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Interim Head of Legal and Democratic Services
Pennaeth Dros Dro Gwasanaethau Cyfreithiol a



To: Councillor Alan Diskin (Chair)

CS/NG

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

29 January 2015

Co-opted Members

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

Maureen Potter 01352 702321
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, 4TH FEBRUARY, 2015** 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 - 8)
To confirm as a correct record the minutes of the last meeting.

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

GOVERNANCE

4 GOVERNANCE UPDATE

To provide a verbal update in relation to any key matters. A full update and monitoring reports will be provided at the meeting of the Pension Fund Committee to be held on 24 March 2015.

ADMINISTRATION AND COMMUNICATIONS

5 PENSION ADMINISTRATION/COMMUNICATIONS (Pages 9 - 12)

Report of Chief Officer (People & Resources)

INVESTMENT AND FUNDING

6 FUNDING AND FLIGHT PATH UPDATE (Pages 13 - 22)

Report of Chief Officer (People & Resources)

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

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

The balance of public interest is against the report being made public at this time as it could prejudice the procurement process.

8 INVESTMENT STRATEGY REVIEW (Pages 23 - 30)

Report of Chief Officer (People & Resources)

CLWYD PENSION FUND COMMITTEE **5 NOVEMBER 2014**

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Wednesday, 5 November 2014.

PRESENT: Councillor Alan Diskin (Chairman)

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

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

APOLOGIES: Councillor Brian Dunn

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 (Pensions Finance Manager), Helen Burnham (Pensions Administration Manager) and Committee Officer

13. 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.

14. MINUTES

The minutes of the meeting of the Committee held on 22 July 2014 were submitted.

Matters arising

Governance update:

The Clwyd Pension Fund Manager confirmed that a letter of thanks had been sent to Mr. Bob Young.

RESOLVED:

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

15. TRAINING POLICY

The Chairman invited Karen McWilliam, Independent Advisor - Aon Hewitt, to present a report to seek approval for the Fund's Training Policy. She provided background information and advised that the Policy detailed the proposed training strategy for members of the Pension Fund Committee, Pension Board, and senior officers responsible for the management of the Fund. It had been created to provide a formal framework and greater transparency on the training regime in accordance with national requirements. Members of the Pension Fund Committee would be provided with ongoing opportunities to attend training events to assist them to adhere to the policy.

Members were asked to consider the draft Training Policy which was appended to the report. The Independent Advisor responded to the comments made and referred to the initial information and induction process, the monitoring of attendance and identification of training needs.

RESOLVED:

- (a) That the Training Policy be approved; and
- (b) That the need for each Committee member to adhere to the Training Policy and maintain the required level of knowledge and skills be noted.

16. GOVERNANCE UPDATE

The Clwyd Pension Fund Manager introduced a report to update the Committee on governance related issues. He provided background information and referred to the key considerations as detailed in the report.

The Clwyd Pension Fund Manager advised that the deadline for responses to the Government consultation on governance and cost management was 21 November 2014. Referring to the implementation of a Local Pension Board for the Clwyd Pension Fund, he reported that at the meeting of the Constitution Committee held on 15 October 2014, a protocol for the new Board was recommended for approval by the County Council. Subject to final regulations it was hoped that the protocol would be approved at the meeting of the County Council to be held on 27 January 2015.

The Clwyd Pension Fund Manager reported that the LGPS regulations required the Fund to publish an Annual Report before 1 December 2014. An extract of the Fund's draft Annual Report, which excluded statutory documents already approved, was appended to the report for consideration. The Wales Audit Office have now reviewed the Annual Report and some minor amendments are required which will be made before publication.

The Clwyd Pension Fund Manager referred to the Service Plan 2014/15 and advised that the update appended to the report provided an

outline of progress against the internal and external governance section of the Plan. He explained that whilst the majority of items were as originally planned a number of changes had been made and these were as detailed in the report.

RESOLVED:

- (a) That the Clwyd Pension Fund Annual Report 2013/2014 be approved with the amendments advised by the Wales Audit Office; and
- (b) That the changes to the Service Plan 2014/15, as detailed in the report, be approved.

17. EXTERNAL AUDIT OF THE CLWYD PENSION FUND 2013/14 ACCOUNTS AND ANNUAL REPORT

The Corporate Finance Manager introduced a report on the Wales Audit Office (WAO) 2013/14 audit findings. He provided background information and advised that the Fund had received an unqualified opinion on the accounts.

