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

To: Councillor Alan Diskin (Chair)

Councillors: Haydn Bateman, Matt Wright
Plus 1 Independent Alliance vacancy, and
1 Labour vacancy

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

CS/NG

15 May 2015

Maureen Potter 01352 702322
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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 **THURSDAY, 21ST MAY, 2015** at **10.30 AM** to consider the following items.

***Please note that the formal meeting will be preceded immediately by a Freedom and Choice training session at 9.30 a.m. to which all Clwyd Pension Fund Committee members are expected to attend.**

Yours faithfully

Democracy & Governance Manager

AGENDA

1 **APPOINTMENT OF CHAIR**

The Council has appointed Councillor Alan Diskin to this role at the Annual Meeting.

2 **APPOINTMENT OF VICE-CHAIR**

The Council has appointed Councillor Haydn Bateman to this role at the Annual Meeting.

3 **APOLOGIES**

4 **DECLARATIONS OF INTEREST (INCLUDING WHIPPING DECLARATIONS)**

5 **MINUTES** (Pages 5 - 10)

To confirm as a correct record the minutes of the meeting held on 4 February 2015.

GOVERNANCE

6 **GOVERNANCE POLICY** (Pages 11 - 32)

Report of Chief Officer (People and Resources)

7 **GOVERNANCE UPDATE** (Pages 33 - 60)

Report of Chief Officer (People and Resources)

8 **RISK STRATEGY AND REGISTER** (Pages 61 - 80)

Report of Chief Officer (People and Resources)

ADMINISTRATION AND COMMUNICATIONS

9 **LGPS UPDATE** (Pages 81 - 94)

Report of Chief Officer (People and Resources)

10 **PENSION ADMINISTRATION / COMMUNICATIONS UPDATE** (Pages 95 - 100)

Report of Chief Officer (People and Resources)

INVESTMENT AND FUNDING

11 **STATEMENT OF INVESTMENT PRINCIPLES** (Pages 101 - 146)

Report of Chief Officer (People and Resources)

12 **FUNDING STRATEGY STATEMENT** (Pages 147 - 172)

Report of Chief Officer (People and Resources)

13 **INVESTMENT AND FUNDING UPDATE** (Pages 173 - 180)

Report of Chief Officer (People and Resources)

14 **ECONOMIC AND MARKET UPDATE** (Pages 181 - 196)

Report of Chief Officer (People and Resources)

15 **INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 197 - 212)

Report of Chief Officer (People and Resources)

16 **FUNDING AND FLIGHT PATH UPDATE** (Pages 213 - 222)

Report of Chief Officer (People and Resources)

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.

17 **INVESTMENT STRATEGY REVIEW** (Pages 223 - 230)

Report of Chief Officer (People and Resources)

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CLWYD PENSION FUND COMMITTEE
4 FEBRUARY 2015

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Wednesday, 4 February 2015.

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

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

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. Paul Middleman (Fund Actuary – Mercers), Mr. Kieran Harkin (Fund Investment Adviser – JLT Group)

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

26. 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.

27. MINUTES

The minutes of the meeting of the Committee held on 5 November 2014 were submitted.

Matters arising

Pension administration and communications update:
The Clwyd Pension Fund Manager reported that information on staffing levels and turnover in Pensions Administration would be provided in the business planning workshop to be held following the meeting.

RESOLVED:

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

28. GOVERNANCE UPDATE

The Clwyd Pension Fund Manager provided a verbal update on governance related issues and referred to the following key considerations:

- The outcome of the consultation by the Government on Collaboration and Efficiencies remains unknown and it is anticipated that no announcements will be made until after the general election

- The new Governance regulations were issued last week which include regulations for the Scheme Advisory Board, Local Board and Cost Management. In addition Shadow Scheme Advisory Board guidance on the implementation of a Local Board has also been published (this guidance is expected to be adopted by the Scheme Advisory Board once created).

- Now the regulations and guidance have been published the proposed Protocol to enable the creation of a Local Pension Board for the Fund will be recommended for approval to the meeting of the County Council on 3 March 2015. As a result, there have been some minor changes made to the draft Protocol recommended to Constitution Committee in October 2014 which will be highlighted to Council.

- In terms of the All Wales position on a business case for a collective investment vehicle for Wales, a draft report by the consultants Mercer is expected to be distributed prior to the next meeting of the Welsh Treasurers in late March/early April 2015.

- The Pension Regulator has issued a Code of Practice for Public Service Pensions. The Fund's compliance with the new Code is included in our Service Plan.

- A Technical Consultation on Scheme Rules has been responded to. As previously written the original regulations meant that Flintshire could not be the administering authority for any area outside Flintshire. This has now been corrected within the revised draft regulations, however, the correction did not cover the North Wales Fire Service. This has been drawn to the attention of the DCLG and will be corrected.

- The Shadow Scheme Advisory Board at a national level is working on two governance projects. One is considering various options on the level of separation between the scheme manager function from that of the lead authority. The other is project is working on proposals for performance measurement and benchmarking across the LGPS funds.

- The feedback from employers attending our AJCM in November 2014 was good.

- Conference at Carden Park on 26/27 February 2015. 4 paid places reserved along with 2 free places for officers. Karen McWilliam gave a brief summary of the agenda for the conference to enable Committee members to decide on attendance, which is encouraged to comply with our Training Policy.

RESOLVED:

That the update be noted.

29. PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE

The Clwyd Pension Fund Manager introduced a report to provide an interim update on the pension administration and communications service, focusing on specific projects and service planning. He provided background information and referred to the key considerations which were detailed in the report concerning risks and Service planning and backlog of tasks.

The Clwyd Pension Fund Manager referred to the need to improve historic membership data by removing a backlog of cases that had accumulated over a number of years. Due to staff turnover and workload, progress in clearing the backlog had reduced considerably, however, the importance of completing the project was recognised given legal requirements, increased scrutiny by the Pensions Regulator, and potential impact on employer liabilities. He explained that it had been agreed at Advisory Panel that Mercer would draft a proposal to provide project and administrative support to reduce and clear the accumulated backlog of unprocessed tasks. Mercer had met with the 'in house team' and it was proposed to undertake the work in two stages. Stage one was to resolve the more straight-forward cases and then review and determine the timescales and costs to remove the remaining cases which were considered more complex. The project plan also included implementation of procedures and internal controls with employers to avoid any recurring backlog in the future.

Councillor Haydn Bateman commented on the cost for the first phase of the work. The Chief Officer (People and Resources) and Clwyd Pension Fund Manager referred to the complexity of the tasks to be undertaken and the significant risks if the backlog was not cleared. Officers advised that the charge for the work was competitive for the skill and level of expertise required and represented 'good value for money'. Mr. Paul Middleman (Fund Actuary – Mercers) gave an assurance that the project costs had been kept to a minimum in view of the strong and long standing relationship with the Fund, the temporary nature of the work involved and a mutual recognition of the need to move forward and clear the backlog within the required timescale.

Karen McWilliam, Independent Advisor - Aon Hewitt, reiterated the risks to the Clwyd Pension Fund if the backlog was not cleared efficiently and accurately without undue delay.

During discussion Officers responded to the queries and comments raised concerning incorrect and incomplete member data across the three unitary authorities in the Fund. The Chief Officer advised that work was ongoing with a view to improving system links.

Councillor Andrew Rutherford asked if there would be a recharge to Flintshire County Council, Denbighshire County Council and Wrexham County Borough Council based on the level of work involved in clearing the backlog of cases. Mr. Paul Middleman advised that the appropriate split of any excess costs could be recharged to the authorities via the contribution rates set at the valuation and the appropriateness of this will be considered.

RESOLVED:

That the report be noted.

30. 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 referred to the key considerations in the report. He explained that the monthly summary report on the funding position and an overview of the liability hedging mandate was appended to the report for Quarter 4, 2014. Mr. Middleman gave a verbal update and reported that "traffic light" analysis showed that the mandate was operating in line within the tolerances set by the advisors as at 31 December 2014. However, there was continuing volatility in the markets and the current funding position could change to an "amber" rating if these persist.

Mr. Middleman gave an update on interest rate and inflation rate changes. He advised that since 31 December 2014 further inflation triggers had been hit in January 2015 which meant that the inflation hedge increased to 40% which was the maximum allowed under the current mandate. This meant that the aim for the planned target level at April 2019 for inflation hedging had been reached already. The Advisory Panel would consider if inflation hedging should continue and this would be reported to the next meeting of the Committee to be held on 24 March 2015. Mr. Middleman reported the time based interest and inflation triggers had been suspended, the latter because the 40% limit had been achieved as noted. It had been agreed by the advisory panel that the interest rate time-based triggers were suspended due to the relatively high cost of hedging this risk. Both time based triggers will be reviewed periodically.

RESOLVED:

That the report be noted.

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

RESOLVED:

That the press and public be excluded from the meeting for the following item as it is considered to contain exempt information by virtue of paragraphs 12 and 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

32. APPOINTMENT OF A DIVERSIFIED GROWTH FUND MANAGER

The Clwyd Pension Fund Manager introduced a report to seek ratification for the appointment of a Manager for a Diversified Growth Fund (DGF). He provided background information and invited the Pensions Finance Managers and Kieran Harkin (JLT – Investment Consultant) to report on the selection process undertaken for the additional manager to complement the Fund's existing DGF manager. Mr Harkin provided comments on how it is believed that, going forward, the combination of the two managers will provide strong diversification benefit within the Fund's DGF exposure, which is contained within the Tactical Asset Allocation (TAA) portfolio.

During discussion Officers responded to the questions raised by members around cost and fees. Officers advised that all funds now have to disclose all costs and performance fees, as well as the annual management charge, in the final accounts.

RESOLVED:

That the decision to appoint Investec Asset Management Limited to manage a Diversified Growth Fund mandate for the Clwyd Pension Fund be approved.

33. 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 11.05 pm)

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Chairman

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **21st MAY 2015**

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

SUBJECT: **GOVERNANCE POLICY STATEMENT**

1.00 PURPOSE OF REPORT

1.01 To ask Committee Members to approve changes to the Fund's Governance Policy and Compliance Statement as a result of the establishment of the local Pension Board for the Clwyd Pension Fund.

2.00 BACKGROUND

2.01 All LGPS administering authorities are required to create and maintain a Governance Policy Statement including a statement detailing how they comply with Statutory Guidance. The Clwyd Pension Fund's Governance Policy Statement needs to be updated as a result of the creation of the new local Pension Board and this report presents the draft updated Statement for approval by the Pension Fund Committee.

3.00 CONSIDERATIONS

LGPS Requirements

3.01 The LGPS Regulations require each administering authority to prepare a written statement setting out:

- whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority and if the authority does so:
  - the terms, structure and operational procedures of the delegation,
  - the frequency of any committee or sub-committee meetings,
  - whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

3.02 In addition, the Statement must set out the extent to which these arrangements comply with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.

3.03 Further the Statement must detail of the terms, structure and operational procedures relating to the local Pension Board.

Clwyd Pension Fund Governance Policy Statement

3.04 The Statement shown in Appendix 1 has been updated to incorporate the new governance structure relating to the Fund, in particular the recent establishment of the Pension Board. It has also been updated to incorporate information relating to the recently approved Conflicts of Interest and Training Policies. The key areas that have been updated are highlighted in the attached document.

4.00 RECOMMENDATION

4.01 That Committee Members agree the revised Governance Policy Statement as set out in Appendix 1.

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.

12.00 APPENDICES

12.01 Governance Policy Statement

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:	Governance Compliance Statement – Pension Fund Committee Report 22nd July 2014 Clwyd Pension Fund Governance - Council Report 30th April 2014
Contact Officer:	Philip Latham, Clwyd Pension Fund Manager Tel: 01352 702264 Fax:01352 702279 e-mail: philip.latham@flintshire.gov.uk

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Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for CLWYD PENSION FUND

GOVERNANCE POLICY and COMPLIANCE STATEMENT

May 2015

GOVERNANCE POLICY

Introduction and Legal Requirements

Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund on behalf of its stakeholders; the scheme members and employers participating in the Fund. These responsibilities are primarily set out in Local Government Pension Scheme (LGPS) Regulations.

Flexibility is provided for each Administering Authority to determine their own governance arrangements. However the LGPS Regulations require each Administering Authority to prepare, publish and maintain a governance policy and compliance statement setting out whether the Administering Authority delegates its functions, or part of its functions to a committee, a sub-committee or an officer of the authority, and if so:

a) the terms, structure and operational procedures of the delegation,

b) the frequency of any committee or sub-committee meetings,

c) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights

d) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying, and

e) details of the terms, structure and operational procedures relating to the local pension board.

The regulations require Administering Authorities to consult such persons as it considers appropriate when preparing the policy and compliance statement.

This document is the Governance Policy and Compliance Statement for Clwyd Pension Fund that has been prepared to meet the requirement of the LGPS Regulations. The compliance statement required by point (d) is included as Appendix A.

