advised that the Fund had performed in line with its benchmark over the quarter ending 31 March 2014. Appendix 1 of the Investment Report provided a summary of mandates which showed a number of fund managers or asset classes which had long term absolute return targets of 8-10% or 15% per annum. Mr. Finch explained that under the current financial conditions it should be recognised that the targets were not achievable.

Mr. Finch reported that as part of the Service Plan 2014/15 there would be a fundamental review of the Fund's investment strategy and the implementation of the strategy, including a review of the current fund managers, benchmarks and targets. It was intended to bring the recommendations of the review to the next meeting of the Committee scheduled for 5 November 2014. The Clwyd Pension Fund Manager advised that officers would liaise with members to establish a suitable date for a workshop to be held in October 2014 to consider a range of options with the Investment Consultant and pension finance officers prior to the meeting of the Committee in November 2014.

During discussion Councillor Haydn Bateman raised a question around investment in emerging markets and the Fund's exposure to Russia. Mr. Finch advised that exposure to Russia was 3% of the 7% holding in the emerging market portfolio.

RESOLVED:

- (a) That the report be noted;
- (b) That a workshop be held in October 2014 to enable members to consider a range of options with the Investment Consultant and pension finance officers prior to the next meeting of the Committee scheduled for 5 November 2014.

12. FUNDING AND FLIGHT PATH UPDATE

Mr. Paul Middleman, Fund Actuary - Mercer, introduced a report to provide an update on the funding position and liability hedging undertaken as part of the Flight-path strategy for managing liability risks.

Mr. Middleman provided background information and presented the risk management framework monthly monitoring report. He advised that since the commencement of the strategy a number of interest rate triggers had been met and the Fund now had an interest rate hedge of around 21%.

No inflation rate or funding triggers had been reached. He also reported that the estimated funding position as at 30 June 2014 was 72% which was ahead of the current funding plan.

RESOLVED:

That the report be noted.

13. 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 12.55 pm)

.....

Chairman

This page is intentionally left blank

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **5th NOVEMBER 2014**

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

SUBJECT: **TRAINING POLICY**

1.00 PURPOSE OF REPORT

1.01 To ask Committee Members to approve the Fund's Training Policy.

2.00 BACKGROUND

2.01 At a national level, there are expanding requirements for LGPS Pension Committee members, Pension Board members and officers to have an appropriate level knowledge and skills. These are being driven by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Pensions Regulator (tPR) and legislation.

3.00 CONSIDERATIONS

National Requirements

- 3.01 In recent years CIPFA has placed much greater focus on the need for administering authorities to embrace the requirement for a high level of knowledge and skills in the management of LGPS Funds and it has issued a Code of Practice and Framework which can be adopted.
- 3.02 The Public Service Pensions Act 2013 (PSPA) requires each administering authority in the LGPS to introduce a Pension Board by 1 April 2015. All Board members are legally required to have knowledge and understanding of pension scheme matters at a level that will allow them to properly exercise the functions of their role. It is possible that this legal requirement will be extended to LGPS Pension Fund Committee members. These requirements will also be expanded on as part of the Pension Regulator's Public Sector Code of Practice and LGPS specific guidance, both expected to be issued later in 2014.
- 3.03 It is expected that all LGPS Pension Funds should have a Training Policy in place outlining how this level of knowledge will be achieved and maintained.

Clwyd Pension Fund Training Policy

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

3.05 Pension Fund Committee members will be provided with ongoing opportunities to attend training events to assist them to adhere to the policy.

4.00 RECOMMENDATIONS

4.01 That Committee Members:

- 1) agree the Training Policy.
- 2) note the need for each Committee Member to adhere to the Training Policy and maintain the required level of knowledge and skills.

5.00 FINANCIAL IMPLICATIONS

5.01 Any costs associated with delivering this policy will be recharged to the Clwyd Pension Fund.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 Delivery of this policy will require a time commitment for training events from Pension Fund Committee members, Pension Board members and senior officers. It will also result in potentially increased workloads for senior officers in the Pension Fund management team.

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 Draft Training Policy

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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

This page is intentionally left blank

Cronfa Bensiynau Clwyd
Clwyd Pension Fund



FLINTSHIRE COUNTY COUNCIL

**Administering Authority for
Clwyd Pension Fund**

TRAINING POLICY

November 2014

TRAINING POLICY

Introduction

This is the Training Policy of the Clwyd Pension Fund, which is managed and administered by Flintshire County Council. The Policy details the training strategy for members of the Pension Fund Committee and Pension Board, and senior officers responsible for the management of the Fund.

The Training Policy is established to aid Pension Fund Committee and Pension Board members and senior officers in performing and developing personally in their individual roles, with the ultimate aim of ensuring that Clwyd Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.

Aims and Objectives

Flintshire County Council recognises the significance of its role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- around 33,000 current and former members of the Fund, and their dependants
- around 25 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:

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

In relation to knowledge and skills of those managing the Fund, our objectives are to:

- 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.
- 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.

All Pension Fund Committee members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

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

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (tPR) Code of Practice for Public Service Schemes (due to be published in autumn 2014).

To whom this Policy Applies

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

Less senior officers involved in the daily management of the Pension Fund will also be required to have appropriate knowledge and skills relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Advisers to the Clwyd Pension Fund are also expected to be able to meet the objectives of this Policy.

Officers of employers participating in the Clwyd Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and Flintshire County Council will provide appropriate training for them. This will be covered further in the Clwyd Pension Fund Administration Strategy.

CIPFA and tPR Knowledge and Skills Requirements

CIPFA Knowledge and Skills Framework and Code of Practice

In January 2010 CIPFA launched technical guidance for Representatives on Pension Fund Committees and non-executives in the public sector within a knowledge and skills framework. The Framework sets the skill set for those responsible for pension scheme financial management and decision making.

The Framework covers six areas of knowledge and skills identified as the core requirements-

- Pensions legislative and governance context
- Pension accounting and auditing standards
- Financial services procurement and relationship development
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Framework (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

These requirements are to be incorporated and expanded on within a tPR Code of Practice which is due to be issued in the autumn of 2014. It is expected that guidance will also be issued by the Local Government Pension Scheme Advisory Board which will explain further how these requirements will relate to LGPS administering authorities.

Application to the Clwyd Pension Fund

Flintshire County Council fully supports the use of the CIPFA Knowledge and Skills Framework, and tPR's Code of Practice. Flintshire County Council adopts the principles contained in both publications in relation to Clwyd Pension Fund, and this Training Policy highlights how the Council will strive to achieve those principles through use of a rolling Training Plan together with regular monitoring and reporting.

The Clwyd Pension Fund Training Plan

Flintshire County Council recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pension Fund Committee members, Pension Board members and senior officers, and that training is a key element of this process. Flintshire County Council will develop a rolling Training Plan based on the following key elements:

Individual Training Needs

A training needs analysis will be developed for the main roles of Pension Fund Committee members, Pension Board members and senior officers customised appropriately to the key areas in which they should be proficient. Training will be required in relation to each of these areas as part of any induction and on an ongoing refresher basis.

Hot Topic Training

The Training Plan will be developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a high risk area or an area of change for the Fund. This training may be targeted at specific roles.

General Awareness

Pension Fund Committee members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the Clwyd Pension Fund.

Each of these training requirements will be focussed on the role of the individual i.e. a Pension Fund Committee member, a Pension Board member or the specific role of the officer.

Training will be delivered through a variety of methods including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pension Fund Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with the Clwyd Pension Fund's investment managers and advisers
- Links to on-line training
- Access to the Clwyd Pension Fund website where useful Clwyd Pension Fund specific material is available

In addition Clwyd Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

Initial Information and Induction Process

On joining the Pension Fund Committee, the Pension Board or the Clwyd Pension Fund Management Team, a new member, officer or adviser will be provided with the following documentation to assist in providing a basic understanding of Clwyd Pension Fund:

- The members' guide to the Local Government Pension Scheme (LGPS)
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
 - The Funding Strategy Statement
 - The Governance Policy and Compliance Statement
 - The Statement of Investment Principles including Clwyd Pension Fund's statement of compliance with the LGPS Myners Principles
 - The Communications Policy
 - The Administration Strategy
- The administering authority's Discretionary Policies
- This Training Policy

In addition, an individual training plan will be developed to assist each Pension Fund Committee member, Pension Board member or officer in achieving, within six months, their identified individual training requirements.

Monitoring Knowledge and Skills

In order to identify whether we are meeting the objectives of this policy we will:

- 1) Compare and report on attendance at training based on the following:
 - Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
 - Hot Topic Training – attendance by at least 80% of the required Pension Fund Committee members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.
 - General Awareness – each Pension Fund Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
 - Induction training – ensuring areas of identified individual training are completed within six months.
- 2) Ask our Independent Adviser to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy.

Key Risks

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

- Changes in Pension Fund Committee and/or Pension Board membership and/or senior officers potentially diminishing knowledge and understanding.
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.
- Insufficient resources being available to deliver or arrange the required training.
- The quality of advice or training provided is not an acceptable standard.

Reporting

A report will be presented to the Pension Fund Committee on an annual basis setting out:

- The training provided / attended in the previous year at an individual level
- The results of the measurements identified above.

This information will also be included in the Clwyd Pension Fund's Annual Report and Accounts.

At each Pension Fund Committee meeting, members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as a summary of the events attended since the previous meeting.

Costs

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

Approval, Review and Consultation

This Training Policy was approved at the Clwyd Pension Fund Committee meeting on 5 November 2014. It will be formally reviewed and updated at least every three years or sooner if the training arrangements or other matters included within it merit reconsideration.

Further Information

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

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council

E-mail - Philip.latham@flintshire.gov.uk

Telephone - 01352 702264

This page is intentionally left blank

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **5th NOVEMBER 2014**

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

SUBJECT: **GOVERNANCE UPDATE**

1.00 PURPOSE OF REPORT

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

2.00 BACKGROUND

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

- The Government consultation on Governance and Cost Management for note
- Progress with the implementation of the Fund's Local Pension Board for note
- The Fund's Annual Report 2013/14 for approval (Appendix 1)
- The Fund's Annual Meeting (AJCM) for note
- Training policy implementation for note (Appendices 2 and 3)
- Service Plan 2014/15 update and changes for approval (Appendix 4)

3.00 CONSIDERATIONS

Government Consultation on Governance and Cost Management

3.01 On Friday 10th October 2014, the DCLG issued its response to the Governance consultation that closed in August this year. In the main, the consultation considered the creation of Local Pension Boards. The Clwyd Pension Fund Committee on 22nd July 2014 delegated responsibility for responding to the consultation to the Clwyd Pension Fund Manager with the response being approved by the Chair. The Government's response to that earlier consultation is to actually undertake a further consultation on a new set of draft Governance regulations. The document notes that the draft regulations consulted upon previously have been revised somewhat in light of subsequent discussions with the Shadow Scheme Advisory Board and wider comments made by other interested parties.

3.02 In addition to addressing the Governance requirements set down by the Public Service Pensions Act, this new consultation also sets out proposals in relation to how the future service costs of the scheme to employers and taxpayers will be controlled, as agreed in principle as part of the reform of all

major public service pension schemes. The deadline for responses to this latest consultation is 21 November 2014.

- 3.03 As noted above, a number of changes have been made since the previous set of proposals were reported to the Clwyd Pension Fund Committee on 22nd July, and these include the following:

Local Pension Boards (LPBs)

- Establishment and procedures of the LPB to be determined locally (i.e. not within the meaning of the Local Government Act 1972).
- Regulatory references to ensure LPBs are not unduly restricted.
- Elected members are now permitted to become members of the LPB, subject to a restriction that excludes those who are "...responsible for discharging of any function under..." the main Regulations (this exclusion also applies to officers).
- Removal of requirement for representative members (i.e. employer or member representatives) to form the majority of the LPB.

Scheme Advisory Board (SAB)

- Extends the responsibility of the SAB to include "connected schemes".
- Regulatory references to ensure that the SAB activities are not unduly restricted.
- All members of the SAB (at least 2 up to a maximum of 12), and the Chair, are to be appointed by the Secretary of State (having regard to the desirability of equal representation of employers and members).
- The Chair may, with agreement of SAB, appoint a maximum of 3 non-voting advisory members to the SAB.

- 3.04 The Governance and Standards sub-Committee of the Shadow Board are also currently consulting on detailed guidance concerning the establishment and operation of LPBs. Given the timescale for responses to both the draft regulations and the guidance, these will be developed in accordance with agreed delegated responsibilities i.e. The Pension Fund Manager and either the Corporate Finance Manager or Chief Officer (People and Resources), subject to agreement with Chair and Deputy Chair (or either, if only on available in the timescale). A copy of the response will be circulated around Committee Members for information.

Consultation on Cost Management

- 3.05 The proposals in this consultation are one element of the Government's reform agenda. The proposals develop a backstop protection to the taxpayer to ensure that some of the risks associated with public service pension provision are shared more fairly between employers and scheme members.
- 3.06 The draft regulations establish a requirement for the Secretary of State to appoint a Scheme Actuary (anticipated to be the Government Actuary's Department) to carry out actuarial valuations for the LGPS as a whole (i.e. nationally) and apply two different mechanisms. Whilst slightly different, these mechanisms have been designed to ensure some sharing of changes in future service cost between members and employers with a view to assisting

with the sustainability of the scheme and fairness to taxpayers. The two mechanisms are:

Treasury employer cost cap process – monitors the value of benefits in the new Scheme over time, based on “model fund” data and in accordance with Treasury Directions.

Internal cost management process – sets an overall future service target cost of 19.5%, with scheme members meeting a third of this cost.

Implementation of a Local Pension Board for the Clwyd Pension Fund

- 3.07 In light of the above draft Regulations, the Clwyd Pension Fund Committee on 22nd July 2014 agreed that the Clwyd Pension Fund Manager and Democracy and Governance Manager progress with developing proposals for the establishment of a Local Pension Board. A Protocol for the new Board has been recommended for approval by Flintshire County Council at the Constitution Committee on 15th October 2014. Subject to final regulations being received, it is hoped that Flintshire County Council will approve the Protocol at their meeting on 27th January 2015.
- 3.08 The new Board must be established by 1st April 2015, hence as soon as the Protocol is approved by Council the appointment and training process can commence, although employers and member representatives will be made aware of our intentions at our Annual Meeting on 6th November 2014. The main elements of the Protocol are listed below. The draft protocol presented to Constitution Committee can be found on Flintshire County Council's website at:
<http://cyfarfodyddpwyllogor.sirymflint.gov.uk/documents/s26096/Clwyd%20Pension%20Fund%20Governance.pdf?LLL=undefined>
- The Fund's Independent Adviser will Chair the Pension Board
 - There will be two each of scheme member and employer representatives with the appointments being made by the Chief Officer (People and Resources)
 - The Pension Board will meet twice a year
 - Minutes of all meetings will be submitted to the Pension Fund Committee and, therefore, will be public documents
 - An annual report will be submitted to the Pension Fund Committee and Audit Committee and, as such will be a public document, which will also be reproduced in the Fund's Annual Report and Accounts
 - Pension Board meetings will not be open to the general public although attendees will be permitted to attend and address the Board at the discretion of the Chair.

Clwyd Pension Fund Annual Report

- 3.09 LGPS regulations require the Fund to publish an Annual Report before 1st December 2014 which must include all the Fund's statutory documents such as the Governance Compliance Statement, Statement of Investment Principles, Funding Strategy Statement, the Fund's accounts and Communication Policy Statement. In addition there is new statutory guidance on the content of the Annual Report which must contain:

- Management and Financial Performance Report
- Investment Policy and Performance Report
- Scheme Administration Report
- Actuarial Report
- Any specific requirements to assist the LGPS Advisory Board.

An extract of the Fund's Draft Annual Report is attached (Appendix 1) which excludes the statutory documents already approved. The Fund's website will show the full report.

Pension Fund Annual Meeting (AJCM)

- 3.10 The Fund's annual meeting with employers and employee representatives is on the 6th November 2014 (AJCM) in the Council Chamber. This is a full day event. The morning agenda is aimed at human resource and payroll officers liaising with the Clwyd Fund Administration Team on a day to day basis. The afternoon session is aimed at senior managers and employee representatives, and includes presentations from members of the Advisory Panel on governance, funding, investment and administration issues at both a national scheme and local fund level.
- 3.11 In particular this year it is an opportunity, in the afternoon, for members of the new committee to be introduced, hence attendance by as many Committee Members as possible is important. An agenda has been sent to all Committee Members.

Training Policy Implementation

- 3.12 Appendix 2 shows training and various external events attended by Committee Members and Senior Officers, along with forthcoming events.
- 3.13 Training modules designed around the full CIPFA Knowledge and Skills Framework have been held. Some Committee Members have outstanding modules to complete and officers will be in touch with those concerned to arrange suitable dates. All Committee Members are invited to the Investment Strategy Workshop on the 30th October 2014.
- 3.14 It is also useful for Committee Members and senior officers to attend various external events and conferences to supplement their knowledge regarding the latest thinking on pension related matters. It is planned for Cllr Huw Llewelyn Jones to attend the forthcoming Local Authority Pension Fund Forum Annual Conference in December, along with a Pension Finance Manager.

Service Plan Update – Quarter 2

- 3.15 Appendix 4 provides a dashboard of progress against the internal and external governance section of the Service Plan. The majority of items are as originally planned but the following changes have been made:

- The documentation of a Conflict of Interest Policy has been moved from quarter 2 to quarter 4 to tie in with preparation for the Local Pension Board.
- Some work on collaboration with other welsh funds relating to a collective investment vehicle is now anticipated in quarter 3.
- Some initial thoughts on the implications on the Fund of Welsh local government re-organisation has been included in quarter 3.
- The Training Plan has been deferred into quarter 3 and the development of a risk register deferred to quarter 4.

4.00 RECOMMENDATIONS

4.01 That Committee Members:

- 1) Approve the Clwyd Pension Fund Annual Report 2013/14
- 2) Approve the changes to the Service Plan 2014/15
- 3) Note the other items in the Report.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

- 12.01 Clwyd Pension Fund Annual Report 2013/14 (extract)
- 12.02 Conference, Training Events and Meetings 2014/15
- 12.03 Attendance at Training Sessions
- 12.04 2014/15 Service Plan Update

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

DCLG LGPS Consultation: Governance and Cost Management.
Clwyd Pension Fund Response to DCLG Consultation On Governance.
Clwyd Pension Fund Local Pension Board Protocol
Clwyd Pension Fund AJCM Agenda
22nd July 2014 Pension Fund Committee – Working Practices
22nd July 2014 Pension Fund Committee – Clwyd Pension Fund Service Plan 2014/15

Contact Officer:

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

A stack of gold coins is shown in the upper portion of the page, with a purple gradient overlay. The coins are stacked, and the text 'CLWYD PENSION FUND' is visible on the edges of the coins. The background is a solid purple color.

Clwyd Pension Fund

DRAFT Annual Report 2013 - 14

CLWYD PENSION FUND – AWARDS

Professional Pensions Awards – September 2008

Won – Trustee Development (Private) & (Public)

IPE Awards November 2008

Won – Best Investment in Emerging Markets (Themed Awards – Europe-wide)

Won – Best Property Investment (Themed Awards – Europe-wide)

Won – Best Specialist Investment (Themed Awards – Europe-wide)

Runner-up – Commodities (Themed Awards – Europe-wide)

IPE Awards December 2010

Won – Best Investment in Commodities (Themed Awards – Europe-wide)

Won – Best Use of Alternatives (Bronze Awards – Europe-wide)

Won – Best Small Pension Fund (Silver Awards – Europe-wide) – Joint Winner

Runner-up – Best Investment in Emerging Markets (Themed Awards – Europe-wide)

Runner-up – Best Specialist Investment (Themed Awards – Europe-wide)

IPE Real Estate Awards – May 2011

Won – Best Pension Fund in UK/Ireland (Country Awards)

Won – Best Opportunistic Investment (Themed Awards – Europe-wide)

Won – Best Small Real Estate Investor in Europe (Gold Awards – Europe-wide)

Runner-up – Best European Real Estate Investor (Platinum Award – Europe-wide)

IPE Awards November 2011

Won – Best Use of Real Estate (Themed Awards – Europe-wide)

Runner-up – Best Use of Specialist investment Managers (Themed Awards – Europe-wide)

Runner-up – Best Use of Hedge Funds (Themed Awards – Europe-wide)

IPE Real Estate Awards – May 2012

Won – Best Portfolio Construction (Themed Awards – Europe-wide)

Won – Best Medium Real Estate Investor in Europe (Gold Awards – Europe-wide)

Runner-up – Best Pension Fund in UK/Ireland (Country Awards)

Runner-up – Best Indirect Investment Strategy (Themed Award – Europe-wide)

Runner-up – Best Opportunistic Investment (Themed Award – Europe-wide)

IPE Awards – November 2012

Won – Best Public Sector Fund in Europe

Won – Best use of Alternatives

Runner-up – Best Fund in Europe

Runner-up – Best use of Commodities

Runner-up – Best use of Emerging Markets

Runner-up – Best use of Hedge Funds

Runner-up – Best use of Real Estate

Runner-up – Best use of Specialist investment Managers

IPE Real Estate Awards – May 2013

Won – Best Institutional Investor in UK/Ireland

Contents

Introduction by the Chair of the Clwyd Pension Fund Committee	2
Governance Structure of the Clwyd Pension Fund	4
Treasurer and Administrator's Report	9
Independent Advisor/Consultant Annual Report	12
Management of Pension Fund Risk	18
Financial Performance	20
Cash Flow	24
Investment and Funding	28
Sustainability Policy	35
Administration Update	37
Other Information	44

Regulatory Documents

Clwyd Pension Fund Accounts 2013/14

Governance Policy Statement

Funding Strategy Statement

Statement of Investment Principals

Communication Policy Statement

Statement from Wales Audit Office

Introduction

I have pleasure in introducing the 2013/14 Annual Report, as the Chair of the new Clwyd Pension Fund Committee.

Since last year's Annual Report there has been a lot of change in how the Fund is managed and advised. I would like to draw your attention to the Governance Strategy Statement within this Annual Report, which explains the new governance arrangements, and also thank the members and advisor of the previous Panel.

The new Clwyd Pension Fund Committee has decision making powers documented in the Council's constitution, wider employer representation and voting rights for all, including the member representative.

Senior Officers with delegated responsibility for the day to day management of the Fund have also changed. Kerry Feather, Head of Finance of Flintshire County Council and Treasurer and Administrator for the Fund retired. The role is now shared between Helen Stappleton, Chief Officer (People and Resources) as Administrator to the Fund and Gary Ferguson (Corporate Finance Manager and S151 Officer), as Treasurer to the Fund. A joint commentary on progress with the management of the Fund is included in this Annual Report.

It is vital that all those involved with the governance of the Fund have the necessary knowledge and skills to understand any advice given and to make informed decisions. Both Committee members and Senior Officers are receiving training to satisfy the requirements of the CIPFA Knowledge and Skills Code of Practice and the Fund is developing a plan for on-going training.

A key benefit of the new Committee is transparency for our stakeholders. The Committee agenda papers for the first Committee meeting on the 22nd July 2014 are on the Flintshire County Council web-site. There is a standard format which includes reports on governance, administration and investments and funding. The reports cover both updates relating to general LGPS issues, the economy and financial markets as well as reports on the investment, funding and administration performance of the Fund itself including progress with the Service Plan.

There are a number of key challenges for the Committee, officers and advisers to address through 2014/15:

- Managing the outcome of the Government's consultation on the opportunities for collaboration, cost savings and efficiencies.
- Implementing the requirements of the Public Sector Pension Act 2013 for a new Local Board, whose role is to secure compliance with legislation and ensure the effective and efficient governance and administration of the Fund.
- Reviewing current arrangements against the new Pensions' Regulator Public Sector Code of Practice.
- Reviewing and monitoring the Fund's investment and funding strategy.
- Ensuring that the Committee and officers continue to develop their knowledge and skills to enable the Administering Authority to successfully manage a complex Fund which is now over £1.2bn in value and has 35,000 members.

This Annual Report attempts to demonstrate to stakeholders how the Fund is addressing these challenges and managing risks and includes all the statutory documents which underpin the strategic management of the Fund together with commentary on the outcomes and performance for 2013/14 including:

- An overview of the Fund by the Treasurer and Administrator
- Management of Pension Fund Risks
- An independent Annual Report from the Fund's Independent Advisor/Consultant.
- Details on Investment strategy and performance
- Audited Pension Fund Accounts 2013/14
- Pension Administration Update.

Further information can be found on the Fund's web-site clwydpensionfund.org.uk. Additionally, employer and employee representatives are invited to an Annual Joint Consultative meeting each November.

My intention, as the Chair, is to seek continuous improvement in line with the Fund's Mission Statement. I hope you find the Annual Report informative and welcome any comments or questions on the content.

Cllr Allan Diskin
Chair of the Clwyd Pension Fund Committee
September 2014

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

Governance Structure Of The Clwyd Pension Fund

Administering Authority: Flintshire County Council

In May 2014 the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel.

These changes follow best practice, as well as the recommendations of an independent review undertaken by CIPFA in 2010, by transferring the management of the Fund from the Head of Finance, supported by the Clwyd Pension Fund Panel, to the Committee.

Additionally, the representation of stakeholders, with full voting rights, on the Committee was widened. The membership of both the new Committee and Advisory Panel are shown below along with that of the previous Panel.

Clwyd Pensions Fund Committee

Committee Members		Voting Rights
Flintshire County Council	Cllr Alan Diskin (Chair)	✓
	Cllr Haydn Bateman (Vice Chair)	✓
	Cllr Ron Hampson	✓
	Cllr Brian Dunn	✓
	Cllr Matt Wright	✓
Denbighshire County Council	Cllr Huw Llewelyn Jones	✓
Wrexham County Borough Council	Cllr Steve Wilson	✓
Scheduled Body Representative	Cllr Andrew Rutherford	✓
Member Representative	Mr Steve Hibbert	✓

Advisory Panel

Panel Members	
Chief Officer (People and Resources) (FCC)	Helen Stappleton
Corporate Finance Manager/ S151 Officer (FCC)	Gary Ferguson CPFA
Clwyd Pension Fund Manager (FCC)	Philip Latham
Investment Consultant (JLT Group)	John Finch ASIP FCII
Fund Actuary (Mercer)	Paul Middleman FIA
Independent Advisor (Aon Hewitt)	Karen McWilliam FCIPP

Clwyd Pension Fund Panel (To May 2014)

Clwyd Pension Fund Panel		Voting Rights
Flintshire County Council	Cllr Alan Diskin (Chair)	✓
	Cllr Haydn Bateman (Vice Chair)	✓
	Cllr Ron Hampson	✓
Denbighshire County Council	Cllr Huw Llewelyn Jones	✓
Wrexham County Borough Council	Cllr Steve Wilson	✓
Member Representative	Vacant	✗
Independent Advisor/ Consultant	Mr Bob Young (YCS UK Ltd)	✗

Investment Managers and AVC Providers

Investment Managers	Address
Aberdeen Asset Management Plc	Bow Bells House, 1 Bread Street, London
BlackRock Investment management (UK) Ltd	12 Throgmorton Avenue, London
BlueCrest Capital Management (UK) LLP	40 Grosvenor Place, London
Duet Group	27 Hill Street, Mayfair, London
Insight Investment	160 Queen Victoria Street, London
Investec Asset Management	2 Gresham Street, London
Liongate Capital Management	103 Mount Street, London
Pioneer Alternative Investments UK Ltd	Portland House, Bressenden Place, London
Pyrford International Ltd	95 Wigmore Street, London
SSARIS Advisors LLC	20 Churchill Place, London
Stone Harbor Investment Partners (UK) LLP	48 Dover Street, London
Wellington Management International Ltd	Cardinal Place, 80 Victoria Street, London
AVC Providers	
Prudential	Lancing, BN15 8GB
Equitable Life (<i>closed to new entrants</i>)	PO Box 177, Walton St., Aylesbury, Bucks., HP21 7YH

Other

Service	Address
Custodian: Bank of New York Mellon	160 Queen Victoria Street, London
Actuary: Mercer Ltd	Exchange Station, Tithebarn Street, Liverpool
Performance Measurement: WM Company	525 Ferry Road, Edinburgh
External Auditors: Wales Audit Office	Unit 4, Evolution, Lakeside Business Village, St. David's park, Ewloe
Bank: National Westminster Bank plc	48 High St., Mold
Legal Advisors: This varies depending on the issue and can include the Flintshire County Council in-house legal team as well as organisations listed on the Framework Agreement (see below).	

Framework Agreement – the following can be contacted for advice as and when required.

Organisation	Address
Squire Sanders	7 Devonshire Square, London
Aon Hewitt	40 Torpichen Street, Edinburgh
Mercer Human Resource Consulting	Tower Place West, London
JLT Benefit Solutions	7 Charlotte Street, Manchester
Allenbridge	60 Goswell Road, London
bFinance	26-27 Oxendon Street, London

Clwyd Pension Fund Panel Meetings Held During 2013/14

Panel Agenda Meetings	Councilor Attendees
20 th May 2013	Cllr Haydn Bateman
	Cllr Ron Hampson
	Cllr Steve Wilson
	Cllr Huw Llewelyn Jones
	Cllr Ted Evans (deceased)
	Cllr Brian Dunn (non-voting)
13 th August 2013	Cllr Alan Diskin
	Cllr Haydn Bateman
	Cllr Ron Hampson
	Cllr Steve Wilson
	Cllr Huw Llewelyn Jones
	Cllr Brian Dunn (non-voting)
27 th November 2013	Cllr Haydn Bateman
	Cllr Ron Hampson
	Cllr Steve Wilson
	Cllr Huw Llewelyn Jones
	Cllr Ted Evans (deceased)
	Cllr Brian Dunn (non-voting)
26 th February 2014	Cllr Haydn Bateman
	Cllr Ron Hampson
	Cllr Steve Wilson
17 th September 2013 (Special Meeting)	Cllr Alan Diskin
	Cllr Haydn Bateman
	Cllr Ron Hampson
	Cllr Steve Wilson
	Cllr Brian Dunn
Investment Manager Meetings	Councilor Attendees
1 st /2 nd May 2013	Cllr Haydn Bateman
	Cllr Ron Hampson
7 th November 2013	Cllr Alan Diskin
	Cllr Haydn Bateman
	Cllr Ron Hampson (non-voting)
	Cllr Steve Wilson (non-voting)
	Cllr Huw Llewelyn Jones (non-voting)
	Cllr Brian Dunn (non-voting)
5 th February 2014	Cllr Alan Diskin

Clwyd Pension Fund Training Policy 2013/14

As an administering authority of the Local Government Pension Scheme, this council recognises the importance of ensuring that all staff and members charged with financial management and decision-making with regard to the pension scheme are fully equipped with the necessary knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and it will provide and or arrange training for staff and members of the Pension Fund Panel (now Committee) to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

In 2011/12, the Fund adopted the CIPFA Code of Practice on Knowledge and Skills on Pension Finance for Members and Officers. Training in 2013/14 continued to satisfy the requirements of this Code of Practice and progress will be reported in future Annual Reports. The Clwyd Pension Fund is committed to providing appropriate training to Members on the Committee through various presentations, seminars and collaboration with other Local Government Pension Funds.

Date	Training	Provider
May 2013	Sustainable Private Equity	Bridges
	Investment Issues	In House
	Collaborative Working	In House
	Funding Strategy and Flightpath	Mercers
June 2013	Introduction to LGPS	CIPFA
August 2013	Investment Issues	In House
	LGPS Consultations	In House
	Welsh Funds Working Together	In House
September 2013	Investment Summit	LGC
November 2013	Investment Issues	In House
	Audit	In House
	Funding	In House
	Private Equity	Capital Dynamics
	Infrastructure	Capital Dynamics
	Clean Technology	Capital Dynamics
December 2013	Annual Conference	LAPFF
February 2014	Investment Seminar	LGC

Each of the quarterly panels in Mold provided members with presentations and reports which covered the following topics:

- Current Investment Issues
- Governance and LAPFF Updates
- Economic Reviews
- Scheme Consultation
- Collaboration
- Risk Assessments
- Audit of Pension Fund Accounts
- Transition Management

Detail of all training received is presented annually to the Clwyd Pension Fund Panel, now Committee, identifying the number of hours of training completed by each member. For the year to March 2014 the following number of training hours was recorded:

- Chair of Panel 66 hours
- Vice Chair 46 hours
- Other Panel Members 58 hours
- Substitutes 53 hours

Clwyd Pension Fund Contact Details

Name	Post	Contact details
Philip Latham	Clwyd Pension Fund Manager	(01352) 702264
Helen Burnham	Pensions Administration Manager	(01352) 702872
Debbie Fielder	Pensions Finance Manager	(01352) 702259
Alwyn Hughes	Pensions Finance Manager	(01352) 701811
Pensions Administration Team	pensions@flintshire.gov.uk	(01352) 702761
Pensions Finance Team	pensionsinvestments@flintshire.gov.uk	(01352) 702275

Joint Report From The Administrator And Treasurer

Introduction

The financial year 2013/14 was, in the main, a year of preparing for change. The Fund participated in the national debate covering several changes to the LGPS, reviewed its governance structure, prepared to implement LGPS 2014 and a new 'flight-path' strategy to manage funding risks. We would like to set out these main issues which have been addressed during the year and give a progress update for 2014/15.

The Clwyd Pension Fund Panel met quarterly during 2013/14 but the Panel has now been replaced by the Clwyd Pension Fund Committee. The agenda covers three main areas: Governance, Investment and Funding and Administration and Communication and our report follows these three main themes.

Governance

THE FUTURE STRUCTURE OF THE LGPS

The Government has been considering options for structural reform to the management of the LGPS in England and Wales since Lord Hutton chaired the Independent Public Services Pensions Commission in 2010. The Department of Communities and Local Government (DCLG) issued a package of proposals for consultation on 1st May 2014. The package of proposals set out in the consultation is:

- Establishing a common investment vehicle for listed and alternative assets to reduce investment costs
- Reduce investment fees by investing in listed assets on a passive basis
- Keeping asset allocation decisions at a local level
- Not to pursue fund mergers at this time
- Not to consult on administration reform at this time.

In summary the response from the Fund was supportive of the package of proposals providing there is no compulsion and decisions are made locally on a 'comply or explain' basis. A response from the DCLG on the consultation outcome is expected in late September 2014.

LGPS 2014

The Government introduced LGPS 2014 from 1st April 2014. Although the Fund had done all it could to prepare to administer the new CARE scheme there have been some teething problems due to the late issuance of Regulations. Those stakeholders affected have been kept informed.

PUBLIC SERVICE PENSIONS ACT 2013 AND LOCAL PENSIONS BOARDS

The Fund has responded to a DCLG Consultation on draft Governance Regulations. This follows The Public Service Pensions Act 2013 which includes provisions for the following 'bodies' within the LGPS:

- Responsible Authority – Secretary of State
- Scheme Manager – Administering Authority
- Local Pension Board – New local scrutiny body
- Scheme Advisory Board – New national advisory board.

Each LGPS administering authority is required to establish a Local Pension Board by 1st April 2015. The role of the Board will be to ensure the administering authority is governing and administering the Fund in line with legislation and in an effective and efficient manner. The Board must have an equal number of employer and employee representatives. The Council will consider a Protocol for the Local Board in November 2014 and it will be discussed at the Fund's Annual Employer & Employee Meeting (AJCM).

WELSH COLLABORATION

In the event of the above potential changes proposed by the Government for England and Wales the work on Welsh collaboration has been put on hold. However, subject to these outcomes it is intended to implement the finding of the report by the Society of Welsh Treasurers (Pensions Sub-Group) on 'Working Together'. This will include considering a full business case for managing investments on a collective basis.

CLWYD PENSION FUND GOVERNANCE

The introduction to this Annual Report by the Chair of the Committee outlined the changes to our governance structure which now complies with best practice. The creation of an Advisory Panel and the appointments of a new Independent Adviser and Investment Consultant should enhance the governance of the Fund. We are making good progress with most aspects of the 2014/15 Service Plan which was presented to the first Committee meeting 22 July 2014.

The external auditors, Wales Audit Office, have not raised any major issues about the management of the Fund and their unqualified opinion in the 2013/14 accounts is included in the Annual Report.

There was one internal audit relating to 2013/14 on Clwyd Pension Fund Administration and one on Pension Investments, the findings of which have been reported to the Committee. There was one 'high risk' recommendation which related to disaster recovery and one 'medium risk' recommendation relating to the absence of a documented risk register. Both of these are included in the 2014/15 Service Plan. This Annual Report includes a summary of our main risks, along with what we have done, work in progress and the future work planned on mitigating these risks.

Investment and Funding Strategy

This Annual Report includes detailed comment and analysis on both investment and funding performance along with the Fund's Statement of Investment Principles and Funding Strategy Statement. In summary, 2013/14 saw a continued small growth in the assets of the Fund to £1.2bn and a positive investment return of +2.1%. The funding position improved from 68% as at March 2013 to 70% as at March 2014. In early September 2014 the funding position had fallen back to 69%.

The Fund's 'flight-path' strategy, which manages interest rate and inflation risks through liability matching investing, commenced on 1st April 2014. It is very early days for this strategy. Further information will be provided in future years Annual Reports.

In terms of investment strategy and fund managers there are parts which are not working as well as hoped, as explained in the Independent Adviser/Consultant report. The new investment consultant is reviewing the investment strategy and we will be making recommendations to the November 2014 Committee.

The Committee receive quarterly reports on the financial markets, the fund's investment and fund manager performance along with updates on the funding position and flight-path strategy. Unless

we consider any part of these reports need to be withheld for commercially sensitive reasons they can be found on Flintshire County Council's web-site.

Administration & Communication

A Pensions Administration update is included in the Annual Report which provides details of regulation changes, communications with members, pensioners and employers, website updates and key performance statistics. This illustrates the variety, complexity and the quantity of work undertaken by the pension service during the year.