The Corporate Finance Manager referred to the Audit of Financial Statements Report for the Clwyd Pension Fund which was appended to the report and included the ISA260 and letter of representation produced by the WAO. He drew attention to paragraph 10 of the Report which summarised the corrections highlighted during the audit of the accounts which were agreed and changed in the final statement of accounts. The corrections related to under accrual of lump sum and death grant payments in the accounts and an adjustment to the valuation of "In House" holdings where there was a delay in receiving the valuations. The Corporate Finance Manager referred to the ISA260 which had highlighted the two issues arising from the audit.

Councillor Matt Wright raised a query concerning the under accrual of death grant payments. The Pensions Administration Manager explained that issues had arisen due to lack of notification.

RESOLVED:

That the report be noted.

18. LOCAL GOVERNMENT PENSION SCHEME (LGPS) CURRENT ISSUES 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 (LGPS). He advised that a "current issues" document was appended to the report which provided detail on the Regulations and other matters.

Mr. Middleman reported on the key considerations for the Fund. He advised that national discussions were taking place regarding transfer payments to defined contribution arrangements for individual members from the LGPS, should the member want to take advantage of the new “freedoms”. He explained that there is some concern on the impact on Local Government Pension Funds if there were a large number of members transferring out and this is being considered as part of the national discussions. It was also noted that in terms of managing the risks in the LGPS members transfer out is not necessarily a bad outcome. More detail was to be provided at the AJCM.

RESOLVED:

That the report be noted.

19. 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
- delegated functions

The Clwyd Pension Fund Manager advised that the report provided an update against the Fund’s annual Service Plan under the following two key areas:

Part 1 - Projects and Improvements

Part 2 - Performance measurements against day to day tasks

The Clwyd Pension Fund Manager explained that there has been a significant increase in the day to day workload. New starters had increased 75% year on year due to auto enrolment and retirements increased by 35%. In addition, as previously reported, there remained some manual calculations required relating to the new CARE Scheme while systems are updated. Prioritising the above has led to some delays with the Improvement Projects in the Service Plan. The Clwyd Pension Fund Manager also reported on delivery of the Communications Policy and on the delegated functions.

In response to a query from Councillor Steve Wilson around the arrangements concerning staffing in the Pensions Administration section, it was agreed that information on staffing levels and turnover in Pensions Administration would be included in future reports.

RESOLVED:

- (a) That the report be noted; and

- (b) That information on the staffing levels and turnover in Pensions Administration be included in future reports.

20. INVESTMENT AND FUNDING UPDATE

The Clwyd Pension Fund Manager introduced a report to provide an update on 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
- matters of relevant interest

The Clwyd Pension Fund Manager provided background information and reported on progress made against the key projects within the Finance Service Plan for 2014/15. He advised that most of the projects for investment, funding and accounting had been completed or were on target. He explained that the review of the AVC provider performance had been deferred to quarter 4. The 2014/15 budget had been reported in the Annual Report, however, monitoring arrangements were to be revised to incorporate new guidance issued by CIPFA for accounting for LGPS management costs. He also commented on rebalancing and cash management and the monitoring of fund managers.

The Clwyd Pension Fund Manager reported on other matters of relevant interest and referred to the Fund's response to the DCLG consultations for Opportunities for Collaboration, Cost Savings and Efficiencies. He advised that consultation had closed on 11 July 2014 but no further information had been released by the DCLG to date. He also reported that there was a meeting planned with all eight Welsh Pension Fund Treasurers on 11th November 2014 to discuss the recommendations in the Society of Welsh Treasurers' 'Working Together' Report. The cost for a business case for a collective investment vehicle was being shared between the eight funds with the Clwyd Fund contributing £8,500.

RESOLVED:

That the report be noted.

21. 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 provided background information and context and presented the Economic and Market Update Report for Quarter 2 – 2014.

During discussion Mr. Finch responded to the comments and observations made by members and gave an overview of market performance and volatility.

RESOLVED:

That the update be noted.