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 40,000 current and former members of the Fund, and their dependants
- around 29 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 the governance of the Fund we will aim to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success

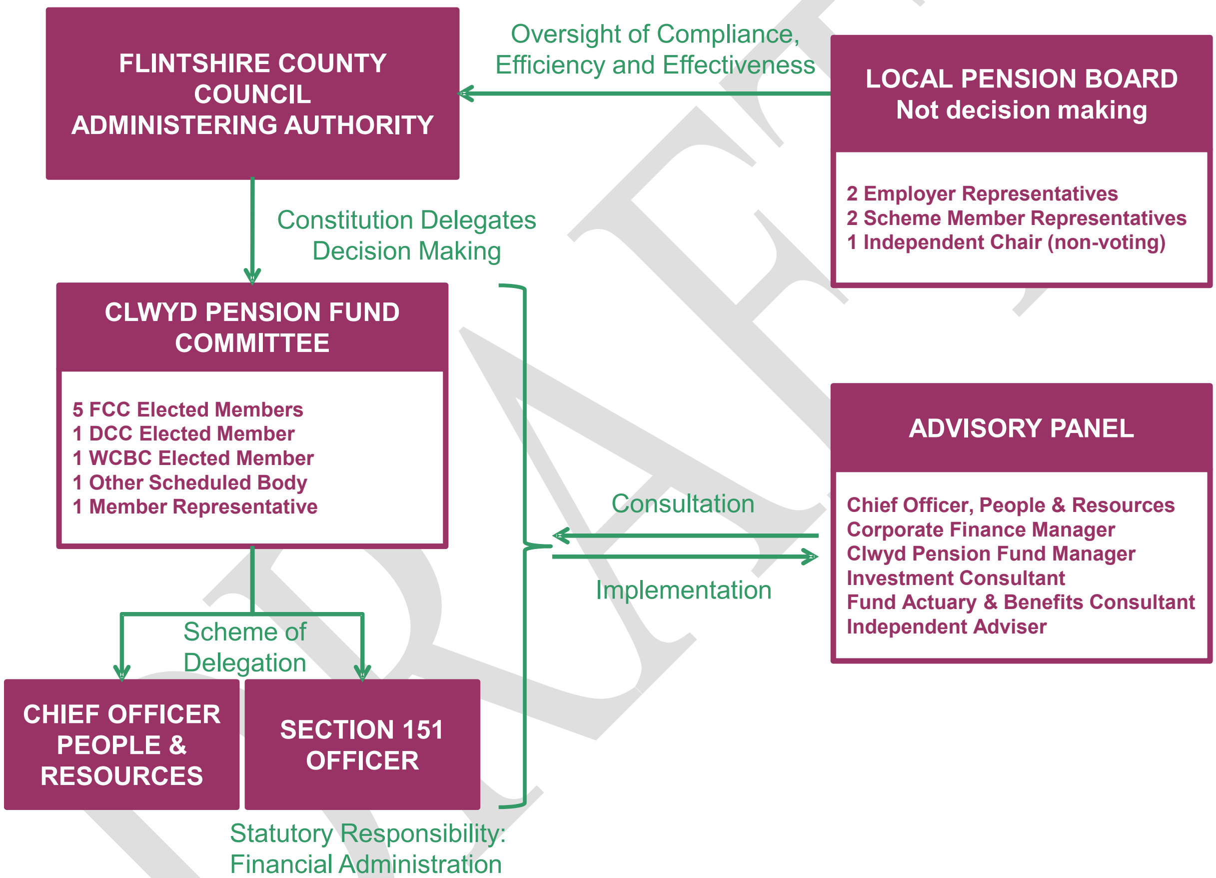
Background to Governance Arrangements

Flintshire County Council reviewed its Governance arrangements for the Clwyd Pension Fund in 2014. Prior to this date, the responsibility for the Clwyd Pension Fund rested with the Head of Finance who reported to the Clwyd Pension Fund Panel made up of elected members from Flintshire County Council, Denbighshire County Council and Wrexham County Borough Council. In addition the panel had non voting members including an independent adviser and a scheme member representative.

An independent review by CIPFA in 2010 found the governance of the Fund to be very good but recognised that this governance structure did not meet best practice, in particular they recommended:

- Responsibility for the management of the Clwyd Pension Fund should be transferred from the Head of Finance to a newly constituted Committee
- There should be wider representation of stakeholders on the newly constituted committee with voting rights extended to all committee members.

As a result, 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. The Corporate Finance Manager is the Section 151 Officer and has a statutory responsibility for the proper financial affairs of Flintshire County Council which include Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Officer – People and Resources. This governance structure was expanded in early 2015 as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. The Council's governance structure for pension fund matters is as shown below:



Clwyd Pension Fund Committee

The Pension Fund Committee's principal aim is to carry out the functions of Flintshire County Council as the Scheme Manager and Administering Authority for the Clwyd Pension Fund in accordance with LGPS legislation.

The members on the Clwyd Pension Fund Panel are not Trustees of the Fund, however, they do have a duty of care which is analogous to the responsibilities of Trustees in the private sector and they could be more accurately described as 'Quasi Trustees'. The management of the Clwyd Pension Fund is Non-Political.

The Committee's specific roles as outlined in the Council's Constitution are shown in Appendix B. The Committee may also delegate a limited range of its functions to one or more officers of Flintshire County Council.

No matters relating to Flintshire County Council's responsibilities as an employer participating within the Clwyd Pension Fund are delegated to the Pension Fund Committee.

The Pension Fund Committee meets at least quarterly and is composed of nine members as follows:

- Five Councillors of Flintshire County Council, determined by the Council.

- Four co-opted members comprising:-

  - One Councillor of Wrexham County Borough Council, determined by that Council.

  - One Councillor of Denbighshire County Council, determined by that Council.

  - One Representative of the other Scheme Employers (not admission bodies) in the Clwyd Pension Fund as defined by Schedule 2 of the Local Government Pension Scheme 2013, as amended from time to time, appointed in accordance with procedures agreed by the Chief Officer, People and Resources in consultation with the members of the Pension Fund Advisory Panel.

  - One Representative of the scheme members of the Clwyd Pension Fund, appointed in accordance with procedures agreed by the Chief Officer, People and Resources in consultation with the members of the Pension Fund Advisory Panel.

The Council's Constitution permits named substitutes for Flintshire County Council members only, providing they satisfy the knowledge and skills policy of the pension fund. The terms of reference for the members range from four to six years, and members may be reappointed for further terms.

All members have equal voting rights.

Chief Officer, People and Resources

Under the Council's Constitution, the Chief Officer, People and Resources is responsible for the following matters:

- The day to day management of Clwyd Pension Fund matters including ensuring arrangements for investment of assets and administration of contributions and benefits, excluding matters delegated to the Pensions Fund Committee.
- Establish and Chair a Clwyd Pension Fund Advisory Panel consisting of officers of the Council and advisers to the Clwyd Pension Fund, to provide advice and propose recommendations to the Pension Fund Committee, and to carry out such matters as delegated to it from time to time by the Pension Fund Committee.

Section 151 Officer – Corporate Finance Manager

Under the Council's current operating model, the Chief Finance Officer (S151) role is designated to the Corporate Finance Manager. The Corporate Finance manager therefore has a statutory responsibility for the proper financial administration of the Clwyd Pension Fund, in addition to that of Flintshire County Council.

Clwyd Pension Fund Advisory Panel

The Clwyd Pension Fund Advisory Panel has been established by the Chief Officer, People and Resources to provide advice and propose recommendations to the Pension Fund Committee, and to carry out such matters as delegated to it from time to time by the Pension Fund Committee.

Its membership consists of:

- The Corporate Finance Manager of Flintshire County Council
- The Chief Officer, People and Resources
- The Clwyd Pension Fund Manager
- Investment Consultant
- Fund Actuary
- Independent Adviser

Pension Board

Each LGPS Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Flintshire County Council does not apply to the Pension Board unless it is expressly referred to in the Board's Protocol. The Clwyd Pension Board was established by Flintshire County Council in March2015 and the full Protocol of the Board can be found within the Council's Constitution. The key points are summarised below.

The Pension Board provides oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pension Fund Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers. The Pension Board operates independently of the Pension Fund Committee.

The Pension Board consists of 5 members as follows:

- Two Employer Representatives
- Two Scheme Member Representatives, one of whom is nominated by the joint trade unions, and one who is a member of the Clwyd Pension Fund
- One Independent Member who acts as chair of the Pension Board.

All Pension Board members, excluding the Independent Member, have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only considered quorate when at least three of the five members are present, including at least one Employer Representative, one Scheme Member Representative and the Independent Member.

Members of the Pension Board are required to declare, on appointment and at each meeting, any interests that may lead to conflicts of interest in relation to Pension Fund matters or agenda items..

The Pension Board meets a minimum of twice and a maximum of four times in each calendar year in the ordinary course of business. Additional meetings may be arranged, subject to approval by the Chief Officer, People and Resources, to facilitate its work.

Training

Flintshire County Council recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills. Accordingly, in relation to the management of the Clwyd Pension Fund, we adopt the key recommendations of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

This means we will ensure that we have formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant LGPS and related knowledge and skills for those responsible for financial administration and decision-making relating to the Fund. These policies and practices will be guided by reference to the framework of knowledge and skills defined within the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Clwyd Pension Fund's Training Policy can be found on the Fund's website – www.clwydpensionfund.org.uk.

We will report on an annual basis how well this Policy has been adhered to throughout the financial year as part of the Fund's Annual Report and Accounts.

The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Chief Officer, People and Resources, who will act in accordance with the Fund's Policy.

Conflicts of Interest

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy how any such conflicts or potential conflicts are to be managed.

Clwyd Pension Fund's Conflict of Interest Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Fund whether directly or in an advisory capacity. The Policy is established to guide the Pension Fund Committee members, Pension Board members, officers and advisers. It aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

The Policy can be found on the Fund's website – www.clwydpensionfund.org.uk.

Monitoring Governance of the Clwyd Pension Fund

The Fund's governance objectives will be monitored as follows:

Objective	Monitoring Arrangements
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	• The Independent Adviser undertakes an annual review of the effectiveness of the Clwyd Pension Fund's governance arrangements, the findings of which are reported to the Committee and published. • The Pension Board prepares and publishes an annual report. • In line with the Regulations this document will be filed with the DCLG.
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	• A Training Policy in place together with annual monitoring of all training by Pension Committee members and key officers.

Objective	Monitoring Arrangements
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	• The employers within the Fund, together with union representatives, are invited to an Annual Joint Consultative Meeting. Attendees receive presentations and have the opportunity to ask questions on the governance of the Fund. • The Pension Fund Committee includes representatives from scheme members and most employers in the Fund. • The Pension Board includes representatives from scheme members and employers in the Fund. • The Pension Board prepares and publishes an annual report which may include comment on decision making.
Understand and monitor risk	• A Risk Policy and register in place. • Ongoing consideration of key risks at Pension Fund Committee meetings.
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee. • The Fund has an Independent Adviser and their annual report includes reference to compliance with key requirements. • The Pension Board prepares and publishes an annual report which may include comment on compliance matters.
Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success	• All strategies and policies include reference to how objectives will be monitored. • Ongoing monitoring against key objectives at Pension Fund Committee meetings. • Ongoing monitoring of business plan targets at Pension Fund Committee meetings.

Key Risks

The key risks to the delivery of this Strategy 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 membership, Pension Board membership and/or key officers resulting in loss of continuity and potentially diminishing knowledge and understanding
- Changes in government / legislative requirements meaning insufficient time allocated to ongoing management, either at Pension Fund Committee meetings or as part of key officers' duties
- Ineffective delegation of duties and/or presentation of Pension Fund Committee items resulting in insufficient time spent on key matters
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members, Advisory Panel members and/or other key officers resulting in a poor standard of decision making and/or monitoring
- Conflicts of interest not being appropriately managed by Committee members, Board members and/or key officers.

Best Practice Compliance Statement

As required by Local Government Pension Scheme Regulations the statement below compares Clwyd Pension Fund's current governance arrangements with the best practice guidance issued by the Secretary of State for Communities and Local Government. The statement provides an explanation where the Fund is not fully compliant.

Approval, Review and Consultation

The governance structure of the Clwyd Pension Fund was reviewed in 2014. The employers of the Fund were consulted prior to that review.

This Governance Policy and Statement was approved at the Clwyd Pension Fund Committee on 21 May 2015. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

Further Information

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

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Telephone - 01352 702264

Appendix A - Clwyd Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
A. STRUCTURE		
a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**COMPLIANT**	The administration of benefits and strategic management of fund assets is delegated by the Council to Pension Fund Committee.
b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	**COMPLIANT**	Representatives covering most employers and scheme members are Co-opted Members of the Pension Fund Committee.
c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**NOT APPLICABLE**	
d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	**NOT APPLICABLE**	
B. REPRESENTATION		

Best Practice	Compliant or not?	Explanatory Note
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	**PARTIALLY COMPLIANT**	The Pension Fund Committee includes the following Co-opted Members: • employer representatives covering all employers with the exception of admission bodies (as admission bodies make up just a small proportion of the liabilities of the Fund) • a scheme member representative covering all categories of scheme member. In addition, an independent adviser attends all Pension Fund Committee meetings and the Fund's actuary and investment consultant regularly attend meetings on an ad-hoc basis.
b. That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**COMPLIANT**	All Pension Fund Committee members, including Co-opted Members, are treated equally with full opportunity to contribute to the decision making process and with unrestricted access to papers and training, and with full voting rights.
C. SELECTION AND ROLE OF LAY MEMBERS		

Best Practice	Compliant or not?	Explanatory Note
a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**COMPLIANT**	This is highlighted via regular training and also when presenting the Governance Strategy Statement for approval.
b. That at the start of any meeting committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**COMPLIANT**	This is no longer a legal requirement but we recognise that potential conflicts of interest can arise between existing roles (e.g. as employer representatives or scheme members) and accordingly we still carry out this practice. The Fund has a Conflicts of Interest Policy outlining the process for identifying and managing actual and potential conflicts of interest.
D. VOTING		
a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**COMPLIANT**	The Council's Constitution and the Fund's Governance Strategy Statement make it clear that all Pension Fund Committee members have equal voting rights.
E. TRAINING / FACILITY TIME / EXPENSES		

Best Practice	Compliant or not?	Explanatory Note
a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**COMPLIANT**	The Fund has a Training Policy that applies to all Pension Fund Committee members, Pension Board members and officers. Training is delivered through several avenues including: • An initial induction for new Pension Fund Committee and Pension Board Members • On going training through written reports or presentations at Committee meetings • Conferences and seminars. The actual costs and expenses relating to approved training are met directly or can be reimbursed from the Clwyd Pension Fund. The co-opted members of the Pension Fund Committee and members of the Pension Board receive payments for attendance at meetings (including training events) as detailed within the Flintshire County Council Members' Remuneration Scheme and the Pension Board Protocol.
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**COMPLIANT**	

Best Practice	Compliant or not?	Explanatory Note
c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	**COMPLIANT**	A log of individual Member training is maintained. In addition, the Fund has adopted the CIPFA Knowledge and Skills Framework and has a Fund specific Training Policy.
F. MEETINGS (FREQUENCY/QUORUM)		
a. That an administering authority's main committee or committees meet at least quarterly.	**COMPLIANT**	
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	**NOT APPLICABLE**	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	**NOT APPLICABLE**	Even though we do have lay members on our Pension Committee, we also have an Annual Joint Consultative Meeting (AJCM) for employing bodies and scheme members. The Pension Board also provides a forum for stakeholders to be represented.
G. ACCESS		
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**COMPLIANT**	All Members of the Pension Fund Committee have equal access to papers.
H. SCOPE		

Best Practice	Compliant or not?	Explanatory Note
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	**COMPLIANT**	The remit of the Pension Fund Committee covers all Fund matters, including administration, communications, funding, investments and governance. The Pension Board provides further opportunity for these matters to be considered.
I. PUBLICITY		
a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**COMPLIANT**	The Fund publishes a detailed Annual Report, newsletters for active and pensioner members, road shows, drop in sessions and an Annual Meeting for Employers and representatives of stakeholders (AJCM). In addition all Pension Fund Committee reports are available to view on the Flintshire County Council website (other than exempt items).