The Pensions Committee receive two standard reports each quarter, a 'LGPS Issues' report, which includes the impact on the Fund and/or employers, and an update on the Fund's administration and communication performance.

There will be on-going work with our larger employers on data quality and correcting a backlog of historic records during this year, in preparation for Pension Regulator's new Code of Practice.

The development of an Administration Strategy is on-going which will provide more transparency to all stakeholders on the performance of the administration service and employers.

Conclusion

We would like to thank all those involved with management and administration of the Fund for their hard work and dedication during the year.

Finally, we invite any stakeholder to contact us with any comments or suggestions for improvement on any aspect on the management of the Fund.

**Helen Stappleton, Chief Officer (People & Resources)
Administrator to the Fund**

**Gary Ferguson, Corporate Finance Manager (Section 151 Officer)
Treasurer to the Fund**

September 2014

Independent Adviser/ Consultant Annual Report 2013/14

1. The purpose of this commentary is to provide an independent annual appraisal of the administration, governance and performance of the Clwyd Pension Fund. As my appointment to the Independent/Adviser role commenced on 1 July 2008, this report covers my fifth and last full year in this dual capacity role. Overall, the year 2013/14 was one of review, reflection and reassessment both in terms of world markets and the Local Government Pension Scheme (LGPS) itself.
2. Over recent years, the LGPS environment has been characterised by an increasing flow of regulatory documents on funding, risk, policy and governance. More recently, there have been various initiatives under the broad banner of “working together”, ranging from potential fund amalgamations to simple increased collaboration between LGPS funds, which are all largely concerned with reducing costs, particularly the level of fees paid to investment managers. At the same time, there had been an ongoing review of the scheme to make it fair and affordable, which ultimately resulted in the new LGPS 2014.
3. As part of this environment of change and initiatives, the first half of 2013/14 saw LGPS funds inundated with documentation – a consultation paper on the detail of LGPS 2014, a discussion paper on new LGPS governance arrangements in England and Wales and a "Call for Evidence" on the future structure of the LGPS. Whilst the consultation paper on LGPS14 sought responses on a number of the detailed regulations proposed for implementing the new scheme and, in this sense, was a technical consultation with LGPS pension administration officers, the other two papers were more fundamental, with potentially far-reaching consequences for LGPS funds. However, all required detailed and careful responses, putting the in-house teams on both investments and pension’s administration under particular pressure.
4. On governance it was an accepted fact that practices amongst LGPS funds varied considerably and that the Public Service Pensions Act 2013 had provided a broad framework for a common approach. The discussion paper raised various questions and sought views around the implementation and operation of this framework within the LGPS. The Fund responded accordingly but broadly accepted the move to a formal Committee structure and this is currently being implemented.
5. However, many of the details around national oversight and additional scrutiny at a local level are still being fine-tuned. The results of these deliberations should become clear in later 2014, although it is already known that each LGPS authority will be required to establish a formal set of internal controls for administering and managing its scheme, in addition to all the information on risk currently being provided in each fund’s Statement of Investment Principles and its reporting requirements in the Annual Accounts under IFRS 7.
6. The key paper, however, was clearly the "Call for Evidence" on the future structure of the LGPS, which followed on from some peripheral comments in the Hutton report about the quality and consistency of LGPS data. These were picked up in early 2013 by the Local Government Minister Brandon Lewis, who talked about the need for "robust data" and not shying away from “a smaller number of funds” if this could be shown to improve efficiency and cost-effectiveness. This national initiative effectively put on hold the already long-running project aimed at examining possibilities for "Collaborative Working in Wales", which itself had been the subject of various data collection exercises and consultations.

7. The "Call for Evidence" paper itself was based around a set of objectives and a series of questions that respondents were asked to address. Whilst these objectives were designed primarily to generate discussion and debate, they did seem a slightly odd collection, ranging from the very general (dealing with deficits) to the very specific (providing greater investment in infrastructure). At the same time, it was not always clear how the questions set related to these objectives, although there was clearly some overlap. In addition, there was no reference to key funding and investment considerations such as liabilities and their control, and no mention whatsoever of risk.
8. Pension funds are extremely complex vehicles, where all the moving parts are inter-linked. Funding level, strategy, risk and return targets, performance and fees etc. are all inter-dependent and cannot be looked at in isolation. In fact, some of the objectives identified were potentially contradictory. In summary, there was concern that the context set by the objectives and questions failed to appreciate the complexity of pension funds, with little apparent consideration given to the wider fund picture, the relationships between various investment objectives and the impact of some of these objectives on others. The Fund response made these points whilst attempting to cover all the objectives and questions comprehensively and constructively.
9. The "Call for Evidence" was followed in later 2013 by the Government appointment of a consultant to evaluate various options for change, resulting in a current Government consultation exercise on the future of the LGPS. Whilst the outcomes from this have not been delivered yet, forced fund mergers no longer appear to be on the agenda, with the Government focus now more on the creation of Common Investment Vehicles and the use of more passive management. The Fund continues to participate in this ongoing debate and is monitoring potential outcomes very carefully.
10. Clearly the above events consumed a lot of resource in 2013/14 but, despite these distractions, the business of running the Fund on a day to day basis had to be maintained by the fund finance and administration teams. Agreed staffing structures are now in place but, as noted in last year's report, recruiting staff with the appropriate LGPS expertise continues to be a challenge. Consequently, there remained during the year a number of staff within the pension administration team covering permanent posts on temporary contracts, whilst they received in-depth training to ensure competency in these roles. It is pleasing to note that these positions were reviewed towards the end of 2013 and some permanent appointments were made. However, as a result of staffing and recruitment issues in prior years, backlog problems persist. A specific team to tackle this was established in May 2013 but again recruiting experienced staff proved a problem and progress in reducing the backlog has suffered.
11. It is important, however, to put all this into the context of the additional pressures faced by the pension administration team during the year and to acknowledge its achievements. In addition to the detailed consultation exercise noted earlier and, later in the year, preparations for implementing effectively the new LGPS 2014, 2013/14 was also a Fund valuation year. This involved the preparation and successful delivery of all the valuation data to the actuary during the summer. At the same time, a revised website was launched and the communications program maintained, continuing to receive critical acclaim from both scheme employers and scheme members.
12. For the fund finance team, the year was one of real progress despite the pressures. In mid-year the key part of the revised staff structure was completed, with the appointment to the vacant Pension Finance Manager post, whose additional initial training was supplemented by an intense period of meetings with many of the Fund's alternative asset managers. Clearly this team, and the Clwyd Pension Fund Manager in particular, was also heavily involved in

the various Government responses required, in conjunction with the Fund's external advisers.

13. In addition, the team successfully completed the first questionnaire exercise aimed at testing investment managers' compliance with the Fund's Sustainability Policy. This policy, a key element of the Fund's investment philosophy, recognises the relationship between good environmental, social and governance practices and long-term business profitability. The questionnaire exercise, probably the first of its kind amongst LGPS funds, was very well received by managers and proved generally positive. The responses received, particularly the weaker ones, will be pursued as part of the normal pattern of officer meetings with managers during the coming year. This questionnaire exercise is likely to be a recurring one and the aim of the initial piece of work was to set a benchmark for each manager in order to measure improvement going forward.
14. However, the team's major project during the year was implementation of the Fund's flightpath project. Last year's report noted that in recent years overall funding levels had been affected as much by fluctuations in liability levels as by asset performance, leading to a growing focus on liability-drivers such as inflation, interest rates and mortality. The Fund had already introduced broad diversification and risk diversity within the asset structure to minimise volatility. Flightpath's applies similar principles to liabilities, through a specialist provider on the long-term management of funding risk. After considerable in-house research into the concept, the exercise to appoint a specialist provider commenced in late 2012. This proved a lengthy, complex and challenging exercise, carried out in close association with the Fund's actuary and Independent Adviser/Consultant. However, after several separate stages and reviews, an appointment was made in late autumn 2013.
15. The implementation through Insight, the chosen provider, raised further complexities that required resolution, but the first phase was completed successfully by 1 April 2014, as planned. As noted previously, the flightpath project proved to be extremely challenging and the fund finance team was absolutely correct in taking it slowly and adopting a cautious, professional and thoroughly-researched approach, especially as the Fund was one of the first LGPS funds to implement this strategy in full.
16. In summary, 2013/14 certainly produced a challenging environment for both pension administration and fund finance staff as the preparations for LGPS 2014 and the wider changes gathered pace. All performed heroically in ensuring that day to day duties were maintained as far as possible within the staffing constraints and the additional pressures being faced. This bodes well for 2014/15 and implementation of the changes required in terms of governance and the scheme itself.
17. After the personnel changes post the 2012 elections, which produced a new Chairman and Vice-Chairman, the Pension Fund Panel continued to gel and develop during the year, with attendance and participation strong. It is pleasing to report that the Chairman, who had suffered an enforced period of absence through illness returned to lead the Panel in mid-year. Training remained a key focus. Most Panel meetings continued to include training elements and members also attended more formal seminars and conferences. The clear aim here is to ensure that members are kept up to date in an investment environment that is forever evolving both in terms of approaches and products. On approaches, the obvious example is flightpath, whilst on products, the Fund again maintained its ground-breaking reputation through new investments in social impact-based venture capital and sub-Saharan private equity.
18. As noted in the opening paragraph, 2013/14 was also a year of reflection and reassessment for world markets. The March quarter of 2013 and the year 2012/13 generally were typified by unusual exuberance, with all equity markets posting solid positive returns, the majority in

double figures, but largely on the back of a liquidity-driven environment. In response, the new financial year saw markets pausing for thought and contemplating whether such enthusiasm was justified for all markets.

19. Whilst certainly there appeared to be gradually improving economic news, particularly from the US, and a return to GDP growth, albeit modest initially for most countries, this period of reflection brought back to the fore many of the concerns that had troubled markets for the majority of 2012. Whilst these remained centered on US debt, the slowdown in China, the sustainability of the restructuring ambitions in Japan and especially the resolution of issues in Europe, later developments in the Middle East, the Ukraine and Thailand added to these worries. In short, these competing factors made for another volatile year in world markets, with fears persisting about the strength of this recovery and whether this could be sustained, as well as the wider political issues
20. As a result, markets overall produced only modest progress, with global equities delivering around 6%. However, this overall position conceals a much more complex picture, with the more considered environment in 2013/14 leading to greater discrimination between markets and, in simple terms, producing a dichotomy in performance between developed and developing world equities. The US and UK posted returns of 9-10% whilst Europe led the field with a positive 18% gain. The exception to this in developed markets was Japan, where confidence in the ability of politicians to deliver the structural reforms promised appeared to stall and Japanese equities largely stood still in the year. In contrast, emerging market equities faltered after the significant gains made in prior years, losing around 10% in the year as liquidity was withdrawn. The exception here was frontier markets, the new emerging markets, which produced strong positive returns.
21. Away from equity markets, private equity and real assets such as property and infrastructure produced solid returns in the year, slightly above those for global equities. However, commodities returns were negative and bonds overall were about flat, with the negative returns from Government stock only partly offset by credit. In absolute terms, therefore, the overall Fund return in 2013/14 is likely to be disappointing, with performance positive but only marginally so.
22. In comparative terms too, 2013/14 is likely to be a weak year for the Fund within its peer group of local authorities. As noted in previous reports, the Fund is structured to provide protection when markets fall through broad diversification and a lower weighting to more volatile assets such as equities. This was exacerbated in 2013/14 by the Fund's long-term focus on developing markets and its deliberately low weighting to Europe in particular.
23. At manager level within equities, most met their targets and a number made up ground in terms of since-inception performance, with the weaker performance overall largely down to asset mix. Other asset categories performed largely as expected, although the hedge fund managers, whilst offering downside protection, do continue to disappoint in terms of the returns achieved.
24. The key disappointment elsewhere in the portfolio was the continuing weak performance of its tactical asset allocation managers, particularly Blackrock. These three managers comprise 12% of the Fund's assets and, within this, Blackrock is double-weighted at 6%. The aim of these managers is to move assets between asset categories tactically to take advantage of differing market environments and to produce a positive return from this. Whilst the two smaller-weighted managers were flat or marginally positive and producing returns not too far below expectations, Blackrock delivered a negative 10% in 2013/14, with the 3-year number showing a negative 4% per annum, despite stronger performance in some earlier years. Clearly this area of tactical asset allocation and the managers employed is one that will require reassessment as part of the forthcoming Fund Structure review.

25. As for next year, the economic environment is improving but many of the concerns remain. Globally, China needs careful management as its urbanisation programme and housing investment boom continue to moderate, reducing asset price and credit growth and thus producing a potentially deflationary outlook. Within Europe, the focus will probably be on Germany. European growth is certainly stronger and credit demand building, but on competitiveness, Germany remains an outlier and the issue is whether it is willing to reflate wages to create some sort of economic convergence. On the UK, the economy is booming but spare labour capacity is reducing, potentially leading to rising wages and ultimately inflation. In summary, market volatility looks likely to continue, as many of the concerns, particularly the politic ones, persist and worsen, despite a generally improving economic environment.
26. On governance, there will also be changes in 2014/15, with the demise of the Pension Fund Panel and its replacement by a formal committee, probably with a larger membership, as well as some sort of scrutiny body. Whilst it is hoped that there will be a good degree of continuity through existing Panel members, clearly there are significant ongoing implications in terms of establishing revised governance arrangements and the training of committee members new to pension fund administration and investing.
27. Next year, therefore, is likely to be another challenging one for the in-house team and those elected members involved with the Fund. As well as implementation of the above governance changes and the introduction of the new LGPS 2014, towards the end of the year the Fund will be undertaking and implementing the results of its regular Fund Structure Review, a major and resource-intensive exercise impacting upon the Fund's advisers, officers and elected members alike.
28. As implied by the opening paragraph of this report, my planned retirement as the Fund's Independent Adviser/Consultant took place on 31 March 2014. This joint role has now been split and it is pleasing to note that appointments to these positions were made early in 2014/15. John Finch of JLT was made Fund Consultant and Karen McWilliam of Aon Hewitt appointed Independent Adviser, although this latter role has been modified slightly to place a far greater emphasis on governance, an understandable adjustment given the changes that are imminent. I wish them all well in their respective roles and have every confidence that the Fund is in good hands.
29. Despite such a challenging year on both administration and fund matters, it is pleasing to report further external recognition for the Fund. At the Europe-wide IP Real Estate Awards in May 2013, the Fund won the award for Best Real Estate Investor UK & Ireland and finished runner-up in the Best Medium-sized Real Estate Investor in Europe. Overall since 2007, the Fund has been honoured with 21 awards and has finished as runner-up in a further 18 categories. As noted previously, these awards are not given lightly and are highly prized throughout the UK and particularly wider Europe. Their award is a tremendous honour and a clear acknowledgement of the Clwyd Fund's pro-active and innovative approach. This in turn reflects the commitment of its Panel members and their willingness to move the Fund forward, as well as the continuity and strength of the in-house team.
30. As noted earlier, this report ends my formal connection with the Fund. This started in 1979, although my involvement on the investment side did not commence until 1982. At that time, the Fund was valued at just £100 million rather than its current £1.2 billion. The investment environment has certainly changed dramatically, growing more complex year by year and thereby increasing both the demands and workloads involved. However, from my own perspective the work has been both enjoyable and rewarding, and the last 30 years or so has been an amazing journey both for the Fund and for all those active in its management.

31. Finally, therefore, I would like to thank all the Chairs, Vice-Chairs and members that I have worked with over the years. They have always been willing to listen, learn and take a cutting-edge approach when necessary to further the Fund's progress. Politics has never been a factor. However, my greatest acknowledgement is reserved for those officers with whom I have worked over the years. My particular thanks go to Dave Bamber, with whom I shared more than 20 years on the Fund, and more recently Phil Latham and Debbie Fielder. The Fund has been very fortunate to have had such a dedicated, hard-working and professional team in place for so long and again I wish those remaining well for the future.

R T Young
Independent Adviser/Consultant
July 2014

Management of Pension Fund Risks

Position Statement (September 2013 to September 2014)

Risk Management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of controlling them or responding to them. The aim is to reduce the frequency of risk events occurring and minimise the severity of their consequences if they occur. Not all risk can be eliminated but it is vital that risks are recognized and recorded and that their potential to cause loss is fully understood.

Risk Management is an integral part of the Flintshire County Council's (the Administering Authority) Governance Framework and Internal Control and aids informed and transparent decisions by ensuring that risk management is embedded into the culture of the Council, with Members and managers at all levels recognising that risk management is integral to service and governance. Risk management is part of the Council's system of internal control assisting in the management and achievement of its business objectives and priorities

Whilst the Fund is under the umbrella of Flintshire's risk management framework an external review of the Fund's approach to managing those risks specific to itself is planned for 2014. This will bring together the various risks, and the ways that they can be mitigated, from separate documents including the Service Plan, Funding Strategy, Governance Policy, Statement of Investment Principles, and Communications Policy. Additionally, this will form an up to date risk register that will become a live document for use within the Fund. Subject to this review a summary of the key risks and the actions taken, or planned, to mitigate those risks, is included below:

Risk	Actions Undertaken or Planned
GOVERNANCE RISKS	<p><u>What We Have Done</u></p> <ul style="list-style-type: none"> • Created a new pension fund committee for the Fund with decision making powers, wider representation and voting rights. • Reviewed working practices and documented a Delegation of Functions to Officers from the Pension Fund Committee. • Appointed an independent adviser, investment consultant and actuary to an Advisory Panel to advise the new Committee. • Appointed a new Chief Officer responsible for the day to day management of the Fund. • Published a Service Plan for the Fund. • Developed reports for the Pension Fund Committee. • Responded to a consultation by the Government on draft Governance Regulations. <p><u>Work in Progress</u></p> <ul style="list-style-type: none"> • Training of both members of the Pension Committee and senior officers in line with CIPFA Knowledge & Skills Code of Practice. <p><u>The Near Future</u></p> <ul style="list-style-type: none"> • Develop a risk register. • Develop the training policy and training plan. • Create and service a new Local Board, develop a protocol, appoint employer and employee representatives and provide training. • Review current arrangements against the new Pensions' Regulator Public Sector Pensions Code of Practice. <p><u>Longer Term</u></p> <ul style="list-style-type: none"> • Consider collaboration with the other seven Welsh pension funds. • Consider the impact of re-organisation of local government in Wales.

FUNDING RISKS	<p><u>What We Have Done</u></p> <ul style="list-style-type: none"> • Implemented the new funding plan from 1st April 2014. • Documented a Termination Policy for employers. • Implemented a ‘flight-path’ strategy to manage interest rate and inflation risks. <p><u>Work in Progress</u></p> <ul style="list-style-type: none"> • Monitoring the ‘flight-path’ strategy. <p><u>The Near Future</u></p> <ul style="list-style-type: none"> • Annual review of the Funding Strategy and Flight-path. <p><u>Longer Term</u></p> <ul style="list-style-type: none"> • Prepare for the next Actuarial Valuation in 2016.
INVESTMENT RISKS	<p><u>What We Have Done</u></p> <ul style="list-style-type: none"> • Monitoring and reporting on the performance of the current investment strategy and fund managers. • Made new commitments within the alternative asset classes. • Assessed the performance of fund managers against the Fund’s Sustainability Policy. • Responded to the Government’s consultation on collaboration, cost savings and efficiencies relating to collective investment vehicles and passive investment. <p><u>Work in Progress</u></p> <ul style="list-style-type: none"> • A review of the Fund’s investment strategy. • Publishing the voting records of our equity fund managers. <p><u>The Near Future</u></p> <ul style="list-style-type: none"> • Implementation of the new long term investment strategy. • Appointment and removing of fund managers. • Implementation of a new approach to tactical asset allocation. • Review AVC arrangements. <p><u>Longer Term</u></p> <ul style="list-style-type: none"> • Impact of the outcome of the Government’s consultation for collaboration, cost savings and efficiencies relating to collective investment vehicles and passive investment. • Impact of collaboration with the other seven Welsh funds on collective investment vehicles.
ADMINISTRATION AND COMMUNICATION RISKS	<p><u>What We Have Done</u></p> <ul style="list-style-type: none"> • Implemented LGPS 2014. • Reviewed all pensioner records. • Reviewed pensioner payroll service. • Implemented Communication Plan. <p><u>Work in Progress</u></p> <ul style="list-style-type: none"> • Working with large employers on data quality. • Working with employers on updating historic records. <p><u>The Near Future</u></p> <ul style="list-style-type: none"> • Develop performance standards for the Fund and employers. • Review implementation of communication plan. <p><u>Longer Term</u></p> <ul style="list-style-type: none"> • Implement member self-service.

Financial Performance

The following provides a brief overview of the key movements within the Fund over a five year period. More detail can be found in Investment and Funding, Pensions Administration Update, and Fund Accounts.

Table 1.

Fund Account <i>(Amounts £000's, years end 31 March)</i>	2014	2013	2012	2011	2010
Value of Fund at start of year	1,181,232	1,060,823	1,051,815	955,833	697,412
Increase in fund value during year	32,335	120,409	9,008	95,982	258,421
Value of fund at end of year	1,213,567	1,181,232	1,060,823	1,051,815	955,833
<i>The increase in fund value is made up of the following:</i>					
<i>Member and Employer related</i>					
• Contributions and pension strain	68,869	68,078	66,593	68,147	68,181
• Transfers in or (out)	563	3,139	(21,708)	4,898	1,726
• Benefits payable	(61,137)	(56,977)	(53,789)	(53,584)	(49,978)
	8,295	14,240	(8,904)	19,461	19,929
<i>Investments (after income and fees)</i>					
• Net change +/-	25,534	107,216	19,156	77,783	239,772
<i>Other</i>					
• Administrative and other expenses	(1,494)	(1,047)	(1,244)	(1,262)	(1,280)
	32,335	120,409	9,008	95,982	258,421

Table 1 illustrates the annual increase in the Fund value over the five years ending 31st March 2014. The change in the fund value is further analysed between member and employer related income (contributions and pension strain) or expenditure (benefits payable), net return or loss on investments (net of any income or management fees) and other expenditure. These are detailed further, for years ending 31st March 2013 and 2014, in the fund accounts. Transfers in or out of the fund can vary, as shown in Table 1, significantly between years and are outside the control of the Fund.

Chart 1.

This illustrates the Fund value over five years as detailed in Table 1 above. The column segment shown in orange identifies the annual change in Fund value and, as shown in Table 1, is mostly due to changes in the market value of investments.

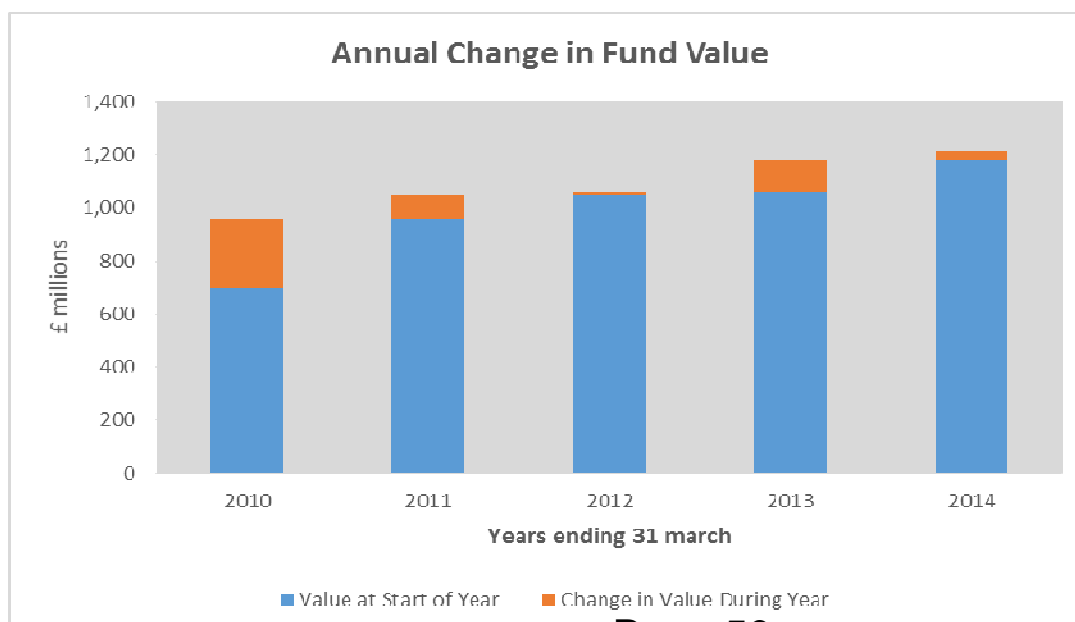
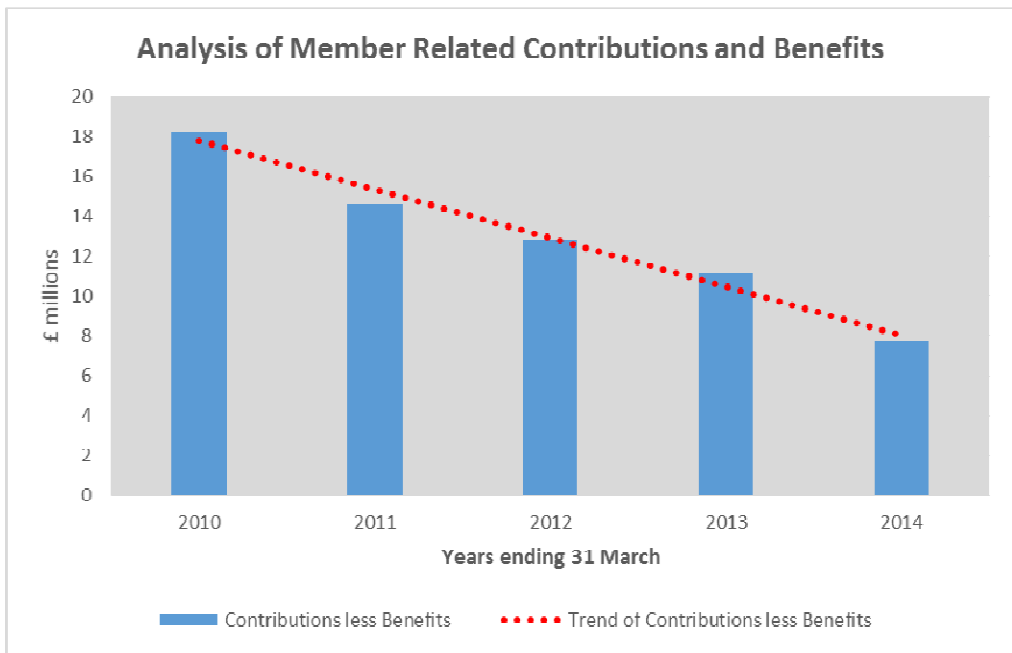


Chart 2.

This compares the difference between contributions received and benefits paid (Table 1 above),



but not taking account of transfers, over the same five year period. From Chart 2 it is clear that the excess in contributions over benefits paid is steadily reducing. This is not unexpected and reflects the growing maturity of the Fund. At this stage it is unclear what the outcome for 2015 will be as there are a number of significant variables, namely, an increase in employer contributions following the 2013 Fund actuarial valuation, workforce

reductions across the large employers, and, auto enrolment is increasing the number of active members.

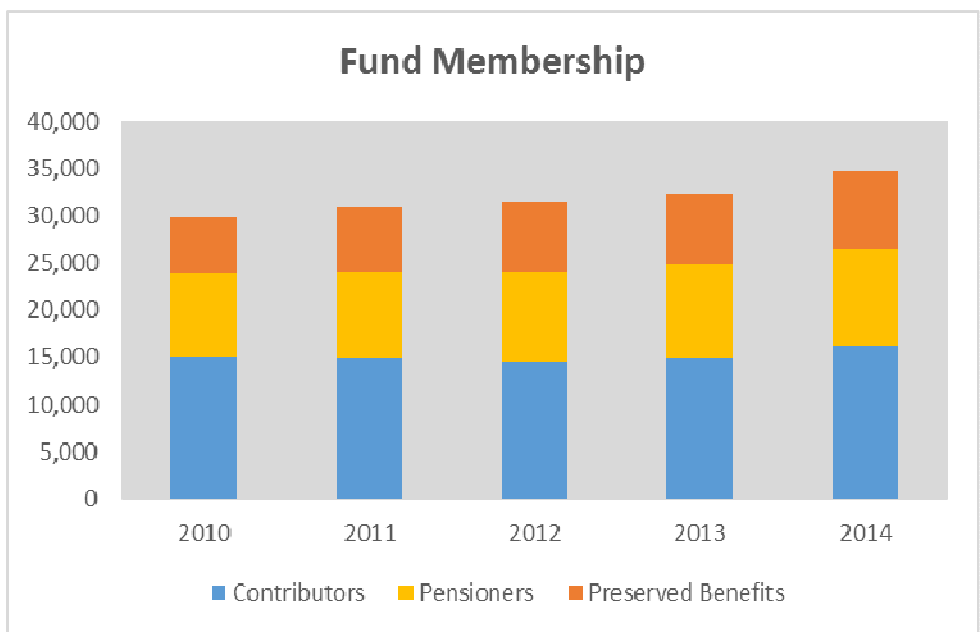
Table 2.

Membership	2010	2011	2012	2013	2014
Number of Contributors	15,073	14,960	14,519	14,920	16,133
Number of Pensioners	8,820	9,091	9,553	9,874	10,367
Number with Preserved Benefits	5,969	6,910	7,386	7,539	8,307
Total	29,862	30,961	31,458	32,333	34,807

Table 2 details the membership of the Fund over the same five year period as Table 1. The membership is split between active contributors, those in receipt of a pension and those whose entitlement is preserved.

Chart 3.

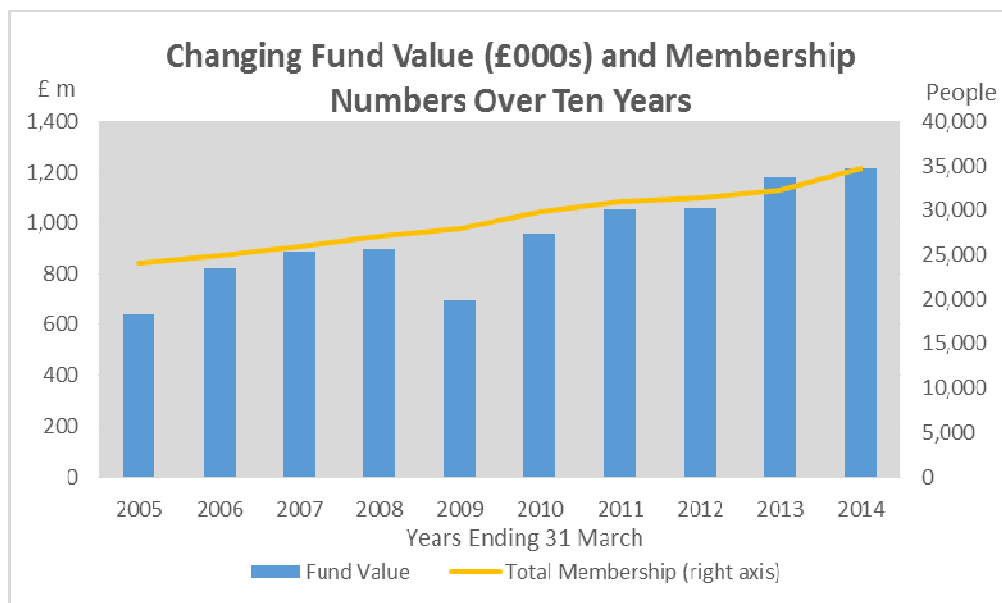
This shows the membership data in Table 2 graphically. Overall, the trend in total membership is



upwards over the five years ending 31st March 2014. However, it should be noted that the overall impact of auto-enrolment, which will increase membership, and the contraction in most employers' budgets, which will reduce membership, cannot yet be quantified.

Chart 4.

This plots the Fund value over ten years to 31st March 2014. Over this period the Fund has

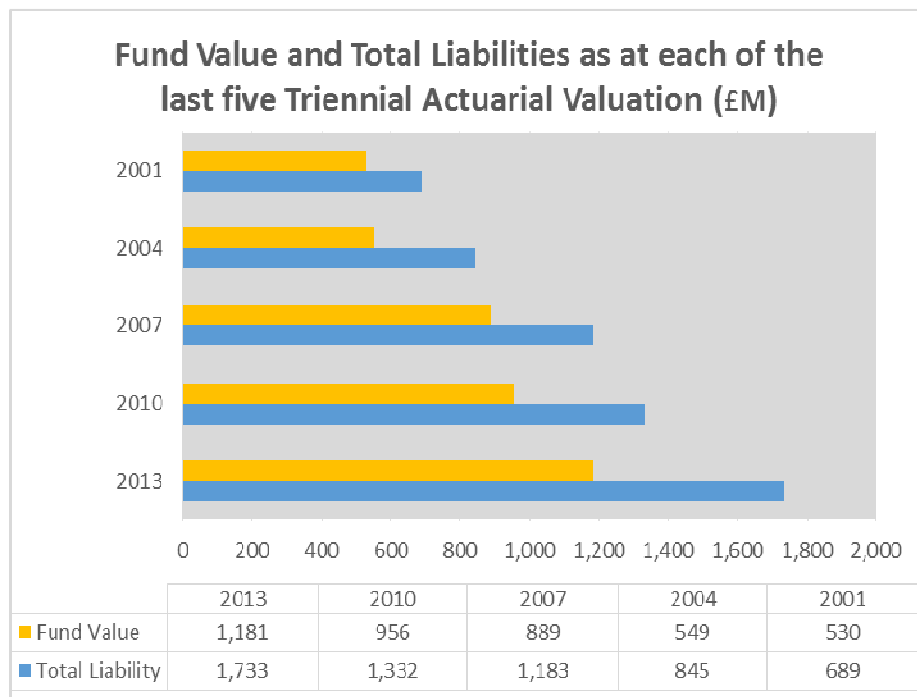


approximately doubled in value. The yellow line shows total membership over the same period (using right axis) and illustrates the growth in membership from around 24,100 to 34,800; an increase of just over 44%. Most discussions around pension funds focus, understandably, on their value, however, the value is only one part of the picture with the other part being the pension funds' liabilities.

The liabilities of the pension fund are calculated by the fund actuary and represent the future liabilities of the fund at a particular time. As shown above (Table 1 and Charts 1 and 4) the Fund has nearly doubled in value over the past ten years, however, its liabilities have also increased.

Chart 5.

This shows the Fund value (yellow bars) and liabilities (blue bars) at each of the last five triennial actuarial valuations.



The difference between the values shown by the blue and yellow bars represent the funding deficit of the Fund. The 2013 Triennial Valuations section gives further details.

Historically, all pension schemes focused primarily on their assets and placed a lower emphasis on the impact of changes in the value of liabilities. Many also assumed that the fund employers would be able to make increased contributions over time. In recent years, particularly after 2008, funding levels have been volatile as the performance of assets has not matched the

increase in values of liabilities. The calculation of the liability take into account a number of elements including projections of future interest rates, inflation and longevity of members. This is shown in Chart 5 by increased funding deficit.

From the 1st April 2014 the Fund has introduced a Liability Driven Investment (LDI) approach, for a portion of its assets, the focus of which is to reduce funding level volatility by using investments that are linked to two of those factors (inflation and interest rates) that are drivers in the calculation of liabilities. These investments should track changes in these two factors whilst the remaining assets are invested for growth.

2013 Triennial Valuation

Every three years the Fund is subject to a formal valuation by the Fund actuary which produces two key outputs. Firstly, it quantifies the Funding Level i.e. the level to which the Fund's pension liabilities for the accrued benefits of current employees, deferred pensions and pensions in payment are matched by the market value of the Fund's assets. A funding level of less/ more than 100% implies that there is a deficit/ surplus in the Fund at the valuation date. Secondly, it also sets the rate at which employers should contribute to the Fund for the following three years i.e. in this case it is effective from 1st April 2014. Chart 5 above illustrates the Fund value and liabilities as at each of the past five valuations.

The following table summarises the change in the financial position of the Fund from 31 March 2010 to 31 March 2013.

Summary Valuation results (£m)	31 March 2013	31 March 2010
Total assets	1,181	956
Liabilities:		
Active members	762	633
Deferred members	219	131
Pensioners	<u>752</u>	<u>568</u>
Total Liabilities	<u>1,733</u>	<u>1,332</u>
Past service surplus/ (shortfall)	(552)	(376)
Funding level	68%	72%

Funding level and deficit

Although the value of total assets increased by 23.5%, the pace of growth in liabilities is greater with an increase between the years of 30%.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a funding level of 100% of liabilities (the Funding Target). As required in the FSS a deficit recovery plan has been put in place that requires additional contributions to correct the shortfall. The average deficit recovery period for the Fund has been set as 18 years. The normal contribution rate (for future service) has been set as 13.8% (11.7% 2010); the actual rate per employer will differ from this according to their own circumstances. To address the deficit a total annual contribution of £32.6m, increasing at 4.1% per annum, is required; again the actual rate per employer will differ. The implied average employer contribution is 27.8% compared to the previous average of 20.7% of pensionable pay over 20 years at the March 2010 valuation.

Further detailed information can be found in the Valuation Reports for each valuation on the Clwyd Pension Fund website (see Governance and Investments/ Valuation Reports).

Cash Flow

The Fund operates a rolling three year cash flow which is estimated and monitored on a quarterly basis. There are several unknowns within the cash flow such as transfers in and out of the fund and also drawdowns and distributions across the Fund's Property and Private Equity portfolio for which the current allocation is 21% of the Fund.

Cash flow predictions for the drawdowns and distributions are reassessed annually to incorporate the actuals for the year and any further commitments agreed during the period.

The following table shows a summarised final cash flow for 2013/14. This is purely on a cash basis and does not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals.