22. 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 presented the Investment Strategy and Manager Summary report for Quarter 2, 2014, which was appended to the report. He advised that the Fund had underperformed its benchmark over the quarter ending 30 June 2014, however, this position was reversed in the September quarter when the Fund had outperformed its benchmark by 1.2%. He referred to the summary of mandates contained in the Report which showed a number of fund managers or asset classes which had long term absolute return targets of 8-10% or 15% per annum and advised that under current financial conditions the targets were unachievable and needed to be reviewed. He explained that the 'red circles' in the manager performance section of the report should be considered in this context. Mr. Finch reported that the Fund was currently undergoing a strategic review.

RESOLVED:

That the report be noted.

23. 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 Overview of Risk Management Framework report for Quarter 3, 2014. He explained that the report included "traffic light" analysis of the key components of the Flightpath and hedging mandate with Insight which, as at 30 September 2014, demonstrated that the mandate was operating in line with expectations.

Mr. Middleman gave a verbal update on developments and referred to the key considerations around interest rate and inflation rate changes and triggers. He reported that the estimated funding position as at 30 September 2014 was 70% and that the estimated deficit of £568m was on track versus expectations. Mr. Middleman explained the interest rate and inflation rate hedges had protected the funding position against recent changes in interest and inflation rates to the extent that the deficit would have been higher (by the

order of £30m) if the hedges, since inception, had not be implemented via the triggers and the original strategy had remained in place.

RESOLVED:

That the report be noted.

24. INVESTMENT STRATEGY REVIEW 2014

Mr. John Finch, Investment Consultant - JLT Group, introduced a report on the recommendations for changes to the Investment Strategy for the Clwyd Pension Fund.

Mr. Finch provided background information and advised that the current investment strategy was as a result of the previous review undertaken in 2010 and the introduction of the 'Flightpath' mandate. The findings from the further investment strategy review undertaken in 2014 concluded that no radical re-organisation of the current investment structure was required and the portfolio was well diversified with the introduction of the de-risking framework. The Flightpath was well designed and its implementation ahead of the majority of the LGPS funds. However, there were a number of further opportunities to reduce risk without sacrificing return which would necessitate four main areas of change and these were detailed in the report. The changes, based on the recommended allocation for the Tactical portfolio, meant that expected return could be maintained with risk being reduced. Mr. Finch drew attention to the revised Strategic Asset Allocation and Conditional Asset Allocation ranges which were also detailed in the report.

RESOLVED:

- (a) That the recommended and revised Strategic Asset Allocation and Conditional Asset Allocation ranges be approved;
- (b) That the amendments (shown in bold) to the Fund's Delegation of Functions to Officers in Appendix 1 be approved as follows:
 - (i) 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
 - (ii) Two further clarification amendments
- (c) That appropriate objectives and monitoring be developed in relation to the new 'best ideas' section of the Tactical portfolio; and
- (d) That the existing Delegation of Functions which already provides powers for officers to implement the strategy, including the appointment of suitable investment managers, be subject to final ratification by the Pension Fund Committee.

25. 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 11.25 pm)

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Chairman

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**
DATE: **4TH FEBRUARY 2015**
REPORT BY: **CHIEF OFFICER (PEOPLE AND RESOURCES)**
SUBJECT: **PENSION ADMINISTRATION AND COMMUNICATIONS
UPDATE**

1.00 PURPOSE OF REPORT

1.01 An interim update to Committee relating to the pension administration and communications service focusing on specific projects and service planning.

2.00 BACKGROUND

2.01 The Committee usually receive an update against the Fund's annual Service Plan split into two key areas, projects and improvements and performance measurements against day to day tasks. This will be included as part of the 24th March 2015 Committee Agenda.

2.02 At the 5th November 2014 Committee, further information was requested on the recruitment and retention problems for the pension administration service. The Pensions Administration Manager reported the position to the Advisory Panel of 17th December 2014 and as a result the Clwyd Pension Fund Manager is discussing this issue with the HR Business Partner. Further details will be included on the 24th March 2015 Committee Agenda.

3.00 CONSIDERATIONS

Risks and Service Planning

3.01 The challenges faced by the, administration and communication service was discussed at the Advisory Panel on the 17th December 2014 and again at a Special Advisory Panel on 16th January 2015 which considered the Fund's draft Risk Register and Service Plan for 2015/16 to 2017/18. These risks and challenges will be outlined at the workshop for Committee Members on 4th February 2015. The Risk Register, Training Plan and Service Plan will be presented to the 24th March 2015 Committee for approval.