Appendix B – Delegated Roles and Functions of the Clwyd Pension Fund Committee

The Pension Fund Committee will have the following specific roles and functions, taking account of advice from the Chief Officer, People and Resources and the Fund's professional advisers:

a) Ensuring the Clwyd Pension Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Regulations, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.

b) Ensuring robust risk management arrangements are in place.

c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non statutory best practice guidance in relation to its management of the Clwyd Pension Fund.

d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:

   i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Flintshire County Council and making recommendations to Flintshire County Council about any changes to that framework.

   ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.

   iii) 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.

   iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will the administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.

   v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.

   vi) Discretions – determining how the various administering authority discretions are operated for the Fund.

e) Monitoring the implementation of these policies and strategies on an ongoing basis.

f) Considering the Fund's financial statements prior to approval by the Council and agreeing the Fund’s annual report.

g) 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.

h) 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.

i) Agreeing the terms and payment of bulk transfers into and out of the Fund.

j) Agreeing Pension Fund business plans and monitoring progress against them.

k) 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.

l) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.

m) Receiving ongoing reports from the Chief Officer, People and Resources and Pensions Advisory Panel in relation to delegated functions.

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **21st MAY 2015**

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 included on each quarterly Committee agenda and includes a number of governance items for information or discussion. These include updates on key actions/tasks for the quarter as well as any other updates of a governance nature that the Committee need to note or approve.

2.02 The key actions/tasks for the first quarter of 2015/16 are detailed in the Business Plan 2015-17 (see extract at Appendix 1). The items for this quarter are:

- Implement Local Pension Board
- Implement Training Policy
- External factors

2.03 Additional items included for this quarter are:

- Internal Audit reports on:
    - Pensions Administration, and
    - Pensions Investment Management
- Minutes of the delegated responsibilities meeting 24th March 2015

3.00 CONSIDERATIONS

Implement Local Pension Board

3.01 As previously reported to Committee there is a legislative requirement for a Local Government Pension Fund to establish a new Local Pension Board (LPB) and that the first LPB meeting must be held before the 1st August 2015. Flintshire County Council established the Clwyd Pension Board on 3rd March 2015

3.02 The recruitment of the two employer representatives and two member representatives is progressing.

- Employer Representatives: The Chief Executive has written to all employers in the Fund inviting them to nominate representatives; individual expressions of interest had to be submitted by the 8th May 2105.
- Member Representatives: The Joint Trade Unions have been invited to nominate a representative for one of the positions. To enable all our members to have an opportunity to express an interest, articles have been included in both pensioner and active member newsletters.
- Application forms are required by the 18th June (e-mail) or the 19th June (postal). Full information, including a background document, the Clwyd Pension Board Protocol and person specification are available on the CPF web-site.

3.03 The interviews of prospective LPB members will take place in early July with training undertaken in mid-July in preparation for the first meeting planned for the 23rd July 2015.

Implement Training Policy

3.04 The training plan as at May 2015 is included at Appendix 2 and provides an outline of proposed training sessions for 2015/16. Committee Members are asked to note that the three training days identified as being Pension Board Basic Training is open to them, the first of which is planned for Tuesday 14th July. This is particularly important if elements of the training have not previously been attended or if a refresher is desired. Members would not have to attend the full days. Further details will be available closer to the date.

3.05 Members are also reminded that, under the Clwyd Pension Fund Training Policy, they are required to attend at least one day of general awareness training per year. Upcoming conferences that may be of interest to Members, and that would provide further training and updates, are the 12th Annual LGPS Trustees' Conference in Cardiff on the 25-26 June, and the LGC Investment Summit in Newport on the 9-11 September. Further information will be e-mailed to Committee Members.

External Factors Impacting the Fund

3.06 The CPFM attended the Shadow Scheme Advisory Board (SSAB) event on the 24th April. Updates were provided by employers, practitioners and trade union representatives on:

- the achievements of the SSAB
- deficit management in the LGPS
- the LGPS Scheme Annual Report 2012/13, 2013/14 and looking ahead
- governance and standards
- cost management and contributions
- value for money and engagement
- investment and engagement, and
- administration and communication.

3.07 In terms of looking forward significant points to note for on-going work are:

- Deficit management (Agenda item 7 provides more information)
- Separation options (24th March Committee Agenda)
- A review of the implementation of local pension boards
- Revised ill health retirement process
- More data cleansing, member friendly communications and training.

3.08 Some other key messages are:

- The consultation on Local Government Pension Scheme - Opportunities for Collaboration, Cost Savings and Efficiencies. It was acknowledged that no response has been made by the DCLG and that any response would not be forthcoming until after the formation of a new Government. The outcome may not be limited to those options in the consultation.
- A 'larger centre' is required to deliver the work of the SAB which may result in an increased levy on funds; CPF paid £5,640 in 2014/15.

3.09 Regular updates have been provided to the Committee on the work of the SSAB and this will continue. The SSAB's work is continuing until such time as the statutory Board has been established and meets for the first time. In respect of the membership of the statutory Board the DCLG have advertised for a Chair with other members of the statutory Board to be appointed by the DCLG in due course.

3.10 As previously reported, Mercer are providing a business case on a Collective Investment Vehicle for the eight Welsh funds. The final report is imminent and a verbal update will provided.

3.11 Wales Audit Office are writing a report for Welsh Government (WG) on the eight funds in Wales. It is covering similar areas already to those considered by the DCLG and Welsh Treasurer's on merger and collective investment vehicles. It should be noted that the WG have no current legislative powers to make changes to funds in Wales.

Internal Audit Reports

3.12 A routine annual audit was undertaken of both Pensions Administration and Pensions Investment Management (Appendices 3 and 4) during the final quarter of 2014/15. An audit opinion is issued on a scale red to green, with green being substantial assurance. Both audits were given a green audit opinion.

3.13 In total, one medium priority action and four low priority actions were identified. These are detailed in the reports and remedial actions have been agreed with management. Internal Audit found that all other areas within the scope of their audits were well managed.

Delegated Responsibilities

3.14 The scheduled CPF Committee meeting due to be held on the 24 March 2015 could not meet as planned due to the number of apologies received beforehand leaving it inquorate. However, a number of items due to be considered at the

Committee required urgent attention and were dealt with under delegation. The minutes of this delegated responsibilities meeting are attached at Appendix 5.

4.00	**<u>RECOMMENDATIONS</u>**
4.01	That Committee Members note the report
5.00	**<u>FINANCIAL IMPLICATIONS</u>**
5.01	The Fund will contribute £7,500 towards the Welsh CIV Business case
6.00	**<u>ANTIPOVERTY IMPACT</u>**
6.01	None directly as a result of this report.
7.00	**<u>ENVIRONMENTAL IMPACT</u>**
7.01	None directly as a result of this report.
8.00	**<u>EQUALITIES IMPACT</u>**
8.01	None directly as a result of this report.
9.00	**<u>PERSONNEL IMPLICATIONS</u>**
9.01	None directly as a result of this report
10.00	**<u>CONSULTATION REQUIRED</u>**
10.01	None directly as a result of this report.
11.00	**<u>CONSULTATION UNDERTAKEN</u>**
11.01	None directly as a result of this report.
12.00	**<u>APPENDICES</u>**
12.01	Business Plan – extract of Governance key tasks
12.02	Training Plan – as at May 2015
12.03	Internal Audit report – Pensions Administration
12.04	Internal Audit report –Pensions Investment Management
12.05	Minutes of the delegated responsibilities meeting 24 March

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<u>LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985</u>

Background Papers: Clwyd Pension Fund Local Pension Board Protocol

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Appendix 1

BUSINESS PLAN 2015-2017 – Key Tasks

Governance

Ref	Key Action -Task	2015/6 Period				Later Years	
		Q1	Q2	Q3	Q4	2016/17	2017/18
G1	Implement local Pension Board	x	x				
G2	Service local Pension Board		x	x	x		
G3	Implement Training Policy	x	x	x	x		
G4	Review/Tender Actuarial Contract		x	x			
G5	Review Framework agreement					x	
G6	Review/Tender Investment Consultancy and Independent Adviser Contracts					x	
G7	Review Arrangements against TPR Code of Practice			x			
G8	Allow for impact of external factors	x	x	x	x	x	x
G9	Review Performance of Fund against Scheme Advisory Board matrix					x	
G10	Consider/implement any changes of governance arrangements from Annual Review by Independent Adviser or Local Board				x	x	x
G11	Review People Strategy		x	x			

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Appendix 2

Clwyd Pension Fund

Training Plan - as at May 2015

Title of session	Training Content	Timescale	Training Length	Audience	Complete
Budget Freedoms	Highlights of the Freedoms including protecting individuals via Transfer safeguards and protecting the tax payer via the reduction of transfer values.	21/5/15 PFC	1 hour	Committee and Fund officers	
The Pensions Regulator's Code of Practice	An overview of the key elements of the code of practice and any impact on Clwyd Pension Fund	June - September 2015	Half day	Committee, Fund officers and Pensions Board	
Pension Committee Basic Training	Catch up sessions for CIPFA Knowledge and Skills Framework (Note - although targeted as catch up sessions, all PFC members are welcome to attend if they wish to refresh their knowledge)	14 July (governance and regulations) + funding/ investment days during July - September 2015	As part of Pension Board Training	Certain Pension Committee members and Fund officers	
Pensions Board Basic Training - Day 1	Repeat elements of past Committee member CIPFA Knowledge and Skills training. Day 1 is governance and key legislation.	14 July 2015	Full day	Pensions Board	
Pensions Board Basic Training - Day 2	Repeat elements of past Committee member CIPFA Knowledge and Skills training. Day 2 is funding and actuarial matters.	July - August 2015	Full day	Pensions Board	
Alternative Delivery Models	Overview of Alternative Delivery Models including impact on the Clwyd Pension Fund.	July - December 2015	1 - 2 hours	Committee and Pensions Board	
Employer Risk Management	Employer Risk Management including the monitoring framework (employer covenant, funding and protections).	July - December 2015	Half day	Committee, Fund officers and Pensions Board	
LGPS Key Performance Indicators	Overview of the National Fund Key Performance Indicators and League tables	July - December 2015	1 - 2 hours	Committee, Fund officers and Pensions Board	
Pensions Board Basic Training - Day 3	Repeat elements of past Committee member CIPFA Knowledge and Skills training. Day 3 is investment, accounting and audit.	August - September 2015	Full day	Pensions Board	
In-house alternative asset classes - Private Equity	A brief background, what we currently invest in and why, performance and the strategy going forward and why.	September 2015 - February 2016	1-1.5 hours	Committee and Pensions Board	
In-house alternative asset classes - Property	A brief background, what we currently invest in and why, performance and the strategy going forward and why.	September 2015 - February 2016	1-1.5 hours	Committee and Pensions Board	
In-house alternative asset classes - Infrastructure/Timber/Agriculture	A brief background, what we currently invest in and why, performance and the strategy going forward and why.	September 2015 - February 2016	1-1.5 hours	Committee and Pensions Board	
Actuarial Valuations	Planning for the 2016 valuation, the valuation process and the funding strategy statement.	January - March 2016	Half day	Committee and Pensions Board	
Pension Cost and Deficit Management	Overview of the Shadow Scheme Advisory Board's deficit and cost management project and implications.	If need arises	To be decided	Committee, Fund officers and Pensions Board	

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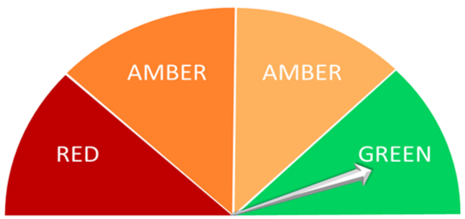
Flintshire Internal Audit

Audit Opinion



Audit Report

Title: Pensions Administration

Portfolio: People and Resources

Issued Dated: May 2015

Report No: 09-20014/15

Report Status: Final

Internal Audit engagements are conducted in conformance with the Public Sector Internal Audit Standards.

1. Executive Summary:

Introduction and Scope:

An audit of Pensions Admin was undertaken as part of the approved internal audit periodic plan for 2014/15. The purpose of the review is to give assurance on the robustness of the administration processes and the accuracy of the data on the Altair system.

The priorities for Pensions Administration identified in the 2014/15 Service Plan were:

- Work to continue on developing and reporting on pension administration performance to enable the documentation of an Administration Strategy.
- Work to continue with employers on improving data quality, including removing a backlog of tasks.

The current year has seen the implementation of the new LGPS 2014 scheme which has involved a large amount of preparatory work and the administration system was not ready for all cases on 1st April 2014. Our testing on life cycle events highlighted a potential further issue for the backlog work particularly around Transfers –In and Transfers-Out due to the delayed issuing of guidelines of dealing with these cases under the new scheme. These cases were on hold at the time of the audit.

The Business Plan for 2015-2017 sets out a number of changes over the next few years and, importantly for Pensions Administration, work will commence on the development and implementation of a Pension Administration Strategy and Performance Standards in Quarter one 2015/16. This will outline how the administration services will be delivered and the service standards will demonstrate how the delivery will be measured and reported and the key risks to the service. A Risk Register has been developed for the Clwyd Pension Fund which has identified the administration risks.