2013/14	Estimate £000	Actual £000	Variance £000
Opening In House Cash		(15,874)	
Payments			
Pensions	46,200	46,858	658
Lump Sums & Death Grants	14,000	12,861	(1,139)
Transfers Out	2,000	3,260	1,260
Expenses (including In House)	2,120	2,436	316
Support Services	150	166	16
Total Payments	64,470	65,581	1,111
Income			
Employer Contributions	(27,000)	(27,451)	(451)
Employee Contributions	(14,000)	(14,629)	(629)
Employer Deficit Payments	(23,400)	(24,666)	(1,266)
Transfers In	(5,000)	(3,802)	1,198
Pension Strain	(200)	(1,104)	(904)
Investment Income	(2,400)	(2,901)	(501)
Total Income	(72,000)	(74,553)	(2,553)
In House Investments			
Draw downs	58,864	46,624	12,240
Distributions	(52,723)	(33,148)	(19,575)
Net Expenditure /(Income)	6,141	13,476	7,335
Net Purchases /(Sales) **	(1,210)	(19,150)	(17,940)
Total Net Cash Flow	(2,599)	(14,646)	(12,047)
Closing In House Cash		(30,520)	

** £17.96m was transferred to the Clwyd Pension Fund cash account as the residual redemption from SSgA developed equity portfolio and funding of Insight LDI mandate.

3 Year Cash Flow Forecast

The following table shows the cash flow forecasts for the next three years to March 2017. These are purely on a cash basis and do not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals. An estimate of the asset valuation has been included at the end of the table and has been based on a targeted investment strategy which looks to produce an overall return of 7.1% per annum. Estimates of Manager pooled investment fees are included in the budget report which follows the cash flow report.

	2014/15 £000	2015/16 £000	2016/17 £000
Opening Cash	(30,520)	(12,982)	(10,205)
Payments			
Pensions	47,642	50,384	53,263
Lump Sums & Death Grants	14,000	14,700	14,800
Transfers Out	2,800	2,800	2,800
Expenses (including In House)	2,320	2,360	2,480
Support Services	240	240	240
Total Payments	67,002	70,484	73,583
Income			
Employer Contributions	(27,000)	(27,019)	(27,038)
Employee Contributions	(15,200)	(15,200)	(15,200)
Employer Deficit Payments	(28,550)	(27,200)	(31,200)
Transfers In	(4,000)	(4,000)	(4,000)
Pension Strain	(700)	0	0
Investment Income	(2,800)	(3,000)	(3,200)
Total Income	(78,250)	(76,419)	(80,638)
In House Investments			
Draw downs	54,459	46,053	27,133
Distributions	(69,463)	(76,291)	(66,054)
Net Expenditure /(Income)	(15,004)	(30,238)	(38,921)
Net Purchases/(Sales)*	(1,210)	(1,050)	0
Rebalancing Portfolio	45,000	40,000	45,000
Total Net Cash Flow	17,538	2,777	(976)
Closing Cash	(12,982)	(10,205)	(11,181)
Estimated Asset Valuations	1,264,724	1,354,519	1,450,690

Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2013/14 compared to 2012/13. Increases in direct employee costs were as a result of recruitment to vacant positions within the service area. The difference in actuarial costs was in respect of the triennial valuation and within investment expenses, consultancy fees reflected the implementation of the Fund's new investment manager, Insight, who were appointed to manage the Long Term Management of Funding Risk mandate in September 2013.

	2013/14 £000	2012/13 £000	Net change £000
<u>Administration Expenses</u>			
Employee Costs (Direct)	781	630	151
Employee Cost (Internal Recharges)	92	82	10
Premises	97	37	60
IT (Support & Services)	233	85	148
Other Supplies & Services	110	113	(3)
Miscellaneous Income	(2)	(21)	19
Audit Fees	35	35	0
Actuarial Fees	148	86	62
Total Administrative Expenses	1,494	1,047	447
<u>Investment Expenses</u>			
Fund Manager Fees	5,571	5,187	384
Custody Fees	17	15	2
Performance Monitoring Fees	25	24	1
Consultancy Fees	260	68	192
Total Investment Fees	5,873	5,294	579
Total Fees	7,367	6,341	1,026

During 2013/14 the Fund produced an annual budget for 2014/15 to be included within the Pension Fund Service Plan.

This identified three areas for budget monitoring:

- Governance & Oversight
- Investment Management Costs
- Administration Costs

The Fund also appointed a new external consultant and an independent advisor. Increased governance costs, training for new committee members and the costs of a strategic investment review have all been incorporated into the budget for 2014/15.

Budget 2014/15	£000	£000
GOVERNANCE & OVERSIGHT		
Employee Costs (Direct)	223	
Internal Recharges	40	
Expenses	20	
Training & Conferences	7	
Independent Advisor	63	
Committee (Meetings & Training)	16	
Membership Fees	18	
Investment Consultancy Fees	253	
Audit Fees	36	
Actuarial Fees	64	
Legal Fees	40	780
INVESTMENT MANGEMENT COSTS		
Fund Manager Fees	6,300	
Performance Management Fees	27	
Custody Fees	17	6,344
ADMINISTRATION		
<u>Management</u>		
Employee Costs (Direct)	55	
Training & Conferences	16	
Internal Recharges	200	271
<u>Operations</u>		
Employee Costs (Direct)	415	
Expenses	7	422
<u>Payroll</u>		
Employee Costs (Direct)	26	26
<u>Communications</u>		
Employee Costs (Direct)	30	
Printing & Postage	34	
Other Expenses	2	66
<u>Technical</u>		
Employee Costs (Direct)	122	
Training	3	
System Costs	180	305
Total Administration		1,090
Total Costs		8,214

Investment & Funding

Long Term Strategy

In determining the Investment Strategy for the Clwyd Pension Fund (the Fund), the overall objective is to:

- Aim for a funding level of 100%
- Aim for long term stability in employers' contribution rates
- Achieve superior investment returns relative to the growth of liabilities

The investment policy of the Fund is intended to strike the appropriate balance between the policy most suitable for long-term consistent performance and the funding objectives. A favorable investment performance can play a valuable role in achieving adequate funding over the long term.

Summary of 2013/14

During 2013/14 the Fund implemented a significant strategic change of direction with the appointment of Insight, following a lengthy and challenging process, to the Fund's Long Term Management of Risk mandate (Flight Path). Last year's report noted that, in recent years, overall funding levels had been affected as much by fluctuations in liability levels as by asset performance, leading to a growing focus on liability-drivers such as inflation, interest rates and mortality. The Fund had already introduced broad diversification and risk diversity within the asset structure to minimise volatility. The "Flight Path" mandate applies similar principles to liabilities on the long-term management of funding risk. The implementation of this strategy is a further differentiator between the Fund and the majority of LGPS funds.

The first phase of the implementation was completed by 1st April 2014, as planned, and early indications are that the mandate is performing as expected.

The investment arrangements of the Fund were carried out by twelve external managers covering fourteen mandates all of which are pooled vehicles. In addition the Fund manages its Real Asset and Alpha Seeking Alternative portfolios in house through thirty eight managers investing in excess of ninety funds. These are shown at the end of this section of the Annual Report. During 2013/14, the Fund committed £16.6 million to two new managers, Bridges (two funds) and Dyal, with an additional £63.2 million in 13 funds with existing managers.

During 2013/14 the market value of the Fund increased from approximately £1,181m to £1,214m. The Fund achieved a positive investment return of +2.1% which was 1.6% behind the Fund's strategic benchmark of +3.7%. The funding level decreased from an estimated 72% at March 2013 to 68% at March 2014 due to the increase in the value of liabilities, which are mainly driven by the low gilt yields, outpacing the gain in assets.

The majority of the Fund's assets (58%) are invested in traditional asset classes such as equities and bonds and these will be measured mainly against standard market benchmarks. The remaining 42% of the Fund is invested in "alternative" strategies which are measured against Fund specific benchmarks, generally absolute targeting returns in excess of 8%. In current market conditions it would be difficult for many of our managers to achieve those returns.

Traditional assets, in total, produced a positive return of +2.0%, 0.6% ahead of their +1.4% benchmark. Real assets and Alpha Seeking alternatives also produced positive returns in total, albeit behind their customised benchmarks, increasing the overall Fund performance (excluding GTAA) to +2.8% against a benchmark of +3.7%. The performance of the GTAA managers however, detracted from overall performance, returning -4.2%, 7.2% behind the +3.2% benchmark.

The Fund's Real Asset portfolio invests 15% across property, infrastructure, timber, agriculture and commodities. Whilst property produced a good return of +7.5%, this was behind the IPD UK

benchmark of +11.9%. Infrastructure produced +9.3% against the absolute benchmark of +8.0% but Timber & Agriculture had a poor year returning -10.1%.

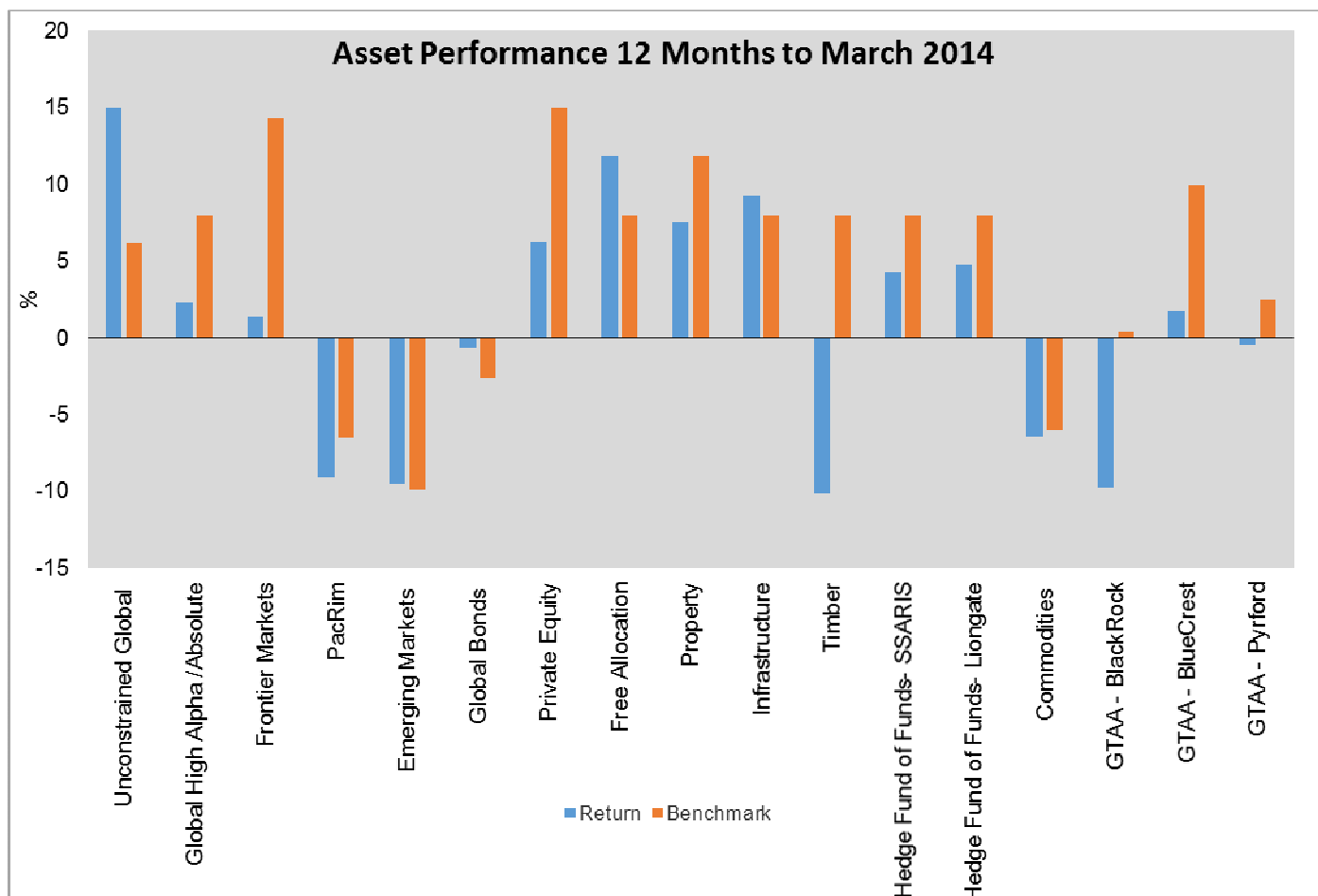
Commodity markets continued to underperform and the Fund returned -6.4%, marginally behind the -6.0% commodity index.

The Fund's Alpha Seeking Assets portfolio invests 15% across private equity (both direct and fund of funds), opportunistic funds and hedge funds of funds. All asset classes within this allocation produced positive returns producing a combined return of +6.3%, behind the strategic benchmark of +10.6%. The private equity portfolio returned +6.3% but the opportunistic funds returned +11.9%, in line with expectations at this early stage of the investment cycle. The hedge fund of funds managers produced average returns of +4.5% against their absolute +8.0% benchmark. As stated earlier, in a low interest rate environment, we would not expect these managers to achieve such a high benchmark.

The Fund allocates 12% to global tactical asset allocation (GTAA) across three managers. The three fund managers are all managing their assets very differently and have all produced varied returns to contribute to the overall GTAA portfolio return of -4.2% compared to a combined benchmark of +3.2%. This area continued to be disappointing.

In addition to the GTAA fund managers, Conditional Asset Allocation (CAA) allows officer discretion and flexibility to make substantial changes in asset allocation between equities and fixed income of up to +/-15%, if conditions require. There are quarterly meetings with the Fund's tactical asset allocation managers to discuss Fund positioning, as well as ad hoc telephone conversations when market events appear to be moving quickly. In order to instruct any changes there has to be a clear consensus from all the managers concerned that any event being witnessed represent a fundamental market change and not a short term correction. This strategy has not been implemented to date, however, this flexibility remains an important part of the Fund's investment strategy.

The 12 month performance of the Fund's assets is shown below.



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

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa	Corporate Funds (%) pa
1	2.1	3.7	6.4	3.7
3	4.7	5.7	7.5	7.8
10	6.5	7.3	7.8	7.7
15	4.8	5.0	5.5	5.2
20	6.8	6.9	7.2	7.1

The table below shows the historic funding, deficit and employer contribution rates. As a result of the advice received by Clwyd County Council (pre Wales local government reorganisation in 1996), during the implementation of the Community Charge, the employers in the Fund received a 'contribution holiday' that allowed the Fund to reduce to a 75% funding position in the late 1980s.

Actuarial Valuation	Funding Position (%)	Recovery Period (years)	Deficit (£m)	Average Employer Rate (%)
2001	77.0	15	158.4	19.5
2004	65.0	20	295.7	20.4
2007	75.0	17	294.0	21.6
2010	72.0	20	376.0	20.7
2013	68.0	18	552.0	27.8

Summary of the Longer Term

The market value of the Fund has increased from approximately £559m in 2004 to approximately £1,214m in 2014. This is detailed in the Management and Financial Performance section of this report.

The Fund's investment strategy is more diversified than most LGPS funds. The aim is to reduce volatility of returns, in line with the objective of stabilising employer contribution rates. Although history suggests that in the long term equities should out-perform other asset classes, these returns can be very volatile and the asset class can under-perform for many years. Although the Fund still has a strategic allocation of 43% to equities and the associated equity risk, this is lower than the average LGPS fund which allocate 63% to equities. Hence, in years where equities have performed so well the investment performance of the Clwyd Fund will lag most of its peers in the LGPS.

The following table documents the changes in investment strategy since 2001. As can be seen the asset allocation is very different from that of the average local government pension fund. The Fund has been particularly active and very early in its commitments to alternative assets through a broad range of specialist managers. The current investment strategy remains as 2011 below. The Fund will be carrying out another review of its investment strategy during 2014 with any changes to be implemented in 2015.

Investments	2001 %	2004 %	2007 %	2011 %	LGPS Average
Equities					
Global Unconstrained	-	-	5.0	5.0	
Global High Alpha/ Absolute	-	-	-	5.0	
UK Active (traditional)	35.0	29.0	15.0	-	
UK Active (portable alpha)	10.0	10.0	12.0	-	
US Active	7.0	8.0	5.0	-	
Europe (ex UK) Active	11.0	9.0	6.0	-	
Japan Active	4.0	4.0	4.0	-	
Far East (ex UK) Active	2.5	3.0	4.0	7.0	
Emerging Markets Active	2.5	3.0	4.0	7.0	
Developed Passive	-	-	-	19.0	
	72.0	66.0	55.0	43.0	63.0
Fixed Interest					
Traditional Bonds	10.0	9.5	-	-	
High Yield/ Emerging	1.5	2.0	-	-	
Unconstrained	-	-	13.0	15.0	
Cash/ Other	2.5	0.5	-	-	
	14.0	12.0	13.0	15.0	19.0
Alternative Investments					
Property	5.0	7.0	6.5	7.0	
Infrastructure	0.5	5.0	1.5	2.0	
Timber/ Alternatives	-	-	1.5	2.0	
Commodities	-	-	2.0	4.0	
Private Equity	4.5	4.5	6.5	8.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	
Currency Fund	-	4.0	4.0	-	
Free Allocation	-	-	-	2.0	
Tactical Asset Allocation (TAA)	-	2.0	5.0	12.0	
	14.0	22.0	32.0	42.0	18.0

The 2013/14 fixed strategic benchmarks for each of the managers and the mandates within their remit are shown below along with their actual allocation at year end. As stated in the Statement of Investment Principles, having agreed the fixed benchmark there is a need to keep the position under review. Re-balancing of the Fund to keep it in line with the benchmark will incur costs and will, therefore, need to be considered in light of the benefits to be achieved and the costs associated with turnover. Re-balancing will only take place quarterly when an asset class has moved by more than the ranges indicated in the table below except in exceptional economic or stock market circumstances. Although there is no long term strategic allocation to cash there is a need to include a tactical range to accommodate these circumstances where it is not considered appropriate to re-balance the portfolio and where investment commitments have been made.

Manager	Mandate	Weight %	Allocation 31/03/14	Tactical Ranges
	Liability Driven Investment			
Insight	LDI	19	18.8	+/- 1%
	Equities Alpha Seeking			
Aberdeen Asset Management	Pac Rim – High Alpha	7	6.3	+/- 1%
Aberdeen Asset Management	Frontier Markets	1	0.7	
Wellington Management International Ltd	Emerging Markets Core	6	6.1	+/- 1%
Investec Asset Management	Global – High Alpha	5	5.9	+/- 1%
Duet Asset Management Ltd	Other Global – High Alpha	5	4.1	+/- 1%
	Fixed Interest			
Stone Harbour Investment Funds	Unconstrained	15	14.4	+/- 2%
	Cash	0	2.6	+/- 5%
	Real Assets	15	15	+/- 3%
Various	Property	7	8.0	
Various	Infrastructure	2	2.4	
Various	Timber/ Agriculture	2	1.9	
Wellington Management International Ltd	Commodities	4	2.7	
	Alpha Seeking Alternatives	15	16.5	+/- 3%
Various	Private Equity	8	11.5	
Liongate	Hedge Fund of Funds	2.5	1.9	
SSARIS	Hedge Fund of Funds	2.5	2.1	
Various	Opportunistic	2	1.0	
	Tactical Asset Allocation (TAA)			
Blackrock	Global TAA	6	4.2	+/- 1%
BlueCrest Capital Management	Macro Fund of Funds	3	2.7	+/- 1%
Pyrford International Ltd	Dynamic TAA	3	2.7	+/- 1%

Real Assets Portfolio

Property

Open Ended Holdings

Schroders
Hermes
LAMIT
Legal and General
BlackRock

Closed Ended Holdings

Aberdeen Property Select (Asia Pacific – 2 funds)
BlackRock US Residential Opportunity Fund
Bridges Property
Darwin Leisure Property Fund
InfraRed Active Property (2 funds)
Igloo Regeneration Fund
Morgan Stanley Global Real Estate (2 funds)
Partners Group Global Real Estate (2 funds)
Franklin Templeton (2 funds –European and Asia Pacific)
Schroders – Columbus UK Real Estate (2 funds)
Threadneedle

Timber

RMK Timberland (3 funds)
Stafford International Timberland (3 funds)

Agriculture

Insight Global Farmland
GMO

Infrastructure

Arcus European Infrastructure
Henderson PFI
InfraRed (4 funds including Environmental)
Innisfree
Morgan Stanley – Global (2 funds)
Impax New Energy Fund

Alpha Seeking Alternatives Portfolio

Private Equity

Direct

Apax (5 funds)
Arle (3 funds)
Bridges Ventures
Carlyle (2 funds)
Charterhouse Capital (3 funds)
Crossroads (2 funds)
ECI Ventures (3 funds)
Environmental Technologies Fund (2 funds)
Ludgate Environmental Fund
Granville Baird (3 funds)
August Equity (3 funds)
Parallel Ventures (3 funds)
Partners Group Direct

Fund of Funds

Access Capital (4 funds)
Harbour Vest (7 funds including Cleantech Fund)
Hermes Environmental Innovation
Partners Group (10 funds)
Capital Dynamics (11 funds)

Opportunistic

Carlyle (1 fund)
Capital Dynamics (1 fund)
Marine Capital Eclipse Shipping (2 funds)
Dyal II

* *Italic* – new fund during 2013/14

* ***Bold italic*** – new manager and fund 2013/14

Sustainability Policy

Aim and Definition

The aim of Corporate Governance is to align the interests of individuals, corporations and society. Corporate Social Responsibility is operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has for businesses.

The Clwyd Pension Fund Policy

The Clwyd Pension Fund has always included a section in the Statement of Investment Principles (SIP) on environmental, social and ethical considerations and corporate governance. However, in light of the publication of the United Nations Principles on Responsible Investment (UNPRI) and the Financial Reporting Council's new Stewardship Code, the Fund produced a Sustainability Policy and a Stewardship Code compliance statement as part of the SIP which can be found within the regulatory documents section of this Annual Report. The format of the Policy follows that of the UNPRI but as recognised in the Policy, given the pooled nature of the investments, it would be difficult to become a formal signatory of the UNPRI.

Compared with the previous sections in the SIP on this area, this Policy makes a clear commitment that the Fund will be an active supporter of UN principles. The Policy is specific in the actions the Fund will take in the 6 principle areas:

- Investment Strategy
- Company Engagement & Voting
- Investment Management & Monitoring of Performance
- Investment Management Selection and Contracts
- Collaboration
- Reporting and Disclosure

Members receive quarterly reports which update Members on the progress and application of the Fund's Sustainability Policy.

Implementation of the Policy

The Sustainability Policy included within the SIP identifies, in detail, the approach the Fund will adopt within each of the areas specified above and the Stewardship Code identifies areas where further work is required to ensure full compliance. The Fund sends all its fund managers copies of the Sustainability Policy, protocol, questionnaire and guidance notes and asks them to report on their compliance.

Responses from managers were analysed and results were positive for many of the managers within the Fund. As expected, the Fund's four main managers and smaller equity managers, who account for 61% of the Fund's assets all scored very highly whilst the Hedge Fund based managers did not provide enough information to achieve adequate scores. The managers concerned account for 14% of the Fund and individual issues raised are discussed with those managers during their update meetings

The Real Assets and Private Equity portfolio is currently 23% of the Fund and responses were mixed across the managers. The majority of real asset managers scored well across the categories as we expected. Responses were more mixed amongst the private equity managers with some providing much more detailed information resulting in higher scores than others. There were only a few low scoring managers and these are to be addressed at subsequent meetings.

The Fund is also a member of two bodies, the Local Authority Pension Fund Forum (LAPFF) and the National Association of Pension Funds (NAPF). The LAPFF has 60 LGPS members with combined assets of over £125bn. In line with the Fund's policy LAPFF believe that by actively

encouraging companies to comply with best practice shareholder value is improved over the medium and long term. The LAPFF work programme is on-going on projects on overseas employment standards, company workforce practices, climate change and greenhouse gas emissions. Further details can be found on the LAPFF web site www.lapfforum.org.

The Fund is invested in pooled vehicles, therefore does not own individual shares. However, the Fund's investment managers report on how they voted the shares within the vehicle. In particular, if corporate governance concerns are raised by LAPFF or NAPF these are reported to the fund managers and an explanation is received from the managers on how they voted and the engagement undertaken with the managers of the company. Details of the voting activities of the managers have been reported to the Pension Fund Committee each quarter and a summary of the activity from April 2013 to March 2014 is shown in the following table.

Manager	AGM's	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted
Aberdeen	92	1,042	967	40	21	14
Investec	65	809	561	69	112	67
Pyrford	62	792	727	64		1
Wellington	456	4,370	3,627	431	97	215

As can be seen below, as part of the Fund's Property & Private Equity allocation, the Fund invests in environmental and sustainable projects, including Agriculture, Timber, Regeneration, and Environmental Technology Funds. During 2013/14 three new investments were made within this asset allocation. On-going, the Fund will continue to review the approach taken and welcomes any comments Member Bodies have on the policy, its implementation, and any ideas that might be adopted by LAPFF for future projects.

Year	Investment	Commitment
2006	Igloo Regeneration Fund	£2m
2006	Ludgate Environmental Fund	£1m
2007	Stafford Timberland IV	\$8m
2007	RMK Timberland	\$8m
2008	Environmental Technologies Fund	£3.7m
2008	Ludgate Environmental Fund (additional)	£1m
2008	Stafford Timberland V	€2.6m
2008	RMK Timberland Resources Fund	€2.4m
2008	HSBC Environmental Infrastructure	€5m
2008	Harbour Vest Cleantech Fund	\$7.5m
2009	Impax New Energy	€5m
2010	Hermes Environmental Innovation Fund I	£5m
2010	Ludgate Environmental Fund (additional)	£2m
2011	Stafford Timberland VI	€3m
2011	RMK Timberland	€2.4m
2012	Capital Dynamics US Solar Fund	\$8m
2012	Environmental Technology Fund II	£5m
2013	Insight Global Farmland	\$8m
2013	GMO Farmland Optimisation Fund	\$8m
2013	Ludgate Environmental Fund II	£6m
2013	Threadneedle Low Carbon Workplace Fund	£5m
2013	Bridges Ventures Fund III	£5m
2013	Harbour Vest Cleantech III	\$7.5m
2014	Bridges Property Alternatives Fund II	£5m

Pensions Administration Update 2013/14

Introduction

The Fund's day to day administration service is provided by the Pension Administration Section which consists of a total of 20 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager. It is split between an Operational Team and a Technical Team, and is separate from the Accounting and Investment Team.

The Operational Team of 13 FTEs delivers a pensions service for approximately 35,000 scheme members and 28 employing bodies. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team of 6 FTEs implements and maintains the pension software systems, reconciles employer records, provides a communication service for members and employers and a pensioner payroll service for 10,000 pensioners and dependents.

The LGPS

Following the review of the Public Sector Pension Schemes, on 1 April 2014 the Government introduced a new scheme for Local Government.

The Local Government Pension Scheme 2014 is a Career Average Revalued Earnings Pension Scheme. This means the pension accrued, is based on a proportion (1/49) of the pay earned each year. Before each year is added to the pot, the pot is adjusted by treasury orders (which follow inflation).

However, all active members who joined the scheme prior to 1 April 2014, have been given protection for their pre April 2014 membership. The protection means that all membership prior to 1 April 2014 will remain in the final salary scheme and the pension will be based on the pensionable pay earned in the last 365 days of service (under the 2008 scheme definitions).

This has led to Clwyd Pension Fund, having to administer benefits which often span across several sets of regulations. Membership is treated differently under each set of regulations. Benefits prior to 1 April 2008 are calculated under the 1997 scheme regulations. Benefits between 1 April 2008 and 31 March 2014 are calculated under the 2008 scheme regulations and the benefits accrued after 1 April 2014 are calculated under the 2014 scheme regulations.

Each set of regulations require some interpretation but attempts to guide each fund through the administration of benefits. Pension Officers/Managers meet regularly to discuss and confirm the implications of each change and to consider new procedural and literature requirements to ensure continuity.

Auto Enrolment

In April 2013 the first of the Clwyd Pension Fund Employers reached their staging date. All eligible job holders have now been enrolled into the Scheme, with the exception of the category of workers who were eligible on the staging date and have previously opted out. These employees will be reviewed in October 2017. Individual letters have been issued to all employees confirming how auto enrolment affects them personally.

In line with the Auto Enrolment guidelines, the Clwyd Pension Fund now record the details of opt outs as informed by each employer.

The 2013/14 new starter figures confirm the initial impact of Auto Enrolment on the Clwyd Pension Fund. New starters have doubled from 1,000 to 2,000 from March 2013 to March 2014.

Communications

During the 2013/14 financial year, the Clwyd Pension Fund has published and distributed the following communications:-

- Distributed issue 10 of Clwyd Catch Up – a newsletter for our pensioner members which is issued along with their pensions increase notification.
- Circulated issue 18 of Penpal – a newsletter that is sent to our active members informing them of changes and updates to the Scheme.
- Distributed benefit statements to both active and deferred Local Government Pension Scheme members.
- Distributed an AVC/ARCs introduction letter for members aged from 45 to 59 during May 2013.
- Between April 2013 and March 2014 the following have taken place:
 - i. 28 days of drop-in surgeries for scheme members at their workplace
 - ii. 6 pre-retirement seminars

The welcome pack, which includes “The Employees Guide to the Local Government Pension Scheme”, was sent out to new Fund members up to 31 March 2014. This booklet has now been replaced with ‘a Short Scheme Guide’ which includes information on the new scheme.

The literature entitled “Topping up your Benefits” has recently been reviewed and updated to take into account the recent regulation changes.

2013/14 Website updates:

- Link to the LGPS2014 website
- Employee pension contribution table
- Updated scheme literature

The Website has been invaluable in giving both member and Fund Employers access to pension forms, reducing paperwork and postage costs. This is also a useful tool to communicate LGPS matters to our members, pensioners, employers, and also anyone interested in our Governance and Investments. The website continues to be maintained and updated when required.

For further information on Clwyd Pension Fund communications, please refer to our Communication Policy Statement following in this Annual Report.

Developing the Service

The Clwyd Pension Fund is dedicated to improving its service delivery to employers, scheme members and pensioners by:

- Reviewing its service level agreements with employers on an annual basis.
- Maintaining an effective business continuity plan
- Formulating an Administration Strategy
- Attending manager meetings to discuss LGPS administration and also current regulation issues
- Attending LGPS training courses to ensure staff skills and LGPS knowledge are up-to-date
- Introducing software, provided by a third party, to assist employers in addressing their Auto Enrolment obligations, in respect of record keeping and reporting on employee data. In addition it is a filter for the flow of information from a Scheme Employer to the Administering Authority.
- Scanning of all documents and post to maintain a paperless office
- Pensions administration and pensions payroll working on the same merged computer package – Altair.

In 2013/14 progress continued to be made with the new operational model for the Fund. The staff dealing with the benefits administration, are split into teams. Each team looks after set employers within the scheme, giving a direct point of contact and reinforcing the Fund/Employer relationship. There will be on-going work with our larger employers on data quality and correcting a backlog of historic records during the year in preparation for the Pension Regulator's new Code of Practice.

A main point of focus has been the major undertaking of staff training. This has involved both the progression of current staff and the introduction of new members of staff. When operating the new structure, expanding staff knowledge has proved vital. The section will also continue to benefit considerably from this in the future.

In addition, the Clwyd Pension Fund Pensioner Payroll, were pleased to proceed with an early 'Go Live' date for the H, M, Revenue & Customs' Real Time Information (RTI).

The challenges of 2013/14 were significant with the Fund Valuation, the early distribution of the Annual Benefit Statements and the issuing of Life Certificates to all Fund pensioners. The Clwyd Pension Fund Staff have pulled together to achieve goals simultaneously whilst continuing to improve key knowledge levels and development.

Performance monitoring will ensue, enabling transparent and meaningful statistics to all stakeholders on the performance of the administration service and employers.

Administrative Management Performance

This section of the report focuses on key administration performance indicators, efficiency and staffing indicators, together with a five year analysis of membership data. The Fund participates in the CIPFA Pensions Administration Benchmarking Club.

Key administration benchmarks

Indicator	The Fund	Benchmark Average	Highest
Net cost per member	£25.23	£20.75	More than £40
Net cost per member including investment management expenses #1	£169.33	n/a	n/a
Net cost per member excluding temporary staff #2	£22.71	£20.75	More than £40
Active members	15,879 41%	29,480 37%	n/a
All other members	22,785 59%	50,880 63%	n/a

#1 this is a new indicator that is not included in the CIPFA Benchmarking Club and thus comparators are not available. This may change in 2014/15 due to the Fund undertaking a review of its investment strategy together with the introduction of specific national guidance on the identification and recording of manager fees.

#2 Temporary staff have been employed to address historic backlogs that has increased the gross cost per member as shown in the benchmarking club.

Cases completed 2013/14:

Case Type	Cases
New Starters	2,037
Address changes	1,989
Defers	1,583
Retirements (all types)	769
Estimates (all types)	464
Deaths (deferred, active and pensioners)	394
Transfers In	142
Transfers Out	53

Staff Turnover 2013/14

Description	Number
Total permanent Staff as at 31/03/2014	20
Permanent staff leaving up to 31/03/2014	0
Permanent staff joining up to 31/03/2014	0

Ratio of Pensions Staff to LGPS Members 2013/14:

Although there are 20 full time equivalent members of staff (not including temporary staff), only 13 full time equivalent staff deal with administration. The remaining 6 staff deal with I.T., pension payroll and communications.

As at 31/03/2014, there were 34,807 members of the Clwyd Pension Fund. This means that there are 2,677 members per Pension's staff member.

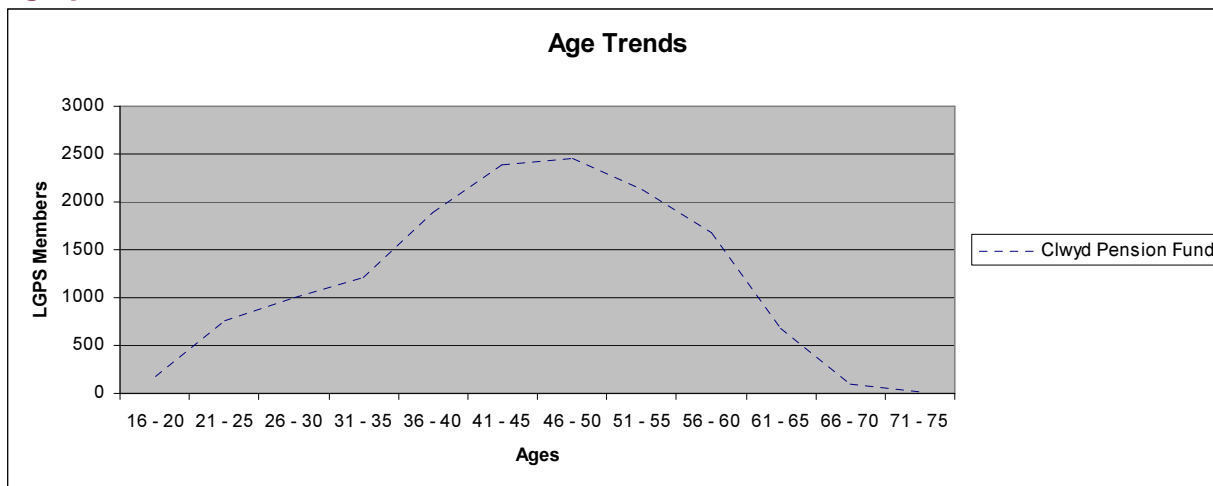
Member Trends: 5 Years

Period from – to	Contributors	Deferred Members	Pensioners	Dependant Pensioners
01/04/2009 – 31/03/2010	15,073	5,969	7,395	1,425
01/04/2010 – 31/03/2011	14,960	6,910	7,641	1,450
01/04/2011 – 31/03/2012	14,939	7,008	7,662	1,443
01/04/2012 – 31/03/2013	14,920	7,539	8,386	1,488
01/04/2013 – 31/03/2014	16,133	8,307	8,805	1,562

Pensioners who were awarded enhanced retirement benefits:

Period from – to	No. of Enhanced Benefits
01/04/2006 – 31/03/2007	85 Members
01/04/2007 – 31/03/2008	33 Members
01/04/2008 – 31/03/2009	23 Members
01/04/2009 – 31/03/2010	27 Members (tier 1 & 2 ill health only)
01/04/2010 – 31/03/2011	21 Members (tier 1 & 2 ill health only)
01/04/2011 – 31/03/2012	22 Members (tier 1 & 2 ill health only)
01/04/2012 – 31/03/2013	15 Members (tier 1 & 2 ill health only)
01/04/2013 – 31/03/2014	34 Members

Age profile of members 2013/14:



Internal Dispute Resolution Procedure 2013/14:

1 st Stage Cases Submitted	Cases Won	Cases Lost
2	0	0
2nd Stage Cases Submitted	Cases Won	Cases Lost
0	0	0

The cases submitted during 2013/14 (as above) have since been finalised, with one case being upheld and one case being rejected.

Due to the open door policy within the department, the majority of cases where dissatisfaction is raised, are resolved by the Pensions Administration Manager and the Principal Pensions Officers.

An appeal may be against either the former employer or the administering authority (Flintshire CC). This depends on what the appeal is against. Some examples are given below:-

Employer Decisions

- termination of employment on medical grounds
- calculation of final year's pay for benefits
- what counts as pensionable pay of various pay allowances

Administering Authority Decisions

- counting of service in present/previous employments
- award of spouse/children benefits
- death grant nominations

Written appeal applications must be made within six months. The formal right of appeal is in two stages. If you are dissatisfied with the stage one decision you may go to the second stage which will be the administering authority, Flintshire CC. The Chief Executive has appointed a suitably qualified officer to hear stage two appeals.

National Fraud Initiative (NFI)

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

The Auditor General is responsible for carrying out data matching exercises under his powers under the Public Audit (Wales) Act 2004.