3.02 In summary the administration and communication service will be faced by several new projects in the coming years which will require careful planning and resource management, such as GMP Reconciliation, Trivial Commutation and communicating and implementing the new member Freedom and Choice provisions. This is in addition to on going 'business as usual' challenges and the backlog of tasks.

Backlog of Tasks

- 3.03 An activity in the current Service Plan is to improve historic membership data by removing a backlog of cases that accumulated over a number of years. The original number of backlog cases was 3,000 and the number of those cases has been reduced to 1,700. Management have been monitoring the progress and unfortunately due to the staff turnover and the additional 'business as usual', progress has now reduced considerably. However, the importance of completing this project without undue delay is also recognised given legal requirements, increased scrutiny by the Pensions Regulator, focus on data quality and potential impact on employer liabilities.
- 3.04 It has now been accepted that this project cannot be completed with in house resource and that recruiting individuals with the relevant knowledge and skills would be very unlikely. Therefore it was agreed at Advisory Panel that Mercer should draft a proposal to provide project and administrative support to reduce and, in due course potentially clear the accumulated backlog of unprocessed tasks. Mercer have met with the 'in house' team to understand the complexity of the project and have provided a proposal for completion of the work.
- 3.05 A key risk to the project is achieving 'buy in' and co-operation from, in the main, the three unitary authorities in the Fund to provide the member data required. Given the importance and investment being made in this project it is intended to set up a Project Steering Group chaired by Chief Officer (People & Resources), upon which senior officers from Wrexham County Borough Council and Denbighshire County Council could be invited. A Project Management Group would report to the Steering Group.
- 3.06 The proposal outlines a project plan in two stages. The first stage is to complete the more straight-forward cases. It is estimated that these cases could be completed by August 2015. The charging structure is per case completed and it is estimated that the cost of this first phase of work will be £140,000. There will then be a review of the project and a decision made as to whether to continue. At that time experience of the project to date will enable a more accurate determination of timescales and costs to remove the remaining cases that are considered to be more complex. The budget for 2015/16 to be reported in the service plan at the March Committee will include these additional costs. The project plan also includes implementing procedures and internal controls with employers to avoid a backlog recurring in future.

4.00 RECOMMENDATIONS

- 4.01 That Committee Members note the report

5.00 FINANCIAL IMPLICATIONS

5.01 As outlined in paragraph 3.06.

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 The Head of Procurement, Section 151 Officer and Monitoring Officer on the procurement process for the backlog project.

11.00 CONSULTATION UNDERTAKEN

11.01 The Head of Procurement, Section 151 Officer and Monitoring Officer on the procurement process for the backlog project.

12.00 APPENDICES

12.01 None

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **4TH FEBRUARY 2015**

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 monthly summary report from Mercer on the funding position and an overview liability hedging mandate is attached as at 31st December 2014. It includes a "traffic light" 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. Based on the preliminary data from Insight, the analysis shows that all traffic lights are "green" at 31st December meaning the mandate is operating in line within the tolerances set by the our advisors. However, there is continuing volatility in markets so the current funding position is closer to an amber rating. This is because the funding position is behind the expected recovery plan given the recent change in market conditions. If this persists then we would possibly need to move to an amber rating and consider if any actions are needed.
- 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. 24.0% and an inflation hedge of approx. 26.0% at 31st December. No funding triggers had been reached. Since 31 December further inflation triggers were hit on the 2nd, 5th and 6th January meaning the inflation hedge increased to approximately 40%. This means we have already reached our aim the planned target level at April 2019 for inflation hedging. The Advisory Panel will consider if inflation hedging should continue and this will be reported at the next committee meeting in March 2015.
- 3.03 The estimated funding position as at 31st December is 66% and an estimated deficit of £700m which is behind 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. £70m higher if the hedges since inception had not been implemented via the triggers and the original strategy had remained in place.
- 3.04 The risk framework is structured so that the interest rate and inflation hedge ratio will be increased every quarter by 1.5% until the hedge ratios reach 40%. Given the inflation hedge ratio is now at 40% the time based inflation trigger has been suspended. In addition, a decision was taken to suspend the interest rate time based increase in the hedge ratio given the recent falls in gilt yields (this will be kept under review) as it was consider not to be cost efficient to increase the hedge automatically in the current market conditions.
- 3.05 The Actuary will verbally update the Committee on developments since 31st December and a further more detailed report will be presented at the March meeting.