For the purposes of this review, our initial work on looking at reports supplied by payroll for new starters and checking to the records held in the Clwyd pension Fund, highlighted a large number of discrepancies and a decision

Audit Opinion:

In each report we provide management with an overall assurance opinion on how effectively risks are being managed within the area reviewed. Appendix A of the report details our assurance levels:

Assurance:	Explanation
Green / Substantial	**Strong controls in place (all or most of the following)** ▪ Key controls exist and are applied consistently and effectively ▪ Objectives achieved in a pragmatic and cost effective manner ▪ Compliance with relevant regulations and procedures ▪ Assets safeguarded ▪ Information reliable Impact: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.

The table below highlights the number and priority of agreed actions to be implemented.

Priority	High	Medium	Low	Total
No.	0	1	2	3

was made for this area to be included in the Payroll Audit for a fuller investigation and reported on separately. It does however, illustrate the necessity to ensure the integrity of the data and this will be particularly important for providing member data for valuation by the Actuary by 31st March 2016.

The scope of the review involved:

- A review of lifecycle events including new starters, transfers in and out, refunds and retirement lump sum calculations;
- Staffing levels and training provided;
- Financial transactions and reconciliations between employers and the Clwyd Pension Fund;
- Communications with stakeholders;
- Reports to the Clwyd Pensions Fund Committee and performance monitoring information; and
- Reviewing implementation of the previous report's recommendations.

2. Summary Findings:

Areas Managed Well	Areas for Further Improvement
▪ New starter details for non FCC employees are effectively input from the T36 Notification forms to the Altair system. ▪ Life cycle events are appropriately managed and checked. ▪ Scheduling of the timetable for the annual distribution of the Benefit Statements is carefully monitored and controlled and communications with stakeholders are well delivered in line with the Communication Strategy. ▪ Staffing levels and structures have been addressed. There is still some minor staffing restructuring to take place. ▪ A project has been undertaken to review the way tasks are set up within Altair with a view to streamlining the process and assist monitoring. ▪ The Cancelled Pay/Pensions Control Account is effectively monitored. ▪ A consultant has been appointed by Clwyd Pensions Fund to address the backlog and this work commenced in April 2015. ▪ Disaster recovery testing has now been successfully completed on 14th April 2015. ▪ Pensions Finance closely monitor the monthly contributions from all the scheme's contributing bodies and prepare a reconciliation at year end to the figures in Masterpiece. ▪ Pensions Finance closely monitor and reconcile the lump sum payments, death grants, transfers out and in to the General Ledger.	▪ Monthly uploads of FCC new starter information should be processed in a timely manner to assist the investigation and resolution of queries and ensure the accuracy of data. ▪ The Life Certificate should be updated prior to its next issue to include a stronger statement on the implications of submitting fraudulent information. ▪ Access to the Altair system would greatly assist Pensions Finance in their monthly reconciliation of information to the General Ledger.

3. Action Plan:

Priority	Description
High	Action is imperative to ensure that the objectives of the area under review are met.
Medium	Requires action to avoid exposure to significant risks in achieving the objectives of the area.
Low	Action encouraged to enhance control or improve operational efficiency.

No.	Findings and Implications	Agreed Action	Who	When
1	Testing on the monthly uploads of information on the FCC new starters showed that Pensions Administration are currently working on the December 2014 report with many queries still not checked from earlier months due to a turnover in staff. This has now been addressed with two Pensions Assistants working on the information but this does need to be prioritised to ensure the queries are processed in a timely manner as the Assistants have had to be trained which has caused some delays.	• As the new Pensions Assistants have been trained the timing of the resolution of queries will improve. This is also dependent on the timely receipt of the monthly uploads of FCC new starter information.	Helen Burnham	30/09/2015
2	We were aware of fraudulent activity on the false declaration of a Life Certificate sent out last year and have noted that the form has not been updated to reflect the importance of providing accurate information.	• The Life Certificate should be updated prior to its next issue to include a specific declaration section and the implications of submitting fraudulent information.	Helen Burnham	31/03/2016
3	Pensions Finance are undertaking the appropriate monthly reconciliation of information held to the General Ledger but this is hindered by not having access to the Altair system.	• This has now been given to the Finance Assistant-Pensions	Phil Latham	April 2015

4. Distribution List:

Name	Title
Helen Burnham	Pensions Administration Manager
Helen Stappleton	Chief Officer-People and Resources
Phil Latham	Clwyd Pension Fund Manager
Debbie Fielder	Pensions Finance Manager
Alwyn Hughes	Pensions Finance Manager
Gary Ferguson	Corporate Finance Manager
Colin Everett	Chief Executive

Appendix A – Audit Opinion:

The audit opinion is the level of assurance that Internal Audit can give to management and all other stakeholders on the adequacy and effectiveness of controls within the area audited. It is assessed following the completion of the audit and is based on the findings from the audit. Progress on the implementation of agreed actions will be monitored. Findings from **Some** or **Limited** assurance audits will be reported to the Audit Committee.

Assurance	Explanation
Green - Substantial	**Strong controls in place (all or most of the following)** ▪ Key controls exist and are applied consistently and effectively ▪ Objectives achieved in a pragmatic and cost effective manner ▪ Compliance with relevant regulations and procedures ▪ Assets safeguarded ▪ Information reliable Impact: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.
Amber Green – Reasonable	**Key Controls in place but some fine tuning required (one or more of the following)** ▪ Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact ▪ Some refinement or addition of controls would enhance the control environment ▪ Key objectives could be better achieved with some relatively minor adjustments Impact: key controls generally operating effectively but there remains a potential risk of loss, fraud, impropriety or damage to reputation and / or failure to deliver organisational objectives.
Amber Red – Some	**Significant improvement in control environment required (one or more of the following)** ▪ Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively ▪ Evidence of (or the potential for) financial / other loss ▪ Key management information exists but is unreliable ▪ System / process objectives are not being met, or are being met at an unnecessary cost or use of resources. Impact: key controls are generally inadequate or ineffective and there is an increased probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.
Red – Limited	**Urgent system revision required (one or more of the following)** ▪ Key controls are absent or rarely applied ▪ Evidence of (or the potential for) significant financial / other losses ▪ Key management information does not exist ▪ System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources. Impact: a lack of adequate or effective controls leading to a high probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.

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Flintshire Internal Audit

Audit Report

Title: Pensions Investment Management

Portfolio: People and Resources

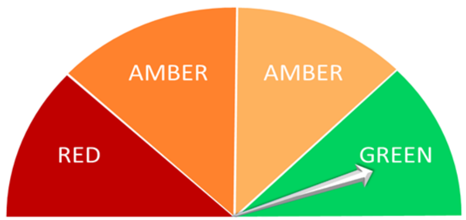
Issued Dated: May 2015

Report No: 10-2014/15

Report Status: Final

Internal Audit engagements are conducted in conformance with the Public Sector Internal Audit Standards.

Audit Opinion



1. Executive Summary:

Introduction and Scope:

An audit of Pensions Investment Management was undertaken as part of the approved internal audit periodic plan for 2014/15.

The Clwyd Pension Fund as at February 2015 was £1.2bn. The funding level as at 31st December 2014 was estimated by the Actuary at 66% with a deficit at approximately £700m. At March 2014 the funding level was estimated at 70%. Total membership is currently about 33,000 with approximately 15,000 contributors from 25 contributing employers and about 18,000 retired members, widows and deferred members.

The current year has witnessed a number of challenges and changes.

In May 2014 there was a review of the Fund's governance arrangements and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. The Corporate Finance Manager, as the Section 151 Officer, has a statutory responsibility for the proper financial affairs of Flintshire County Council which include Clwyd Pension Fund matters. The governance structure will be expanded further as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. Under the regulations this must have met by 1st August 2015. The Board will be made up of four members, two scheme member representatives and two employer representatives. Invitations to apply for these positions have been placed on the Clwyd Pension Fund website and interviews will take place in June 2015.

A new Liability Driven Investment (LDI) Strategy was introduced at the beginning of the year which resulted in a revised Statement of Investment Principles (SIP) to reflect the change in asset allocation. A fundamental review of the Clwyd Pension Fund's Investment Strategy was undertaken by the Investment Consultant to the Fund, JLT. This was discussed and agreed at the Pensions Advisory Panel Meeting on 3rd September 2014. This in turn has led to a further revision of the SIP.

The purpose of this review is to give assurance that the key controls are working effectively and that there is appropriate compliance with regulations and procedures.

Audit Opinion:

In each report we provide management with an overall assurance opinion on how effectively risks are being managed within the area reviewed. Appendix A of the report details our assurance levels:

Assurance:	Explanation
Green / Substantial	**Strong controls in place (all or most of the following)** ▪ Key controls exist and are applied consistently and effectively ▪ Objectives achieved in a pragmatic and cost effective manner ▪ Compliance with relevant regulations and procedures ▪ Assets safeguarded ▪ Information reliable Impact: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.

The table below highlights the number and priority of agreed actions to be implemented.

Priority	High	Medium	Low	Total
No.	0	0	2	2

The scope of the review includes:

- Scheme of delegation
- Fund strategy changes
- Outcome of the strategic fund review
- New fund manager appointments
- Oversight of liability driven investment strategy
- Mercer's independent assurance of transactions.

2. Summary Findings:

Areas Managed Well	Areas for Further Improvement
• The reallocation of funds following the Strategic Fund Review has been approved by Committee. • The LDI has been approved by Committee and has resulted in a revised SIP which has also been approved. The Investment Management Agreement has been signed by all parties. • As part of the Flight-path Strategy, a number of triggers have been set, including interest rate, inflation rate and funding triggers. Regular monitoring of these has been in place. • Formalised arrangements are in place for the provision of advice with regard to the implementation of the Flight Path project. • A Training Policy has been approved and a Training Plan devised which complies with the CIPFA Knowledge and Skills Framework. Work is in hand to produce a Training Needs Analysis. • Performance of the Fund is monitored and reported on at each Committee Meeting. • A risk management policy and risk register has been established and populated.	• CPRs should be followed for all procurement processes. • The risk owners should be identified in the Risk Register.

3. Action Plan:

Priority	Description
High	Action is imperative to ensure that the objectives of the area under review are met.
Medium	Requires action to avoid exposure to significant risks in achieving the objectives of the area.
Low	Action encouraged to enhance control or improve operational efficiency.

No.	Findings and Implications	Agreed Action	Who	When
1	The procurement process for the extension of the contract for the External Advisor to support the management of the 'In House' Investments for at least 12 months was not in full compliance with the Authority's Contract Procedure Rules. A formal contract exemption was not sought at the time of the extension of the contract for the external advisor.	Management will ensure full compliance with the CPRs for all procurement processes to provide a full audit trail in the event of any decisions being challenged.	Phil Latham	6/5/2015
	A Risk Register and risk management strategy has been developed in conjunction with the Independent Advisor. This includes the risk identification, analysis, control and monitoring process. Risk management is to be reported to the Clwyd Pension Fund Committee on a quarterly basis and the Independent Governance Advisor has been commissioned to provide an annual report on the governance of the fund each year-a key part will focus on the delivery of the requirements of the policy. The Register follows the format of the example register included within CIPFAs 'Managing Risk in the Local Government Pension Scheme' document. It includes specific funding and investment risks linked to the strategic objective. The risks relating to markets falling below actuarial assumptions and liabilities increasing are due for consideration and detailed quantification as part of the 2015 funding review. We noted that the register does not state ownership for each risk identified.	Management will be considering the inclusion of the risk ownership within the Risk Register to clearly distinguish the lines of responsibility. This will be discussed at the next meeting of the Advisory Panel.	Phil Latham	31/5/2015

4. Distribution List:

Name	Title
Colin Everett	Chief Executive
Helen Stappleton	Chief Officer – People and Resources
Gary Ferguson	Corporate Finance Officer
Phil Latham	Clwyd Pensions Fund Manager
Debbie Fielder	Pensions Finance Manager
Alwyn Hughes	Pensions Finance Manager

Appendix A – Audit Opinion:

The audit opinion is the level of assurance that Internal Audit can give to management and all other stakeholders on the adequacy and effectiveness of controls within the area audited. It is assessed following the completion of the audit and is based on the findings from the audit. Progress on the implementation of agreed actions will be monitored. Findings from **Some** or **Limited** assurance audits will be reported to the Audit Committee.

Assurance	Explanation
Green - Substantial	**Strong controls in place (all or most of the following)** ▪ Key controls exist and are applied consistently and effectively ▪ Objectives achieved in a pragmatic and cost effective manner ▪ Compliance with relevant regulations and procedures ▪ Assets safeguarded ▪ Information reliable Impact: key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, process, function or service.
Amber Green – Reasonable	**Key Controls in place but some fine tuning required (one or more of the following)** ▪ Key controls exist but there are weaknesses and / or inconsistencies in application though no evidence of any significant impact ▪ Some refinement or addition of controls would enhance the control environment ▪ Key objectives could be better achieved with some relatively minor adjustments Impact: key controls generally operating effectively but there remains a potential risk of loss, fraud, impropriety or damage to reputation and / or failure to deliver organisational objectives.
Amber Red – Some	**Significant improvement in control environment required (one or more of the following)** ▪ Key controls exist but fail to address all risks identified and / or are not applied consistently and effectively ▪ Evidence of (or the potential for) financial / other loss ▪ Key management information exists but is unreliable ▪ System / process objectives are not being met, or are being met at an unnecessary cost or use of resources. Impact: key controls are generally inadequate or ineffective and there is an increased probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.
Red – Limited	**Urgent system revision required (one or more of the following)** ▪ Key controls are absent or rarely applied ▪ Evidence of (or the potential for) significant financial / other losses ▪ Key management information does not exist ▪ System / process objectives are not being met, or are being met at a significant and unnecessary cost or use of resources. Impact: a lack of adequate or effective controls leading to a high probability of loss, fraud, impropriety, waste, damage to reputation and / or failure to deliver organisational objectives.