As the use of data by the Auditor General for Wales in a data matching exercise is carried out with statutory authority (Part 3A of the Public Audit (Wales) Act 2004), it does not require the consent of the individuals concerned under the Data Protection Act 1998.

In addition to this, Clwyd Pension Fund uses a mortality screening service provided by Atmos, which informs us of deceased members.

Analysis of Pension Overpayments and Write Offs

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

	2013/14 £	2012/13 £	2011/12 £	2010/11 £	2009/10 £
Amounts under £100	5,975	3,443	4,954	3,320	3,062
Number of cases	129	97	99	75	76
Overpayments Recovered	19,518	39,625	24,214	26,836	31,807
Number of cases	57	51	34	46	50
Overpayments Written Off	402	0	6,146	200	1,676
Number of cases	2	0	5	4	5

Participating Employers Of The Fund As At 31st March 2014

There have been no additional bodies admitted to the Fund during 2013/14 and therefore no bonds or any other secured funding arrangements have been entered into.

The results of the March 2013 Actuarial Valuation led to new employer contributions and funding plans which were discussed and agreed with individual employers.

The Pensions Regulator allows the Fund the option to levy interest on overdue contributions during the financial year. During the year the Fund monitored timeliness of contributions and liaised with employers to overcome any problems they had encountered. The analysis below shows the number of late contributions made to the Fund, along with the amounts and days concerned. The Fund did not exercise its option to levy interest against any of the employers during the year as the amounts involved amounted to only 0.118% of total contributions received, £0.079m compared to £67m.

Employer	Late Occasions	Contributions (£)
A	8	11,374.54
B	8	18,925.49
C	1	1,726.07
D	1	5,804.85
E	1	36,253.25
F	3	3,547.62
G	1	1,363.93

The Fund had 27 bodies who contributed to the Fund during 2013/14, 20 scheduled and 7 admitted. Contributions are paid over to the Fund by the 19th of the following month to the month that the contributions relate to. An analysis of contributions received during 2013/14 is shown below.

Scheduled Bodies	Employer Contribution (£)	Employee Contribution (£)
Flintshire County Council	18,321,005.97	5,052,083.47
Wrexham County Borough Council	16,266,595.87	4,207,338.29
Denbighshire County Council	12,844,609.11	3,722,060.76
Coleg Cambria	1,787,604.32	691,719.23
Glyndwr Univesity	1,469,819.00	533,387.07
North Wales Fire Service	851,882.49	253,079.28
Rhyl Town Council	36,883.61	8,534.70
North Wales Valuation Tribunal	38,369.20	8,480.57
Hawarden Town Council	30,298.01	9,405.32
Connah's Quay Town Council	19,960.66	5,620.48
Prestatyn Town Council	18,570.80	8,762.03
Caia Park Town Council	14,594.74	4,854.49
Buckley Town Council	12,944.26	4,748.32
Coedpoeth Town Council	13,712.80	2,928.62
Mold Town Council	10,430.47	3,694.22
Rhos Town Council	9,373.99	2,889.38
Offa Town Council	3,874.42	1,297.06
Shotton Town Council	4,523.04	1,664.56
Argoed Town Council	3,125.22	1,216.41
Llanasa Town Council	221.00	0.00

Admitted Bodies	Employer Contribution (£)	Employee Contribution (£)
Careers Wales	337,464.11	115,158.42
Clwyd Leisure	94,627.15	27,675.99
Cartref y Dyffryn Ceiriog	50,116.65	3,585.52
Bodelwyddan Castle Trust	27,634.16	11,357.39
Compass Group UK	7,499.17	2,742.45
Denbighshire Voluntary Services	7,565.27	2,333.81
Grosvenor Facilities Management	5,564.44	1,739.28

Administrative Responsibilities:

The Clwyd Pension Fund is solely responsible for the administration of pensioner payroll. The administration for scheme members is mainly the responsibility of the Clwyd Pension Fund although the Employers must adhere to certain standards set out in the Service Level Agreements. For example, the Employers must supply the Clwyd Pension Fund with documents in a timely manner in order for benefits to be calculated as soon as possible.

Although the Clwyd Pension Fund has the power to seek compensation from Employers in respect of any breaches of such standards, the Clwyd Pension Fund has not used this power.

Other Information

The following information is provided to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board.

Analysis of Employers of the Fund

The table below shows a summary of the employers in the fund analysed by scheduled bodies and admitted bodies which are active and ceased.

	Active	Ceased	Total
Scheduled body	20	8	30
Admitted body	7	4	11
Total	27	12	41

Analysis of Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2014

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	159,621	121,722	281,343
Alternatives	95,795	206,319	195,964	498,078
Bonds & LDI	227,459	0	174,002	401,461
Property (Direct)	0	0	0	0
Cash	31,928	0	0	31,928
Total	355,182	365,940	491,688	1,212,810

The alternatives portfolio comprises pooled investments in the following asset classes: GTAA, Hedge Fund of Funds, Commodities, Property, Private Equity & Opportunistic, Infrastructure and Timber.

Analysis of Investment Income

The table below provides an analysis of the Fund's investment income accrued as at 31 March 2014. The Fund invests in pooled vehicles for equities and bonds, hence, investment income is reinvested within the vehicle and not paid out to the Fund.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	8		8
Alternatives	2,283	292	0	2,575
Bonds & LDI	0	0	0	0
Property (Direct)	0	0	0	0
Cash	138	0	0	138
Total	2,421	300	0	2,721

Training Policy Implementation 2014/15

Key to Attendees

C	Committee
CM	Committee Member(s)
CO	Chief Officer (People & Resources)
CFM	Corporate Finance Manager
CPFM	Clwyd Pension Fund Manager
PFM	Pensions Finance Manager(s)
PAM	Pensions Administration Manger

Date	Events & Meetings	Attendees
June		
5th	Aon Hewitt - Governance & Key Legislation	CM(5), CO, CFM, CPFM, PFM(s), PAM
9th	CIPFA Chief Officer Seminar	CFM, CPFM
17th	Mercer - Funding & Actuarial Matters	CM(5), CPFM, PFM(s), PAM
July		
2nd	CIPFA Implementing Governance & Efficiency	CPFM
3rd	JLT/ In House - Investment & Accounting/Audit	CM(4), CPFM, PFM, PAM
August		
7th	Mercer – Funding & Actuarial Matters JLT - Investments	CO, CFM
28th	Mercer – Funding & Actuarial Matters JLT - Investments	CM(3)
September		
3rd	Advisory Panel	CO, CFM, CPFM, PFM(s)
8 th – 10th	LGC Investment Seminar	CM(2), CFM, PFM
October		
6th	National Framework- Third Party Administration	CPFM
7th	CIPFA Managing change in the LGPS	CPFM
30th	JLT - Investment Strategy Training	C, CPFM, PFM(s)

Date	Future Events & Meetings	Attendees
November		
5th	Committee	C
6th	Employer Administration Meeting	C
6th	Annual Joint Consultative Meeting	C
11th	Society Welsh Treasurers (Mercer meeting)	CFM, CPFM
12th	CIPFA Annual Conference	PFM
12th	Capital Dynamics Training - Cancelled	
25th	CIPFA Chief Officer Seminar	CFM, CPFM
December		
3th – 5th	LAPFF Annual Conference	PFM, CM(1)
17th	Advisory Panel	CO, CFM, CPFM
2015		
January		
February		
3rd	Committee	C
26th – 27th	LGC Investment Seminar - Chester	TBD
March		
24th	Advisory Panel	CO, CFM, CPFM
May		
21st	Committee	C
TBC	NAPF - Cotswolds	TBD
June		
24th	Advisory Panel	CO, CFM, CPFM
TBC	LCPC –LGPS elected members conference	TBD
July		
21st	Committee	C

Subject Heading	Sub-Heading	Topics	Pensions accounting and auditing standards		Financial services procurement and relationship management	
		Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.			Understanding public procurement	Understanding public procurement
		Awareness of the role of both internal and external audit in the governance and assurance process.				
		Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.				
		A general understanding of the main public procurement requirements of UK and EU legislation.				
Cllr Alan Diskin (Chair)						
Cllr Hadyn Bateman (Vice Chair)		03/07/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
Cllr Brian Dunn				28/08/2014		28/08/2014
Cllr Ron Hampson		03/07/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
Cllr Matt Wright				03/07/2014		03/07/2014
Cllr Huw Ll. Jones (DCBC)						
Cllr Steve Wilson (WCBC)		03/07/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
Cllr Andy Rutherford (Rhyl TC)				28/08/2014		28/08/2014
Steve Hibbert (Member Rep)				28/08/2014		28/08/2014
Cllr Nigel Steele-Mortimer (Sub)						
Cllr George Hardcastle (Sub)						
Helen Stapleton (CO P&R)				07/08/2014		07/08/2014
Gary Ferguson (S151)				07/08/2014		07/08/2014
Phil Latham		03/07/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
Debbie Fielder		03/07/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
Alwyn Hughes		03/07/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
Helen Bernham		03/07/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014

Subject Heading	Sub-Heading	Topics	Cllr Alan Diskin (Chair)	Cllr Hadyn Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw L. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Cllr Andy Rutherford (Rhyl TC)	Steve Hibbert (Member Rep)	Cllr Nigel Steele-Mortimer (Sub)	Cllr George Hardcastle (Sub)	Helen Stapleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham
Investment performance and risk management	Supplier risk management	Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.		03/07/2014	28/08/2014	03/07/2014	03/07/2014		03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Total fund	Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Performance of advisors	Awareness of the Myner principles of performance management and the approach adopted by the committee.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Performance of the committee	Awareness of the Myner principles and the need to set targets for the committee and to report against them.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Performance of support services	Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014

Subject Heading	Sub-Heading	Topics	Cllr Alan Diskin (Chair)	Cllr Hadyn Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw Ll. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Cllr Andy Rutherford (Rhyl TC)	Steve Hibbert (Member Rep)	Cllr Nigel Steele-Mortimer (Sub)	Cllr George Hardcastle (Sub)	Helen Stapleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham
Financial markets and products knowledge	Investment strategy	Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property).		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Investment strategy	Understanding of the role of these asset classes in long-term pension fund investing.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Financial markets	Understanding of the primary importance of the investment strategy decision		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Financial markets	A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014
	Financial markets	An awareness of the limits placed by regulation on the investment activities of local government pension funds.		03/07/2014	28/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	03/07/2014	03/07/2014	03/07/2014	03/07/2014

Subject Heading	Sub-Heading	Topics																		
Actuarial methods, standards and practices	Valuations	Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and intervaluation monitoring.																		
	Valuations	Awareness of the importance of monitoring early and ill health retirement strain costs.																		
	Valuations	A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.																		
	Outsourcing	A general awareness of the relevant considerations in relation to outsourcings and bulk transfers.																		
			Cllr Alan Diskin (Chair)	Cllr Hadyr Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw L. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Cllr Andy Rutherford (Rhyl TC)	Steve Hibbert (Member Rep)	Cllr Nigel Steele-Mortimer (Sub)	Cllr George Hardcastle (Sub)	Helen Stapleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham	
				17/06/2014	28/08/2014	17/06/2014	03/07/2014	17/06/2014	17/06/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014
				17/06/2014	28/08/2014	17/06/2014	03/07/2014	17/06/2014	17/06/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014
				17/06/2014	28/08/2014	17/06/2014	03/07/2014	17/06/2014	17/06/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014
				17/06/2014	28/08/2014	17/06/2014	03/07/2014	17/06/2014	17/06/2014	28/08/2014	28/08/2014			07/08/2014	07/08/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014	17/06/2014

This page is intentionally left blank

PENSION FUND SERVICE PLAN 2014-15:
EXTRACT OF PROJECTS AND IMPROVEMENT FOR GOVERNANCE TASKS

Key:

** - Project based action

* - Regular ongoing action

Bold indicates a change from the original plan

Progress (in relation to planned period):

	Complete
	On track or ahead of schedule
	Commenced but behind schedule
	Not commenced

Page 85

Key Action -Task	Frequency	New Actions required (start/end)	Progress			
			Q1	Q2	Q3	Q4
<u>Governance - Internal</u>						
Servicing Clwyd Pension Fund Committee (PFC)	Project	Arrange Appointment of new members (Q1) Document Scheme of Delegation (Q1) Train new PFC members (Q1/2)	**	**		
Servicing Advisory Panel	Project	Agree reporting arrangements for the Committee (Q1)	**			
Update Statutory Documents	Annual	Re-write of Governance Statement (Q1) Update SIP (Q1) Review Funding Strategy (Q4) Review Communication Strategy (Q4)	**			**
Develop Risk Strategy and Register	Project	Work with Independent Adviser (Q4)				**
PFC Member and Finance Officer Training	Project	Work with Independent Adviser on compliance with Code of Practice: - developing Training Policy(Q2) and Training Plan (Q3) - Delivering training (Q1-4)	**	**	**	**

Key Action -Task	Frequency	New Actions required (start/end)	Progress			
			Q1	Q2	Q3	Q4
Report to County Council	Annual	To cease after Q1	*			
Annual Budget	Annual		*			
<u>Governance – External</u>						
Plan/Action impact of Call for Evidence	Project	Not Known				
Discuss/Plan/Action collaboration in Wales	Project	Initial discussion on CIV			**	
Impact of 'Williams' Report	Project	Initial thoughts on Welsh LGR			**	
Preparation to Implement new Local Board	Project	Develop terms for Pension Board (Q3) Appointments (Q4) Training of Board members (Q4 and ongoing)		**	**	**
Impact of The Pensions' Regulators Public Sector Code of Practice	Project	Review current arrangements against Code and develop plan of action (Q3/4)			**	**

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **5th NOVEMBER 2014**

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

SUBJECT: **EXTERNAL AUDIT OF THE CLWYD PENSION FUND
2013/14 ACCOUNTS AND ANNUAL REPORT**

1.00 PURPOSE OF REPORT

1.01 To inform Committee Members of the Wales Audit Office (WAO) 2013/14 audit findings. These will be presented to this Committee.

2.00 BACKGROUND

2.01 As Committee Members are aware, the Fund is externally audited by Wales Audit Office.

2.02 The draft accounts were presented to the Committee on 22nd July 2014.

2.02 The audit of the Fund began in July 2014 and was completed during September in time for the accounts to be submitted to the Audit Committee and full Council on September 24th 2014 where the accounts were approved.

2.03 In addition, WAO are required to examine the Annual Report to establish that the pension fund accounts and related notes contained in the Annual Report, are consistent with the fund's accounts included in the Statement of Accounts for the Administering Authority. They also consider the other information in the report which is produced following the CIPFA 'preparing the annual report – Guidance for Local Government Pension Scheme funds'.

3.00 AUDIT FINDINGS

3.01 The Fund received an unqualified opinion on the accounts.

3.02 Attached as Appendix 1 is the Audit of Financial Statements Report for the Clwyd Pension Fund, which includes the ISA260 and the letter of representation produced by the WAO. Paragraph 10 of this document summarises corrections highlighted during the audit of the accounts, which were agreed and changed in the final statement of accounts. These corrections related to under accrual of lump sum and death grant payments in the accounts and also an adjustment to the valuation of "In House" holdings where there is a delay in receiving those valuations. The adjustments consequently impacted on the bottom line figures resulting in a net decrease to the Fund of £1.622m as shown below. There were no misstatements that were not corrected.

- Increase an under accrual of lump sum payments by £0.935m
- Increase an under accrual of death grant payments by £0.172m
- Decrease in valuations of In House Investments by £0.515m

Appendix 2 shows the final statement of accounts.

3.03 The ISA260 also draws attention to two issues arising from the audit.

- In relation to the under estimation of the lump sum and death grant payments under accrued, the Pension Fund needs to strengthen its arrangements to ensure that it identifies all retirements and deaths up to the year end in order to accrue for the liability in the correct financial period. In the letter of representation, the Pension Fund agreed to consider how to strengthen the process for the estimation of lump sum accruals.
- Whilst the following issue does not affect the financial statements of the Pension Fund, it was identified during the audits of the Unitary Authorities that membership records were not up to date. This has been identified by the Fund who are working with employers on improving the data quality and is included in the Clwyd Pension Fund Service Plan for 2014/15.

3.04 The examination of the Annual Report by the Wales Audit Office commenced on the 27th October. A verbal update will be given to the Committee.

4.00 RECOMMENDATIONS

4.01 That Committee Members note the report and discuss the audit findings as reported.

5.00 FINANCIAL IMPLICATIONS

5.01 None.

6.00 ANTI-POVERTY IMPACT

6.01 None.

7.00 ENVIRONMENTAL IMPACT

7.01 None.

8.00 EQUALITIES IMPACT

8.01 None.

9.00 PERSONNEL IMPLICATIONS

9.01 None.

10.00 CONSULTATION REQUIRED

10.01 None.

11.00 CONSULTATION UNDERTAKEN

11.01 None.

12.00 APPENDICES

12.01 Audit of Financial Statements Report

12.02 Statement of Accounts

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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

This page is intentionally left blank



Audit of Financial Statements Report

Clwyd Pension Fund

Audit year: 2013-14

Issued: September 2014

Document reference: 560A2014

Status of report

This document has been prepared for the internal use of Flintshire County Council as part of work performed in accordance with the statutory functions.

No responsibility is taken by the Auditor General, the staff of the Wales Audit Office or, where applicable, the appointed auditor in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000. The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales, the Wales Audit Office and, where applicable, the appointed auditor are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at infoofficer@wao.gov.uk.

The team who delivered the work comprised John Herniman, Amanda Hughes, Ron Parker, Simon Monkhouse and Jessica Hamilton

Contents

The Appointed Auditor intends to issue an unqualified audit report on the financial statements of Clwyd pension fund. There are some issues to report to you prior to their approval.

Summary report

Introduction	4
Status of the audit	4
Proposed audit report	4
Significant issues arising from the audit	4
Independence and objectivity	8

Appendices

Final Letter of Representation	9
Proposed audit report of the Appointed Auditor to Flintshire County Council	12

Summary report

Introduction

1. The Appointed Auditor is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of Clwyd Pension Fund at 31 March 2014 and its income and expenditure for the year then ended.
2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
3. The quantitative levels at which we judge such misstatements to be material for Clwyd Pension Fund is £11.814 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
5. This report sets out for consideration the matters arising from the audit of the financial statements of Clwyd Pension Fund, for 2013-14, that require reporting under ISA 260.

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2014 on 30 June 2014, the agreed deadline, and have now substantially completed the audit work.
7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with Gary Ferguson, Corporate Finance Manager.

Proposed audit report

8. It is the Appointed Auditor's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#). The proposed audit report is included within the full audit report on the Council's financial statements which is set out in [Appendix 2](#),

Significant issues arising from the audit

Uncorrected misstatements

9. There are no misstatements identified in the financial statements, which remain uncorrected.

Corrected misstatements

10. There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out in [Exhibit 1](#) below:

Exhibit 1: Summary of corrections

Value of correction	Nature of correction	Reason for correction
£905,000	The Fund Accounts included this amount in the Pensions figure but it should have been in Lump Sums (Retirement).	To ensure correct classification.
£515,000	Difference in Private equity holdings from valuations at the time the draft accounts complied, to year-end valuations received during the audit. This affects a number of notes in the accounts.	To ensure Private Equity balances reflected the most up to date valuations.
£935,000	Note 9 Creditors Increase in lump sum accruals based on more recent information than was available at year-end.	To correctly accrue for retirement liabilities up to 31 March.
£172,000	Note 9 Creditors Increase in death grant accruals based on more recent information than was available at year-end.	To correctly accrue for death benefit liabilities up to 31 March.

Significant audit risks

11. In our Financial Audit Strategy, we set out information regarding the significant and elevated audit risks that were identified during the audit planning process. [Exhibit 2](#) below sets out the outcome of our audit procedures in respect of those risks:

Exhibit 2: Summary of main audit risks and action taken

Risks	Action taken
Control environment risks	
Management override and estimation The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant	<ul style="list-style-type: none"> We understood and evaluated internal control processes and procedures as part of our planning work. We reviewed and tested the appropriateness of a sample of manual

Risks	Action taken
<p>risk.</p> <p>In addition, the preparation of the Statement of Accounts will involve the estimation of a number of account figures which could be subject to bias.</p>	<p>journals processed during the year.</p> <ul style="list-style-type: none"> • We looked carefully at management estimations and considered if they were subject to bias. • We understood the business rationale for significant transactions which appeared out of the normal course of business. • Our audit procedures also included an unpredictable element that varies year on year. <p>We have not identified any misstatements as a result of our testing to date.</p>
<p>Revenue and expenditure recognition</p> <p>There is a risk that the Pension Fund could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the financial Statements.</p>	<ul style="list-style-type: none"> • We have evaluated key controls to confirm our understanding of the design of the control; tested key reconciliations, and, tested that transactions that occurred around year-end were appropriately classified within the financial year to which they related. • We have considered the accounting policies adopted by the Pension Fund and subjected income and expenditure to the appropriate level of testing to identify any material misstatement. • We have also considered the work we undertook in relation to the risk of management override of controls (see above). <p>We did not identify any misstatements as a result of our work.</p>
<p>In 2012-13 we were aware that there were staffing shortages within the pensions' administration section. Whilst we believe that this has now been resolved there is a risk that this had an impact on the timely processing of pensions' administration tasks which may affect the transactions within the financial statements.</p>	<p>We reviewed the Council's closedown procedures and liaised with the Head of Pensions to consider whether previous capacity issues gave rise to specific accounts risks. We did not identify any risks of material misstatement.</p>
<p>Financial systems risks</p>	
<p>As part of its portfolio, the Pension Fund has substantial holdings in unquoted investments, the figure for this year is £293.8 million (approximately £262.5 million in 2012-13).</p> <p>These are accounted for at fair value determined by valuations provided by fund</p>	<p>We have:</p> <ul style="list-style-type: none"> • obtained direct confirmation from Fund managers of the year-end investment balances; • reviewed and assessed investment manager's internal control reports to establish whether they are indicative of

Risks	Action taken
<p>managers. In addition, external investment managers are appointed to manage the investment portfolio. Their own systems and records will generate account entries made to the Pension Fund account and net assets statement.</p>	<p>specific risks to the balances; and</p> <ul style="list-style-type: none"> obtained the Investment fund's audited financial statements and considered relevant issues raised by the auditor. <p>We did not identify any material misstatement as a result of our work.</p>

Other significant issues arising from the audit

12. In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were some issues arising in these areas this year:

We have one concern about the qualitative aspects of your accounting practices and financial reporting.

13. As a result of our audit work we identified that the Pension Fund had under estimated the accrual for the lump sum and death benefit liabilities for former employees who had either retired or passed away up to and including 31 March 2014. As a result, an amendment was made to accrue an additional £1.107 million of expenditure.
14. The Council needs to strengthen its arrangements to ensure that it identifies all retirements (and deaths) up to 31 March 2014 in order to accrue for the liability in the correct financial period.

There is one matter relevant to the oversight of the financial reporting process that we need to report to you

15. International Accounting Standard 19 (Employee Benefits) requires Employer bodies to disclose in their accounts the assets, liabilities and transactions, together with certain information regarding underlying assumptions, in respect of retirement benefits.
16. The actuary prepares both a triennial funding valuation and an annual valuation of the pension fund liabilities, on an IAS19 basis, which provides both revenue and balance sheet disclosures for inclusion in the financial statements. This is prepared using a range of data, provided by the administering authority, and actuarial assumptions.
17. It is critical therefore that the administering authority's membership records are up to date and accurately record data for active, deferred and pensioner records. Both the employer body (via its payroll team) and the administering authority need to work together to ensure that membership records are kept up to date. This not only has implications for the IAS19 disclosures in the financial statements, but also for the individuals concerned.

-
18. Whilst the administering authority process changes notified to them by the employer throughout the year, the employer also submits an annual contributions return. This allows for the data to be reconciled and often identifies changes, eg starters, leavers or additional roles, for which the administering authority has not been notified.
 19. The administering authority are keen to move to a monthly process and whilst we appreciate that there are resource implications for both the administering authority and the employer bodies, we would encourage this move as it is critical that membership data is accurate.
 20. Other than the actuarial present value of promised retirement benefits being disclosed in Note 15, it is worth noting that this issue does not directly impact on the financial statements of the pension fund.

There are no other matters that we need to report to you

21. There are no other matters to report to you. In particular:
 - we did not encounter any significant difficulties during the audit;
 - there were no significant matters discussed and corresponded upon with management which we need to report to you;
 - we did not identify any material weaknesses in your internal controls that we have not reported to you already; and
 - there are not any other matters specifically required by auditing standards to be communicated to those charged with governance.

Independence and objectivity

22. As part of the finalisation process, we are required to provide you with representations concerning our independence.
23. We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Flintshire County Council that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

[Audited body's letterhead]

Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

24 September 2014

Dear Sir,

Representations Regarding the 2013/14 Financial Statements

This letter is provided in connection with your audit of the financial statements of the Clwyd Pension Fund for the year ended 31 March 2014 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

We confirm that to the best of our knowledge and belief, having made enquiries as we consider sufficient, we can make the following representations to you.

Management Representations

Responsibilities

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.

We acknowledge our responsibility for the design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information Provided

We have provided you with:

- Full access to:
 - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
 - additional information that you have requested from us for the purpose of the audit; and

-
- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
 - The identity of all related parties and all the related party relationships and transactions of which we are aware.
 - The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - In the period relating to this audit we do not have any knowledge of the following:
 - fraud or suspected fraud that we are aware of and that affects Clwyd Pension Fund and involves management; employees who have significant roles in internal control; or others where the fraud could have a material effect on the financial statements;
 - any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others; and
 - known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

Financial Statement Representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions.

The effects of uncorrected misstatements identified during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In terms of the recommendations made in the audit report:

1. Consideration will be given on how to strengthen the process for estimating the accrual for the lump sum and death benefit liabilities; and
2. improving the process for the flow of member information from employers to the administering authority is included in the Clwyd Pension Fund Service Plan 2014/15 and progress will be monitored by the Clwyd Pension Fund Committee.

Representations by Flintshire County Council

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by Flintshire County Council on 24 September 2014.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

Signed by:

Gary Ferguson
Corporate Finance Manager (Chief
Finance Officer)

Glenys Diskin
Chair to the Council

Date: 24 September 2014

Date: 24 September 2014

Appendix 2

Proposed audit report of the Appointed Auditor to Flintshire County Council

Independent auditor's report to the Members of Flintshire County Council

I have audited the accounting statements and related notes of:

- Flintshire County Council; and
- Clwyd Pension Fund

for the year ended 31 March 2014 under the Public Audit (Wales) Act 2004.

Flintshire County Council's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, and the Cash Flow Statement.

Clwyd Pension Fund accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 based on International Financial Reporting Standards (IFRSs).

Respective responsibilities of the responsible financial officer and the independent auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the responsible financial officer is responsible for the preparation of the statement of accounts, Flintshire County Council's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the accounting statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Flintshire County Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I

become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

Opinion on the accounting statements of Flintshire County Council

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of Flintshire County Council as at 31 March 2014 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

Opinion on the accounting statements of Clwyd Pension Fund

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Clwyd Pension Fund during the year ended 31 March 2014 and of the amount and disposition of the fund's assets and liabilities as at that date; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

Opinion on other matters

In my opinion, the information contained in the Explanatory Foreword for the financial year for which the accounting statements and related notes are prepared is consistent with the accounting statements and related notes.

Matters on which I report by exception

I have nothing to report in respect of the Annual Governance Statement on which I report to you if, in my opinion, it does not reflect compliance with 'Delivering Good Governance in Local Government: Framework' published by CIPFA/SOLACE in June 2007, or if the statement is misleading or inconsistent with other information I am aware of from my audit.

Certificate of completion of audit

I certify that I have completed the audit of the accounts of Flintshire County Council in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Code of Audit Practice issued by the Auditor General for Wales.

Anthony Barrett
Appointed Auditor
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ
30 September 2014

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@wao.gov.uk

Website: www.wao.gov.uk

Swyddfa Archwilio Cymru

24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: info@wao.gov.uk

Gwefan: www.wao.gov.uk

CLWYD PENSION FUND ACCOUNTS

for the year ended 31st March 2014

THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

The Clwyd Pension Fund is administered by Flintshire County Council on a lead authority basis. The administration and investment strategy of the Fund is considered and agreed each quarter by the Clwyd Pension Fund Panel, consisting of five elected Members, the Head of Finance, the Clwyd Pension Fund Manager, a consultant to the Fund, and a scheme member observer. The Fund's investment management arrangements were implemented by twelve investment managers during 2013/14.

The Clwyd Pension Fund is a statutory Local Government Pension Scheme (LGPS), set up to provide death and retirement benefits for local government employees, other than teachers, police and firefighters in North East Wales. In addition, other qualifying bodies which provide similar services to that of local authorities have been admitted to membership of the LGPS and hence the Fund.

The Clwyd Pension Fund operates a defined benefit scheme whereby retirement benefits are funded by contributions and investment earnings. Contributions are made by active members in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31st March 2014. Employee contributions are added to employer contributions which are set based on triennial actuarial funding valuations. The benefits of the scheme are prescribed nationally by Regulations made under the Superannuation Act 1972. The last valuation was at 31st March 2013, the findings of which become effective on 1st April 2014. The valuation showed that the funding level decreased from the previous valuation on 31st March 2010 from 72% to 68%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over an 18 year period. This implies an average employer contribution rate of 13.8% and a total payment of £32.6m per annum for deficit contributions, increasing at 4.1% per annum.

Up to the 1st April 2014 the fund was governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

- The LGPS (Benefits , Membership and Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2009 (as amended)

Membership of the LGPS is voluntary and organisations participating in the Clwyd Pension Fund include:

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

The membership of the Fund as at 31st March 2014 and 2013 is shown below:-

	2014	2013
	No.	No.
Contributors	16,133	14,920
Pensioners :		
Ex employees	8,805	8,386
Widows/dependants	1,562	1,488
Preserved benefits	8,307	7,539
Total membership	<u>34,807</u>	<u>32,333</u>

CLWYD PENSION FUND ACCOUNTS

The scheduled bodies which contributed to the Fund during 2013/14 are:-

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

The admitted bodies contributing to the Fund are :-

Other: Careers Wales, Cartref y Dyffryn Ceiriog, Compass Group UK, Denbighshire Voluntary Services, Clwyd Leisure, Bodelwyddan Castle Trust, Grosvenor Facilities Management.

The increase in contributors from 1st April 2013 is mostly attributable to the impact of auto enrolment within the three unitary authorities.

The content of the accounts comply with accounting standards, but further information is available in the Clwyd Pension Fund Annual Report and Statement of Investment Principles which are presented to the Annual Joint Consultative Meeting for employers and member representatives that is held annually each November.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position at year end as at 31st March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is, disclosed at Note 15 of these accounts.

In summary, accounting policies adopted are detailed as follows:

- Contributions, benefits and investment income due are included on an accruals basis.
- Investments are included in the accounts at market value, usually bid price.
- Debtors and creditors are raised for all amounts outstanding at 31st March.
- Individual Transfer values received and paid out have been accounted for on a cash basis.
- Bulk Transfer values paid out are accounted for on an accruals basis.
- The financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.
- Investment management expenses are accounted for on an accruals basis and include the fees paid and due to the fund managers and custodian, actuarial, performance measurement and investment consultant fees.
- Administration expenses are accounted for on an accruals basis. All Flintshire County Council staff costs are charged direct to the Fund and management, accommodation and other support service costs are apportioned to the Fund in accordance with Council policy.
- Acquisition costs of investments include all direct transaction costs and sales receipts are net of all direct transaction costs.

CLWYD PENSION FUND ACCOUNTS

		2014		2013		
	Note	£000	£000	£000	£000	£000
Contributions and Benefits						
Contributions receivable :						
From employers	1	52,289		52,294		
From employees or members	1	14,688		14,381		
			66,977		66,675	
Transfers in		3,801		4,735		
Other income		1,918		1,411		
			5,719		6,146	
			72,696		72,821	
Benefits payable :						
Pensions	1	46,885		44,717		
Lump sums (retirement)	1	12,331		10,859		
Lump sums (death grants)	1	1,921		1,401		
			61,137		56,977	
Payments to and on account of leavers :						
Refunds of contributions		26		8		
Transfers out (individual)		2,919		1,544		
Transfers out (bulk)		242		0		
Other		77		52		
Administrative and other expenses borne by the scheme	2	1,494		1,047		
			4,758		2,651	
			65,895		59,628	
NET ADDITIONS (WITHDRAWALS)			6,801		13,193	
Returns on Investments						
Investment income	4	2,721		2,397		
Change in market value of investments (Realised and Unrealised)	4	28,686		110,113		
Investment management expenses	2	(5,873)		(5,294)		
NET RETURNS ON INVESTMENT			25,534		107,216	
NET (DECREASE)/INCREASE IN THE FUND			32,335		120,409	
OPENING NET ASSETS OF THE SCHEME			1,181,232		1,060,823	
CLOSING NET ASSETS OF THE SCHEME			1,213,567		1,181,232	

CLWYD PENSION FUND ACCOUNTS

	Note	2014 £000	2013 £000
Net Assets Statement			
Investment Assets :	5		
Managed fixed interest fund		174,002	175,148
Managed UK equity funds		0	122,222
Managed overseas equity funds		281,343	391,597
Managed multi strategy funds		115,487	120,380
Property funds		97,780	82,260
Infrastructure funds		29,636	23,907
Timberland / Agricultural funds		22,382	20,511
Commodity funds		32,084	34,588
Private equity funds		139,799	138,137
Hedge fund of funds		48,393	47,070
Liability Driven Investment		227,459	0
Opportunistic Funds		12,517	5,910
Other investment assets	8	0	874
Cash	7	31,928	17,331
Investment Liabilities :			
Other investment liabilities	8	0	0
Current Assets :			
Due within 1 year	9	4,745	3,845
Current liabilities	9	(3,988)	(2,548)
NET ASSETS AT 31st MARCH		1,213,567	1,181,232

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

1. ANALYSIS OF CONTRIBUTIONS RECEIVABLE/BENEFITS PAYABLE

Contributions represent those amounts receivable from various employing authorities in respect of their own contributions and those of eligible pensionable employees. The total contributions received during 2013/14 amounted to £52.289m (£52.294m in 2012/13) from employers and £14.688m (£14.381m in 2012/13) from employees.

The employers total comprised an amount of £27.393m (£26.717m in 2012/13) relating to the common contribution rate average of 11.7% paid by all employers and £24.896m (£25.577m in 2012/13) relating to the individual adjusted rates and additional contributions paid in respect of deficit funding for individual employers.

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year.

Analysis of contributions received and benefits payable is shown below :-

Scheduled Bodies	Benefits Payable £000	Contributions Receivable £000
Flintshire County Council	20,783	23,373
Wrexham County Borough Council	19,906	20,474
Denbighshire County Council	13,942	16,567
Fund apportionment with :		
Gwynedd and Powys County Councils	2,371	0
Educational Organisations	2,616	4,482
Town and Community Councils	128	234
Others - scheduled bodies	583	1,152
Others - admitted bodies	808	695
	<u>61,137</u>	<u>66,977</u>

The above merely reflects the figures in the accounts. The circumstances pertaining to each of the bodies listed is different for a variety of reasons (contribution and pensioner profiles, employees' contribution rates, early retirement experience etc.) and direct comparisons, therefore, are largely meaningless.

2. ADMINISTRATION AND INVESTMENT MANAGEMENT EXPENSES

The regulations permit the Council to charge the cost of administering the scheme to the Fund. The external managers' fees have been accounted for on the basis contained within their management agreement.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

The cost of pensions administration and investment management is shown below:-

	2014	2013
	£000	£000
Administration Expenses		
Employee Costs	781	630
Support Services	242	161
Supplies and Services	288	135
Audit Fees	35	35
Actuarial Fees	148	86
	<hr/> 1,494	<hr/> 1,047
Investment Expenses		
Net Fund Management Fees	5,571	5,187
Custody Fees	17	15
Performance Monitoring Fees	25	24
Consultancy Fees	260	68
	<hr/> 5,873	<hr/> 5,294
Total Fees	<hr/> 7,367	<hr/> 6,341

Investment management fees are based on valuations of the investments. The Fund is invested in pooled vehicles of which the majority of fees are charged within the Funds. In order to be transparent, the Fund discloses these fees. The gross fees included in the Pooled Vehicles amounted to £5.6m during the year (£5.3m during 2012/13).

Under the Public Audit Wales Act 2013, the Wales Audit Office is no longer able to hold reserves. As a consequence, the Wales Audit Office advised in August 2014 that the Pension Fund would receive a distribution of accumulated reserves of £7,127 in respect of prior year audit fees. In preparing the accounts, the level of redistribution was estimated at £4,463. The difference in the level of redistribution is not reflected in the figures above.

The main increases in administration expenses are due to recruitment to vacant positions within the service area and increased actuarial fees in respect of the triennial valuation. Within investment expenses, consultancy fees reflect the implementation of the Fund's new investment manager, Insight, who were appointed to manage the Long Term Management of Funding Risk mandate in September 2013.

3. INVESTMENTS AND PERFORMANCE

Further details on the investment strategy are available in the Statement of Investment Principles which can be obtained from the Clwyd Pension Fund Manager, County Hall, Mold, CH7 6NA (Web site www.clwydpensionfund.org.uk or Telephone 01352 702264).

The Council uses the investment performance services of the WM Company. Their report for the financial year 2013/14 showed that the Fund achieved an overall return of +2.1% from its investments (+10.0% in 2012/13). This compares with the Fund's benchmark return of +3.7% for the year.