4.00 RECOMMENDATIONS

- 4.01 That Committee Members note and discuss the estimated funding level and the liability hedging undertaken to 31st December 2014 and the further

hedging after 31st December resulting in a significant change in the inflation hedge ratio.

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 – Q4 2014

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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Clwyd Pension Fund Risk management framework monthly monitoring report

January 2015

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Adam Lane, FIA
Paul Middleman, FIA

Clwyd Pension Fund

Executive summary



= as per expectations



= to be kept under review



= action required



Overall funding position

- Currently behind the existing recovery plan
- Funding level below the first de-risking trigger

No immediate action required although the position needs to be monitored closely



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

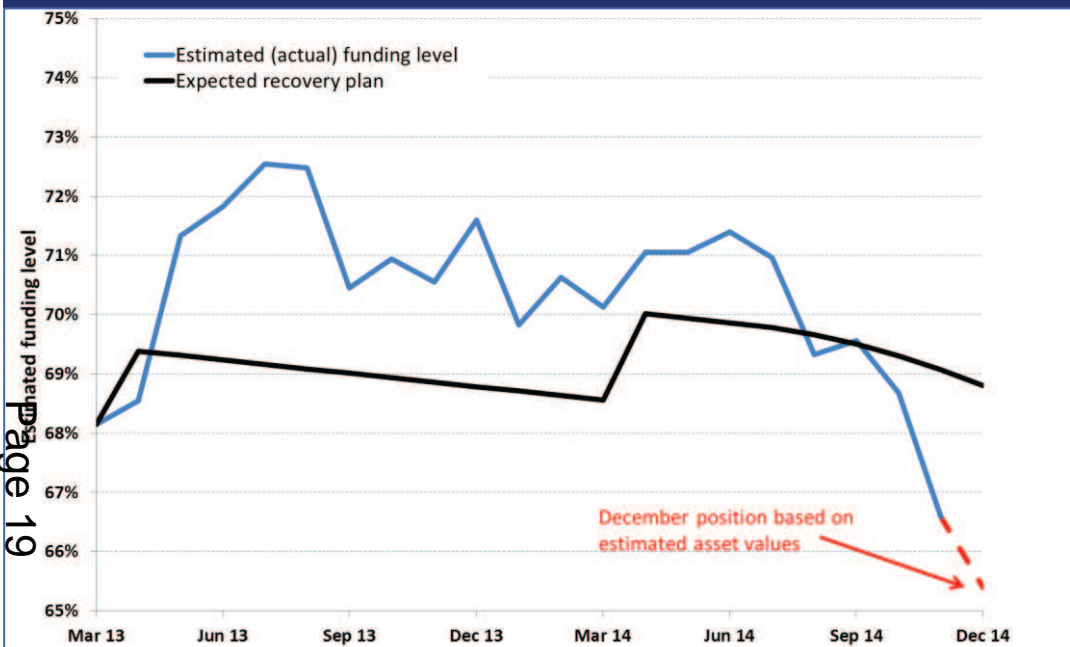
- Fund is ahead of performance target net of fees since inception
- Management team stable and no change in manager rating
- Allocation of £50m (plus growth) remains appropriate

No action required

Clwyd Pension Fund

Funding level monitoring to 31 December 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 behind the funding plan at 31 December 2014.

At the 31 December 2014, we estimate that the funding level and deficit was as follows:

66% (£700m*)

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).