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APPENDIX 5

PENSION FUND COMMITTEE DELEGATED RESPONSIBILITIES

Minutes from discussion held at County Hall, Mold on Tuesday, 24 March 2015 (commencing approximately 10am)

PRESENT:
Councillors: Haydn Bateman (Vice Chair) and Brian Dunn
Co-opted Members: Councillor Steve Wilson (Wrexham County Borough Council)

Officers and advisers: Gary Ferguson (Corporate Finance Manager), Philip Latham (Clwyd Pension Fund Manager), Peter Evans (Democracy and Governance Manager), Alwyn Hughes and Debbie Fielder (Pensions Finance Managers), Karen McWilliam (Independent Advisor – Aon Hewitt)

BACKGROUND TO REASON FOR DISCUSSION:
The Pension Fund Committee was scheduled to meet at 10.30am on 24 March 2015. As a result of apologies made in advance, it was noted that the Committee would not be quorate and therefore could not meet as planned.

The Pension Fund Committee had previously agreed a number of delegated responsibilities including the following:

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.

Key: PFC – Pension Fund Committee / PFM – Pension Fund Manager / CFM – Corporate Finance Manager / COPR - Chief Officer, People & Resources

It was considered that there were a number of items that were due to be considered at the Pension Fund Committee that required urgent attention and therefore they would be dealt with under the delegation outlined above as the following delegated persons were in attendance:

- PFM - Philip Latham
- CFM – Gary Ferguson
- Deputy Chairman – Councillor Haydn Bateman.

MINUTES:
Councillor Hadyn Bateman chaired the discussion and invited the other Pension Fund Committee members, officers and advisers to remain for the discussion and input as they considered appropriate.

Item 1 - Conflicts of Interest Policy (item 4 of Pension Fund Committee agenda)

The Clwyd Pension Fund Manager highlighted it is good practice to have a Pension Fund specific Conflicts of Interest Policy and that this had been incorporated in recent guidance from the Shadow Scheme Advisory Board and The Pensions Regulator. The Democracy and Governance Manager reminded the elected members of the Pension Fund Committee that they were still also bound by the Flintshire County Council Members' Code of Conduct. He explained there was some overlap with some potential conflicts not being covered by the Code of Conduct whereas others would be covered by both the Code of Conduct and the Fund's Policy. The Clwyd Pension Fund Manager highlighted the examples in Appendix 1 to the Policy.

The councillors highlighted the difficulty in determining whether to declare small gifts such as those received at conferences and examples were provided such as pens, notebooks, conference bags and golf balls. The Independent Advisor acknowledged that it would be inappropriate to list all such gifts and it was agreed the draft Policy should be updated to clarify the treatment of small gifts. The Independent Advisor also suggested an update to the declaration in Appendix 2 (suggesting acknowledgement of responsibility under the Policy) and including additional examples such as a potential conflict for officers providing information to the local Pension Board.

The Deputy Chairman, Pension Fund Manager and Corporate Finance Manager agreed the Conflicts of Interest Policy subject to the three amendments outlined above being made.

Item 2 – Business Plan 2015/16 to 2017/18 (item 7 of Pension Fund Committee agenda)

The Clwyd Pension Fund Manager highlighted the proposed move to a three year business plan (from the one year plan currently used). He also highlighted the plan was focussed on major projects and new items of business and therefore it excluded any business as usual items or project type tasks which were carried out annually or more frequently.

Councillor Steve Wilson highlighted that many smaller employers such as community and town councils would be reaching their auto-enrolment staging dates in the forthcoming years. The Independent Adviser acknowledged that this would likely continue to cause work for the Pension Fund Administration Team but it was now considered business as usual.

The Independent Advisor highlighted that the delivery of the business plan would likely be challenging as there were a number of external factors which were outside of the Council's control.

Councillor Hadyn Bateman asked for clarity on what is meant by in-house investments on page 61 and net cashflows. The Clwyd Pension Fund Manager responded and highlighted that the budgets were estimates and he expected updates to be reported each quarter.

Councillor Steve Wilson highlighted his concern about the pressure that staff are under and expressed a view that such matters relating to Pension Fund business might be better if they were separated from the Council to aid retention of staff and we should compare remuneration packages with other Funds. The Clwyd Pension Fund Manager noted that the business plan included an item called people strategy which would consider any staffing pressures.

Councillor Haydn Bateman highlighted that the Actuarial Fees were increasing and asked about the Advisor Fees (all on page 62). The Pensions Finance Manager (Debbie Fielder) explained that the 2014/15 budget was understated in relation to potential actuarial fees. The Clwyd Pension Fund Manager explained the Advisor Fee was being driven by the establishment of the local Pension Board and assistance with delivering the business plan. He highlighted that the Governance Expenses should be considered in the context of the overall fund value at £1.3bn.

Councillor Hadyn Bateman referred to page 56 and asked if there were substitutes on the Pension Fund Committee and it was confirmed by the Pension Fund Manager that there were for FCC only but the substitutes had to have attended training to participate in decision making. It was briefly discussed whether the size of the Pension Fund Committee was appropriate but the Independent Advisor cautioned against a review at this stage given it was still relatively new.

Councillor Hadyn Bateman expressed his satisfaction with the new layout and this was agreed by the other Councillors in attendance.

The Deputy Chairman, Pension Fund Manager and Corporate Finance Manager agreed the Business Plan.

Item 3 – Governance Update (item 8 of Pension Fund Committee agenda)

The Clwyd Pension Fund Manager highlighted the recommendation on page 95 (4.01(1)) to approve the changes to the Service Plan 2014/15 as outlined in paragraph 3.32 on page 94.

The Deputy Chairman, Pension Fund Manager and Corporate Finance Manager agreed the changes to the Service Plan 2014/15.

Conclusion to meeting

The Clwyd Pension Fund Manager highlighted to the Deputy Chairman that the delegation requirements stated that the PFC should be advised of the need for delegation via e-mail as soon as the delegation is necessary and the result of the delegation should be reported for noting to following PFC. The Clwyd Pension Fund Manager confirmed he would put the necessary arrangements in place to ensure these requirements were met.

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **21ST MAY 2015**

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

SUBJECT: **RISK POLICY AND REGISTER**

1.00 PURPOSE OF REPORT

1.01 To ask Committee Members to consider the Fund's approach to risk management.

2.00 BACKGROUND

2.01 An integral part of the management of any service is good risk management. The Clwyd Pension Fund management team have maintained a risk register for a number of years now. However, they recognise there is room for improvement and accordingly incorporated a review of the Fund's risks into the business planning process for 2015/6 to 2018/9. This included a workshop with Pension Fund Committee members in February 2015. The output from that risk review is a draft Risk Policy outlining how we will manage risks for the Clwyd Pension Fund and a refreshed risk register.

3.00 UPDATED RISK MANAGEMENT PROCESS

3.01 The draft Risk Policy included as Appendix 1 outlines the approach to risk management we propose is adopted for Clwyd Pension Fund. It requires further integrating risk management into the day to day management of the Fund and regular reporting of key risks and changes in risks to the Pension Fund Committee. The Pension Fund Committee is asked to approve this Policy.

3.02 The updated risk register included as Appendix 2 incorporates all the risks identified as part of the recent risk review exercise. Although it is not intended to share the full risk register with Pension Fund Committee members at future meetings due to the detail involved (highlights will be reported), the Pension Fund Committee is asked to note and consider the contents of the risk register and highlight any areas of concern at the meeting. Pension Fund Committee members will be able to request a copy of the full risk register at any point.

4.00 RECOMMENDATIONS

4.01 That Committee Members:
1) agree the Risk Policy.
2) note and consider the contents of the risk register and highlight any areas of concern.

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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 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 Appendix 1 – Risk Policy
Appendix 2 – Risk Register

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

RISK POLICY

March 2015

RISK POLICY

Introduction

This is the Risk Policy of the Clwyd Pension Fund, which is managed and administered by Flintshire County Council. The Policy details the risk management strategy for the Clwyd Pension Fund, including

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

Flintshire County Council ("we") recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks, and ensuring risk management is an integral part in the governance of the Clwyd Pension Fund at a strategic and operational level.

To whom this Policy Applies

This Risk 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 are also integral to managing risk for the Clwyd Pension Fund and will be required to have appropriate understanding of risk management 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 aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

We recognise the significance of our role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- around 40,000 current and former members of the Fund, and their dependants
- around 28 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.

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

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

- the CIPFA Managing Risk publication and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for Clwyd Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund’s objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable us to anticipate and respond positively to change
- minimise loss and damage to the Clwyd Pension Fund and us, and to other stakeholders who are dependent on the benefits and services provided
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and taken into account in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and The Pensions Regulator Requirements

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

> *"**249B Requirement for internal controls: public service pension schemes***
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
> *(a) in accordance with the scheme rules, and*
> *(b) in accordance with the requirements of the law.*
> *(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*
> *(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourage scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls require scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the Clwyd Pension Fund

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to Clwyd Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

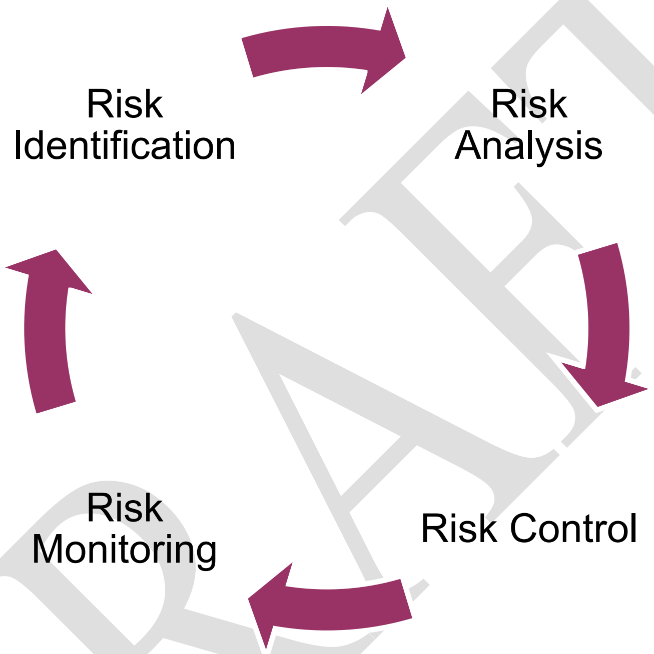
Responsibility

As the Administering Authority for the Clwyd Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pension Fund Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The Clwyd Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



Risk identification

Our risk identification process is both a proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Clwyd Pension Fund Advisory Panel
- performance measurement against agreed objectives
- monitoring against the Fund's business plan
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Pension Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

Potential impact if risk occurred	5 Catastrophic	5	10	15	20	25
	4 Major	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain

Likelihood of risk occurring

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

Risk control

The Pension Fund Manager will then determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require Pension Fund Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund’s business plan in relation to any agreed action as a result of an identified risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Clwyd Pension Fund Advisory Panel. In monitoring risk management activity, we will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision- making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Clwyd Pension Fund Committee and the Pension Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include:

- a summary of the Fund's key risks (ranked 15 or above in the above matrix)
- a summary of any new risks or risks that have changed (by a score of 3 or more) or risks that have been removed since the previous report
- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion
- a summary of any changes to the previously agreed actions.

Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Independent Governance Adviser will be commissioned 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 to the effective delivery of this Policy

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.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Fund Committee and/or Pension Fund Advisory Panel and/or Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks

- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

Costs

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

Approval, Review and Consultation

This Risk Policy was approved at the Clwyd Pension Fund Committee meeting on 24 March 2015. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

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

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Telephone - 01352 702264

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Clwyd Pension Fund - Control Risk Register

Governance Risks

Last Updated **12/03/2015**

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
1	Changes in Pension Fund Committee membership resulting in loss of continuity and potentially diminishing knowledge and understanding and impact on decision making.	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.	Resource/Skill	3	2		Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed.	
2	Changes in key officers resulting in loss of continuity and potentially diminishing knowledge and understanding	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.	Resource/Skill	4	3		FCC Talent Assessment process to identify individuals who can potentially undertake key roles. Induction training programme for seniors officers as above. An organisation structure career development programme which recognises key man risk. Notice and succession planning.	Review people strategy for administration section during 2015/16
3	Ineffective delegation of duties resulting in insufficient time spent on key matters	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Resource/Skill	3	2		A delegation of duties to Officers by Pension Fund Committee which is documented and approved by Committee. The aim is the Committee to concentrate on strategic decisions with implementation delegated to officers after taking appropriate advice. The Committee agenda is agreed by the Advisory Panel. The Committee Agenda crossed referenced to Committee Constitution, Risk Register, Business Plan and objectives in strategies and policies..	
4	Poor presentation of Pension Fund Committee items which leads to omissions, lack of understanding, decisions made without the appropriate due diligence, poor time management.	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Resource/Skill	2	2		Committee members asked for their views on whether the Committee reports are fit for purpose. Verbal reports kept to a minimum and only in exceptional circumstances. Draft reports shared within Advisory Panel. Reports presented by Senior Officer or relevant advisor. Enough time allowed for questions by Committee members.	
5	Poor attendance at formal meetings by Committee Members resulting poor standard of decision making or monitoring.	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Reputational	3	2		Committee Constitution includes a quorum. Attendance is reported in the Fund's Annual Report.	
6	Poor attendance at meetings by Advisory Panel Members resulting poor due diligence throughout the decision making process	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Reputational	2	1		Meeting schedules planned in advance. Alternates are allowed to attend. Meeting attendance expectations included in contract specification.	