4. ANALYSIS OF TRANSACTIONS AND RETURN ON INVESTMENTS

Overview

The Fund invests its surplus monies in assets through a wide range of managers. All these main investments are through pooled vehicles where the Fund is one of many investors and where these pooled monies are invested on a common basis, although in the Fund's alternative assets there are a couple of quoted holdings. Generally, however, the Fund has no direct holdings of equities, bonds, properties, private equity companies, commodities or other financial instruments.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Transactions and Return on Investments

Details of the 2013/14 investment transactions and the net profit on sales of £107.501m (£8.854m in 2012/13) together with investment income of £2.721m (£2.397m in 2012/13) are set out below. The unrealised loss for 2013/14, because of the change in the market value of investments, amounted to £78.815m (£101.259m profit in 2012/13). Therefore, the increase in market value of investments (realised and unrealised) is £28.686m (£110.113m in 2012/13).

Purchases, sales and realised profit were increased significantly during 2013/14 due to the redemption from SSgA for developed equities. The proceeds were transferred to Insight who were appointed to the Funds Long Term Management of Risk mandate (Liability Driven Investment).

Direct transaction costs are included in the cost of purchases and sale proceeds. Transaction costs are incremental costs that are directly attributable to the acquisition and disposal of an investment. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. They are added to purchase costs or netted against sales proceeds, as appropriate. These costs cannot be directly identified as the Clwyd Pension Fund is almost wholly invested through pooled vehicles. Investment income from these is reinvested within the vehicles and not shown separately.

	Market Value 2012/13 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2013/14 £000	Investment Income £000
Fixed Interest Securities	175,148	174,002	(174,002)	43,451	(44,597)	174,002	0
Liability Driven Investment	0	230,000	0	0	(2,541)	227,459	0
UK Equities Passive	122,222	0	(136,167)	33,414	(19,469)	0	0
Overseas Equities Active	288,379	50,042	(49,281)	1,202	(8,999)	281,343	8
Overseas Equities Passive	103,218	0	(111,813)	22,576	(13,981)	0	0
Multi Strategy	120,380	130	0	0	(5,023)	115,487	0
Property	82,260	16,727	(8,050)	6	6,837	97,780	1,790
Infrastructure	23,907	3,847	(1,622)	631	2,873	29,636	203
Timber & Agriculture	20,511	3,068	(413)	0	(784)	22,382	0
Commodities	34,588	0	0	0	(2,504)	32,084	0
Private Equity	138,137	17,523	(22,991)	629	6,501	139,799	328
Opportunistic	5,910	5,679	(292)	0	1,220	12,517	254
Hedge Fund of Funds	47,070	0	(412)	83	1,652	48,393	0
	<u>1,161,730</u>	<u>501,018</u>	<u>(505,043)</u>	<u>101,992</u>	<u>(78,815)</u>	<u>1,180,882</u>	<u>2,583</u>
Cash	17,331	0	0	0	0	31,928	0
Fees within Pooled Vehicles	0	0	0	5,579	0	0	0
Interest	0	0	0	0	0	0	138
Currency	0	0	0	(70)	0	0	0
	<u>17,331</u>	<u>0</u>	<u>0</u>	<u>5,509</u>	<u>0</u>	<u>31,928</u>	<u>138</u>
Total 2013/14	<u>1,179,061</u>	<u>501,018</u>	<u>(505,043)</u>	<u>107,501</u>	<u>(78,815)</u>	<u>1,212,810</u>	<u>2,721</u>
2012/13	<u>1,083,854</u>	<u>54,629</u>	<u>(45,161)</u>	<u>8,854</u>	<u>101,259</u>	<u>1,179,061</u>	<u>2,397</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Market Value 2011/12	Purchases	Sales	Realised Gain (Loss)	Unrealised Gain (Loss)	Market Value 2012/13	Investment Income
	£000	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	170,075	0	(10,000)	2,382	12,691	175,148	0
UK Equities Passive	104,624	0	0	0	17,598	122,222	0
Overseas Equities Active	245,992	12,537	(4,857)	1,980	32,727	288,379	11
Overseas Equities Passive	88,152	0	0	0	15,066	103,218	0
Multi Strategy	118,080	123	0	0	2,177	120,380	0
Property	75,307	6,704	(5,358)	(2,816)	8,423	82,260	1,837
Infrastructure	23,414	5,086	(7,979)	2,510	876	23,907	250
Timber & Agriculture	14,686	4,761	(170)	0	1,234	20,511	0
Commodities	36,879	0	0	0	(2,291)	34,588	0
Private Equity	122,318	19,636	(15,461)	1,221	10,423	138,137	164
Opportunistic	0	5,782	0	0	128	5,910	11
Hedge Fund of Funds	47,321	0	(1,283)	228	804	47,070	0
Leveraged Loans	530	0	(53)	(1,880)	1,403	0	0
	<u>1,047,378</u>	<u>54,629</u>	<u>(45,161)</u>	<u>3,625</u>	<u>101,259</u>	<u>1,161,730</u>	<u>2,273</u>
Cash	36,476	0	0	0	0	17,331	0
Fees within Pooled Vehicles	0	0	0	5,300	0	0	0
Interest	0	0	0	0	0	0	124
Currency	0	0	0	(71)	0	0	0
	<u>36,476</u>	<u>0</u>	<u>0</u>	<u>5,229</u>	<u>0</u>	<u>17,331</u>	<u>124</u>
Total 2012/13	<u>1,083,854</u>	<u>54,629</u>	<u>(45,161)</u>	<u>8,854</u>	<u>101,259</u>	<u>1,179,061</u>	<u>2,397</u>
2011/12	<u>1,051,611</u>	<u>230,350</u>	<u>(152,119)</u>	<u>7,907</u>	<u>13,190</u>	<u>1,083,854</u>	<u>3,326</u>

5. MARKET VALUE OF INVESTMENTS (EXCLUDING CASH AND FUTURES)

The book cost of the investments as at 31st March 2014 is £1,047.423m (£949.455m in 2012/13). The market value of investments as at 31st March 2014 is £1,180.882m (£1,161.730m in 2012/13); this can be analysed as follows:

By Continent

The UK holdings as at 31st March 2014 account for 27% of total investments at market value :-

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	2014	2013
	£000	£000
UK	323,254	203,154
Europe	118,047	142,201
Asia Pacific	76,598	119,172
North America	88,272	116,680
Emerging/ Frontier markets	83,023	91,714
Global Investments	491,688	488,809
	<u>1,180,882</u>	<u>1,161,730</u>

By Fund Manager

	2014		2013	
	£000	%	£000	%
BlackRock	50,922	4	56,385	5
Wellington	106,314	9	117,468	10
Aberdeen	85,391	7	93,876	8
Insight	227,459	19	0	0
Pioneer	1,539	0	2,001	0
Liongate	22,377	2	21,358	2
SSARIS	24,477	2	23,711	2
Duet	49,954	4	48,826	4
BlueCrest	32,032	3	31,470	3
Investec	71,768	6	62,797	5
Stone Harbor	174,002	15	175,148	15
SSgA	0	0	225,440	19
Pyrford	32,533	3	32,525	3
Property	97,780	8	82,260	7
Infrastructure	29,636	3	23,907	2
Timber / Agriculture	22,382	2	20,511	2
Private Equity	139,799	12	138,137	12
Opportunistic	12,517	1	5,910	1
	<u>1,180,882</u>	<u>100</u>	<u>1,161,730</u>	<u>100</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

By Listed /Managed

	2014			2013		
	Listed Managed	Listed	Unlisted	Listed Managed	Listed	Unlisted
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	0	0	174,002	0	0	175,148
UK Equities	0	0	0	122,222	0	0
Overseas Equities	231,389	0	49,954	328,800	0	62,797
Multi Strategy	115,487	0	0	120,380	0	0
Property	31,738	0	66,042	29,107	0	53,153
Infrastructure	0	5,549	24,087	0	4,764	19,143
Timber / Agriculture	0	0	22,382	0	0	20,511
Commodities	0	0	32,084	0	0	34,588
Private Equity	0	2,809	136,990	0	3,446	134,691
Hedge Fund of Funds	22,377	0	26,016	21,358	0	25,712
Opportunistic	0	0	12,517	0	0	5,910
Liability Driven Investment	227,459	0	0	0	0	0
	628,450	8,358	544,074	621,867	8,210	531,653
			1,180,882			1,161,730

6. FAIR VALUE OF INVESTMENTS

Financial Instruments

Whilst the Fund invests almost exclusively through pooled vehicles, the managers of these vehicles invest in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings, unlisted equity products, commodity futures and other derivatives. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). It is effectively a trading activity to generate income rather than an investment. The Fund has no direct exposure to stock lending but the Fund's passive equity manager did use stock lending in its pooled vehicles to generate income as an offset to transaction costs.

Fair Value – Valuation Bases

Investments are shown in the accounts at fair value as at 31st March 2014 on the following bases.

- UK and overseas listed securities are valued within the respective pooled vehicles using the official bid prices quoted on the relevant stock exchange. Overseas holdings are converted to sterling at an exchange rate quoted at close of business on 31st March 2014.
- Unit trusts are valued at the bid market price.
- Other pooled vehicles are valued at the bid point of the latest process quoted by their respective managers or fund administrators at 31st March 2014. Where a bid price is not available the assets are priced at the net asset value provided.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

- Property funds are valued at the bid market price, which is based upon regular independent valuation of the pooled vehicles' underlying property holdings.
- Private equity holdings are interests in limited partnerships. It is important to recognise the highly subjective nature of determining the fair value of these investments. They are inherently based on forward looking estimates and judgments involving many factors. These holdings are valued based upon the Fund's share of the net assets of the partnership according to the latest financial statements published by the respective managers. Where these valuations are not at the Fund's balance sheet date, the valuations are adjusted having due regard to the latest dealings, asset values and other financial information available at the time of preparing these statements in order to reflect the Fund's balance sheet date. The managers' valuation statements are prepared in accordance with the European Private Equity and Venture Capital Association (EVCA) Guidelines, net of carried interest. These incorporate the US-based FAS157 protocol on valuation approaches –
 - Market – uses prices and other relevant data generated by market transactions involving identical or comparable assets/liabilities (e.g. money multiples)
 - Income – uses valuation techniques to convert expected future amounts to a single present amount (discounted cash flows or earnings)
 - Cost – based upon the amount that currently would be required to replace the service capacity of an asset (adjusted for obsolescence)

Managers are required “to use the method that is appropriate in the circumstances and for which sufficient data is used and to apply the approach consistently until no longer appropriate.” It is also possible to use multiple or combinations of approaches. Most private equity managers use a combination of the “market” and “income” approaches.

- Infrastructure investments are generally carried at the lower of cost and fair value, except where there are specific upward or downward valuations. In estimating fair value, managers use their judgment, having regard to the EVCA guidelines noted above for valuing unquoted investments. Upward valuations are considered only where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted regardless of the investment stage where the manager considers that there is impairment to the underlying investment.
- Timberland investments are carried at net asset value as determined by the General Partner. In most cases fair value is derived from the audited financial statements provided by underlying managers or vehicles. In circumstances where audited financial statements are not available to 31st March, the valuations are derived from unaudited quarterly reports from the underlying managers or vehicles. Where the timber investments are direct rather than through underlying managers, valuations are based upon regular independent valuation of these holdings.
- Commodity exposure is actively managed through the use of exchange traded and OTC derivative instruments (Futures, Options and Swaps) and some securities. Exchange traded derivatives are priced using a vendor file sent daily from Bloomberg with IDC as a second source. These prices are sourced directly from the derivative exchanges. Options receive the last trade price on the primary exchange. If an option does not trade, the bid price is utilized to value the option. Valuations for OTC options are sourced from brokers/dealers that are usually the counterparty to the deal. If the necessary inputs are available from vendors on a schedule that permits same day pricing, OTC options may be valued using a vendor- supplied option calculator, with the dealer price used to validate the model results. Residual cash is primarily invested in short-dated investment-grade, US dollar-denominated debt obligations.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

- Funds of hedge funds and multi-strategy hedge funds are valued monthly to create a net asset value on the basis of the Fund's proportionate share of the value of underlying pools on a manager by manager basis. Generally the fair value of the Fund's investment in a related pool represents the amount that the Fund could be reasonably expected to receive from the pool if the Fund's investment was redeemed at the date of valuation, based upon information reasonably available at the time that the valuation was made and that the fund believes to be reliable.
- GTAA funds invest for the most part in markets that are not exchange-based. These include OTC or "interdealer" markets and leverage is utilized by such funds to a significant level. If market prices are not available or do not reflect current market prices, the Fund applies its own pricing policies by reference to such relevant prices as are available to establish a fair value for the assets held.

Fair Value – Hierarchy

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and unit trusts. Listed investments are shown at bid price.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where those techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would be unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgment in determining appropriate assumption.

The following tables show the position of the Fund's assets at 31st March 2014 and 31st March 2013 based upon this hierarchy.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Market Value 2013/14	Level 1	Level 2	Level 3
	£000	£000	£000	£000
Fixed Interest Securities	174,002	17	173,985	0
Liability Driven Investment	227,459	227,459	0	0
Overseas Equities Active	281,343	280,147	1,196	0
Multi Strategy	115,487	47,377	68,110	0
Property (1)	97,780	0	31,738	66,042
Infrastructure (1)	29,636	5,549	0	24,087
Timber & Agriculture (1)	22,382	0	0	22,382
Commodities	32,084	15,432	16,652	0
Private Equity (2)	139,799	2,809	0	136,990
Hedge Fund of Funds	48,393	0	45,809	2,584
Opportunistic Funds (2)	12,517	0	0	12,517
	<u>1,180,882</u>	<u>578,790</u>	<u>337,490</u>	<u>264,602</u>
Cash	31,928	31,928	0	0
Total 2013/14	<u>1,212,810</u>	<u>610,718</u>	<u>337,490</u>	<u>264,602</u>

(1) Property/ Infrastructure /Timber and Agriculture - Various valuation bases are used. Direct fund holdings are valued based upon independent valuations, these have been classified as level 2, some funds also often hold joint venture and partnership interests that are subject to a variety of valuation methodologies. To be conservative, these funds have been classified Level 3 unless the fund itself is quoted.

(2) Private Equity and Opportunistic Funds - Various valuation bases are used including cost, quoted prices (often discounted for "lock-ups", transaction multiples, market multiples, future realisation proceeds, company prospects, third party opinion etc. Company and fund valuations often reflect combinations of these valuation bases. To be conservative, all funds have been classified Level 3 unless the fund itself is quoted.

Within the investments shown above as (1) or (2), whilst a small proportion are listed, the majority of the holdings are in unquoted investments; (£293.756m) compared to £262.515m in 2012/13. These are valued at a fair value by the fund managers, using an appropriate basis of valuation. The valuations are reliant upon a significant degree of judgment, and due to the subjectivity and variability of these valuations there is an increased likelihood that the valuations included in the financial statements would not be realised in the event of a sale. The difference could be materially lower or higher.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Market Value 2012/13 £000	Level 1 £000	Level 2 £000	Level 3 £000
Fixed Interest Securities	175,148	70	175,078	0
UK Equities Passive	122,222	121,366	856	0
Overseas Equities Active	288,379	281,460	420	6,499
Overseas Equities Passive	103,218	102,495	723	0
Multi Strategy	120,380	64,504	55,876	0
Property (1)	82,260	0	0	82,260
Infrastructure (1)	23,907	4,764	0	19,143
Timber Agriculture (1)	20,511	0	0	20,511
Commodities	34,588	14,496	20,092	0
Private Equity (2)	138,137	3,446	0	134,691
Hedge Fund of Funds	47,070	0	43,997	3,073
Opportunistic Funds (2)	5,910	0	0	5,910
	1,161,730	592,601	297,042	272,087
Cash	17,331	17,331	0	0
Total 2012/13	1,179,061	609,932	297,042	272,087

7. INVESTMENT RISKS

As demonstrated, the Fund maintains positions in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings and unlisted equity products. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Procedures for Managing Risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (amended) and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money. The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The Pension Fund annually reviews its Statement of Investment Principles (SIP) and corresponding Funding Strategy Statement (FSS), which set out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. The SIP and FSS can be found on the Fund's website (www.clwydpensionfund.org.uk).

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

The Fund carries out a formal review of its structure at least every 4 years, usually every 3 years. The last review was carried out in 2010 and implemented in April 2011. The next review is expected to be undertaken during 2014. The Fund's optimisation model, used to help determine the Fund's strategic benchmark, suggests that the asset mix so determined coupled with the requirements for certain fund managers to outperform their market indices should produce long-term returns of just over 9% with a volatility of around 10%. A key element in this review process is the consideration of risk and for many years now the Fund has pursued a policy of lowering risk by diversifying investments across asset classes, investment regions and fund managers. Furthermore, alternative assets are subject to their own diversification requirements and some examples are given below.

- private equity – by stage, geography and vintage where funds of funds are not used
- property – by type, risk profile, geography and vintage (on closed-ended funds)
- infrastructure – by type (primary/secondary), geography and vintage
- hedge funds – multi-strategy or funds of funds

In September 2013, the Fund appointed Insight to manage a Long Term Management of Risk mandate. The mandate was funded by disinvesting the Fund's developed passive equity holding managed by SSgA. The cash raised from the redemption is used, in part, as collateral to replicate the Fund's developed passive equity allocation using Equity Total Return Swaps (TRS), the remainder to provide the ability to implement a liability hedging mandate.

Once complete, the strategy will provide a framework to enable the Fund to effectively reduce risk when market conditions become more favourable (i.e. bonds become cheaper). The framework will include both market yield based triggers and funding level triggers. In particular, the manager will make use of Liability Driven Investment (LDI) techniques to increase the level of hedging within the Fund. This can be achieved through the physical purchase of gilts along with repurchase agreements (repo). These allow the fund to gain "unfunded" exposure to gilts.

Roll risk

The LDI manager has the facility to use repurchase agreements, once these agreements mature, they need to be replaced with other contracts to maintain the relevant exposure (known as "rolling" the contract). This involves managing the operational risks raised to ensure sufficient resources are in place to arrange the trades and manage the process. In addition, as a contract matures, the underlying market for repo may become illiquid and at the extreme, the manager may not be able to roll the position. This is mitigated by structuring the overall repo over a range of maturity dates and diversifying counterparty exposure.

Manager Risk

The Fund is also well diversified by manager with no single manager managing more than 19% of Fund assets. On appointment fund managers are delegated the power through an investment management agreement to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. An update, at least quarterly, is required from each manager and regular meetings are held with managers to discuss their mandates and their performance on them. There are slightly different arrangements for some of the alternative assets. On private equity, property, infrastructure and timber/agriculture, investment is fund rather than manager-specific, with specific funds selected by the in-house team after careful due diligence. These commitments tend to be smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As noted above, almost all the Fund's investment are through pooled vehicles and a number of these are involved in derivative trades of various sorts, including futures, swaps and options. Whilst the Fund is not a direct counterparty to such trades and so has no direct credit risk, clearly all derivative transactions incorporate a degree of risk and the value of the pooled vehicle, and hence the Fund's holding, could be impacted negatively by failure of one of the vehicle's counterparties.

However, part of the operational due diligence carried out on potential manager appointees concerns itself with the quality of that manager's risk processes around counterparties and seeks to establish assurance that these are such as to minimise exposure to credit risk. Once appointed, managers are required to provide copies of their annual internal control reports for review to ensure that the standards expected are maintained.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's minimum credit criteria.

Subject to cash flow requirements, cash can be deposited in one of the following:

- The Pension Fund bank account with the National Westminster Bank for daily liquidity
- A National Westminster deposit account with access up to 180 days notice
- A Money Market AAA Fund for unexpected liquidity requirements or higher rates of return.

The Fund believes it has managed its exposure to credit risk and has no experience of default or uncollectible deposits in the last three financial years. The Fund's cash holdings as at 31st March 2014 were £31.928m (£17.331m at 31st March 2013). This was held as follows:

		2014	2013
	Rating	£000	£000
Money Market Funds			
BlackRock	AAA	480	478
Bank of New York Mellon	AAA	928	979
Bank Deposit Accounts			
National Westminster Bank PLC	AA	30,500	15,850
Bank Current Accounts			
National Westminster Bank PLC	AA	20	24
		31,928	17,331

Within the Fund, the areas of focus in terms of credit risk are bonds and some of the alternative asset categories.

- The Fund's bond portfolio is managed on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2014, the Fund's exposure to non-investment grade paper was £66.2 million or 38.0% of the fixed interest portfolio (29.5% at 31st March 2013).
- On private equity and infrastructure the Fund's investments are almost entirely in the equity of the companies concerned.
- The Fund also has residual "side pocketed" holdings with one manager, which are currently illiquid. Details of this holding is set out as follows :-

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Book Cost	Market Value
	£000	£000
Hedge Fund of Funds - Pioneer	1,218	1,539
	1,218	1,539

Liquidity Risk

The Pension Fund has its own bank account. At its simplest, liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, especially pension payments to its members. At a strategic level the Administering Authority, together with its consulting actuary, reviews the position of the Fund triennially to ensure that all its obligations can be suitably covered. Ongoing cash flow planning in respect of contributions, benefit payments, investment income and capital calls/distributions is also essential and undertaken regularly by the Fund.

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities (including synthetic equity exposure) and bonds now comprise 56% of the Fund's total value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at worst – often weekly or fortnightly.

On alternative assets the position is more mixed. Whilst there are a couple of quoted vehicles here, most are subject to their own liquidity terms or, in the case of property, redemption rules. Closed-ended funds such as most private equity vehicles and some property and infrastructure funds are effectively illiquid for the specified fund period (usually 10 years), although they can be sold on the secondary market, usually at a discount.

The table below analyses the value of the Fund's investments at 31st March 2014 by liquidity profile.

	Market Value 2013/14	1 Month	2 - 3 Months	3 - 6 Months	6 - 12 Months	Closed - ended	Locked
	£000	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	174,002	174,002	0	0	0	0	0
Liability Driven Investment	227,459	227,459	0	0	0	0	0
Overseas Equities Active	281,343	276,431	4,912	0	0	0	0
Multi Strategy	115,487	115,487	0	0	0	0	0
Property	97,780	0	0	0	31,738	66,042	0
Infrastructure	29,636	5,549	0	0	0	24,087	0
Timber & Agriculture	22,382	0	0	0	0	22,382	0
Commodities	32,084	32,084	0	0	0	0	0
Private Equity	139,799	2,809	0	0	0	136,990	0
Hedge Fund of Funds	48,393	0	0	46,854	0	0	1,539
Opportunistic Funds	12,517	0	0	0	0	12,517	0
	1,180,882	833,821	4,912	46,854	31,738	262,018	1,539

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

It should be noted that different quoted investments are subject to different settlement rules but all payments/receipts are usually due within 7 days of the transaction (buy/sell) date. Because the Fund uses pooled vehicles for quoted investments these are often subject to daily, weekly, 2-weekly or monthly trading dates. All such investments have been designated "within 1 month" for the purposes of liquidity analysis. Open-ended property funds are subject to redemption rules set by their management boards. Many have quarterly redemptions but these can be held back in difficult markets so as not to force sales and disadvantage continuing investors. For liquidity analysis purposes, a conservative approach was applied and all such investments have been designated "within 6-12 months".

Closed-ended funds have been designated illiquid for the purposes of liquidity analysis. However, these closed-ended vehicles have a very different cash flow pattern to traditional investments since the monies committed are only drawn down as the underlying investments are made (usually over a period of 5 years) and distributions are returned as soon as underlying investments are exited (often as early as year 4).

In terms of cash flow, therefore, the net cash flow for such a vehicle usually only reaches a maximum of about 60-70% of the amount committed and cumulative distributions usually exceed cumulative draw downs well before the end of the specified period, as these vehicles regularly return 1½ to 2½ times the money invested. At the same time, it has been the Fund's practice to invest monies on a regular annual basis so the vintage year of active vehicles ranges from 1997 to 2013. This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual "10-year life", many are closer to maturity than implied by this broad designation.

As can be seen from the table, even using the conservative basis outlined above, around 71% of the portfolio is realisable within 1 month.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial institution will fluctuate because of changes in market price. The Fund is exposed to the risk of financial loss from a change in the value of its investments and the consequential danger that its assets will fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term.

Market risk is comprised of two elements –

- The risks associated with volatility in the performance of the asset class itself (beta);
- The risks associated with the ability of managers, where allowed, to move away from index weights and to generate alpha, thereby offsetting beta risk by exceeding market performance.

The following table sets out an analysis of the Fund's market risk positions at 31st March 2014 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark, the target set for managers against this benchmark and managers' maximum target volatility (or risk) against index in achieving this.

This target volatility is a measure of the maximum degree of dispersion of likely results compared with the selected benchmark.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Manager	Market Value 2013/14 £000	Benchmark	Target (Gross)	Risk (<) %
Fixed Interest Securities	Stone Harbor	174,002	FT All Stocks	+1.5%	4.0
Liability Driven Investment	Insight	227,459	Liability / FTSE	Match	
Foreign equities–active	Investec	71,768	MSCI AC World NDR	+3.5%	10.0
	Aberdeen	76,598	MSCI AC Asia/P ex Japan	+3.0%	12.0
	Aberdeen	8,793	MSCI Frontier Markets	+3.0%	12.0
	Wellington	74,230	MSCI EM Free	+2.5%	8.0
	Duet	49,954	Absolute	+8-10%	3.0
Multistrategy funds	BlackRock	50,922	7 day LIBID	+15.0%	20.0
	BlueCrest	32,032	Absolute	+10-15%	6.0
	Pyrford	32,533	RPI	+5.0%	8.0
Hedge fund of funds	Liongate	22,377	Absolute	+8-10%	6.0
	SSARIS	24,477	Absolute	+8-10%	5.0
	Pioneer	1,539	Absolute	+8-10%	4.0
Commodity fund	Wellington	32,084	GCSI Equally Weighted	+1.5%	4.0
Property funds	Various	97,780	IPD Balanced PUTs	Exceed	
Infrastructure funds	Various	29,636	Absolute	+15.0%	
Timber /Agricultural funds	Various	22,382	Absolute	+15.0%	
Private equity funds	Various	139,799	Absolute	+15.0%	
Opportunistic funds	Various	12,517	Absolute	+15.0%	
		1,180,882			

The risks associated with volatility in market values are mainly managed through a policy of broad asset diversification. The Fund sets restrictions on the type of investment it can hold through investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). The Fund also adopts a specific strategic benchmark (details are in the Fund's SIP) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions, there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund's asset allocation model, is designed to diversify and minimise risk for a specific level of performance through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. The current strategic benchmark is targeted to produce long-term returns of just over 9% with a volatility of around 10%.

Market risk is also managed through manager diversification – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects. On property and private equity, fund and manager diversification is vital and, whilst a full list of investments is not detailed here, the Fund has exposures as follows:

	Market Value 2014 £000	Managers No.	Funds No.	Properties / Companies Estimated No.
Real Assets	149,797	21	36	>280
Private Equity / Opportunistic	152,916	19	61	>4,000

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Other Price Risk

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

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the fund's investment strategy.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's performance measurer, WM Company, the fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset Type	Potential Market Movements (+ / -)
Global Equity inc UK	7.97%
UK Equity	12.25%
Oveseas Equity	12.30%
Global Fixed Income	5.34%
Alternatives	2.93%
Property	3.71%
Cash	0.02%

The sensitivities are consistent with the assumptions provided by WM Company based on historic data collated for the Fund. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Had the market price of the Fund's investments increased / decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (prior year comparator also provided).

Asset Type	Market Value 2013/14	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	31,928	0.02	31,934	31,922
Investment portfolio assets:-				
Global Equity inc UK	121,722	7.97	131,423	112,021
UK Equity	0	12.25	0	0
Overseas Equity	159,621	12.30	179,254	139,988
Global Fixed Income	174,002	5.34	183,294	164,710
Alternatives	627,757	2.93	646,150	609,364
Property	97,780	3.71	101,408	94,152
	<u>1,212,810</u>		<u>1,273,463</u>	<u>1,152,157</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Asset Type	Market Value	Percentage Change	Value on Increase	Value on Decrease
	2012/13	%	£000	£000
Cash and cash equivalents	17,331	0.0	17,331	17,331
Investment portfolio assets:-				
Global Equity inc UK	111,623	11.8	124,795	98,451
UK Equity	122,222	14.2	139,578	104,866
Overseas Equity	279,974	12.7	315,531	244,217
Global Fixed Income	175,148	4.9	183,730	166,566
Alternatives	390,503	3.3	403,390	377,616
Property	82,260	3.7	85,304	79,216
	<u>1,179,061</u>		<u>1,269,659</u>	<u>1,088,263</u>

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund recognises that interest rates can vary and affect both the income to the fund and the net assets available to pay benefits. The Fund's Fixed Income manager has advised that they have revised their expectation from a small change of 50 basis points (bps) to 75 bps from one year to the next. As the fund does not use Fixed Income securities to provide income, the following sensitivity analysis only refers to cash and cash balances.

Asset Type	Carrying Value	Change in year in net assets available to pay benefits	
	2013/14	+75BPS	-75BPS
	£000	£000	£000
Cash and cash equivalents	1,408	11	(11)
Cash balances	30,520	229	(229)
	<u>31,928</u>	<u>240</u>	<u>(240)</u>

Asset Type	Carrying Value	Change in year in net assets available to pay benefits	
	2012/13	+50BPS	-50BPS
	£000	£000	£000
Cash and cash equivalents	1,457	7	(7)
Cash balances	15,874	79	(79)
	<u>17,331</u>	<u>86</u>	<u>(86)</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any other currency other than the functional currency of the Fund (GBP). The Fund holds assets denominated in currencies other than GBP.

The following table summarises the Fund's currency exposure as at 31st March 2014 and as at the previous year end:

Currency Exposure - Asset Type	Market Value 2013/14	Market Value 2012/13
	£000	£000
Global Fixed Income	174,002	175,148
Overseas Equities Active	281,343	288,379
Overseas Equities Passive	0	103,218
Multi Strategy	115,487	120,380
Commodities	32,084	34,588
Hedge Funds	48,393	47,070
Property	38,374	39,755
Infrastructure	15,600	11,521
Timber / Agriculture	22,382	20,511
Opportunistic	12,517	5,910
Private Equity	117,446	112,096
	857,628	958,576

Following analysis of the historical data in consultation with the fund's Performance Measurers, WM Company, and analysis of the exposures to foreign currency for the year to 31st March 2014, it was considered that the likely volatility associated with foreign exchange rate movements to be 5.06%. For the period to 31st March 2013, this was calculated to be 5.1%.

This analysis assumes that all other variables, in particular interest rates, remain constant. These individual year percentages strengthening / weakening against the various currencies in which the fund hold investments would increase / decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Market Value 2013/14	Percentage Change %	Value on Increase £000	Value on Decrease £000
Global Fixed Income	174,002	5.06	182,801	165,203
Overseas Equity - Active	281,343	5.06	295,571	267,115
Overseas Equity - Passive	0	5.06	0	0
Multistrategy	115,487	5.06	121,327	109,647
Hedge Funds of Funds	48,393	5.06	50,840	45,946
Commodities	32,084	5.06	33,707	30,461
Timber & Agriculture	22,382	5.06	23,514	21,250
Infrastructure	15,600	5.06	16,389	14,811
Property	38,374	5.06	40,315	36,433
Opportunistic	12,517	5.06	13,150	11,884
Private Equity	117,446	5.06	123,385	111,507
	857,628		900,999	814,257

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Currency Exposure - Asset Type	Market Value	Percentage Change	Value on Increase	Value on Decrease
	2012/13	%	£000	£000
Global Fixed Income	175,148	5.1	184,073	166,223
Overseas Equity - Active	288,379	5.1	303,074	273,684
Overseas Equity - Passive	103,218	5.1	108,478	97,958
Multistrategy	120,380	5.1	126,514	114,246
Hedge Funds of Funds	47,070	5.1	49,469	44,671
Commodities	34,588	5.1	36,351	32,825
Timber	20,511	5.1	21,556	19,466
Infrastructure	11,521	5.1	12,108	10,934
Property	39,755	5.1	41,781	37,729
Opportunistic	5,910	5.1	6,211	5,609
Private Equity	112,096	5.1	117,808	106,384
	<u>958,576</u>		<u>1,007,423</u>	<u>909,729</u>

8. OTHER INVESTMENTS

	2014		2013	
	£000	£000	£000	£000
Other Investment Assets :				
Sale of Investments / Income accrual	<u>0</u>		<u>874</u>	
		0		874
Other Investment Liabilities :				
Purchases of investments	<u>0</u>		<u>0</u>	
		0		0
Other Investment Balances		<u>0</u>		<u>874</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

9. DEBTORS/CREDITORS

	2014		2013	
	£000	£000	£000	£000
Current Assets :				
Contributions due - Employees	1,160		1,099	
Contributions due - Employers	2,276		2,105	
Added years	26		52	
H.M. Revenue and Customs	41		54	
Pension strain	1,063		251	
Administering authority	2		210	
Miscellaneous	177		74	
	<u> </u>	4,745	<u> </u>	3,845
Less Current Liabilities :				
Lump sums	(2,782)		(1,774)	
Death grants	(531)		(131)	
Administering authority	(236)		(303)	
Added years	(81)		(55)	
Miscellaneous	(358)		(285)	
	<u> </u>	(3,988)	<u> </u>	(2,548)
Net Current Assets		<u> </u> 757		<u> </u> 1,297

Analysis of debtors

	2014	2013
	£000	£000
Central Government Bodies	41	54
Other Local Authorities	4,174	3,468
Other Entities and Individuals	530	323
	<u> </u> 4,745	<u> </u> 3,845

Analysis of creditors

	2014	2013
	£000	£000
Other Local Authorities	(298)	(331)
Other Entities and Individuals	(3,690)	(2,217)
	<u> </u> (3,988)	<u> </u> (2,548)

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

10. POST BALANCE SHEET EVENT

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2014. Since this date, the performance of the global equity markets may affect the financial value of pension fund investments. This movement does not affect the ability of the Fund to pay its pensioners.

Changes have been agreed to the Local Government Pension Scheme which will take effect from 1st April 2014. These changes will not impact the Statement of Accounts for 2013/14. A Clwyd Pension Fund Committee has now replaced the Clwyd Pension Fund Panel.

11. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

A market value or an estimate thereof has not been included for the money purchase AVC investments. These assets are specifically allocated to the provision of additional benefits for particular members. The Clwyd Pension Fund has the services of two AVC providers (Prudential and Equitable Life) for members' additional benefits with the funds being invested in a range of investment products including fixed interest, equity, cash, deposit, property and socially responsible funds, as follows :-

Contributions paid	£	885,208
Units purchased	No.	158,984
Units sold	No.	63,801
Market value as at 31st March 2014	£	4,766,107
Market value as at 31st March 2013	£	4,404,457

12. RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2014, two Members of the Pension Panel have taken this option. The Members of the Pension Fund Panel do not receive any fees in relation to their specific responsibilities as members of the Panel.

Key Management Personnel

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund. Kerry Feather, the Head of Finance (Treasurer and Administrator to the Clwyd Pension Fund) has been identified as holding a key position in the financial management of the fund.

Flintshire County Council

In the course of fulfilling its role as administering authority to the Fund, Flintshire County Council provided services to the Fund for which it charged £1,023k (£791k in 2012/13).

These costs are in respect of those staff employed in ensuring the pension service is delivered, and other costs such as payroll and information technology. The costs are included in the accounts within administration expenses (see note 2). At the year end, a net balance of £234k was owing to Flintshire in relation to creditors payments made on behalf of the fund and support service costs which were not available as at 31st March 2014 (£93k in 2012/13).

13. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2014, the Fund has contractual commitments of £542.0m (£458.4m in 2012/13) in private equity and property funds, of which £371.8m (£323.4m in 2012/13) has been invested, leaving an outstanding commitment of £170.2m (£135.0m in 2012/13).

14. TRANSACTION COSTS

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. They can be added to purchase costs or netted against sales proceeds, as appropriate. These costs cannot be directly identified as the Clwyd Pension Fund is wholly invested in pooled vehicles.

15. ACTUARIAL VALUATION & VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSE OF IAS 26 (Provided by the Fund’s Actuary)

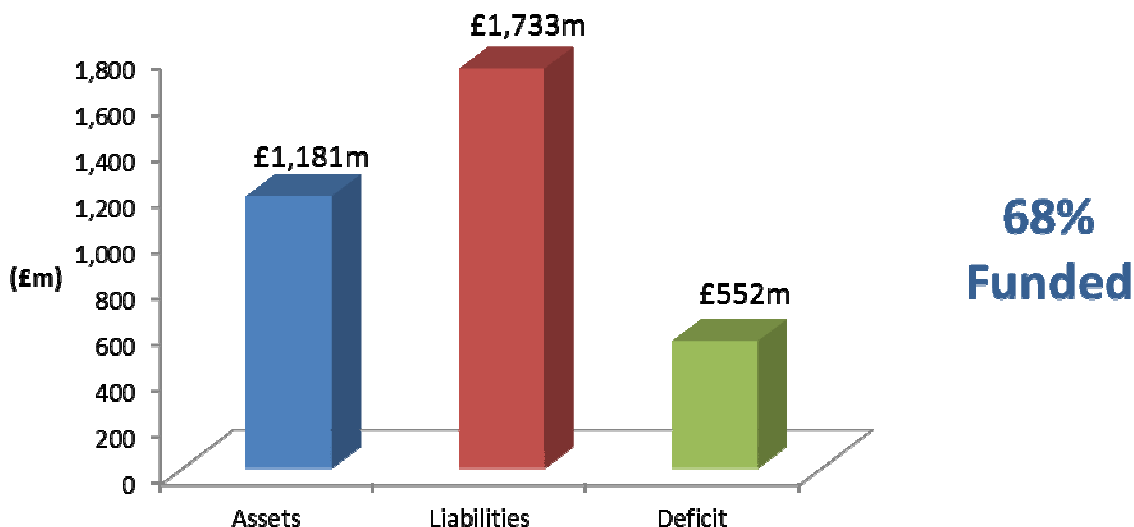
CLWYD PENSION FUND

Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary

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

An actuarial valuation of the Clwyd Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund’s assets of £1,181 million represented 68% of the Fund’s past service liabilities of £1,733 million (the “Funding Target”) at the valuation date. The deficit at the valuation date was therefore £552 million.