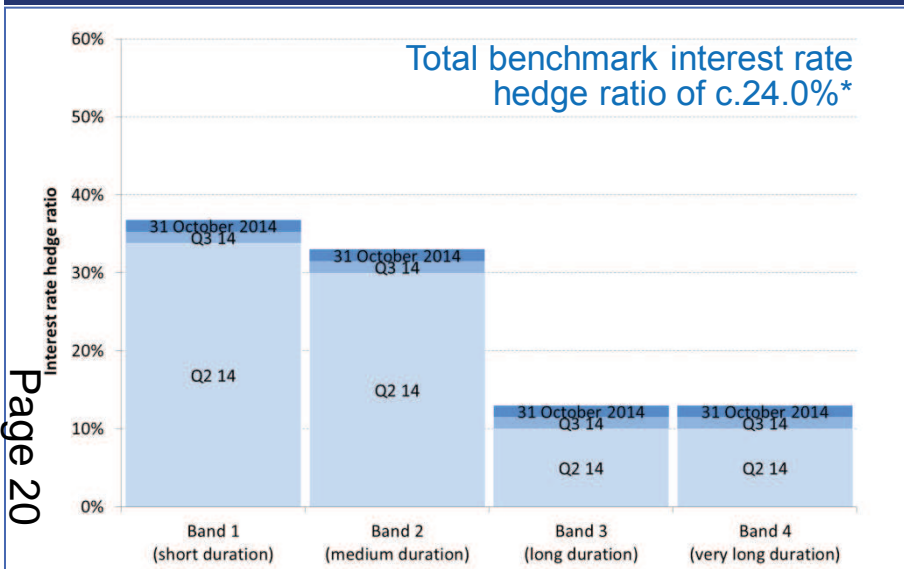
	Funding level	Impact on strategic asset allocation	Change to the hedge ratio
31 December 2014	66%	No action	No action
Funding level Trigger 1	80%	Reduce the Insight equity exposure by 50%	Increase hedge ratio to 40%
Funding level Trigger 2	85%	Remove the Insight equity exposure	Increase hedge ratio to 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%

*Asset value of £1,343m at 31 December 2014 provided by JLT on 16 January 2015.

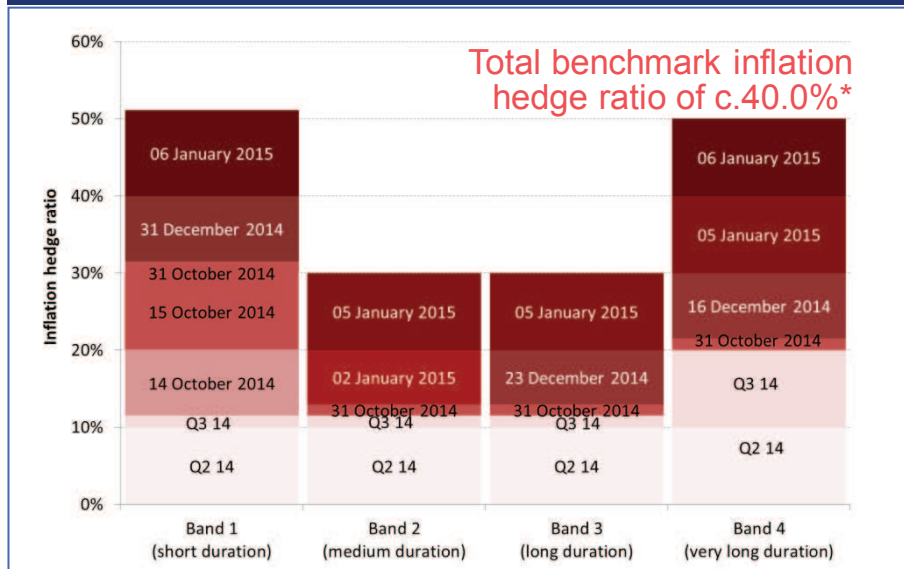
Clwyd Pension Fund

Update on liability hedging (Source: Insight Investment)

Interest rate hedging activity



Inflation hedging activity



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	Date	Band 1	Band 2	Band 3	Band 4
Start position	30 November	36.8%	33.0%	13.0%	13.0%
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
End position	31 December	36.8%	33.0%	13.0%	13.0%
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-

	Date	Band 1	Band 2	Band 3	Band 4
Start position	30 November	31.5%	13.0%	13.0%	21.5%
	16 December	-	-	-	+8.5%
	23 December	-	-	+7.0%	-
	31 December	+8.5%	-	-	-
End position	31 December	40.0%	13.0%	20.0%	30.0%
	02 January	-	+7.0%	-	-
	05 January	-	+10.0%	+10.0%	+10.0%
	06 January	+11.1%	-	-	+10.0%

During the month of December, several inflation triggers were breached and approximately £174k of IE01 (inflation sensitivity) exposure was added to the portfolio via inflation swaps. An additional £425k of IE01 exposure was added in the same way during the first week of January.

*Estimate assuming equal risk weightings across maturity bands

Clwyd Pension Fund

Important notices

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