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
7	Poor attendance or a lack of engagement in training by Committee Members, Pension Board and senior officers resulting in poor decision making, monitoring or advice, particularly with greater focus on knowledge by TPR and national guidance	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.	Resource/Skill	3	2		Documented Training Policy approved by Committee. Documented Training Plan approved by Committee. Discuss training delivery at Advisory Panel includes who, where and how. Build workshops around Committee where possible. Membership of and attendance by Committee members and/or officers at CIPFA Pensions Network events, NAPF events and LAPFF events and attend LGC Conferences. Training and forthcoming events included within Committee agenda	
8	Conflicts of interest not being appropriately managed by C	Act in the best interests of the Fund's members and employers	Reputational	3	2		Declarations of interest a standard item Committee Agenda. Conflicts of interest Policy documented and approved by Committee.	
9	Governance structure does not continue to meet best practice standards of DCLG, Scheme Advisory Board, CIPFA or Pensions Regulator	Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance	Regulatory/Compliance	2	1		The Governance Policy and Compliance Statement will be reviewed every three years as part of the Business Plan or sooner if matters merit..	
10	Governance Structure unable to adapt to change either through national governance change (separation) or all Wales working together including a CIV.	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	Regulatory/Compliance	3	3		Monitor and participate into consultation on national governance changes. Participate in developing governance around a potential Wales CIV.	
11	Governance structure considered to be expensive, advice is poor and not providing value for money	Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success	Reputational	2	2		Governance budget included in the Business Plan. Annual Meeting with Employers and union representatives to explain complexity of the Fund, risks being managed with an opportunity to ask questions. The Committee includes representatives from scheme members and most employers in the Fund. Advisers appointed via Council's contract procedure rules (fixed term contracts with possible extensions). Fund's Framework agreement to be maintained for now but National Framework agreements considered as current contracts expire. Independent annual review. Ongoing monitoring of costs against tender and ongoing feedback against performance.	
12	Ineffective review of the of the Governance arrangements	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Regulatory/Compliance	3	1		An annual review by the Independent Adviser which is reported to Committee and published in the Annual Report. The Governance and Compliance Statement is filed with DCLG in line with Regulations. The Governance of the Fund is considered by external and internal audit and reports are reported to Committee. Likely oversight at a national level and self review by officers and other advisers.	

13	Conflict on policy and strategy decisions between Committee and Local Board.	Act in the best interests of the Fund's members and employers	Reputational	3	2		Clear Terms of Reference for the Committee and Local Board and training on roles (in accordance with Training Policy). Guidance from tPR and Scheme Advisory Board.	
14	Lack of understanding of the impact of LGR on the Fund and its stakeholders (e.g. employer costs or split up of fund and impact on strategy)	Act in the best interests of the Fund's members and employers	Employer	4	4		Monitoring via the Advisory Panel agenda and engage at a senior level within the Council and employers	

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
15	The Fund's risks are not understood, managed and monitored	Understand and monitor risk	Resource/Skill	3	2		A risk register is documented and reported to Committee. The risks are monitored by the Advisory Panel and actions required included in the Business Plan. Risks are a regular item at staff meetings.	
16	Unable to properly (and within timescales) establish, fill posts and train new Pension Boards	Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies	Regulatory/Compliance	4	3		Plan in place for recruitment, training planned, communications already taken place at employer forum, training policy, conflict policy	
17	Failure to meet legal and internal policy requirements in relation to procurement of services	Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance	Regulatory/Compliance	3	1		Officers appropriately trained, use of advisers in procurement (who have themselves been subject to procurement appointment)	

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Last Updated **12/03/2015**

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
1	Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Asset/Investment	4	2		Use of a diversified portfolio which is regularly monitored against targets and reallocated appropriately. Monthly monitoring of funding position versus flightpath targets and agreed action ranges. Along with more formal periodic reviews (usually annually) will allow consideration of the continued appropriateness of the funding and investment strategies by the Pensions Advisory Panel and Committee.	This risk will be considered and quantified in more detail as part of the 2015 funding review (see service plan).
2	Market yields and/or inflation moves at variance with actuarial assumptions resulting in increases in liabilities, reduced solvency levels and increased employer contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Liability	4	2		LDI strategy in place to control/limit interest and inflation risks. Use of a diversified portfolio which is regularly monitored against targets and reallocated appropriately. Monthly monitoring of funding and hedge ratio position versus flightpath targets and agreed action ranges. More formal periodic reviews (usually annually) will allow consideration of the continued appropriateness of the funding and investment strategies by the Pensions Advisory Panel and Committee.	This risk will be considered and quantified in more detail as part of the 2015 funding review (see service plan).
3	Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives) or switch investments at appropriate Trigger Level, which reduces solvency levels and increases required in employers' contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Asset/Investment	4	2		Diversified investment structure and increase hedging at appropriate market levels. Frequent monitoring against targets and triggers with periodic reviews of the appropriateness of the performance to these objectives.	
4	Mortality rates continue to improve, in excess of the allowances built into the evidence-based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Liability	2	2		Regular monitoring of mortality experience factors being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis. National cost management model could mitigate some of this cost impact if the LGPS as a whole exhibited the same trends.	
5	Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted resulting in increases required in employers' contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Liability	2	2		Employers required to pay capital sums to fund costs for non-ill health cases. Regular monitoring of early retirement (including on the grounds of ill health) experience being exhibited by the Fund members by Fund Actuary and consequent variation of the actuarial assumptions based on evidential analysis. Ensure that employers are made aware of consequences of their decisions and that they are financially responsible for consequences of their decisions.	
6	Pay inflation significantly different from actuarial assumptions resulting in increases required in employers' contributions	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Liability	3	2		At each triennial actuarial valuation an analysis is carried out to ensure that the assumptions adopted are appropriate and monitor actual experience. Discussions with employers over expected progression of pay in line with their own internal budgeting and national pay restraint.	
7	Not recognising opportunities from changing market, economic or other circumstances (e.g. further de-risking or strengthening of covenant)	Achieve and maintain assets equal to 100% of liabilities within the 18 year average timeframe, within reasonable risk parameters	Asset/Investment	4	1		Flightpath in place to exploit these opportunities in appropriate market conditions. The flightpath is reviewed periodically at least annually. Review of covenant and any ways to improve for certain employers is done as part of the valuation.	

8	Take-up of 50:50 option is lower than the actuarial assumption of an average of 5% of the membership adopted resulting in changes required in employers' contributions	Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant with the aim being to maintain as predictable an employer contribution requirement as possible	Employer	2	4		Regular monitoring of take-up levels being exhibited by the Fund members by Fund Actuary, and consequent variation of the actuarial assumptions based on evidential analysis.	

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
9	Failure to differentiate the funding strategy of different fund employers by reference to their own circumstances and covenant	Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant with the aim being to maintain as predictable an employer contribution requirement as possible	Employer	3	2		At each triennial actuarial valuation a formal consideration of employer circumstances in relation to covenant and reasonable affordability of employer contributions. Open dialogue with employers as part of the valuation consultation process and via AJCM.	
10	Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of the employers defaulting on their contributions	Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant with the aim being to maintain as predictable an employer contribution requirement as possible	Employer	4	2		At each triennial actuarial valuation a formal consideration of employer circumstances in relation to covenant and reasonable affordability of employer contributions. Open dialogue with employers as part of the triennial actuarial valuation process and via AJCM in terms of formal funding reviews (next due 2015).	
11	Adverse changes to LGPS regulations resulting in increases required in employers' contributions or Fund cashflow requirements.	Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant with the aim being to maintain as predictable an employer contribution requirement as possible	Regulatory/Compliance	3	1		Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.	
12	Adverse changes to other legislation, tax rules, etc. resulting in increases required in employers' contributions (or potentially funding/investment strategy)	Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant with the aim being to maintain as predictable an employer contribution requirement as possible	Regulatory/Compliance	3	2		Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate and raised in consultation process with decision makers lobbied. Employers and interested parties to be kept informed. Monitor potential impact for employers in conjunction with Actuary.	
13	Administering authority unaware of structural changes in an employer's membership, or not being advised of an employer closing to new entrants, meaning that the individual employer's contribution level becomes inappropriate requiring review and increase	Manage employers' liabilities effectively through the adoption of employer specific funding objectives	Employer	2	4		Unanticipated changes in membership formally considered as part of the valuation process. Ensure that employers are reminded of their responsibilities through this monitoring and reminders of Fund policies. New employers will be informed of this on entry and existing employers periodically through forums such as the AJCM and fund website/mailshots.	Discussion with admin team re quarterly monitoring at employer level
14	Failure to ensure appropriate bulk transfer amounts are paid to protect the solvency of the Fund and equivalent rights are acquired for transferring members in accordance with the regulations.	Manage employers' liabilities effectively through the adoption of employer specific funding objectives	Employer	2	1		Implement an approach to bulk transfers which firstly protects the Fund's interests (standardising the approach where possible taking into account the practicality of quick resolution with the other pension scheme). Fund Actuary will advise on appropriate transfer amount on a case-by-case basis.	
15	Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due resulting in unanticipated investment costs.	Ensure net cash outgoings can be met as/when required	Asset/Investment	2	1		Holding liquid assets and maintain positive cashflows. Reviews performed to monitor cashflow requirements	

16	Unanticipated onset of cash-flow negative position, potentially requiring ad hoc repositioning of assets	Ensure net cash outgoings can be met as/when required	Asset/Investment	2	2		Holding liquid assets and maintain positive cashflows. Reviews performed to monitor cashflow requirements	Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place).
17	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the Fund as a whole with increases being required in all other employers' contributions	Minimise unrecoverable debt on employer termination	Employer	3	2		Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. When setting terms of new admissions require a guarantee or bond. Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. Identify any deterioration and take action as appropriate through discussion with the employer.	

Clwyd Pension Fund - Control Risk Register

Administration & Communication Risks

Last Updated **16/03/2015**

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
1	Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness.	Deliver a high quality, friendly and professional service to all employers.	Resource/Skill	4	5		Continually monitor staffing levels, providing training and external resource to assist. Multi-skilled staff to avoid too much reliance on key staff members. Internal review of staff responsibilities to provide adequate cover in the short term.	Consider People Strategy during 2014/15
2	Significant increase in the number of employing bodies causes strain on day to day delivery.	Deliver a high quality, friendly and professional service to all employers.	Resource/Skill	3	2		Continually monitor the impact of managing the volume of employers admitted to the fund.	
3	Incorrect calculation of members' benefits resulting in inaccurate costs (to employer), through for example, inadequate testing of systems.	Deliver a high quality, friendly and professional service to all employers.	Employer	2	1		Data accuracy checks performed by senior officers. Liaise with employers to ensure timely and accurate submission of data. Routine testing of system updates following releases from software provider. Perform regular checks of software updates in our TEST environment before signing off to be updated in our LIVE environment. Continuous staff training.	Ongoing pressure on system provider to update system and aim to remove use of manual calculations
4	Failure for employers to provide accurate and timely information resulting in incomplete and inaccurate records , which could lead to incorrect valuation results and incorrect benefit, which in turn could lead to complaints.	Deliver a high quality, friendly and professional service to all employers.	Liability	4	4		Data accuracy checks performed by senior officers. Training policy (for staff training)Liaise with employers to ensure timely and accurate submission of data. Validation checks undertaken by Actuary at valuation. Current project to clear data and backlog. Use of electronic interface to reduce the need for manual updates. Complaints managed by senior officers and referred to Pension Admin Manager if appropriate resulting in a low level of IDRP's.	Implement IConnect. Ensure SLA is detailed enough and employers are provided with info (such as LGA guides).

5	Failure to administer scheme in line with regulations and policies e.g. LGPS 2014.	Deliver a high quality, friendly and professional service to all members	Regulatory/Compliance	2	1		Complete Altair system checks to ensure compliance with regulations. Attend network groups (SPOG, Welsh POG, Altair User Groups). Create online procedure manuals and the provision of training to all team members. Checking process. There may be short periods of time when turnaround times may be delayed. Attend user groups to keep fully up to date whilst also liaising with external contacts.	Create on-line procedure manual for staff (incorporating checking and sign off requirements)
6	Failure to administer scheme in line with regulations and policies e.g. LGPS 2014 due to delays in enhancement to software or regulation guidance (e.g. transfers).	Deliver a high quality, friendly and professional service to all members	Regulatory/Compliance	4	4		Manual calculations performed by staff members during the period of change. There may be short periods of time when turnaround times may be delayed. Transfers currently on hold. Collaboration with other funds and LGA to determine how to deal with things in the meantime.	

Risk no:	Risk	Strategic objective at risk (see key)	Risk category	Impact (see key)	Likelihood (see key)	Risk Status	Internal controls in place	Further Action?
7	Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors.	Deliver a high quality, friendly and professional service to all members	Regulatory/Compliance	3	2		Data accuracy checks performed by senior officers. Training policy (for staff training)Liaise with employers to ensure timely and accurate submission of data. Validation checks undertaken by Actuary at valuation. Current project to clear data and backlog. Use of electronic interface to reduce the need for manual updates.	Implement IConnect. Ensure SLA is detailed enough and employers are provided with info (such as LGA guides).
8	Fraud by staff	Deliver a high quality, friendly and professional service	Administration	3	1		Checking in place, for example, secure log-ins, controlled access levels to Altair system, locked records for pension staff, audit checks / reports.	Review documentation of controls to ensure clarity of requirements
9	Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier.	Deliver a high quality, friendly and professional service to all members	Administration	3	1		Test data sent to supplier and thorough checks performed before actual ABS distributed to members. Feedback from other users shared at the All Wales Group.	
10	Unable to deliver a service to pension members due to system unavailability or failure.	Deliver a high quality, friendly and professional service to all pensioner members	Regulatory/Compliance	5	2		Disaster recovery procedure in place within the administration section but no disaster recovery testing completed by IT.	Disaster recovery testing to be completed
11	Fraud by pensioners/beneficiaries or overpayment of pension	Deliver a high quality, friendly and professional service to all pensioner members	Administration	1	1		Payments to bank account, national fraud initiative participation and use of 'life' certificates	
12	Issuing incorrect or inaccurate communications.	To be forward thinking, responsive, pro-active and professional when communicating with all our customers.	Regulatory/Compliance	3	1		Sign off agreed with Principal Pension Officer and Pension administration Manager. Training of staff. Use of centrally created communications (LGA).	
13	Failure to maintain employer database leading to information not being sent to correct person.	Deliver a high quality, friendly and professional service to all employers.	Employer	3	1		Maintain master electronic list of employer contacts. Regular communication will identify any changes.	