The valuation also showed that a common rate of contribution of 13.8% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 73% with a resulting deficit of £449 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £27.4m per annum increasing at 4.1% per annum (equivalent to approximately 11.8% of projected Pensionable Pay at the valuation date) for 18 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

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

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.6% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £1,901 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£101 million. Adding interest over the year increases the liabilities by c£80 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£10 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£88 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £1,802 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2014

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **5th NOVEMBER 2014**

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

SUBJECT: **LGPS CURRENT ISSUES UPDATE**

1.00 PURPOSE OF REPORT

1.01 The purpose of this report is to ensure that the Members of the Committee as far as possible remain aware of the National and Local issues facing the management and operation of the Local Government Pension Scheme.

2.00 BACKGROUND

2.01 Mercer's regular "current issues" documents focus on the Regulations and other matters form the background of this report for the Committee meeting.

2.02 Any items that the Fund Actuary, a Pension Fund officer, or a member of the Advisory Panel believe is of key significance will be highlighted in section 3 of this report.

3.00 CONSIDERATIONS

3.01 Given this is the second meeting of the Clwyd Pension Fund Committee in its new form following the changes to the Council Constitution in May, we suggest that all Members familiarise themselves with all the current issues listed.

3.02 Key items for the Fund are:

- an update on the Trivial Commutation changes which will be factored into the administration process
- the Government's response to the 2014 Budget consultation and potential impact on transfers
- an update on the Governance changes, including consultations on updated draft regulations and Shadow Board guidance (the statutory consultation also includes proposals on Cost Management process for future service benefits)
- work being done by the Deficit Management Working Group and PwC and how this would interact with the Flightpath and risk management frameworks.
- an update on the Shadow Board work on ill-health benefits
- the new Fair Deal Working Group that has been established which could affect future staff outsourcings.

3.03 The Fund Actuary, Advisory Panel members and pension fund officers will be present to answer any questions that Members may have.

3.04 Some of the resultant actions for the Fund will be noted in other reports.

4.00 RECOMMENDATIONS

4.01 That Committee Members note the report.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 LGPS Current Issues

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Attached document from Mercer

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

LGPS: CURRENT ISSUES

OCTOBER 2014
A BRIEF UPDATE

2014 BUDGET - TRIVIAL COMMUTATION UPDATE

As reported in our previous notes, the 2014 Budget included significant changes for Defined Contributions (DC) schemes and other changes which affect the LGPS. On 14 October 2014 the Government presented to Parliament its formal Bill on the reforms.

Previously we reported that the Bill goes further than the changes on the Budget and increased the limit on which spouses pensions in payment can be commuted, without reference to benefits in other schemes. The increase in limit from £18,000 to £30,000 has materially increased the scope for Funds to extinguish small pensions without the need to collate details of a member's benefits elsewhere. Noting some LGPS regulatory restrictions, we welcome this widening of the scope, enabling Funds to extinguish small pensions, benefitting them in an operational and financial sense.

The Chancellor announced on 29 September that "People with defined contribution pension savings will no longer have to worry about their pension savings being taxed at 55% on death" and this gained much press coverage. The main changes will only affect members who die with unused Defined Contribution benefits in schemes that allow drawdown, and the effect on members with defined benefits

IN THIS ISSUE

- > Budget 2014 update: trivial commutation, response to the consultation, transfer safeguards, and is it time to review your AVC arrangements?
- > Pension Fund Policy Review
- > Governance Update - Statutory and Shadow Board Consultation and Scheme Manager / Local Authority Separation
- > Data Quality Requirements and TPR's Code of Practice
- > Cost Management and the Shadow Board's work on deficit and risk management and ill-health benefits
- > Software/Systems Update
- > HMRC Individual Protection Applications
- > New Fair Deal Working Group

LOCAL GOVERNMENT PENSION SCHEME

CURRENT ISSUES - OCTOBER 2014

It has been a very busy period for LGPS pension funds. After the implementation of the new scheme on 1 April 2014, there remains no let up not least due to the implications of the Spring Budget, the new Governance requirements and further work being done at a national level (including Deficit and Risk Management).

(such as the LGPS) will be marginal. There are a few minor changes such as where a member dies and a DB lump sum is payable (e.g. the balance of the pension guarantee), then their beneficiaries would still receive their payments tax-free as long as the member has enough available lifetime allowance. The Chancellor's announcement does not include the finer details but the Autumn Statement is expected on 3 December, and more details may emerge then.

2014 BUDGET - RESPONSE

The Government published its response to the 2014 Budget consultation. Key highlights were:

- Transfers from private & funded public sector DB schemes (including the LGPS) to continue
- Ban on transfers from unfunded public sector DB schemes to DC schemes.
- Minimum pension age to access benefits will increase from 55 to 57 from 2028 for most schemes.
- IFA advice will be mandatory for transfers from DB schemes (except for those below £30,000).
- Further consultation on allowing DB members to use the flexibilities directly.
- Flexibilities could be extended to AVCs within DB schemes if the regulations/rules allow it.

2014 BUDGET - ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Budget also has potential implications for AVCs (which are a DC benefit) if members are

allowed to take them entirely as a part taxable lump sum. We understand that consideration is currently being given as to how LGPS AVCs will operate after the Budget changes. Whilst AVCs are primarily member related contributions, the fiduciary duty to members rests with the Administering Authority. This is in addition to the TPR's recently issued 31 "Quality Features" which it expects to be embedded in all DC/AVC schemes.

This can be considered if we revisit the AVC arrangements currently offered to members and review them once clarity on the treatment is forthcoming.

2014 BUDGET - TRANSFER SAFEGUARDS

In light of the Government's decision allowing transfers from DB funded pension schemes (such as the LGPS) to DC schemes, there is caution about the risks this could pose to funding levels and/or cashflow. Treasury is keen to learn more about this and DCLG have requested information if 5%, 10% or 20% of over 55 non-pensioners took a DC transfer. This opens up a number of considerations (including the possible reduction of transfer payments where funding deficits exist) and so the further consultation has the potential to be a critical one.

PENSION FUND POLICY REVIEW

The new scheme Regulations make a number of variations to certain clauses (eg cessation of an

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - OCTOBER 2014

More locally, current issues that need to be factored into Fund's business plans are the adoption of the new Governance requirements, the review of existing practices and policies (in light of the new scheme), systems updates, and the increasing focus on data quality and reconciliation.

employer's participation) where Fund Policies underpin the application adopted. In order to assist with the future management of the Fund, we are recommending to all Funds that they add the task of reviewing and updating all policies (or developing them where absent) to their business plans.

GOVERNANCE UPDATE

The DCLG issued its response to the Governance consultation by actually carry out a further consultation on a new set of draft regulations.

A number of changes have been made since the previous set of proposals, and these include:

- establishment and procedures of the Local Pension Board (LPB) to be determined locally
- Elected members are now permitted to become members of the LPB, subject certain exclusions
- Removal of requirement for representative members (employer or member representatives) to form the majority of the LPB
- responsibility of the Scheme Advisory Board (SAB) extended to include "connected schemes"
- all members of the SAB (at least 2 up to a maximum of 12), and the Chairman, are to be appointed by the Secretary of State (having regard to the desirability of equal representation of employers and members).
- the Chairman may, with agreement of SAB, appoint a maximum of 3 non-voting advisory members to the SAB.

In addition, the Shadow Board, via its Governance and Standards sub-Committee, have been working with Eversheds developing detailed guidance concerning the establishment and operation of LPBs. This is being consulted upon alongside the Statutory Consultation, and both have deadlines for response of 21st Nov.

Have you reviewed your pension fund policies in light of the new Regulations?

Have you considered how the new Governance proposals impact on your local structures?

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - OCTOBER 2014

We are recommending that Funds consider their position and respond to both consultations accordingly.

As mentioned previously, the Board is continuing to look at the merits of greater separation between the Fund and Local Authority, and we expect more will develop on this in 2015.

DATA QUALITY

As mentioned previously, data quality has long been a focus of TPR and the draft Code of Practice for public sector pensions lead us to conclude that this will equally apply to the LGPS going forward. To re-emphasise that it is now appropriate to develop the requirements for improving data quality as part of the Pensions Administration Strategy. A further critical aspect of this includes the efficiency of employer-fund payroll channels of communication in the context of auto/contractual-enrolment.

TPR's DRAFT CODE OF PRACTICE CONSULTATION

TPR has issued an interim report providing details of what views were put forward when responding to the consultation covering the strategy and code that dealt with governing the scheme, managing risk, administration (including information to be provided to members) and resolving issues. Current expectations are that we'll hear more from TPR toward the end of the

year. This could have an impact on the governance guidance produced by the Shadow Scheme Advisory Board as mentioned above.

DEFICIT MANAGEMENT

The Shadow Board's Deficit Management working group has commissioned a project with PwC to consider best practice on how LGPS deficits can be managed including consideration of how information should be provided on a consistent basis for benchmarking purposes across Funds. All actuarial firms advising LGPS have input into the process as best they can.

The key outputs from the exercise are expected to be:

- development of a consistent set of parameters to measure funding positions
- development of certain risk metrics around deficit funding plans, investment risk and governance risk
- development of guidance on managing employer risk and enhancing security
- development of guidance on setting contribution plans.

Ultimately there could be some level of interventions on Funds perceived as "high risk" which makes the development of sensible metrics crucial to the operation of the LGPS.

Whilst we welcome some of the developments in this area, some of the areas are already well

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - OCTOBER 2014

developed in terms of policies and approaches for LGPS Funds. Care needs to be taken that all aspects of good risk management are reasonably recognised and the outcomes are not simply focussed on just the measurement of deficits/league tables. Instead, the focus needs to be on management via the Fund developing a robust long term plan with clear objectives to manage risk and reduce deficits in a sensible way for the employers. This could have implications for any risk management framework that is in place or might be introduced in the future.

COST MANAGEMENT

In addition to Governance, the DCLG Statutory Consultation also covers the Government's Cost Management proposals. These develop a backstop protection to the taxpayer to ensure that some of the risks associated with pension provision are shared more fairly between employers and scheme members. The draft regulations establish a requirement for the Secretary of State to appoint a Scheme Actuary (anticipated to be the GAD) to carry out actuarial valuations and apply two different mechanisms. Whilst slightly different, these mechanisms have been designed to ensure some sharing of changes in future service cost between members and employers with a view to assisting with the sustainability of the scheme and fairness to taxpayers. The two mechanisms are:

1. Treasury employer cost cap process – monitors the value of benefits in the new Scheme over time, based on “model fund” data and Treasury Directions.
2. Internal cost management process – sets an overall future service target cost of 19.5%, with scheme members meeting a third of this cost.

SHADOW BOARD – ILL HEALTH BENEFITS

The Administration & Communications sub-Committee of the Shadow Board have been carrying out a review of the LGPS ill health benefits as a “phase 2” project of the scheme reforms. A number of options around the structure of the benefits and qualification criteria have been identified and the Secretariat is currently liaising with DCLG in order to obtain costings from GAD.

SOFTWARE/SYSTEMS UPDATE

We are working with the other actuarial firms (including the GAD) and Heywood, via the CLASS group, to update and develop standard valuation extracts and reporting templates. When available, these will increase efficiency in accessing data for performing actuarial calculations and "model fund" extracts.

INDIVIDUAL PROTECTION (IP14) APPLICATIONS

Registration for Individual Protection 2014 is now open – the online form can be accessed from HMRC’s website as highlighted in our recent NewsAlert. HMRC have restricted this process to online applications only. This should be communicated to all Fund employers, so that they can inform those potentially impacted. It is worth noting that although individuals have until 5 April 2017 to apply for IP14, they will need to collate details of all of the UK registered pension benefits that they have built up as at 5 April 2014.

NEW FAIR DEAL WORKING GROUP

DCLG have formed a working group, made up of the LGA, Trade Unions and practitioners, to consider how the principles of new Fair Deal might apply for the LGPS – in the spirit as it applies to the other public sector schemes i.e. participation in the LGPS would be mandated with the broadly comparable option being removed. Re-tendering issues and transitional arrangements will also need to be covered. Whilst new arrangements are unlikely to be in place before the end of 2014, we expect DCLG will make progress on this within the next six months. In the meantime, the existing pension protections will continue to apply for local government contracts.

For some Funds we are seeing an increase in these as LAs transition from providers to commissioners of services. Funds may wish to consider holding training sessions for commercial contract managers at the LAs, in order to ensure the outsourcing processes run smoothly.

CONTACTS

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

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



FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**
DATE: **5TH NOVEMBER 2014**
REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**
SUBJECT: **PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE**

1.00 PURPOSE OF REPORT

1.01 The purpose of this report is to enable the Committee to monitor the performance of the pension administration service including providing updates on:

- Progress of administration and communication matters against the Service Plan for 2014/15,
- Progress against the Fund's Communications Policy,
- Delegated functions

The report also highlights any additional unplanned or unexpected areas, as well as any other material administration or communication matters.

2.00 UPDATE AGAINST SERVICE PLAN

2.01 In this section we provide an update against the Fund's annual Service Plan split into two key areas:

- Part 1 – Projects and Improvements
- Part 2 – Performance measurements against day to day tasks

Part 1 – Projects and Improvements

2.02 Appendix 1 provides a dashboard of progress against the one-off projects and improvements planned for 2014/15, as well as "business as usual" project based tasks. Further explanation on some of these matters is included below, with a cross reference to Appendix 1 shown in brackets.

New CARE Scheme Implementation (1)

2.03 The new CARE scheme has been in place since 1st April 2014, manual intervention is still required in particular areas and the administration team have ensured that any impact on employers and members is kept to a minimum. Further there are a number of matters that will only be clarified when amendment regulations are made. It is expected a software update in December 2014 will assist in removing some of the ongoing issues. Work is ongoing in relation to website maintenance and updating the discretions policy. Otherwise all communication material and internal processes have, as far as they can be, now been updated in relation to the new scheme.

Reduce Backlog of Tasks (2)

- 2.04 An activity in the Service Plan is to improve historic membership data by removing a backlog of tasks that accumulated over a number of years. This project is expected to continue into 2015/16. The original number of backlog cases was 2961. The number of cases has reduced from 1738 to 1646 over the last quarter. Management have been monitoring the progress and unfortunately due to the staff turnover and the additional work relating to the implementation of LGPS 2014 current workloads have needed to take priority.
- 2.05 Whilst the budget for additional resource has been approved until May 2015, we are still going through the recruitment process. Officers are currently looking at additional options for assistance to reduce the backlog and, as part of this, will review the scope and timeframe of the project.

Pensions Administration Strategy (PAS) (3)

- 2.06 The development of a PAS is part of the Fund's improvement plan. This will include local service standards for the administration section and employers. As part of this project the team has reviewed all tasks within the section and these are currently being implemented.
- 2.07 Due to the focus on other connected projects (including the backlog) and the impending long term absence of a Senior Staff Member, the PAS will be deferred until early 2015/16.

Disaster Recovery – Pension Software Systems (4)

- 2.08 The testing of Disaster Recovery of the software system is an important element of our Information and Computer Technology (ICT) business continuity plan. ICT are meeting with Heywoods (the pension software provider) to work on a solution before the end of October. Pension Officers will then be working with ICT to complete the testing within quarter three.

Data Quality (5)

- 2.09 Data cleansing and data mismatching has been worked on with Denbighshire County Council (DCC) and further work to have iConnect implemented with DCC in quarter four of 2014/15 and quarter one of 2015/16 is progressing well. The rolling out of iConnect has been deferred for other employers until the backlog of tasks has been removed.

Review of Processes

- 2.10 The administration team has commenced an additional project to review the processes on their pension administration system. This will result in:
- Greater capacity to monitor and report on turnaround times including whether the team and employers are meeting agreed service standards and to identify any particular issues or delays.
 - Greater levels of efficiency in the day to day processes carried out by the administration team.

It is hoped that the initial reprogramming will be completed by Christmas with full integration of the new processes in quarter 4.

Part 2 – Performance measurements against day to day tasks

Workflow

- 2.11 Despite the manual intervention as reported in 2.03, the workflow is being managed by the operational team. The table below shows the number of cases completed during this and last financial year, split by quarter.

	Q1 2013	Q2	Q3	Q4	Q1 2014	Q2
Retirements	155	196	218	200	201	224
Deaths	98	115	77	104	82	75
Transfers In	40	3	65	34	22	44
Transfers Out	20	11	7	15	20	17
Estimates	76	97	72	219	76	175
Deferred	101	449	602	431	394	266

Performance targets are being developed alongside service standards as mentioned in the last committee paper and will be reported to Committee at a later date. The current workloads are being prioritised by payments to ensure a quick as possible turnaround for retirements and death benefits. However, due to the implementation of the new scheme along with manual intervention and the sheer numbers/changes that are taking place current outstanding workload is higher and other tasks are taking longer than ideal to process.

The latest membership figures for the last six quarters are:

Status	Q1 2013	Q2	Q3	Q4	Q1 2014	Q2
Active (full LGPS)	15,045	15,572	15,687	16,079	15,726	15,550
Active (50:50 LGPS)	N/A	N/A	N/A	N/A	12	10
Undecided Leaver	3,404	3,292	3,215	3,173	3,065	3,465
Deferred	7,648	8,062	8,225	8,299	8,600	8,768
Pensioner	8,471	8,558	8,679	8,784	8,930	9,048
Spouse/Dependants	1,526	1,540	1,546	1,559	1,557	1,575
Frozen	880	876	873	834	821	813
Opt Outs*	62	143	409	501	529	585
Total	37,036	38,043	38,634	39,229	39,240	39,814

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

It is pleasing to note that the numbers of members joining the 50:50 scheme remain low but the number of opt outs has increased.

There are no matters to report on the Councillors scheme other than the Annual Benefit Statements have been issued. The membership numbers are shown below:

Status	As at 30 September 2014
Active	54
Undecided Leaver	2
Deferred	7
Pensioner & Spouse/Dependants	24
Total	87

Internal Dispute Resolution Procedures

2.12 There are currently two disputes at Stage 1 (three last quarter) and one dispute at Stage 2 (zero last quarter). Since last quarter:

- One Stage 1 case has been rejected relating to the Administering Authority abating pension (the scheme member has now gone to stage 2).
- One Stage 1 case upheld against an Employer for non-compliance with redundancy regulations.
- One Stage 1 case outstanding against an Employer for an ill health dispute.
- Two new Stage 1 cases against an employer for an ill health dispute.
- One new Stage 2 case against the Administration Authority for abating a compensatory added years' pension as the member became re-employed.

3.00 DELIVERY OF COMMUNICATIONS POLICY

3.01 The Communication Officer has provided the following services during quarter two:

- One pre-retirement seminar (34 participants)

3.02 In addition to day to day communications, the following communications were distributed during quarter two:

- Active Annual Benefit Statements were issued in September 2014 ahead of the statutory deadline.

3.03 Further, as part of a review of our communications, the following have been redesigned and updated:

- Pre-retirement presentation course updated
- New Starter forms booklet
- Annual Report
- Factsheets
- Employer Disclaimer form for refunds

4.00 UPDATE ON DELEGATED FUNCTIONS

4.01 A bulk transfer of staff from Clwyd Pension Fund to Gwynedd Pension Fund to the value of £3.44 million is due to take place. 17 members of the Clwyd Pension Fund will transfer.

4.02 We are expecting a bulk transfer from the three local unitaries covering around 10 members of staff who are transferring to a Single Fraud Investigation Service, which will come under the Principal Civil Service Scheme. It is likely a single transfer basis will be agreed on a national basis.

5.00 OTHER MATTERS

5.01 Nothing to report at this stage

6.00 RECOMMENDATIONS

6.01 That Committee Members note the report

7.00 FINANCIAL IMPLICATIONS

7.01 None directly as a result of this report

8.00 ANTIPOVERTY IMPACT

8.01 None directly as a result of this report

9.00 ENVIRONMENTAL IMPACT

9.01 None directly as a result of this report

10.00 EQUALITIES IMPACT

10.01 None directly as a result of this report

11.00 PERSONNEL IMPLICATIONS

11.01 None directly as a result of this report

12.00 CONSULTATION REQUIRED

12.01 None directly as a result of this report

13.00 CONSULTATION UNDERTAKEN

13.01 None directly as a result of this report

14.00 APPENDICES

14.01 Service Plan (extract regarding Pensions Administration)

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: 22nd July 2014 Pension Fund Committee – Working Practices

22nd July 2014 Pension Fund Committee – Clwyd Pension Fund Service Plan 2014/15

Contact Officer: Helen Burnham, Pensions Administration Manager

Tel: 01352 702872

Fax: 01352 702836

e-mail: helen.burnham@flintshire.gov.uk

PENSION FUND SERVICE PLAN 2014-15:
EXTRACT OF PROJECTS AND IMPROVEMENT ADMINISTRATION TASKS

Key:

** - Project based action

* - Regular ongoing action

Bold indicates a change from the original plan

Progress (in relation to planned period):



Complete



On track or ahead of schedule



Commenced but behind schedule



Not commenced

Page 147

Note	Key Action -Task	Frequency	New Actions required (start/end)	Progress			
				Q1	Q2	Q3	Q4
	GOVERNANCE						
3	Update Statutory Documents – Pensions Administration Strategy	Yearly	Defer to Q 1 2015/16				
	Staffing – Pensions Administration	Project	Transfer temporary contracts to full time (Q1/2)	*	*		
	CIPFA Benchmarking – Pensions Admin.	Annual		*	*		
	PENSIONS ADMINISTRATION						
	Develop Performance measurement and reports	Project	Processes have been reviewed and the system is being updated (Q3). Monitoring and reporting of performance to be in Q1 2015/16	*	*	**	
	<u>Operational</u>						
1	New CARE scheme Implementation	Project	Adapt procedures for new scheme (Q1/2) Continue to train staff on new scheme (Q1/2)	**	**		

Note	Key Action -Task	Frequency	New Actions required (start/end)	Progress			
				Q1	Q2	Q3	Q4
2	Reduce Backlog of tasks	Project	Backlog of tasks being actioned (Q1/Q4+) Monitoring and reporting on backlog (Q1/Q4+)	*	*	*	*
	Rechargeable employer work (EVR)	Project	FCC (Q1)	*			
	<u>Technical</u>						
	Benefit Statements (Active)	Annual			*		
	Benefit Statements (Deferred,)	Annual		*			
	Benefit Statements (Cllr)	Annual	Completed by 31 October 2014		*	*	
	AVC (Equitable Life) Statements	Annual		*			
	Life Time Allowance Letters (LTA)	Annual		*			
5	Managing employer data	Project	Data Cleansing Denbighshire CC(Q1) Commence iConnect project (Q4) Data Cleansing Flintshire CC (Q3 – Q1 2015) Discuss Data Cleansing with Wrexham CBC (Q3)	**	**	**	**
	Employer Contribution Return Reconciliation	Annual		*	*		
	Altair Updates / Management Tool Kit	As required					
4	Disaster Recovery	Annual	Test Recovery Plan (Q1) Meeting with ICT and Heywoods (Q3)	*	*	*	

Note	Key Action -Task	Frequency	New Actions required (start/end)	Progress			
				Q1	Q2	Q3	Q4
	<u>Payroll</u>						
6	Pensions Increase	Annual		*			*
6	P60s	Annual		*			
1	<u>Communication</u>						
	Web-site and infonet maintenance	Daily	Update for New Care Scheme (Q4)	**	**	**	**
	Update, document and distribute Pension literature	Various	Update for new CARE Scheme (Q1)	**	**		
	Road Shows , Training, Pre-retirement seminars for the membership	Daily	New Scheme Roadshows (Q1)	**			
	Training for the employers	Daily	New Scheme Training (Q1)	**			
	Arrange Annual Employer Meetings	Annual			*	*	
	Arrange Annual Report Production	Annual			*	*	
	Document SLAs with employers	Annual	Update Discretions re CARE Scheme (Q3)	**	**	**	*

This page is intentionally left blank

FLINTSHIRE COUNTY COUNCIL

REPORT TO : **CLWYD PENSION FUND COMMITTEE**

DATE : **5th NOVEMBER 2014**

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

SUBJECT: **INVESTMENT AND FUNDING UPDATE**

1.00 PURPOSE OF REPORT

- 1.01 The purpose of this report is to provide Committee Members with an update of investment and funding matters for the Clwyd Pension Fund including:
- progress of investment, funding and accounting tasks against the Service Plan for 2014/15,
 - delegated functions,
 - training events and seminars for Pension Finance Officers,
 - any other matters of relevant interest.

2.00 BACKGROUND

- 2.01 The Fund's Finance Section is responsible for the day to day accounting and investment functions. The team comprises four full time members of staff, including two Pension Finance Managers, an Accounting Technician and a Finance Assistant.
- 2.02 The Pension Finance Managers work closely with the Clwyd Pension Fund Manager, Investment Consultants and Actuary on the investment and funding strategies for the Fund.

3.00 UPDATE ON SERVICE PLAN AND DELEGATED FUNCTIONS

- 3.01 Appendix 1 shows the dashboard of progress made against key projects within the Finance Service Plan for 2014/15. Within the projects for investment, funding and accounting, most have been completed or on target
- 3.02 The review of our AVC provider performance has now been deferred to quarter 4. This is due to the Prudential (the Fund's current AVC provider) reviewing their range of funds and also the changes in regulation which are expected later in 2014/15.
- 3.03 The 2014/15 budget has been produced and reported in the Annual Report but the monitoring arrangements now have to be revised to incorporate the new guidance issued by CIPFA for accounting for LGPS management costs (see 4.05). This should be actioned in quarter 3.

Rebalancing and Cash Management

- 3.04 In-house cash balances as at September 30th 2014 were £52.1m (£56.3m at June 30th 2014). Strategic allocations as at August 2014 were generally in line with the recommended ranges except for GTAA. The underweight to BlackRock contributed to an overall underweight. This, and the slightly

higher cash balances, will be addressed as part of the upcoming strategic fund review.

Monitoring of Fund Managers

- 3.05 The in-house team, along with JLT, monitor the Fund's managers quarterly on a rota basis ensuring that the managers with the larger allocations are met with quarterly, whilst the others are seen at least on an annual basis. A record of the managers seen during 2014/15 is shown in the following table. Further details on the managers are reported by JLT, the Fund's Investment Consultant, in agenda item 11 of the committee papers.

Manager	Strategic Weight %	June 2014	September 2014	December 2014	March 2015
Insight	19				
Stone Harbor	15	✓	✓		
Wellington	11	✓	✓		
Aberdeen	7	✓	✓		
BlackRock	6	✓	✓		
Investec	5		✓		
Duet	5	✓			
Bluecrest	3	✓			
Pyrford	3	✓			
Liongate	2.5	✓			
SSARIS	2.5				

4.00 OTHER MATTERS

DCLG Collective Investment Vehicle (CIV) and Passive Fund Management Consultation

- 4.01 As Members are aware, the Fund's response to the DCLG Consultations for Opportunities for Collaboration, Cost Savings and Efficiencies was reported at the July 2014 committee. The consultation closed on July 11th but, as yet, there has been no more information released by the DCLG.

Welsh Treasurers Group – Business Case for Welsh CIV

- 4.02 In December 2013, the Welsh Treasurers issued a tender for a consultant to produce a business case for a Welsh CIV. This process was subsequently postponed due to the DCLG also issuing a similar tender for a CIV. In September 2014, the Welsh Treasurers agreed to now continue the process in Wales and have appointed Mercer to conduct a business case. It should be noted that this will incur a cost of £8,500 for each of the Welsh funds. An Initial meeting with Mercer has been arranged for 11th November 2014 for the Society of Welsh Treasurers and Investment Practitioners from the relevant Funds.

Cost Management and Deficit Management

4.03 The cost management draft regulations were released in October 2014. A summary of these along with a deficit management working group update are included in the LGPS update from Mercer, agenda item 7 of the committee papers.

LGPS Management Costs

4.04 As mentioned in 3.03, CIPFA have produced guidance for Pension Funds for accounting for LGPS management costs which aims to assist Fund's in producing information relating to their costs on a comparable basis. This involves categorising and reporting costs across the following three areas:

- Investment Management Expenses
- Administration Expenses
- Oversight and Governance

4.05 Investment management costs will need to be disclosed for all managers, including those investing in pooled vehicles and Private Equity. The costs should include manager fees, underlying manager fees for any fund of fund managers, performance fees and transaction costs.

Training Policy Update for Pension Finance Officers

4.06 In line with the Clwyd Pension Fund training policy, officers are required to attend various conferences and seminars in order to maintain and expand their knowledge in specialist investment and funding areas. The following events have been attended at no charge to the Pension Fund.

Date	Events & Meetings	Attendees
June		
11th	Milltrust Residential Fund	CPFM, PFM(s)
25 th – 27th	LGC Investment Symposium	PFM
September		
26th	North West & Wales Pension Group	PFM
29th – 30th	Quant Invest 2014 – Managed Futures	PFM
October		
8th	BVCA Private Equity LP Summit	PFM
9th	SPS Property & Real Assets	PFM
21st	JLT Client Investment Conference	PFM
22nd	Local Government Pension Investment Forum	PFM

5.00 RECOMMENDATIONS

5.01 That Committee Members note the report.

6.00 FINANCIAL IMPLICATIONS

6.01 The Fund will contribute £8,500 towards the Welsh CIV Business Case project.

7.00 ANTI-POVERTY IMPACT

7.01 None.

8.00 ENVIRONMENTAL IMPACT

8.01 None.

9.00 EQUALITIES IMPACT

9.01 None.

10.00 PERSONNEL IMPLICATIONS

10.01 None.

11.00 CONSULTATION REQUIRED

11.01 None.

12.00 CONSULTATION UNDERTAKEN

12.01 None.

13.00 APPENDICES

13.01 2014/15 Service Plan Update.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Documents: 22nd July 2014 Pension Fund Committee – Working Practices
22nd July 2014 Pension Fund Committee – Clwyd Pension Fund Service Plan 2014/15

Contact Officer: Philip Latham, Clwyd Pension Fund Manager
Tel : 01352 702264
Fax: 01352 702279
E Mail: Philip.Latham@Flintshire.gov.uk

PENSION FUND SERVICE PLAN 2014-15:
EXTRACT OF PROJECTS AND OPERATIONAL FINANCE TASKS

Key:

** - Project based action

* - Regular ongoing action

Bold indicates a change from the original plan

Progress (in relation to planned period):



Complete



On track or ahead of schedule



Commenced but behind schedule



Not commenced

Key Action – Project Tasks	Frequency	New Actions required (start/end)	Progress			
			Q1	Q2	Q3	Q4
<u>Investment and Funding</u>						
Review Investment Strategy	Project	Work with Consultant (Q2/4)		**	**	**
Monitoring and reporting on Fund Managers and Investments	Project & Quarterly	Review and agree Process with Consultant (Q1)	**			
Monitoring and Reporting on Funding Flight-path	Project & Quarterly	Develop New Monitoring Process and Reporting with Advisory Panel (Q1)	**			
Review AVC Provider Performance	Project	Moved from Q2				**
<u>Accounting</u>						
Annual Accounts and Audit	Annual	Note comments on Valuation from WAO (Q1)	**			
Annual Report	Annual	Note comments from WAO (Q2/3)		**	*	
Budget Monitoring & Reporting	Project & Quarterly	Adoption of CIPFA LGPS management costs guidance issued Q3	**	*	**	*

This page is intentionally left blank

FLINTSHIRE COUNTY COUNCIL

REPORT TO: CLWYD PENSION FUND COMMITTEE

DATE: 5th NOVEMBER 2014

REPORT BY: CHIEF OFFICER (PEOPLE AND RESOURCES)

SUBJECT: ECONOMIC AND MARKET UPDATE

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an economic and market update.

2.00 BACKGROUND

2.01 A role of the Committee is to monitor the performance of the Fund's investment strategy. The investment performance of the Fund will reflect global economic and market conditions. Hence considering these drivers of performance is key to understanding current investment returns, manager performance and funding position which are explained in the following agenda items. In addition, understanding where we are in economic and market cycles may impact on asset allocation decisions by the Advisory Panel going forward.

3.00 CONSIDERATIONS

3.01 The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee.

4.00 RECOMMENDATIONS

4.01 That Committee Members note and discuss the economic and market update.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 Economic and Market Update

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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



Clwyd Pension Fund

Committee Report:

Economic and Market Update Q2 2014



Contents

1	Market / Economic Data to 30 June 2014	1
	Market Charts	2
	Economic Information.....	4
	Economic statistics.....	4
	Exchange rates	4
	Exchange rate movements	4
2	Market Commentary.....	5

Kieran Harkin

Director

St James's House, 7 Charlotte Street
Manchester, M1 4DZ

Phone: 0161 957 8016

Email: kieran_harkin@jltgroup.com

John Finch

Director

St James's House, 7 Charlotte Street
Manchester, M1 4DZ

Phone: 0161 253 1168

Email: john_finch@jltgroup.com

1 Market / Economic Data to 30 June 2014

Market Statistics

Yields as at 30 June 2014	% p.a.
UK Equities	3.27
UK Gilts (>15 yrs)	3.34
Real Yield (>5 yrs ILG)	-0.12
Corporate Bonds (>15 yrs AA)	4.17
Non-Gilts (>15 yrs)	4.44

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	-0.14	-0.26	0.28
UK Gilts (>15 yrs)	-0.09	-0.09	-0.88
Index-Linked Gilts (>5 yrs)	-0.02	-0.09	-0.60
Corporate Bonds (>15 yrs AA)	-0.13	-0.35	-1.37
Non-Gilts (>15 yrs)	-0.16	-0.24	-1.09

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	2.3	5.3	8.7
Index-Linked Gilts (>5 yrs)	1.1	4.3	7.8
Corporate Bonds (>15 yrs AA)	2.8	9.2	9.4
Non-Gilts (>15 yrs)	3.4	9.3	9.6

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	2.2	13.1	8.9
Overseas Equities	2.6	9.4	8.5
USA	2.6	10.9	14.3
Europe	0.3	15.6	5.3
Japan	4.3	-1.7	5.7
Asia Pacific (ex Japan)	3.6	4.6	2.0
Emerging Markets	5.0	1.2	-2.2
Frontier Markets	9.3	21.2	10.5
Property	5.1	17.6	8.6
Hedge Funds	-0.6	-3.3	1.9
Commodities	0.1	-2.1	-1.9
High Yield	0.3	0.8	7.4
Emerging Market Debt	4.8	11.6	7.4
Senior Secured Loans	1.4	7.0	5.6
Cash	0.1	0.4	0.5

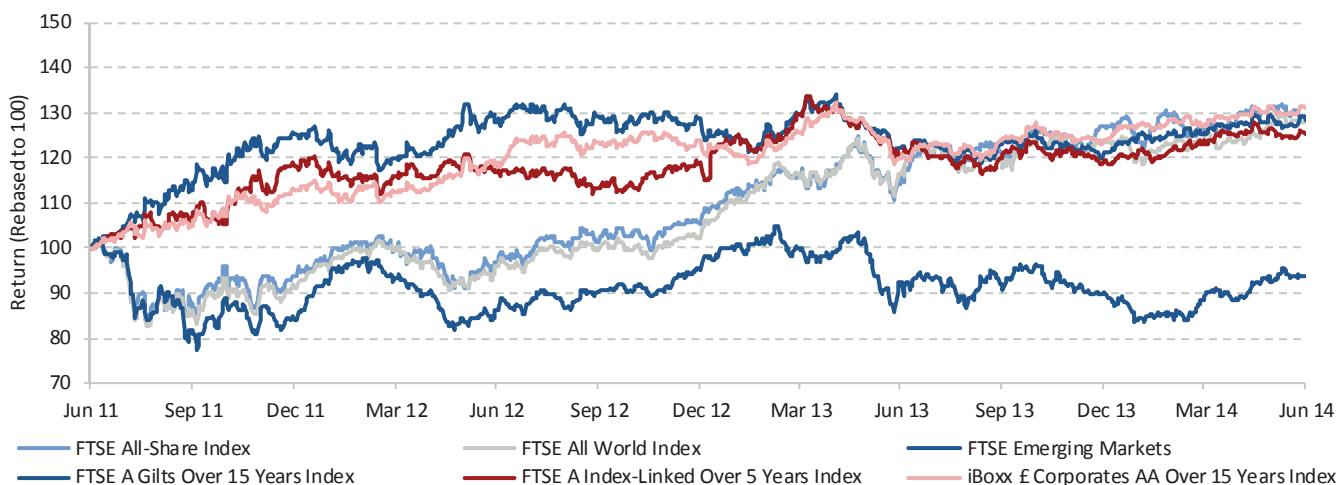
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	2.6	12.7	2.1
Against Euro	3.2	7.0	4.1
Against Yen	0.9	15.0	10.1

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.6	2.6	2.9
Price Inflation – CPI	0.5	1.9	2.4
Earnings Inflation	0.2	0.7	1.2

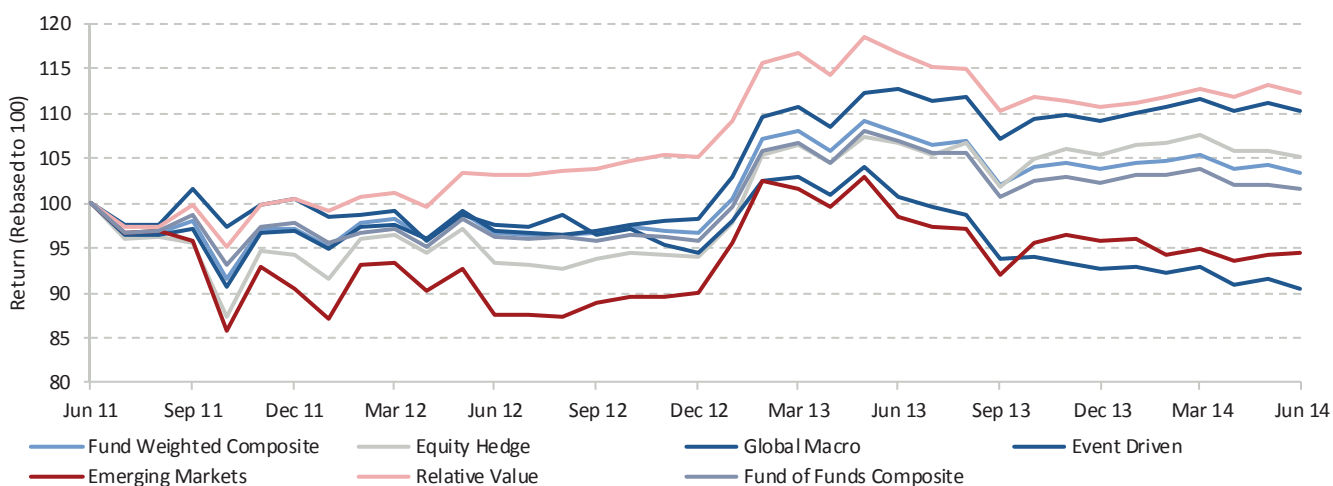
Source: Thomson Reuters and Bloomberg

Market Charts

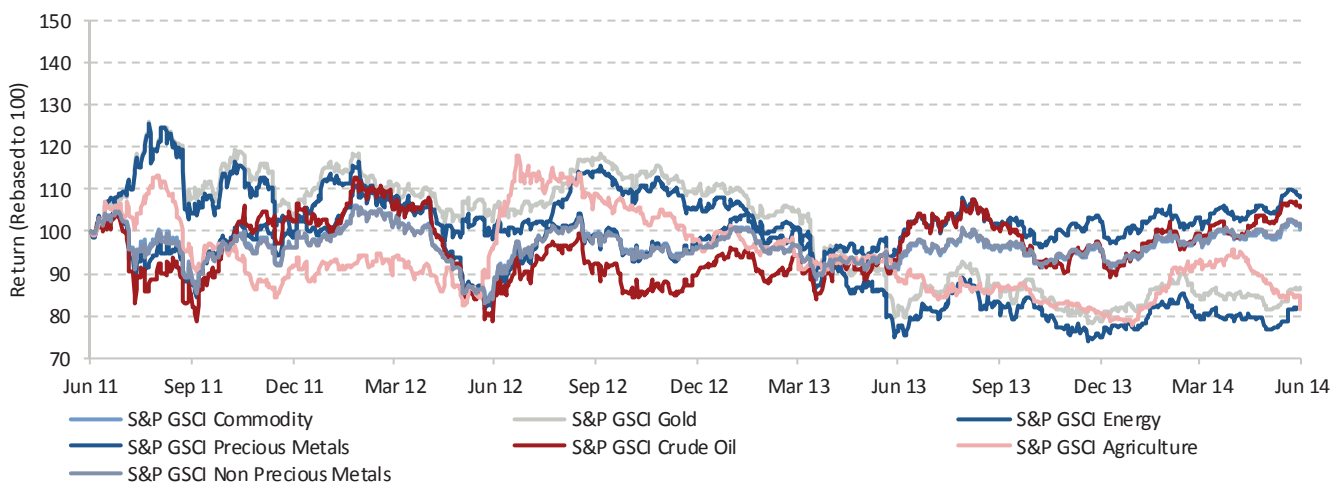
Market performance – 3 years to 30 June 2014



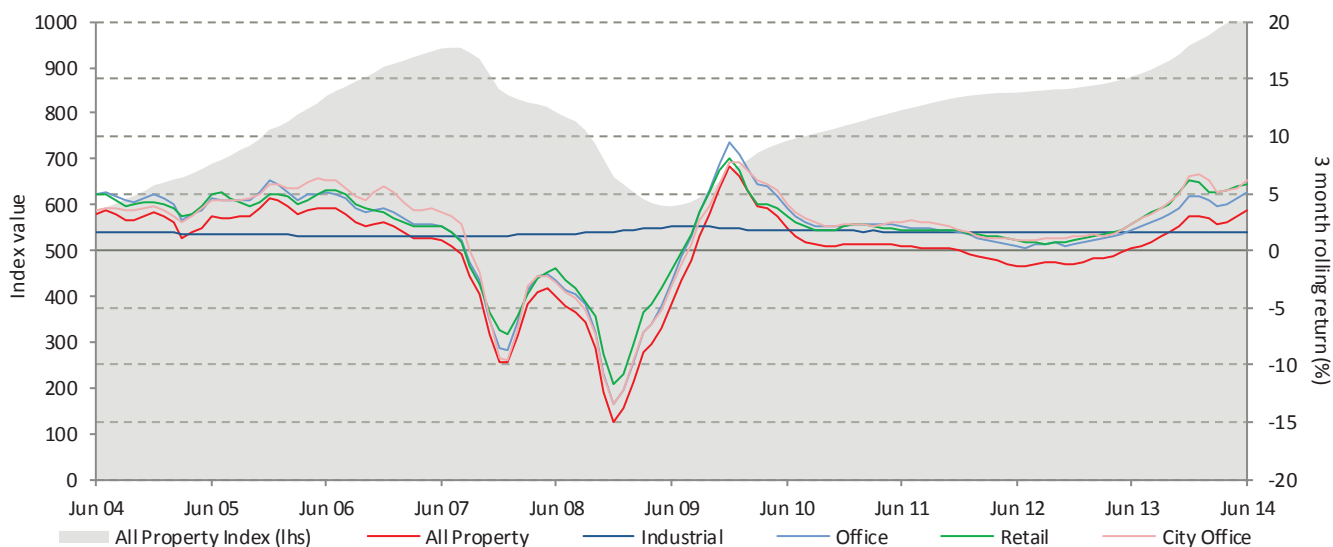
Hedge Funds: Sub-strategies performance – 3 years to 30 June 2014



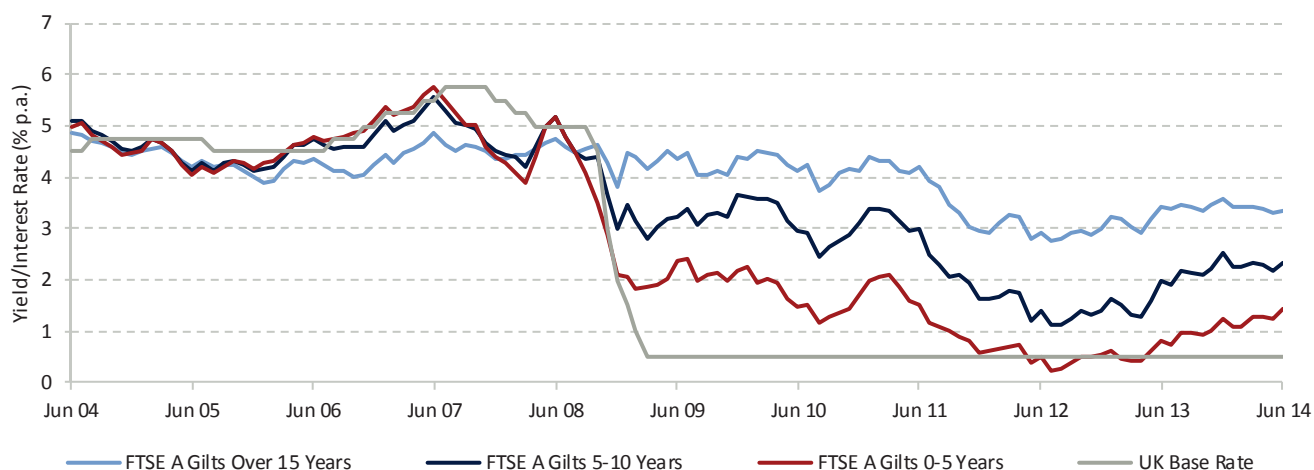
Commodity sector performance – 3 years to 30 June 2014



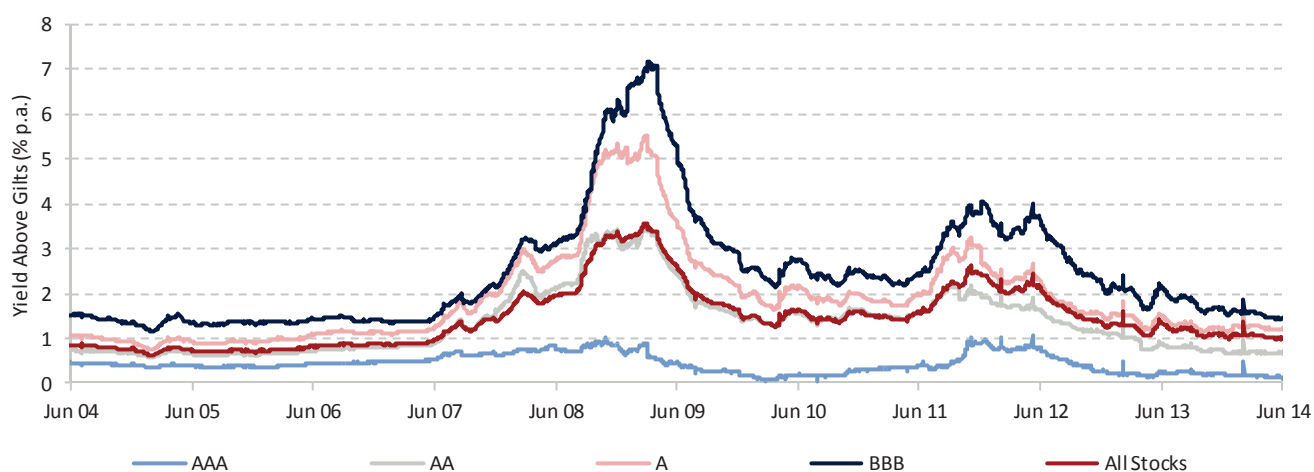
Property sector performance – 10 years to 30 June 2014



UK government bond yields – 10 years to 30 June 2014



Corporate bond spreads above government bonds – 10 years to 30 June 2014



Economic Information

Economic statistics

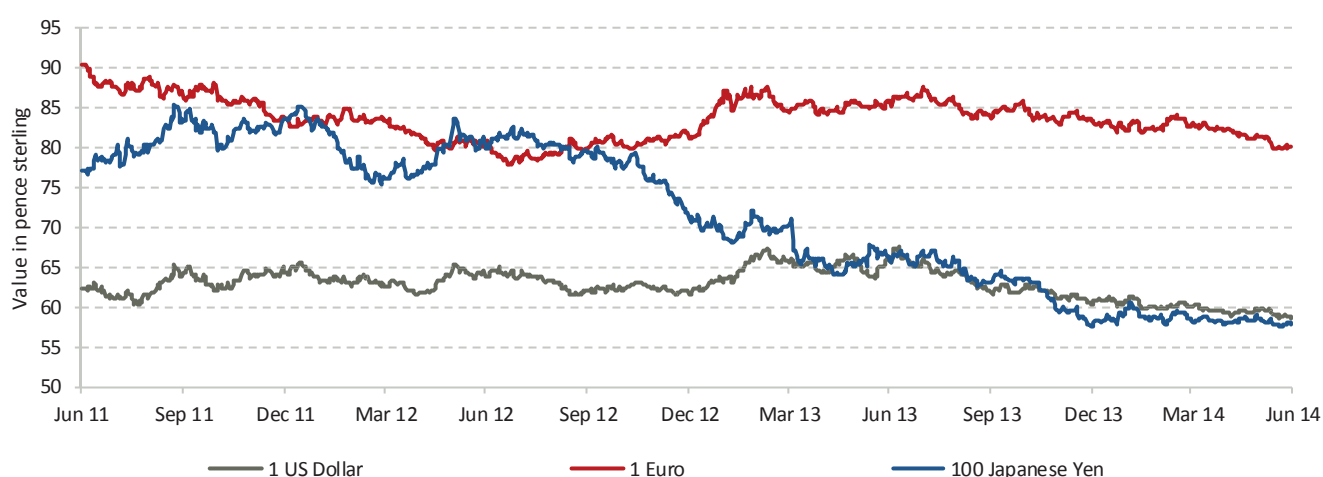
	Quarter to 30 June 2014			Year to 30 June 2014		
	UK	Europe ⁽¹⁾	US	UK	Europe ⁽¹⁾	US
Real GDP growth	0.8%	n/a	1.0%	3.1%	n/a	2.4%
Inflation change ⁽²⁾	0.5%	0.2%	0.9%	1.9%	0.5%	2.1%
Unemployment rate at quarter-end	6.5%	11.6%	6.1%	6.5%	11.6%	6.1%
Previous rate (last quarter-end / 1 year ago)	6.9%	11.8%	6.7%	7.8%	11.2%	7.6%
Manufacturing PMI* at quarter-end	57.5	51.8	55.3	57.5	51.8	55.3
Previous PMI (last quarter-end / 1 year ago)	55.3	53.0	54.9	57.5	48.8	50.9

(1) EU changing composition area; (2) CPI inflation measure. *PMI = Purchasing Managers Index

Exchange rates

Exchange Rates	Value in Sterling (Pence)			Change in Sterling	
	30 Jun 2014	31 Mar 2014	30 Jun 13	3 months	12 months
1 US Dollar is worth	58.48p	59.98p	65.93p	2.6%	12.7%
1 Euro is worth	80.07p	82.67p	85.70p	3.2%	7.0%
100 Japanese Yen is worth	57.73p	58.24p	66.37p	0.9%	15.0%

Exchange rate movements – 3 years to 30 June 2014



Source: Thomson Reuters, market, Institute for Supply Management, Eurostat, United States Department of Labor, US Bureau of Economic Analysis.

2 Market Commentary

Introduction

Market volatility has remained low for the second quarter in a row. Significant daily or weekly movements in the major indices have been few and far between, and a feeling of complacency seems to have taken hold of many investors' minds.

True economic surprises, positive or negative, have been largely absent. A good figure one month has often been offset by a poorer one the next, and vice versa. This has been apparent in both the developed and developing economies around the world.

Markets have been – and remain – fixated on interest rates, particularly when they are likely to rise, and the extent of any rise. Thus the regular pronouncements by the Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan have had a much greater market impact than most other factors.

Markets have concentrated on interest rates to the apparent exclusion of all else. Events in Ukraine and Iraq have been largely ignored (despite oil prices moving ominously higher).

Both the Federal Reserve and the Bank of England have been talking rates upwards, more stridently in the UK, with the ECB doing the reverse (discussed below). However, the Fed downplayed suggestions that rates in the US might rise anytime soon. For the first time since the financial crisis in 2008, Central Banks seem to be pursuing different policies, leading to even more unwillingness by investors to react decisively. George Bernard Shaw once said 'success does not consist in never making mistakes but in never making the same one a second time'. Some commentators are suggesting that the Fed is doing just that – repeating the mistakes of the past. Only time will tell.

United Kingdom

- The FTSE 100 rose by less than 2% in the first half of the year. Despite the lowest interest rates since 1694, abundant liquidity in the system and US markets at all-time highs, investors have been sitting on their hands. Why should this be the case?
- On the surface, the background is promising. Economic growth is accelerating, inflation is still low, interest rates are not expected to rise until late 2014 / early 2015 (and then not by much) and confidence has been rising.
- But this apparently rosy picture is hiding some problems. Earnings growth is lacklustre making the rerating of equity prices in 2013 look premature. Real wages in many parts of the country are still negative (although improving) yet consumer spending is rising. This is leading to sharply higher debt levels and a reduction in savings.
- And finally there is the 'property bubble' which is causing much angst amongst policy makers and politicians (not necessarily the same). The Bank of England is trying to 'micromanage' this area of economic activity, taking over responsibility from the Treasury. It would not be surprising if tensions arise between the two as the General Election approaches, but at the moment the measures being undertaken have the approval of all interested parties.
- All of this may still come to naught. It must be kept in mind that the Eurozone remains the UK's largest trading partner. The future across the Channel is much more important to the UK economy, particularly in the short term, than anything Mr Carney or the Coalition can do.
- Overall, whilst the market appears to be 'up with events', it does not feel like bubble territory. Profits in many areas are still growing, though not as much as originally forecast. Dividends are increasing so yields remain attractive.

Europe ex UK

- A famous quote from Ken Livingstone was 'If voting changed anything, they'd abolish it'. After the European elections in May showed a significant increase in the anti-Brussels vote (in one form or another) the prospects for changes to the system seem – nil. This has been confirmed by the proposed election of Jean-Claude Juncker as President of the European Commission. So from a political point of view the outlook for the Eurozone is the same as before.
- So will any further changes come from the European Central Bank?
- There is some economic growth across the continent but it is patchy, and numbers suggest it is also very fragile (France could well sink back into recession). Inflation remains near zero in the major economies, but some of the periphery (e.g. Greece) are already suffering deflation. Exports for the region have hardly changed, year-on-year, and youth unemployment is still nearly 24%.
- Mr Draghi, the head of the ECB, continues to deny that deflation, Japanese-style, is a potential problem. His latest measures to revive economic activity – negative interest rates (which has been successfully tried before by individual countries, e.g. Switzerland, but never continent-wide and never for very long) and cheap loans to banks to enable them to support small businesses – are perceived to be too little, too late.
- There is still talk of the possibility of Quantitative Easing, Anglo-Saxon style, but the political hurdles to surmount, especially in Germany, still seem to rule this out. European leaders are counting on a pick-up in global growth to lift demand, but this is unlikely to happen in the short term. The International Monetary Fund, admittedly with a less-than-stellar track record, has recently said the recovery in Europe 'is neither robust, nor sufficiently strong'.
- With this unpromising backdrop, why maintain holdings in European funds? There are several reasons. Europe is not just the Eurozone. Fund managers have a very large universe of companies to choose from, many of which continue to prosper. Profits and dividends have been growing, despite the absence of overall economic growth in the region.

North America

- Trying to understand the economic figures emanating from the USA was particularly difficult in the second quarter, following the extreme weather conditions experienced in many parts of the country in the first quarter. Revised numbers show the economy contracted by 2.9% - but was it caused just by the weather?
- There was a general expectation of a sharp recovery in growth in the second quarter, but some releases on housing sales (which fell by the most in 22 years) might suggest otherwise.
- But the stock market has ignored poor figures, hitting new highs. All eyes are on the Federal Reserve. The Chairman, Janet Yellen, is seen to be 'dovish', downplaying inflation concerns and looking more at the low wage growth in the economy rather than unemployment to justify the policy of 'lower for longer' (i.e. interest rates). 'Tapering' continues, with Quantitative Easing now 'only' \$35bn a month, at which rate it will come to an end by Christmas (unless the economy goes into reverse, in which case we could see a fourth round of QE). No rate rise is anticipated before next year at the earliest.
- Markets have been buoyant on the back of this loose monetary policy, resulting in ample liquidity, corporate profitability that is rising (just) and reasonable equity market valuations. Share buybacks are near record levels (not necessarily a good thing – companies are not using their enormous cash reserves to invest for the longer term).
- The bull market is somewhat long in the tooth. Equity prices bottomed in March 2009 (equity valuations in October 2011). Merrill Lynch's Bull/Bear Index neared extreme 'bull' levels, usually a sign that a pull-back is overdue.

Japan

- The Japanese market has been the laggard of the major indices in the first half of the year, despite rallying strongly immediately after the end of the quarter.
- The rise in the sales tax in April had a predictable effect – March retail sales rose 6.4%, April's fell 13.6% (the same happened in 1997, the last time sales taxes were increased).
- However, overall corporate profits rose strongly, as expected, in the fiscal year that ended in March and forecasts for next year should see upward revisions from current conservative levels as time goes on.
- The Bank of Japan has said it is 'happy' with trends in wages (increasing slowly but steadily) inflation (rising, but impacted by the tax increase) and the value of the yen. Further Quantitative Easing could be announced, but this has not yet been factored into the market.
- The key for markets going forward is Mr Abe's 'third arrow'. This entails long term structural reform of, amongst other things, corporate taxes, immigration and agricultural policies, and increasing the number of women in the workplace (to offset the effect of the ageing population). Here progress has been slow, and any proposed legislation could have a very positive effect.
- Domestic investors have been returning to the market, profits are growing sharply and valuations remain cheap. Many think Japan is a lost cause, but this could be overly pessimistic.

Asia Pacific ex Japan

- After a disappointing first quarter, Asian indices recovered in the second to show a modest overall gain over the period.
- For once, the greatest surprise did not come from China, but India. For the first time since 1984, a party, led by Narendra Modi, has won enough seats to govern without the support of others. Promising change, for once this may actually happen. The market, not unsurprisingly, reacted very positively.
- This set the stage for Indonesia's elections, in July. Additionally, military rule in Thailand is seen to have eliminated political risk – so there too, the markets have flourished.
- But China – and global interest rates – are still the most important factors. The Premier of China has said growth should be 'at least' 7.5% this year, but the underlying numbers are as confusing as ever. Factory orders have beaten estimates and are at a seven-month high. But against this the housing market is slowing down (overdue, and a longer term positive, but negative for consumer spending in the shorter term).
- China is still trying to avoid a financial crisis and structural reform has been promised, but information is patchy and suspicion remains. Elsewhere investment is picking up, profits and dividends are rising and yields are attractive.

Emerging Markets

- Indices have risen, helped by the unexpected result of the Indian election and a sharp recovery in the Russian market after the initial Ukraine crisis.
- Elsewhere there has been some stabilisation in the sector after the shocks of last year. Some economies are slowly adjusting, others (e.g. Argentina) are still in deep trouble. Liquidity remains tight and some currencies still look vulnerable against the US dollar.

Fixed Income

- Unusually the main Central Banks appear to be following different strategies for the first time since 2008.
- The Federal Reserve has a 'softly, softly' approach, continuing tapering, ignoring potential inflationary pressures (which the Chairman, Janet Yellen, has called 'noise') and are not expected to raise rates until 2015.
- The Bank Of England is more worried about 'asset price bubbles', especially in the residential property sector, and has hinted openly that a rate rise could be seen sooner rather than later – possibly the end of this year, but more likely early next (despite a General Election being due shortly thereafter).
- The European Central Bank is still tinkering, using negative interest rates as its latest weapon. The chance of a rate rise in the Eurozone is nil, that of Quantitative Easing, Anglo-Saxon style, is low but not zero.
- And the Bank of Japan is ploughing a lonely furrow, trying to kick-start an economy which has been moribund since the 90s. So where does all this leave bonds? Performance was better than expected in the first half of the year as the search for yield – any yield – and some flight to safety outweighed longer term concerns.
- Finally, it is worth noting that 56% of global GDP is concentrated in countries supported by zero interest rate policies. What will happen when rates rise?

Alternatives

- Hedge Funds were negative overall over the quarter (in sterling terms). All strategies in the index underperformed, Equity Hedge and Global Macro strategies were the worst performing whilst Relative Value and Event Driven strategies underperformed the least. Total hedge fund assets continue to increase at a rapid rate \$30.5 billion in the second quarter of 2014 (to \$2.8 trillion).
- In property, offices and industrials were the leading sectors whilst retail has continued to trail behind since the start of the capital value recovery in May 2013. Properties in outer London and industrials in the outer South-East were the strongest performing markets, while shops outside the South-East were weakest. Yields are continuing to compress as a result of increasing capital values, and at the end of June the annual yield stood at 6.8%.
- Commodities were flat overall in Q2. Industrial metals such as nickel and zinc led the index due to supply constraints in the international market. Energy commodities were moderately up over the quarter. Agriculture, particularly grains and cotton had a very poor period, offsetting gains elsewhere in the index.

Conclusion

- George Soros once wrote 'Stock market bubbles don't grow out of thin air. They have a solid base in reality, but reality as distorted by a misconception'.
- There are many who are concerned that the developed markets are close to, or already in, 'bubble' territory. Earnings need to catch up with share prices to justify the price rises last year (and, in the US, this year too), but are struggling to do so.
- The 'reality' is that there is a danger of complacency setting in; the 'misconception' is that growth will continue, and even accelerate. There is little room for error. An external event (Iraq?) or a specific economic problem (rising oil prices?) could easily trigger a sharp reaction, as too could disappointing economic numbers in the US or elsewhere.
- The problems for investors are that cash earns nothing, and taking extra risk has not been rewarded by any extra return. This has been the case for some considerable time now, but a change anytime soon seems unlikely.
- The remainder of the year will be crucial. Quantitative Easing is targeted to end in the US (unless growth disappoints) with unpredictable results; rates may start to rise in the UK; anything could happen in Europe. And there still remain the ongoing crises in Ukraine and the Middle East.

This report may not be further copied or distributed without the prior permission of JLT Employee Benefits. This analysis has been based on information supplied by our data provider Thomson Reuters and by investment managers. While every reasonable effort is made to ensure the accuracy of the data JLT Employee Benefits cannot retain responsibility for any errors or omissions in the data supplied. It is important to understand that this is a snapshot, based on market conditions and gives an indication of how we view the entire investment landscape at the time of writing. Not only can these views change quickly at times, but they are, necessarily, generic in nature. As such, these views do not constitute advice as individual client circumstances have not been taken into account. Please also note that comparative historical investment performance is not necessarily a guide to future performance and the value of investments and the income from them may fall as well as rise. Changes in rates of exchange may also cause the value of investments to go up or down. Details of our assumptions and calculation methods are available on request.



JLT Employee Benefits

The St Botolph Building, 138 Houndsditch,
London EC3A 7AW

Tel: +44 (0)20 7528 4000

Fax: +44 (0)20 7528 4500

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

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **5th NOVEMBER 2014**

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

SUBJECT: **INVESTMENT STRATEGY AND MANAGER SUMMARY**

1.00 PURPOSE OF REPORT

1.01 To update Committee Members on the performance of the Fund's investment strategy and performance of fund managers.

2.00 BACKGROUND

2.01 A role of the Committee is to monitor the performance of the Fund's investment strategy and fund managers.

2.02 On behalf of the Committee, the Investment Consultant and Pension Finance Managers:

- Undertake regular monitoring to ensure that the investment strategy is operating within the approved Statement of Investment Principles (SIP).
- Regularly monitor fund manager and investment performance.
- Recommend to Advisory Panel alternative investments within the asset allocations agreed within the SIP.
- Recommend to Advisory Panel changes to asset allocation allowed within the SIP, including re-balancing.
- Report investment performance to the Advisory Panel and Committee.
- Recommend changes to the investment strategy to Committee.

3.00 CONSIDERATIONS

3.01 The report from the Fund's Investment Consultant on the performance of the investment strategy as at 30th June 2014 is attached. This also includes a fund manager performance update to 30th September 2014.

3.02 In summary the Fund underperformed its benchmark by 0.4% over the quarter ending 30th June 2014 but this was reversed in the September quarter where the Fund outperformed its benchmark by 1.2%. In appendix 1 of the Investment Consultant's report there is a summary of mandates which shows a number of fund managers or asset classes which have long term absolute return targets of 8-10% or 15% per annum. As previously explained, under current financial conditions it should be recognised that these targets are not achievable and the 'red circles' shown in the manager performance section of the report should be read in this context.

3.03 The Fund is currently undergoing a strategic review which is covered in agenda item 13 of the committee papers.

4.00 RECOMMENDATIONS

4.01 That Committee Members note and discuss the performance of the investment strategy and fund managers.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report

12.00 APPENDICES

12.01 Investment Strategy and Fund Manager Summary Q2 2014

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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

Clwyd Pension Fund

Committee Report:

Investment Strategy and Manager Summary Q2 2014



Contents

1	Impact on Clwyd Pension Fund Strategy.....	3
2	Strategic Asset Allocation – 30 June 2014.....	5
3	Strategic Asset Class Performance.....	6
4	Manager Summary – 30 June 2014.....	7
5	Manager Summary – 30 September 2014.....	9
	Appendix 1: Summary of Mandates	11

Kieran Harkin

Director

St James's House, 7 Charlotte Street
Manchester, M1 4DZ

Phone: 0161 957 8016

Email: kieran_harkin@jltgroup.com

John Finch

Director

St James's House, 7 Charlotte Street
Manchester, M1 4DZ

Phone: 0161 253 1168

Email: john_finch@jltgroup.com



1 Impact on Clwyd Pension Fund Strategy

Overall

- The Fund's total market value increased by £25.8m over the second quarter of 2014 to £1,255,739,300.
- The Fund produced a positive absolute return but underperformed its benchmark by 0.4% over the quarter, with a return of 2.2% compared to the benchmark of 2.6%.
- Each asset class grouping produced a modest positive return, ranging from 0.5% from the alpha-seeking assets to 3.3% for the real assets and 4.0% for LDI.
- In relative terms, the underperformance can be attributed as follows: alpha-seeking assets detracted around 0.3%, equities detracted 0.2% but bond stock selection added 0.1%.
- In terms of asset allocation, because the returns from each asset class were bunched closely together, there was no significant impact of any over- or under-weight positions. The Fund was slightly overweight to alpha-seeking assets (16.5% weight at the beginning of the quarter versus benchmark of 15.0%), which marginally detracted from total Fund performance by around 0.03% due to the relatively low return from this asset class.

Equities

- All of the major global equity market regions were modestly positive over the quarter. Equities continued their recovery during the first two months of the quarter before falling back. Although data releases were generally encouraging for equity markets, global events held back returns towards the end of the quarter.
- The highest returns were in Frontier Markets (+9.3%) and Emerging Markets (+5.0%), the best of the Developed Markets was Japan (+4.3%), boosted by reform proposals announced by Prime Minister Shinzo Abe. Europe ex UK equities, which have enjoyed a strong run over the last 12 months, were broadly flat at 0.3% for the quarter.
- UK equities increased by 2.2% over the quarter as the UK economy witnessed its strongest calendar quarter in four years. Positive UK economic growth which has been driven by increases in household spending and business investments coupled with a strengthening labour market.
- Overseas equities returned 2.6% overall, with emerging market equities the leading region (+5.0%), rebounding on the back of improving Chinese PMI which rose to a six-month high in June. European (ex UK) equities were less positive, returning 0.3% as disappointing corporate earnings and below expectation GDP figures indicated a slowdown in growth.
- The Fund's total equity return was 2.3%, behind the benchmark of 3.1%.
- The main reason for the underperformance was the Fund's global equity managers, in particular where there was hedge fund exposure. Equity hedge funds began to significantly de-risk their portfolios, which caused some indiscriminate selling and exacerbated stock moves.
- The Fund's emerging and frontier markets equities performed better than developed markets equities. Emerging market assets were ahead of their benchmark by 1.0% over the quarter. Investments in technology stocks related to major western brands added the main value over the period (core portfolio). However, losses were made in the information technology and healthcare sectors in domestically-oriented stocks (local portfolio).
- Frontier Markets continued to perform significantly well (and as an 'off-benchmark' position added to the Fund's relative performance), however the Fund's assets underperformed their own benchmark by 5.5% over the quarter. The Fund was affected by the underweight allocation to Qatar and the United Arab Emirates. A reclassification of these countries as Emerging Markets in June triggered a market rally by investors and index funds in anticipation of the impending upgrade. The benefits of this were not entirely captured as a result.

Fixed Interest

- Bond markets performed well as they continued to be seen as a 'safe haven' to some extent.
- The Fund's fixed interest assets produced a strong performance in absolute terms and outperformed their benchmark, contributing positively to the relative performance of the Fund.
- Stabilised growth in the emerging markets caused Emerging Market Debt to perform well, to which the Fund was exposed. Fears of deflation in Europe together with the expectation that interest rates will be held lower for longer and the general easing of liquidity conditions also helped credit outperform.

GTAA

- The GTAA assets produced 1.5% and outperformed their composite benchmark of 1.1%
- Short positions within UK and US and long positioning across developed market non-eurozone Europe contributed to the performance. Exposure to emerging markets and, in particular, currency strategies within these countries added to performance. Strategies which followed market trends also performed well.

Real Assets

- Each of the Real asset classes (property, infrastructure, timber and commodities) produced positive absolute returns over the quarter. Overall, the in-house assets were broadly in line with their benchmark as property underperformed but the other three asset classes outperformed their respective benchmarks.
- The UK property market continued its positive performance, driven by strong capital growth and positive rental yields. Offices and industrials were the leading sectors whilst retail has continued to trail. Properties in outer London and industrials in the South-East were the strongest performing markets.
- Commodities were positive overall in Q2, this was led by energy and industrial metals. Agriculture had a poor quarter, reversing their performance in the previous quarter which had been boosted by poor weather conditions such as drought in Brazil.

Alpha Seeking Assets

- The Alpha Seeking assets produced the lowest absolute return of the five asset class groupings, as the opportunistic portfolio and some hedge funds produced negative returns.
- Overall, they detracted 0.3% to the Fund's relative performance.
- The hedge fund underperformance was driven by negative performance from macro strategies and relative underperformance from event driven and credit long/short strategies.
- The Fund's Private Equity holding also underperformed, producing a return of 0.7% versus its benchmark of 3.5%.

2 Strategic Asset Allocation – 30 June 2014

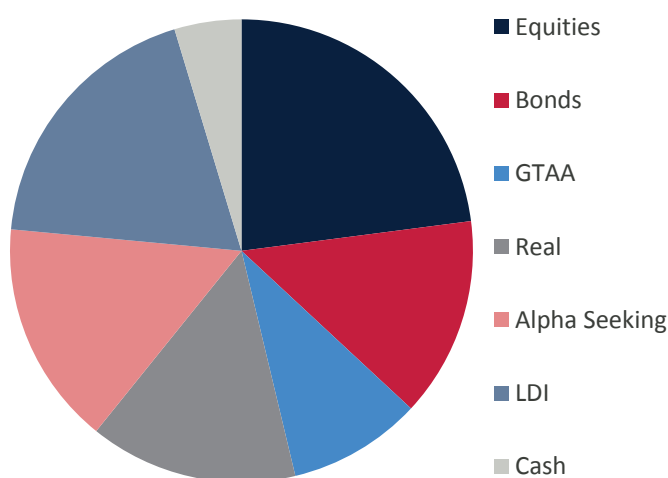
Allocation by underlying asset class

Asset Class	30 June 2014 Valuation £	Weight %	Strategic Benchmark %
Developed Market Equities	201,494,967	16.0	17.0
Emerging Market Equities	86,664,676	6.9	7.0
Global Tactical Asset Allocation (GTAA)	117,259,369	9.3	12.0
Bonds	175,463,989	14.0	15.0
Fund of Hedge Funds	48,511,018	3.9	5.0
Property	97,554,905	7.8	7.0
Commodities	33,247,946	2.6	4.0
Private Equity	136,337,001	10.9	8.0
Infrastructure	28,439,171	2.3	2.0
Timber / Agriculture	23,315,754	1.9	2.0
Opportunistic	12,125,624	1.0	2.0
LDI	236,622,407	18.8	19.0
Cash	58,702,472	4.7	0.0
TOTAL CLWYD PENSION FUND	1,255,739,300	100.0	100.0

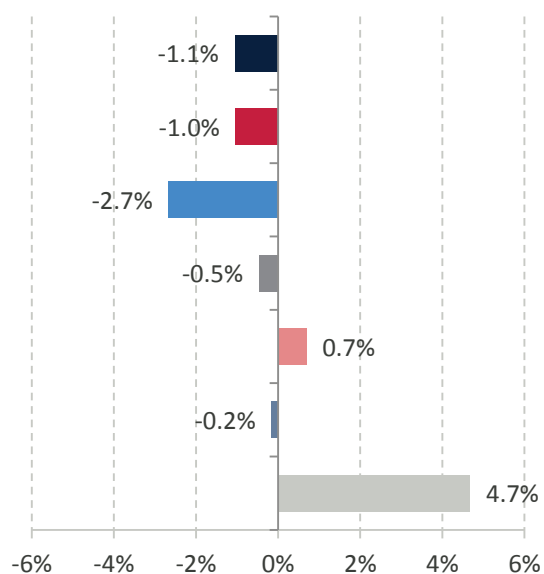
Points to note

- There are no significant matters to note.