14	Lack of clear communication to scheme members and pensioners	Deliver information in a way that suits all customers.	Employer	3	2		Various types of communication tools developed, e.g. booklets, website, drop-in sessions and pre-retirement courses. Late notification of regulations can delay update of publications and website. Communications strategy and plan. Dedicated communication officer in place.	Update website and develop self-service facility for scheme members
15	Lack of clear communication to employers	Deliver information in a way that suits all customers.	Administration	3	1		Regular employer bulletins issued. Regular training sessions with employers. Annual employer meetings held. Communications strategy and plan. Dedicated communication officer in place.	Update website and develop self-service facility for employers
16	Some members may not receive communications in their preferred format which may be perceived as discrimination and potentially not meet legal requirements.	Deliver information in a way that suits all customers.	Regulatory/Compliance	3	2		Communication material is available in multiple forms e.g., braille, large print, video DVD and audiotape on request. Most communication material is bilingual. Dedicated communication officer in place.	Ongoing work on ensuring all communications are bilingual
17	Failure to include all required information in documents issued under the disclosure regs and in timescales required.	To be forward thinking, responsive, pro-active and professional when communicating with all our customers.	Regulatory/Compliance	3	1		Annual check of disclosure regulation requirements / staff training. Dedicated communication officer in place.	

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **21st MAY 2015**

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 rolling "current issues" documents focus on the Regulations and other matters and 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 It is recommended that all Members familiarise themselves with all the current issues listed.

3.02 Key items to be noted since the last current issues report was tabled are:

- A brief update on the possible impact of the outcome of the General Election on the pension landscape based on the manifesto's of the major parties.
- The 2015 Budget and the changes to Lifetime Allowance.
- Scheme Advisory Board's work on deficit management and the Secretariat's pilot scheme across funds concerning their assessment against a set of Key Performance Indicators.
- The new legislation on reducing transfer values paid from the LGPS if solvency levels support it and an update on the Public Sector Transfer Club.
- TPRs Code of Practice has also been finalised, due to come into legal effect on 1 April. TPR have developed a Public Service Schemes section of their website, including an e-learning Toolkit.
- An update on AVC arrangements.

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

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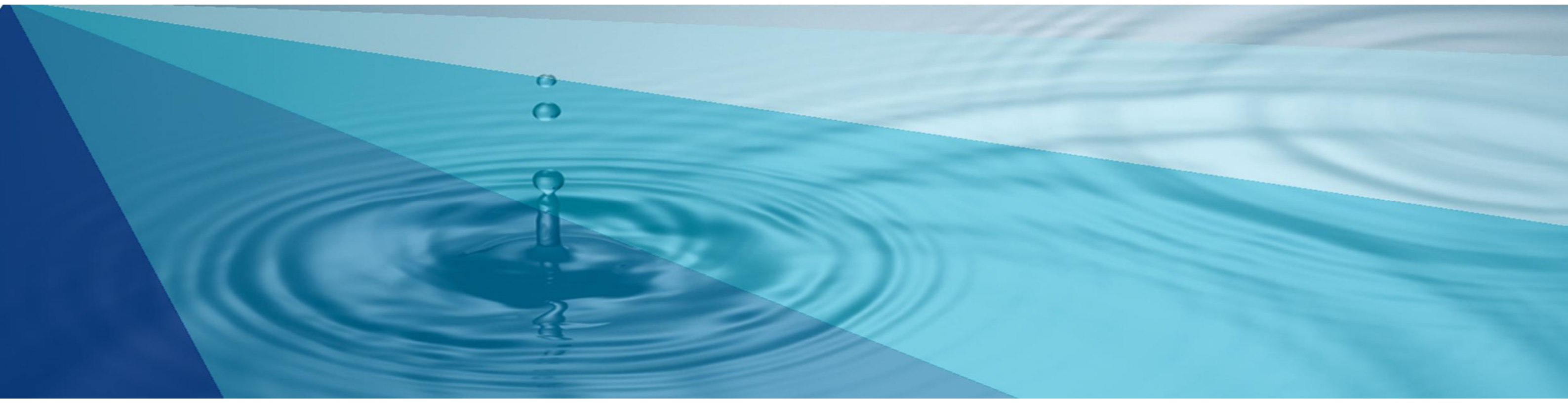

LGPS: CURRENT ISSUES

MAY 2015
A BRIEF UPDATE

IN THIS ISSUE

2015 GENERAL ELECTION - THE MANIFESTOS OF THE MAJOR PARTIES

At the time of writing the exit polls are predicting a small majority for the Conservative Party. Whilst clarity on how the new Government will influence the pensions landscape generally and for the LGPS may not be known for some time, we provide a summary of the main parties' pension/retirement policy manifesto pledges (in alphabetical order).

Conservative Party

- Maintain the triple lock – i.e. the State Pension will increase by the higher of earnings, inflation or 2.5% p.a.
- Bring in the Single Tier pension – replacing the means-tested Pension Credit
- Reduce tax relief on pension contributions for people earning more than £150,000 p.a.
- Allow pensioners to access their savings so that they can make their own decisions about their money
- Maintain all the current pensioner benefits, including Winter Fuel Payments, free bus passes, free prescriptions and TV licences

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - MAY 2015

Green Party

- Introduce a Citizen's Pension paid to all pensioners regardless of contribution record. It would not be means tested and would increase in line with the higher of inflation and earnings
- Reduce value of income tax and national insurance relief currently given including reducing annual allowance
- New state earnings-related pension scheme which employers would be obliged to offer and contribute to
- Keep the bus pass and Winter Fuel Payment (and abolish the TV licence)
- Provide free prescriptions to all
- Ensure pensioners living abroad receive the same pension and annual increases as those living in the UK

Labour Party

- Maintain the triple lock
- Restrict tax relief on pension contributions for the highest earners
- Reform the pensions market so that providers put savers first and protect consumers from retirement scams
- Restrict Winter Fuel Payments for the richest five percent of pensioners but there will be no other changes to Winter Fuel Payments, free TV licences and bus passes

Liberal Democrats

- Legislate to make the triple lock permanent
- Continue introduction of Single Tier pension
- Establish a review of a single rate of tax relief for pensions
- Improve Workplace pensions
- Allow people more freedom in the use of their pension and to allow existing pensioners to sell their annuity
- Withdraw eligibility for the Winter Fuel Payment and free TV licences from pensioners who pay tax at the higher rate, but retain the free bus pass for all

Plaid Cymru

- Increase the Upper Earnings Limit on National Insurance contributions to £100,000
- End 40% pensions relief for higher rate tax payers
- Ensure the new Single Tier pension set at least at the rate of Pension Credit
- Support moves to allow early access to pensions
- Oppose increases in State Pension Age and in the retirement age of frontline services
- Investigate flexible pension access for self-employed workers
- Protect free bus passes

Scottish National Party

- Continue the triple lock guarantee
- Support the Single Tier pension
- Review pension tax relief available to wealthiest
- Review planned increase in State Pension Age
- Support auto enrolment and proposals to give pensioners more flexibility, subject to adequate levels of support and advice
- Identify and target unfair, hidden pension charges
- Retain free bus pass, winter fuel allowance and TV licence

UK Independence Party

- Introduce a flexible State Pension window
- Fund a higher standard of independent advice to all pensioners
- Not allow rogue operators to take advantage of pensioners by making it a criminal offence to cold call someone about their pension arrangements
- Keep free bus passes, winter fuel allowances and TV licences for the over 75s and free prescriptions and eye tests for the over 60s, without means testing.

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - MAY 2015

2015 BUDGET - LIFETIME ALLOWANCE, ANNUITY "CASH INS"

On 18 March, the Chancellor delivered his final Budget before the general election. This Budget saw yet another cut in the standard lifetime allowance (LTA) from £1.25m to £1m effective from April 2016 but no change is proposed to the annual allowance.

This is likely to capture a number of additional long serving and/or highly paid individuals at retirement so communication of the change will be important to allow adequate planning. However, we would still expect the overall numbers affected to be small. We wait to see if there will be a further raft of transitional protections for members who have already built up benefits close to or above the new £1m level.

In addition, Mr Osborne announced a policy to permit pensioners who currently hold annuities to sell the future income from those annuities, although HMT accepts that a market for these may not actually emerge.

The 55% tax charge on cashing-in these annuities will be abolished from April 2016: individuals will be taxed at their marginal rate.

There is currently no detail about how the secondary market will operate and HM Treasury has issued a "call for evidence" consultation on creating such a market. The Chancellor has committed to the consultation to ensure that pensioners seeking to "cash-in" their annuity will be given appropriate guidance and advice.

2014 BUDGET AND NEW PENSION FLEXIBILITY

The mists are starting to clear in relation to the swathes of pension reforms announced by George Osborne during his 2014 Budget statement and how these will impact on the costs of running a Defined Benefit pension scheme such as the LGPS.

There is no doubt that some of the reforms will enable LGPS Funds to possibly manage their running costs – such as the increase to Trivial and Small Sums commutation limits which have massively increased the potential for funds to reduce the costs associated with small pensions.

Having performed analyses on a number of LGPS Funds, in some cases potentially in excess of 30% of existing pensioner and dependant members could qualify for a trivial lump sum in lieu of their pension. This is significant for a Fund if take-up was high as it could lead to material running cost savings and reductions in liability and risk. However, any such exercise would need to be carefully managed and communicated taking into account the various requirements and guidance around bulk liability management exercises. This is because they are now subject to the Code of Good Practice from the Incentive Exercise Monitoring Board although this will be reviewed further later this year. However, other areas of the reforms such as accessing flexibilities via DC vehicles will no doubt increase the burden and responsibility of Funds and may potentially lead to an increasing administrative cost.

TPR CONSULTATION: COMPLIANCE AND ENFORCEMENT POLICY FOR PUBLIC SECTOR SCHEMES

TPR has consulted on its proposed approach to compliance and enforcement in relation to public service pension schemes. In broad terms TPR set out how it would identify and assess risk in those schemes and how this will form the basis for its operational activity. TPR also covered its approach to monitoring the schemes through reactive and proactive sources and how a scheme may be investigated by a case team, including the enforcement and other enablement and educative interventions available.

A notable aspect is that the LGPS will now be required to complete a new statutory Scheme Return that will assist TPR in its role. We have responded to this consultation and whilst we are generally supportive, we did make the point that TPR should have regard to the information that is already gathered across the LGPS when finalising its requirements.

TPR CONSULTATION UPDATE: MEMBER GUIDANCE FOR DB TO DC TRANSFERS

TPR has published guidance on "DB to DC transfers and conversions" following the consultation it carried out earlier in the year and also its response to the consultation. There are no major changes in its stance but it has taken the opportunity to clarify ambiguities in the draft guidance and align itself with the final regulations that were published after the consultation began.

The guidance follows on from Government concerns that:

a) members transferring from DB schemes might not fully understand the risks of doing so; and
b) a large increase in older members transferring out of DB schemes could destabilise employer backed DB schemes, or expose the tax payer to additional costs.

The first concern was partly addressed by the requirement (with exceptions), included in the Pension Schemes Act 2015, that members will have to receive (and pay for) 'appropriate independent advice' from a regulated financial adviser before taking a transfer value of their 'safeguarded benefits' to a 'flexible benefits' arrangement (broadly meaning DB to DC), or before changing any subsisting rights to safeguarded benefits into flexible benefits ('conversion'). Final regulations confirmed that advice will not be required where the initial cash equivalent (i.e. the unreduced transfer value) of the member's entire safeguarded benefits in the scheme is £30,000 or less. Within a month of receiving a request for a transfer value (or receiving a request for information about transfer values, or how to apply for a transfer value) the Fund must let members know that, for a transfer value to be paid to an arrangement providing flexible benefits, the Fund will need to check that, if the initial cash equivalent value of their safeguarded benefits is more than £30,000, the member has received regulated financial advice. The information should include written confirmation from their adviser that he or she is:

- authorised to provide the advice;
- that the relevant advice has been given (i.e. that the advice is specific to the type of transaction proposed);
- the name of the member and the scheme;
- and the adviser's firm's FCA reference number.

The second concern is addressed by the new guidance from the Regulator, which reminds trustees and scheme managers of their statutory powers and the Regulator's previous guidance on transfers and integrated risk management. In particular that in some situations reducing transfer values may be appropriate.

For funded public service pension schemes, reductions to transfer values must be applied in accordance with the Funded Public Service Pension Schemes (Reduction of Cash Equivalents) Regulations 2015.

TPR's CODE OF PRACTICE & TOOLKIT

TPR's final Code of Practice for the governance and administration of public service pension schemes is now live and in-force, after coming into effect on 1 April 2015. The code provides scheme managers and pension board members with a summary of their key governance and administration duties, standards of conduct and practice we expect in relation to those duties, and practical guidance on how they can comply.

In addition to the Code, TPR has created a dedicated Public service schemes section of their website (www.thepensionsregulator.gov.uk/public-service-schemes.aspx) with various resources available. This includes a Public Service e-learning Toolkit that can be used to learn about managing public service pension schemes and to increase knowledge and understanding of the key areas of governance and administration that need to be focussed on. We recommend that all individuals involved with the management of the LGPS should complete this learning toolkit.

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - MAY 2015

TRANSFER CLUB UPDATE

Cabinet Office have issued an updated Public Sector Transfer Club Memorandum effective from 1 April 2015. Club transfers seem set to become substantially more complicated than in the past, and the following issues are worthy of particular note:

- Schedule 7 of the Public Service Pensions Act 2013 includes a provision that members may maintain their final salary link on moving between public service pension schemes if the break in service is less than 5 years.
- The Memorandum clarifies that the mechanism for the member to take advantage of this is by taking a Club transfer between the two schemes.
- The Memorandum changes the current single tier arrangement into a two tier "Outer Club" and "Inner Club" arrangement. The Outer Club is essentially a continuation of the existing provisions for transfers of final salary benefits, whereas the Inner Club deals with transfers of career average benefits. It seems to be envisaged that the Inner Club arrangements will apply only to the main public service schemes, although there does not seem to be an outright ban on other schemes becoming part of the Inner Club if they wished.
- For transfers of career average benefits between Club Schemes, the receiving scheme will be required to apply the paying schemes method of in-service revaluation for as long as the member remains active in the receiving scheme.
- Alongside the Memorandum, a separate note has been produced about how the member's benefits should be valued for annual allowance purposes in the year of transfer. In principle, any increase in the value of a member's benefits due to a pay rise on transfer should now count towards a member's annual allowance, and the note sets out how the calculation should be done. In practice, we expect that for the time being this will need a separate manual calculation.