Strategic Asset Allocation as at 30 June 2014



Deviation from Strategic Benchmark



3 Strategic Asset Class Performance

Performance of the total Fund and strategic asset classes to 30 June 2014

Manager / Fund / Benchmark	3 Months %	12 Months %	3 Years % p.a.
Total Equities	2.3	7.1	5.7
Composite Benchmark	3.1	9.3	6.3
<i>Relative</i>	<i>-0.9</i>	<i>-2.2</i>	<i>-0.6</i>
Total Fixed Interest	0.8	4.0	7.0
Composite Benchmark	0.1	1.4	4.8
<i>Relative</i>	<i>0.7</i>	<i>2.6</i>	<i>2.2</i>
Total Alternatives - Real Assets	3.3	6.2	3.0
Composite Benchmark	3.4	12.3	5.2
<i>Relative</i>	<i>-0.1</i>	<i>-6.1</i>	<i>-2.2</i>
Total Alternatives - Alpha Seeking Assets	0.5	3.5	3.3
Composite Benchmark	2.8	11.7	11.7
<i>Relative</i>	<i>-2.3</i>	<i>-8.2</i>	<i>-8.4</i>
Total GTAA	1.5	-0.5	0.2
Composite Benchmark	1.1	4.5	4.6
<i>Relative</i>	<i>0.4</i>	<i>-5.0</i>	<i>-4.4</i>
Total ex Alternatives, GTAA and LDI	1.8	6.3	6.0
Composite Benchmark	2.0	6.8	5.9
<i>Relative</i>	<i>-0.2</i>	<i>-0.5</i>	<i>0.1</i>
Total ex GTAA and LDI	1.8	5.7	5.0
Composite Benchmark	2.5	8.7	6.8
<i>Relative</i>	<i>-0.7</i>	<i>-3.0</i>	<i>-1.8</i>
Total ex LDI	1.8	5.1	4.5
Composite Benchmark	2.3	8.2	6.5
<i>Relative</i>	<i>-0.5</i>	<i>-3.1</i>	<i>-2.0</i>
Total Clwyd Pension Fund	2.2	5.3	4.6
Composite Benchmark	2.6	8.3	6.6
<i>Relative</i>	<i>-0.4</i>	<i>-3.0</i>	<i>-2.0</i>

Source: JLT Employee Benefits

4 Manager Summary – 30 June 2014

Manager	Fund	30 June 2014			3 Yr Performance vs Objective*	
		Valuation £	Weight %	Strategic Weight %		
●	Duet	Global Opportunities	49,227,432	3.9	5.0	Target not met
●	Investec	Global Free Enterprise	73,599,238	5.9	5.0	Target met
●	Aberdeen	Asia Pacific ex Japan Equities	78,668,297	6.3	7.0	Target not met
●	Wellington	Emerging Market Equities (Core)	38,732,374	3.1	7.0	Target not met
●	Wellington	Emerging Market Equities (Local)	38,805,330	3.1		Target met
n/a	Aberdeen	Frontier Markets Equities	9,126,973	0.7	-	n/a
Total Equity Assets			288,159,643	22.9	24.0	
●	Stone Harbor	LIBOR Multi-Strategy Portfolio	175,463,989	14.0	15.0	Target met
Total Fixed Interest Assets			175,463,989	14.0	15.0	
●	BlackRock	GASL	51,537,208	4.1	6.0	Target not met
●	Bluecrest	AlIblue Ltd	32,788,896	2.6	3.0	Target not met
●	Pyrford	Global Total Return	32,933,265	2.6	3.0	Target not met
Total GTAA Assets			117,259,369	9.3	12.0	
●	In-House	Property	97,554,905	7.8	7.0	Target not met
●	In-House	Infrastructure	28,439,171	2.3	2.0	Target met
●	In-House	Timber / Agriculture	23,315,754	1.9	2.0	Target not met
●	Wellington	Commodities	33,247,946	2.6	4.0	Target not met
Total Real Assets			182,557,776	14.5	15.0	
●	Pioneer	Fund of Hedge Funds	1,266,380	0.1		Target not met
●	SSARIS	Fund of Hedge Funds	24,461,138	1.9	5.0	Target not met
●	Liongate	Fund of Hedge Funds	22,783,501	1.8		Target not met
●	In-House	Private Equity	136,337,001	10.9	8.0	Target not met
n/a	In-House	Opportunistic	12,125,624	1.0	2.0	n/a
Total Alpha Seeking Assets			196,973,643	15.7	15.0	
n/a	Insight	LDI assets	236,622,407	18.8	19.0	n/a
n/a	Trustee	Cash	58,702,472	4.7	0.0	n/a
TOTAL CLWYD PENSION FUND			1,255,739,300	100.0	100.0	

Note: 'n/a' against the objective is for funds that have been in place for less than three years.

* Performance objectives are to be reviewed as part of a strategic review later in 2014.

● Fund has met or exceeded its performance objective ● Fund has underperformed its performance objective

Manager performance to 30 June 2014

Manager / Fund			3 months %		12 months %		3 years % p.a.		3 yr Performance vs Objective
			Fund	Bmark	Fund	Bmark	Fund	Bmark	
●	Duet	Global Opportunities	-2.0	1.9	-0.5	8.0	0.7	8.0	Target not met
●	Investec	Global Free Enterprise	1.6	2.4	15.9	9.1	11.0	8.0	Target met
●	Aberdeen	Asia Pacific ex Japan	2.7	3.5	-2.1	4.5	2.3	2.0	Target not met
●	Wellington	Emerging Markets (Core)	6.1	4.0	2.9	1.7	-1.9	-2.0	Target not met
●	Wellington	Emerging Markets (Local)	2.9	4.0	-0.4	1.7	2.9	-2.2	Target met
n/a	Aberdeen	Frontier Markets	3.8	9.3	-1.9	21.2	n/a	n/a	n/a
Total Equity Assets			2.3	3.1	7.1	9.3	5.7	6.3	
●	Stone Harbor	LIBOR Multi-Strategy	0.8	0.1	4.0	1.4	7.0	4.8	Target met
Total Bond Assets			0.8	0.1	4.0	1.4	7.0	4.9	
●	BlackRock	GASL	1.2	0.1	-5.7	0.4	-3.6	0.4	Target not met
●	Bluecrest	AllBlue Ltd	2.4	2.4	6.7	10.0	4.2	10.0	Target not met
●	Pyrford	Global Total Return	1.2	1.8	1.5	7.8	3.2	8.0	Target not met
Total GTAA Assets			1.5	1.1	-0.5	4.5	0.2	4.6	
●	In-House	Property	3.3	5.1	7.5	17.6	5.1	8.9	Target not met
●	In-House	Infrastructure	2.2	1.9	5.8	8.0	9.2	7.9	Target met
●	In-House	Timber / Agriculture	4.4	1.9	-1.9	7.9	-0.1	7.9	Target not met
●	Wellington	Commodities	3.6	2.1	8.8	7.5	-4.4	-4.6	Target not met
Total Real Assets			3.3	3.4	6.2	12.3	3.0	5.2	
●	Pioneer	Fund of Hedge Funds	1.8	0.1	-2.4	0.4	4.7	0.4	Target not met
●	SSARIS	Fund of Hedge Funds	-1.3	1.9	2.3	8.0	1.2	8.0	Target not met
●	Liongate	Fund of Hedge Funds	1.8	1.9	7.9	8.0	0.2	8.0	Target not met
●	In-House	Private Equity	0.7	3.5	3.0	15.0	4.5	15.0	Target not met
n/a	In-House	Opportunistic	-1.4	1.9	4.6	7.9	0.0	8.0	n/a
Total Alpha Seeking Assets			0.5	2.8	3.5	11.7	3.3	11.7	
n/a	Insight	LDI Portfolio	4.0	4.0	n/a	n/a	n/a	n/a	n/a
Total (ex Alternatives, GTAA and LDI)			1.8	2.0	6.3	6.8	6.0	5.9	
Total (ex GTAA and LDI)			1.8	2.5	5.7	8.7	5.0	6.8	
Total (ex LDI)			1.8	2.3	5.1	8.2	4.5	6.5	
TOTAL CLWYD PENSION FUND			2.2	2.6	5.3	8.3	4.6	6.6	

5 Manager Summary – 30 September 2014

Manager	Fund	30 September 2014			3 Yr Performance vs Objective*	
		Valuation £	Weight %	Strategic Weight %		
●	Duet	Global Opportunities	49,451,862	3.8	5.0	Target not met
●	Investec	Global Free Enterprise	76,277,073	5.9	5.0	Target met
●	Aberdeen	Asia Pacific ex Japan Equities	81,886,378	6.3	7.0	Target not met
●	Wellington	Emerging Market Equities (Core)	39,244,135	3.0	7.0	Target not met
●	Wellington	Emerging Market Equities (Local)	40,613,431	3.1		Target met
n/a	Aberdeen	Frontier Markets Equities	9,800,010	0.8	-	n/a
Total Equity Assets			297,272,889	22.9	24.0	
●	Stone Harbor	LIBOR Multi-Strategy Portfolio	174,820,180	13.9	15.0	Target met
Total Fixed Interest Assets			174,820,180	14.9	15.0	
●	BlackRock	GASL	59,005,253	4.5	6.0	Target not met
●	Bluecrest	AlIBlue Ltd	33,259,885	2.6	3.0	Target not met
●	Pyrford	Global Total Return	33,162,737	2.6	3.0	Target not met
Total GTAA Assets			125,427,875	9.7	12.0	
●	In-House	Property	102,784,484	7.9	7.0	Target not met
●	In-House	Infrastructure	29,599,490	2.3	2.0	Target met
●	In-House	Timber / Agriculture	24,734,754	1.9	2.0	Target not met
●	Wellington	Commodities	30,215,790	2.3	4.0	Target not met
Total Real Assets			187,334,518	14.4	15.0	
●	Pioneer	Fund of Hedge Funds	1,373,244	0.1		Target not met
●	SSARIS	Fund of Hedge Funds	24,484,309	1.9	5.0	Target not met
●	Liongate	Fund of Hedge Funds	22,748,993	1.8		Target not met
●	In-House	Private Equity	136,794,483	10.5	8.0	Target not met
n/a	In-House	Opportunistic	12,863,179	1.0	2.0	n/a
Total Alpha Seeking Assets			198,264,209	15.3	15.0	
n/a	Insight	LDI assets	262,051,455	20.2	19.0	n/a
n/a	Trustee	Cash	52,609,337	4.1	0.0	n/a
TOTAL CLWYD PENSION FUND			1,297,780,463	100.0	100.0	

Note: 'n/a' against the objective is for funds that have been in place for less than three years.

* Performance objectives are to be reviewed as part of a strategic review later in 2014.

● Fund has met or exceeded its performance objective ● Fund has underperformed its performance objective

Manager performance to 30 September 2014

Manager / Fund			3 months %		12 months %		3 years % p.a.		3 yr Performance vs Objective
			Fund	Bmark	Fund	Bmark	Fund	Bmark	
●	Duet	Global Opportunities	0.5	2.0	-1.7	8.0	1.8	8.0	Target not met
●	Investec	Global Free Enterprise	3.6	3.0	19.1	11.2	20.3	15.0	Target met
●	Aberdeen	Asia Pacific ex Japan	4.1	2.1	5.9	6.1	8.8	9.8	Target not met
●	Wellington	Emerging Markets (Core)	1.3	1.9	4.3	4.5	6.3	6.1	Target not met
●	Wellington	Emerging Markets (Local)	4.7	1.9	12.6	4.5	9.7	6.0	Target met
n/a	Aberdeen	Frontier Markets	7.4	7.1	12.4	30.4	n/a	n/a	n/a
Total Equity Assets			3.2	2.3	9.5	9.6	12.0	12.7	
●	Stone Harbor	LIBOR Multi-Strategy	-0.4	0.1	3.4	1.0	5.7	2.1	Target met
Total Bond Assets			-0.4	0.1	3.4	1.0	5.7	2.1	
●	BlackRock	GASL	14.5	0.1	11.6	0.3	2.1	0.4	Target not met
●	Bluecrest	AllBlue Ltd	1.4	2.4	8.6	10.0	4.5	10.0	Target not met
●	Pyrford	Global Total Return	0.7	1.7	2.3	7.4	3.9	7.8	Target not met
Total GTAA Assets			7.0	1.1	8.2	4.4	3.2	4.6	
●	In-House	Property	3.5	4.7	11.2	19.7	5.8	9.9	Target not met
●	In-House	Infrastructure	2.2	2.0	8.6	8.0	9.0	8.0	Target met
●	In-House	Timber / Agriculture	5.5	2.0	8.4	8.0	2.1	7.9	Target not met
●	Wellington	Commodities	-9.1	-9.8	-5.4	-7.3	-4.1	-4.6	Target not met
Total Real Assets			1.3	0.0	7.4	8.9	3.9	5.4	
●	Pioneer	Fund of Hedge Funds	8.4	0.1	13.9	0.3	5.3	0.4	Target not met
●	SSARIS	Fund of Hedge Funds	0.1	2.0	3.4	8.0	1.9	8.0	Target not met
●	Liongate	Fund of Hedge Funds	-0.2	2.0	6.8	8.0	2.2	8.0	Target not met
●	In-House	Private Equity	5.2	3.6	10.8	15.1	6.1	15.0	Target not met
n/a	In-House	Opportunistic	4.5	2.0	14.1	7.9	6.0	8.0	n/a
Total Alpha Seeking Assets			3.9	2.8	9.6	11.7	5.1	11.7	
n/a	Insight	LDI Portfolio	10.7	10.7	n/a	n/a	n/a	n/a	n/a
Total (ex Alternatives, GTAA and LDI)			1.8	1.5	7.6	6.7	10.2	9.7	
Total (ex GTAA and LDI)			2.2	1.5	8.0	8.1	8.1	9.3	
Total (ex LDI)			2.8	1.4	8.0	7.6	7.5	8.7	
TOTAL CLWYD PENSION FUND			4.4	3.2	9.9	9.5	8.2	9.3	

Note: Performance shown is unaudited, calculated by JLT Employee Benefits based on data provided by the investment managers.

Appendix 1: Summary of Mandates

Manager	Fund	Mandate	Benchmark	Objective*	Strategic Weight	Tactical Range
Duet	Global Opportunities	Unconstrained Global Equities	Absolute Return	8-10% p.a. abs	5.0%	+/-1%
Investec	Global Free Enterprise	Unconstrained Global Equities	MSCI AC World Index	+3.0% p.a.	5.0%	+/-1%
Aberdeen	Asia Pacific ex Japan	Asia Pacific ex Japan Equities	MSCI AC Pacific (ex Japan) Index	+3.5% p.a.	7.0%	+/-1%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index	+2.5% p.a.	7.0%	+/-1%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index	+2.5% p.a.	7.0%	+/-1%
Aberdeen	Frontier Markets	Frontier Markets Equities	MSCI Frontier Equities Index	+3.0% p.a.	-	-
Stone Harbor	LIBOR Multi-Strategy Portfolio	Multi-Asset Credit	1 Month LIBOR Index	Outperform	15.0%	+/- 2%
BlackRock	GASL	Global Tactical Asset Allocation	7 Day LIBID Index	15% p.a. abs	6.0%	+/- 1%
Bluecrest	AlIblue Ltd	Global Tactical Asset Allocation	Absolute Return	10-15% p.a. abs	3.0%	+/- 1%
Pyrford	Global Total Return	Global Tactical Asset Allocation	UK Retail Price Index	+5.0% p.a.	3.0%	+/- 1%
Pioneer	Fund of Hedge Funds	Fund of Hedge Funds	7 Day LIBID Index	8-10% p.a. abs		-
SSARIS	Fund of Hedge Funds	Fund of Hedge Funds	Absolute Return	8-10% p.a. abs	5.0%	-
Liongate	Fund of Hedge Funds	Fund of Hedge Funds	Absolute Return	8-10% p.a. abs		
In-House	Private Equity	Private Equity	Absolute Return	15.0% p.a. abs	8.0%	+/- 3%
In-House	Opportunistic	Opportunistic	Absolute Return	8-10% p.a. abs	2.0%	
In-House	Property	Property	IPD Balanced Funds Weighted Average	Outperform	7.0%	
In-House	Infrastructure	Infrastructure	Absolute Return	8-10% p.a. abs	2.0%	+/- 3%
In-House	Timber / Agriculture	Timber / Agriculture	Absolute Return	8-10% p.a. abs	2.0%	
In-House	Commodities	Commodities	S&P GSCI Equal Weighted (Hedged)	+2.0% p.a.	4.0%	
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	Outperform	19.0%	TBC

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

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



JLT Employee Benefits

St James's House
7 Charlotte Street
Manchester M1 4DZ
Tel: +44 (0)161 957 8000
Fax: +44 (0)161 957 8040

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

This page is intentionally left blank

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **5TH NOVEMBER 2014**

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

SUBJECT: **FUNDING AND FLIGHT-PATH UPDATE**

1.00 PURPOSE OF REPORT

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

2.00 BACKGROUND

2.01 A role of the Committee is to monitor the funding position of the Fund and the management of the liabilities.

2.02 Mercer provides advice to the Fund on liability hedging and flight-paths. Insight Investments were appointed to manage the assets on behalf of the Fund.

2.03 The flight-path strategy commenced from 1st April 2014 with the following aims:

- Achieve a 'base level' of interest rate and inflation hedging (10% hedge ratio) at the outset.
- Aim for a target interest rate and inflation hedge of 40% by April 2019.
- Achieve a target interest rate and inflation hedge ratio of 80% in the long term.

To this end, Insight will construct and manage a portfolio of assets that aims to hedge a proportion of the Fund's liability cash flows.

2.04 By replacing the Fund's passive equity exposure with an Equity Total Return Swap (synthetic equity exposure) the Fund freed up capital to be used as collateral for a liability hedging portfolio. This enables the Fund to maintain its exposure to return seeking assets, while reducing the interest and inflation risks.

2.05 From the 'base level' further hedging will be achieved through an incremental build up over time overlaid with triggers according to prevailing market conditions. In addition there are funding level triggers which will result in the disinvestment of growth assets as the funding level improves. All the above is fully documented and understood by Mercer and Insight.

2.06 The triggers have been formulated on the understanding that the Fund's overall objective is to be fully funded within 10 to 12 years which is ahead of the average recovery plan based on deficit contributions of 18 years.

3.00 CONSIDERATIONS

- 3.01 The quarterly summary report from Mercer on the funding position and an overview of the liability hedging mandate is attached as at 30 September 2014. It includes a “traffic light” analysis of the key components of the Flightpath and hedging mandate with Insight. This will be presented at the Committee meeting including a verbal update on how things have moved. As can be seen all traffic lights are “green” at 30 September meaning the mandate is operating in line with expectations.
- 3.02 With regards to specific actions since the commencement of the strategy a number of interest rate triggers have been met and the Fund had an interest rate hedge of approx. 23.5% and an inflation hedge of approx. 13.6% at 30 September. No funding triggers had been reached. Since 30 September further inflation triggers have been hit on 14 October and 15th October and the inflation hedge increased to approx. 18.3%.
- 3.03 The estimated funding position as at 30th September is 70% and an estimated deficit of £568m which is on track versus expectations. The hedges in 3.02 have protected the funding position against the recent changes in interest and inflation rates to the extent the deficit would have been approx. £30m higher if the hedges since inception had not been implemented via the triggers and the original strategy had remained in place.
- 3.04 Markets volatility continues and the Actuary will verbally update the Committee on developments since 30 September.

4.00 RECOMMENDATIONS

- 4.01 That Committee Members note and discuss the estimated funding level and the liability hedging undertaken to 30th September 2014.

5.00 FINANCIAL IMPLICATIONS

- 5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

- 6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

- 7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

- 8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

- 9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report

12.00 APPENDICES

12.01 Overview of risk management framework – Q3 2014

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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

This page is intentionally left blank



TALENT • HEALTH • RETIREMENT • INVESTMENTS

Clwyd Pension Fund Overview of risk management framework – Q3 2014

October 2014

Paul Middleman
Adam Lane



Clwyd Pension Fund

Executive summary



= as per expectations



= to be kept under review



= action required



Overall funding position

- Currently in line with the existing recovery plan
- Funding level below the first de-risking trigger

No action required



Liability hedging mandate

- Insight in compliance with investment guidelines
- All triggers implemented as expected
- Performance in line with expectations

No action required



Synthetic equity mandate

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

No action required



Collateral and counterparty position

- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.5% rise in yields and a 50% fall in equity markets before requiring further collateral

No action required



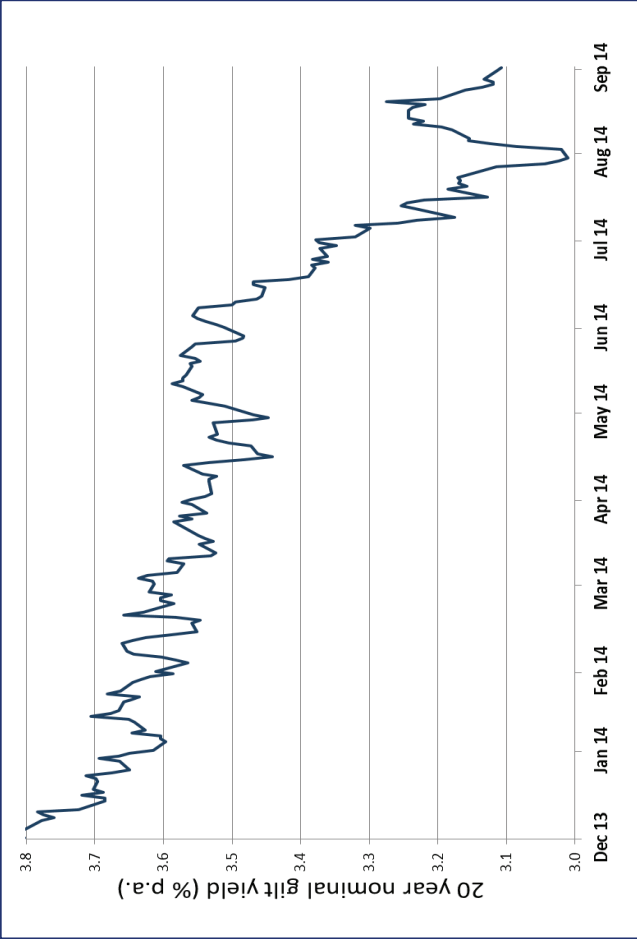
LIBOR Plus Fund

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

No action required

Clwyd Pension Fund Update on market conditions

Change in interest rates during 2014



Change in inflation during 2014



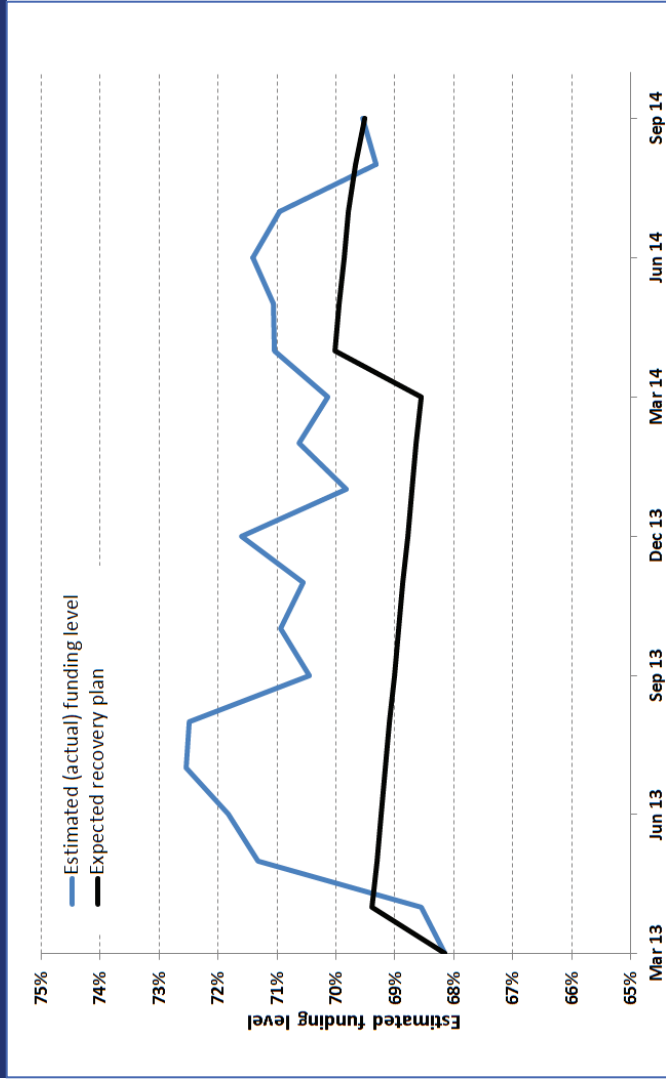
Since December 2013, there has been a steep fall in interest rates whilst market rates of inflation have been much less volatile with only a slight decrease in yields.

Interest rates fell significantly over August which led to an increase in the Funds deficit. The impact was mitigated to some extent by the Funds current hedging position.

Although yields increased over September, it was still a period of high volatility and the outlook remains uncertain. Yields are difficult to predict due to their influence from economic factors and rate predictions can influence money markets, causing unexpected results.

Clwyd Pension Fund Funding level monitoring to 30 September 2014

Estimated funding position since 31 March 2013



Comments

The **black line** shows a projection of the funding level from the 31 March 2013 based on the assumptions (and contributions) outlined in the actuarial valuation.

The **blue line** shows an estimate of the progression of actual funding level from 31 March 2013. This shows that the Fund was on target with the funding plan at 30 September 2014.

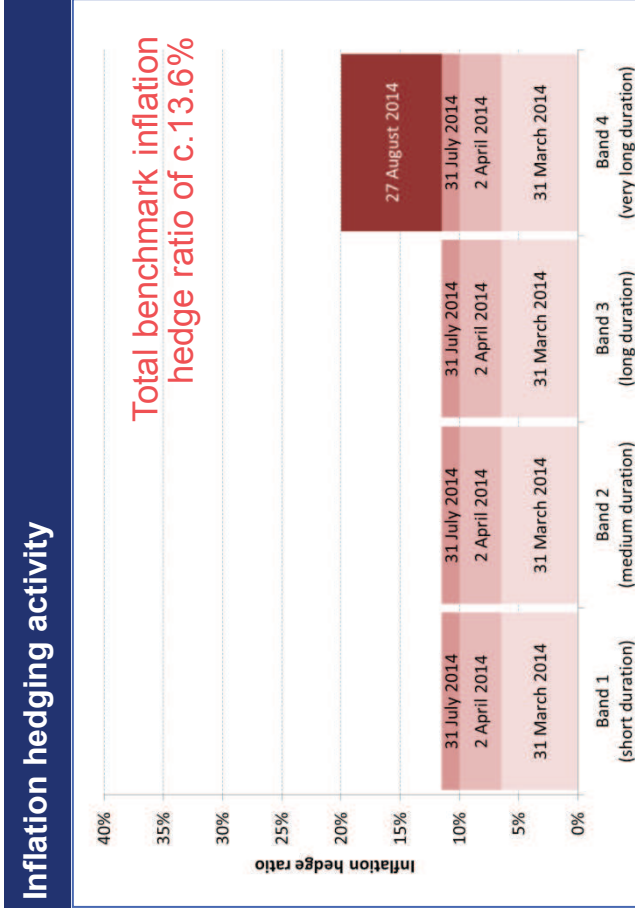
At the 30 September 2014, we estimate that the funding level and deficit was as follows:

70% (£568m)

Action: No action required. The funding level is currently below the first funding level trigger which is set at 80% (please see the table below).

	Funding level	Impact on strategic asset allocation	Change to the hedge ratio
30 September 2014	70%	No action	No action
Funding level Trigger 1	80%	Reduce the Insight equity exposure by 50%	Increase hedge ratio to 40%
Funding level Trigger 2	85%	Remove the Insight equity exposure	Increase hedge ratio to 50%
Funding level Trigger 3	90%	Increase Insight allocation from 19% of assets to 25%	Increase hedge ratio to 60%
Funding level Trigger 4	95%	Increase Insight allocation from 25% of assets to 30%	Increase hedge ratio to 70%
Funding level Trigger 5	100%	Increase Insight allocation from 30% of assets to 35%	Increase hedge ratio to 80%

Clwyd Pension Fund Update on liability hedging (Source: Insight Investment)



Source: Insight (PV01) and Mercer (liability PV01 and calculation)

	Date	Band 1	Band 2	Band 3	Band 4
Start position	30 June	33.8%	30%	10%	10%
Time Trigger 1	31 July	1.5%	1.5%	1.5%	1.5%
	-	-	-	-	-
End position	30 September	35.3%	31.5%	11.5%	11.5%

	Date	Band 1	Band 2	Band 3	Band 4
Start position	30 June	10%	10%	10%	10%
Time Trigger 1	31 July	1.5%	1.5%	1.5%	1.5%
Trigger 4	27 August	-	-	-	8.5%
End position	30 September	11.5%	11.5%	11.5%	20%

Clwyd Pension Fund

Important notices

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

© 2014 Mercer LLC. All rights reserved.

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

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

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

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

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

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



This page is intentionally left blank

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **5th NOVEMBER 2014**

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

SUBJECT: **INVESTMENT STRATEGY REVIEW 2014**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with recommendations for changes to the Investment Strategy for the Clwyd Pension Fund.

2.00 BACKGROUND

2.01 The review of the Investment Strategy for the Clwyd Pension Fund was carried out to ensure that the strategy used continued to meet the key objectives of the Fund, which are:

- To aim for a funding level of 100%;
- To aim for long term stability in employers' contribution rates;
- To keep absolute cost at an acceptable and sustainable level;
- To strike an appropriate balance between the strategy most suitable for long-term consistent performance and the funding objectives.

The review was carried out by the Investment Consultant to the Fund (JLT Employee Benefits) in consultation with Officers before being presented, discussed and agreed with the Pension Advisory Panel on 3rd September 2014.

The last fundamental Investment Strategy Review was in 2010, implemented, in the main, from 1st April 2011. A mandate with Insight to provide protection against the volatility of interest rate and inflation rate changes was implemented in March 2014. In addition a funding and risk management "Flightpath" was implemented, embedding longer term objectives relating to the control of the volatility of funding outcomes. The optimisation model used in 2010 to determine the strategic benchmark suggested that the asset mix and the requirement for fund managers to deliver out-performance against market indices should produce a long-term return in the region of gilts + 5% with volatility of around 10%.

3.00 THE CURRENT INVESTMENT STRATEGY

3.01 The current investment strategy resulting from the 2010 review and the introduction of the 'Flightpath' mandate meant that the following Strategic Asset Allocation was established:

SAA (%)	Scenario	Rebalancing Range	CAA Range
	Equity - Alpha Seeking		
6.5	PacRim – High Alpha	+/- 1	
6.5	Emerging Markets – Core	+/- 1	
1.0	Frontier Markets		
5.0	Global – High Alpha	+/- 1	
5.0	Other – High Alpha	+/- 1	
24.0		+/- 2	+/- 10
43.0	TOTAL EQUITY	+/- 3	+/- 15
	Fixed Interest		
15.0	Unconstrained	+/- 2	
0.0	Government Bonds		
0.0	Cash/Other	+/- 5	
15.0		+/- 2	+/- 15
15.0	TOTAL FIXED INTEREST	+/- 2	+/- 15
	Alpha-Seeking Alternatives		
8.0	Private Equity		
5.0	Hedge Fund of Funds		
2.0	Free		
15.0		+/- 3	
	Real Assets		
7.0	Property		
2.0	Infrastructure		
2.0	Timber/Agriculture		
4.0	Commodities		
15.0		+/- 3	
30.0	TOTAL OTHER ASSETS	+/- 5	+/- 5
	Tactical Asset Allocation		
6.0	GTAA	+/- 1	
3.0	DTAA	+/- 1	
3.0	Macro FOF	+/- 1	
12.0		+/- 2	
	TOTAL TAA	+/- 2	+/- 5
	Liability Hedging portfolio		
	Interest rate hedge		
	Inflation rate hedge		
	Collateral portfolio - Bonds/Cash		
	Collateral portfolio – Equity		
19.0	TOTAL HEDGING PORTFOLIO	0-35%	+20%

This structure also allowed the Fund to:

- Aim to reach full funding by 2032, via the Funds' recovery plan;
- Aspire to reach full funding by 2024 to 2026

4.00 FINDINGS FROM THE STRATEGY REVIEW

- 4.01 The review showed, using JLT Market Forecast Group output for Quarter 2 2014, that the expected market returns over the coming ten year period would mean that the Fund could be expected to generate a return of 7.2% p.a..
- 4.02 The impact of a 1 in 20 market event was also assessed, using a 'Value at Risk' technique and this showed that the Fund deficit could increase by £470.3m if such events were to occur.
- 4.03 The objective of the remainder of the investigations carried out was to focus on identifying amendments to the investment structure that could maintain investment returns as at a suitable level to allow the aim to reach full funding by 2032 but also attain the aspirational goal of full funding by 2024 to 2026.
- 4.04 The conclusions of these investigations were that no radical re-organisation of the current investment structure was required and that the portfolio was well diversified with the introduction of the de-risking framework and Flightpath was well designed and its implementation ahead of the majority of other LGPS funds.
- 4.05 However, there were opportunities to reduce risk without sacrificing return.
- 4.06 These opportunities mean four main areas of change.
1. The current Hedge Fund portfolio be re-structured to incorporate exposure to a Managed Futures account to provide protection against market volatility (particularly on the downside). Also, the overall level of exposure to this area should be reduced;
 2. An increase in the exposure and flexibility of the current Tactical Portfolio and the cessation of the current GTAA portfolio;
 3. Areas (such as Commodities) should be disinvested from, at this time;
 4. Exposure to major economic regions should be managed through the Global Equity exposure.
- 4.07 These changes, based on the recommended allocation for the Tactical portfolio, meant that expected return could be maintained, with the risk being reduced by £18.5m from £470.3m to £451.8m (a reduction of 4%).
- 4.08 In carrying out the assessment, it was recognised that the structure of some of the underlying manager portfolios was hedge fund like and this resulted in an amended current allocation.

4.09 The revised Strategic Asset Allocation and ranges are shown below:

Asset type	Current Allocation	New Allocation	Change	Rebalancing Ranges (%)
Global Equity	5.0%	8.0%	+ 3.0%	5.0 – 10.0
Asia Pacific Equity	6.5%	0.0%	- 6.5%	N/A
Emerging Market Equity	6.5%	6.5%	No Change	5.0 – 7.5
Frontier Market Equity	1.0%	2.5%	+1.5%	1.0 – 4.0
Multi Asset Credit	15.0%	15.0%	No Change	12.5 – 17.50
Tactical Allocation	9.0%	19.0%	+10.0%	15.0 – 25.0
Property	7.0%	7.0%	No Change	5.0 – 10.0
Infrastructure*	4.0%	4.0%	No Change	2.0 – 7.0
Commodities	4.0%	0.0%	- 4.0%	0.0 – 5.0
Private Equity	10.0%	10.0%	No Change	6.0 – 12.0
Managed Account	13.0%	9.0%	- 4.0%	7.0 – 11.0
<i>Hedge Funds</i>	<i>13.0%</i>	<i>3.0%</i>		
<i>Managed Futures</i>	<i>0.0%</i>	<i>6.0%</i>		
Liability Hedging	19.0%	19.0%	No Change	19.0
Cash	0.0%	0.0%	No Change	0.0% - 5.0%

*Infrastructure includes exposure to Agriculture and Timber

4.10 The Rebalancing ranges have been set to allow for reasonable market movement to occur before incurring the costs of changing the asset allocation

4.11 The Tactical portfolio is to be constructed of two elements.

- A Diversified portfolio of Growth assets comprising the existing Pyrford portfolio and a second manager who adds style/portfolio management diversification;
- A flexible short term tactical allocation based on JLTs' suggested 'best ideas'.

4.12 Decisions regarding the 'best ideas' portfolio will be made through discussion between Officers and JLT, carried out on a monthly basis and appropriate targets and monitoring will be developed in relation to this portfolio.

4.13 The revised Conditional Asset Allocations take into account the Total Portfolio positions, excluding the Insight mandate, incorporating the underlying allocations for the Diversified Growth managers, the 'Best ideas' holdings and the Managed Account exposures. The resulting ranges and initial exposure is as follows:

Overall Conditional Asset Allocation ranges

Asset type	Conditional Range (%)	Initial allocation (%)
Developed Equity	0 – 30	11.4
Emerging Market equity	0 – 15	6.8
Frontier Market Equity	0 – 5	2.5
Private Equity	8 – 12	10.0
Corporate Bonds	0 – 30	4.1
Government Bonds	0 – 30	2.1
Overseas Government Bonds	0 – 30	2.2
Emerging Market Debt	0 – 30	10.0
High Yield Debt	0 – 30	10.3
Property	5 – 15	7.0
Infrastructure	2 – 10	4.0
Hedge Funds	0 – 10	3.4
Managed Futures	0 – 15	6.9
Commodities	0 – 10	0.0
Cash	0 - 30	1.2

5.00 **RECOMMENDATIONS**

5.01 That Committee Members:

- 1) Agree to the recommended and revised Strategic Asset Allocation and Conditional Asset Ranges
- 2) Agree to the amendments (shown in bold) to the Fund's Delegation of Functions to Officers in Appendix 1 as follows:
 - a. the addition of a new delegation of responsibility for decisions relating to the 'best ideas' section of the Tactical portfolio to the Pension Fund Manager, having regard to the advice of JLT with ongoing monitoring by both the Pension Advisory Panel and the Pension Fund Committee, and
 - b. two further clarification amendments.
- 3) Note appropriate objectives and monitoring will be developed in relation to the new 'best ideas' section of the Tactical portfolio.
- 4) Note that the existing Delegation of Functions already provides powers for officers to implement the strategy, including the appointment of suitable investment managers which will be subject to final ratification by the Pension Fund Committee.

6.00 **FINANCIAL IMPLICATIONS**

6.01 The on-going investment management costs of the Fund are expected to reduce by approximately £650k. This excludes the manager costs incurred within the internal portfolios. As a percentage of the total assets under management excluding those internal assets, the costs would fall from 0.62% to 0.52% per annum.

7.00 ANTIPOVERTY IMPACT

7.01 None directly as a result of this report.

8.00 ENVIRONMENTAL IMPACT

8.01 None directly as a result of this report.

9.00 EQUALITIES IMPACT

9.01 None directly as a result of this report.

10.00 PERSONNEL IMPLICATIONS

10.01 None directly as a result of this report.

11.00 CONSULTATION REQUIRED

11.01 None required

12.00 APPENDICES

12.01 Revised Delegation of Functions to Officers

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Pension Advisory Panel minutes

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

Delegation of Functions to Officers by Pension Fund Committee – November 2014

Key:

PFC – Pension Fund Committee

PAP - Pension Advisory Panel

PFM – Pension Fund Manager

CFM – Corporate Finance Manager

COPR - Chief Officer, People & Resources

IC – Investment Consultant

FA – Fund Actuary

IA – Independent Advisor

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>Implementation of the agreed Flightpath triggers</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>
	<p>Investment into new mandates / emerging opportunities</p>		

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
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 COPR (having regard to ongoing advice of the IC) and subject to ratification by PFC	High level monitoring at PFC with more detailed monitoring by PAP
	Selection, appointment and dismissal of Fund Managers	PFM, CFM and COPR (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.	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 COPR after taking appropriate advice from the FA.	Ongoing reporting to PFC for noting
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 COPR 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
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 COPR (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 COPR, 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.
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	COPR	Regular reports provided to PFC and included in Annual Report and Accounts.

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

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
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 COPR, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	PFC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PFC.
	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.