It is worth noting that the Shadow Board has asked the Chief Secretary to the Treasury whether the LGPS might be permitted to withdraw from the Club. This was largely on cost grounds, against the background of the effect of the Club on the Government's cost cap provisions, although the argument for withdrawing might be strengthened by some of the above points. For the time being, the Chief Secretary did not wish to allow the LGPS to withdraw from the Club, although he did not rule it out at some point in the future.

GOVERNANCE UPDATE

The final Governance Regulations were laid before Parliament in January and Scheme Managers should now be well underway in getting their Local Pension Boards operational. The implementation stage is, in our opinion, a very important one, as its ultimate success will be driven by those who sit on the Board. Knowledge gaps and training plans will need to be put in place as soon as practicable. Funds should also be reviewing their Governance Compliance Statements in light of the establishment of the LPB to ensure they remain appropriate in light of the changes.

Last month, the Shadow Scheme Advisory Board hosted an event at Local Government House where it gave an update on its work thus far (eg deficit and cost management, communications, scheme reporting, governance including separation etc).

The statutory Board will be established in earnest and it is clear from that event that it is hoped much of the work embarked upon will continue. The outcome of the election, and the leader(s) of the new Government will inevitably shape the future direction of the LGPS.

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - MAY 2015

PENSION FUND POLICY REVIEW

The Regulations include a number of complex provisions where the Fund needs to develop clear policies on their application e.g. recovery of termination debt from outgoing employers. In order to assist with the future management of the Fund, we recommend that all Funds add the task of reviewing and updating all policies (or developing them where absent) to their business plans on an annual basis.

DATA QUALITY & STATE SCHEME CHANGES

As mentioned previously, data quality has long been a focus of TPR and the Code of Practice for public service pensions lead us to conclude that this will apply equally to the LGPS going forward. To re-emphasise, 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.

All Schemes should now be registering with HMRC's reconciliation service to assist with the reconciliation of scheme GMP membership records in advance of the State Scheme changes and cessation of contracting-out in April 2016. This is a significant exercise for Funds and the level of resource needed to reconcile these records should not be underestimated.

Furthermore the loss of NI rebates to employers will result in a budgetary burden of 2-3% of pay per annum in some cases which is significant given the ongoing strain in finances. All employers who participate in the LGPS should be made aware of this for budgeting purposes. Employees in the LGPS will see an increase in their NI contributions which will erode their take home pay levels. In addition individuals will also see a change in their State Pension entitlements where their State Pension Age falls on or after 6 April 2016. Careful communication of these issues is important and we would be happy to assist Funds and employers as part of the planning for next year's round of LGPS actuarial valuations.

Software providers are assisting in the "data mining" aspects of the reconciliation but resolution of queries often needs to be done on a case by case basis which is very time intensive.

At Mercer we have a dedicated team dealing with this for the schemes we administer and would be happy to assist in-house administration teams with this if required.

DEFICIT MANAGEMENT & KEY PERFORMANCE INDICATORS

As reported in previous *Current Issues*, the Shadow Board's Deficit Management working group commissioned a project 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 and whilst some reservations have been raised the high level objectives are sensible in terms of providing further transparency. On 29 January the Board issued its workplan for 2015 building on some of the initial themes and this was covered at the event held in April.

The key outputs from the exercise are expected to be a development of:

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

Ultimately there could be some level of interventions on Funds perceived as "high risk" in terms of good financial management and governance. This makes the development of sensible metrics crucial to the operation of the

LGPS. The Shadow Board has already done significant work on this.

In light of this, the Shadow Board has sought a number of LGPS funds to voluntarily self-assess against a suite of 18 LGPS pension fund key performance indicators (KPIs). We have assisted some of the selected funds in responding to this pilot exercise, and we are awaiting further details of how the new statutory Board will take this forward.

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

It is important that Administering Authorities focus on the management of risk by developing a robust long-term plan with clear objectives to manage risk and reduce deficits in a sensible way and not focus simply on league tables.

As the pension fund contributions become a bigger proportion of decreasing Local Authority budgets, alignment of investment and funding strategies becomes even more crucial. Having the Governance "plumbing" in place to manage risk dynamically and efficiently at a whole Fund and/or employer level, when a favourable market position allows it, needs to become a major priority for Funds in the run up to the next valuation. There are a number of ways of approaching this with the best approach being very dependent on the individual Fund in question. We will continue to develop these ideas and solutions (such as our online funding monitoring and asset tracking tool *FSM*^{pro}) and discuss them with our clients.

COST MANAGEMENT

The regulations covering the Government's Cost Management approach have now been enacted. 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 with a view to assisting with the sustainability of the scheme and fairness to taxpayers. The two widely reported cost management mechanisms that have been designed 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. The Regulations confirm the cost control provisions showing the employer cost notional "cap" set at 14.6% of pay under the HMT process.

2. Internal cost management process – sets an overall future service target cost of 19.5% of pay, with scheme members meeting a third of this cost (so initially the employer element is 13% of pay and the employee element is 6.5% of pay. These can change however due to the 2/3rd and 1/3rd split).

If the HMT and Scheme Advisory Board processes both require corrective action, then the wording of the Regulations appears to require that the Treasury process is the one which will apply. There is no facility for the Treasury process to be "turned off" in such circumstances, however in our view it would be preferable for the Scheme Advisory Board process to apply instead.

AVC ARRANGEMENTS

The Regulator has made clear that it expects private sector occupational pension schemes to have the same governance and oversight for their AVC arrangements as it expects for defined contribution arrangements (and as set out in its Code of Practice 13 "Governance and administration of occupational defined contribution trust-based schemes").

Whilst not an explicit requirement as yet, it is likely that the Regulator is going to expect public sector schemes to adopt the same standards for associated AVC arrangements.

Additionally, in its Code of Practice for the governance and administration of public service pension schemes the Regulator does make clear that “Where DC or DC AVC options are offered, pension board members should also be familiar with the requirements for the payment of member contributions to the providers, the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider’s investment and fund performance report and the payment schedule for such arrangements.”

The Regulator set out in its Guidance supporting the DC Code a series of quality features it believes a DC scheme should exhibit and suggests an assessment against these features is used to identify any areas where action is needed to bring an arrangement up to the preferred level. Public sector AVC arrangements, such as those in place under the LGPS, should also therefore consider assessing their AVC arrangements against these – indeed, this is our recommended approach at this time. Your usual Mercer consultant can help you with implementing an assessment and identifying any actions needed as a result.

Of course part of the assessment relates to ensuring ‘value for money’ and suitability for all scheme members and so it is important that as a minimum Funds continue to assess the fund range, security and performance of their AVC arrangements on a regular basis.

COUNCILLORS’ PENSIONS

As reported in previous issues, we have seen a number of Councils considering alternative benefit provision for their Councillors in lieu of LGPS membership given their exclusion last year.

Whether this changes under the next Government remains to be seen, although we expect this to be unlikely unless a Labour-led government. Nevertheless, in the lead up to the election, we are aware of a number of Local Authorities considering DC alternatives for their elected members.

We have experience of setting up sector-wide pension schemes and are looking at ways that the DC market can facilitate cost effective pension benefit provision for Councillors. If this is an area your authority is interested in exploring, once the election outcome is known, please do contact your usual Mercer consultant.

SINGLE FRAUD INVESTIGATION SERVICE BULK TRANSFERS

The bulk transfer of SFIS staff has been progressing and is now at the data collection stage. This is going to involve the transfer of a few hundred staff across England & Wales to the PCSPS, but it is only going to be a handful of people per employer/fund. There have been some discussions between GAD and the actuarial firms about agreeing a common transfer approach.

The GAD have responded to the actuarial firms’ proposal and have suggested that a “Share of Fund” approach be used, rather than an adjusted CETV as previously proposed to them. The ACA Local Authority sub-Committee is currently considering this counter proposal. Once we have a clear direction we will be in touch to confirm next steps.

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.

Until this has been formalised, broad comparability options remain a possibility but it should be borne in mind for current negotiations that this could be removed at short notice. 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.

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.

Consideration is also being given to valuation extracts for non-Heywood clients. With regard to Early Retirement Strain Costs the other actuarial firms have now agreed with us to maintain the current methodology but to ensure the facility to adopt Fund specific factors is made available. We understand that a bulletin has been issued by Heywood in this context, but if you do have any questions or issues, please do contact your usual Mercer consultant.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: CLWYD PENSION FUND COMMITTEE

DATE: 21st MAY 2015

REPORT BY: CHIEF OFFICER (PEOPLE AND RESOURCES)

SUBJECT: PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an update on administration and communication related issues.

2.00 BACKGROUND

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

- Business Plan 2015/16 update (Appendix 1)
- Policy and Strategy Update
- Delegated Responsibilities Updated

3.00 BUSINESS PLAN UPDATE – QUARTER 1

3.01 Appendix 1 shows the Administration and Communication section of the Business Plan 2015/16. Of the key actions for quarter 1 (1st April to 30th June) the following have been completed:

- Pension Increase, Care revaluation and review
- Disaster Recovery Testing

3.02 All other key actions for quarter 1 are on target:

4.00 POLICY AND STRATEGY UPDATE

Update on staffing matters

4.01 Due to the resignation of a Principal Pensions Officer on the operational team, a replacement or minor restructuring of the section is under review.

4.02 All temporary posts have been extended until March 2016 and are being considered for permanent addition to the establishment as part of the review.

Performance measures on day to day tasks

4.03 As previously reported, due to the systems not being fully updated by the provider for LGPS 2014, manual intervention is still required. Despite the manual intervention required, the workflow is being managed by the operational team. The table below shows the number of cases completed during 2014/15 by quarter.

	Q1 2014	**Q2**	**Q3**	**Q4**
Retirements	201	224	217	184
Deaths	82	75	105	114
Transfers In	22	44	30	2
Transfers Out	20	17	9	7
Estimates	76	175	152	142
Deferred	394	266	347	155

Due to the impact of manual calculations, stockpiling of transfers whilst awaiting regulations and additional training requirements for new staff members, an additional backlog of work that requires authorisation, is accumulating. The review referred to in 4.01 will also consider roles and responsibilities to determine whether any changes will assist with workflows and bottlenecks

The table below illustrates an increase in the membership during 2014/15. The Opt Outs from the Fund and the take up of the 50/50 option remain low.

Status	**Q1**	**Q2**	**Q3**	**Q4**
Active (full LGPS)	15,726	15,550	15,798	15,887
Active (50:50 LGPS)	12	10	6	6
Undecided Leaver	3,065	3,465	3,266	3,400
Deferred	8,600	8,768	9,413	9,026
Pensioner	8,930	9,048	9,186	9,250
Spouse/Dependants	1,557	1,575	1,593	1,587
Frozen	821	813	856	871
Total	**38,711**	**39,229**	**40,118**	**40,027**

Opt Outs*	529	585	628	662

There are no matters to report on the Councillors scheme. The membership numbers are shown below:

Status	As at 31 March 2015
Active	54
Undecided Leaver	2
Deferred	5
Pensioner & Spouse/Dependants	26
Total	**87**

Communications Policy

4.04 The Communication Officer has provided the following services during quarter 4:

- Two pre-retirement seminars (55 participants)
- One Pensions Update presentation (32 participants)
- 18 days of pension surgeries (1-2-1s)

4.05 The following communications have been or are due to be distributed in quarter 1, all of which include information about Freedom & Choice and Clwyd Pension Board opportunities:

- Clwyd Catch Up - Pensioner Newsletter
- Deferred Benefit Statements
- PenPal – Active Members Newsletter
- Pensions Extra – Newsletter for other Members

Internal Dispute Resolution Procedures

4.06 There are currently two disputes at Stage 1, both ongoing from last quarter.

- Two Stage 1 cases against employers for ill health disputes have both been refered back to the employers for further investigation.

5.00 DELEGATED RESPONSIBILITIES UPDATE

5.01 A number of Community Councils have expressed interest in joining the Clwyd Pension Fund and information has been forwarded to them.

5.02 There are discussions regarding a potential transfer of staff to a new body from 1st September 2015. Further details will be provided at the next Committee.

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 Business Plan (extract regarding Pensions Administration)

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: 5th November 2014 Pension Fund Committee – Delegation of Functions
24th March 2015 Pension Fund Committee – Clwyd Pension Fund Business Plan 2015/16 – 2017/18

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Appendix

BUSINESS PLAN 2015-2017 – Key Tasks

Administration (including Communications)

Ref	Key Action -Task	2015/6 Period				Later Years	
		Q1	Q2	Q3	Q4	2016 /17	2017 /18
A1	Preparation of Member Data for Valuation and Funding reviews		x	x		x	
A2	Normal Year End returns	x	x			x	x
A3	Annual Benefit Statements	x	x	x		x	x
A4	Pension Increase, Care revaluation and review	x			x	x	x
A5	Backlog of transfers and aggregation	x	x				
A6	Disaster Recovery Testing	x					
A7	Lifetime and Annual Allowance notifications	x				x	x
A8	End of contracting out incl GMP issues	x	x	x	x	x	x
A9	Freedom and Choice	x	x				
A10	Pension Administration Strategy and Performance Standards	x	x				
A11	Online procedures					x	
A12	Dealing with backlog	x	x	x	x	x	
A13	I-Connect		x	x	x	x	X
A14	Delays due to implementation of LGPS2014	x	x				
A15	Self Service for members and employers						x
A16	Trivial Commutation	x	x	x		x	
A17	Communications Strategy	x	x				
A18	Website revamp			x			
A19	Pension Board implementation assistance	x					

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **21ST MAY 2015**

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

SUBJECT: **STATEMENT OF INVESTMENT PRINCIPLES (SIP)**

1.00 PURPOSE OF REPORT

1.01 To review the Fund's Statement of Investment Principles for the year 1st June 2015 to 31st May 2016.

2.00 BACKGROUND

2.01 Since 1st July 2000, LGPS Funds have been required by the Local Government Pension Scheme (Management and Investment)(Amendment) Regulations 1999, to publish a Statement of Investment Principles (SIP).

2.02 The above regulation has been replaced from 1st January 2010 by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2.03 The Statement must cover its policy on:

1 The types of investments held.
2 The balance between different types of investments.
3 Risk, including ways in which risks are to be measured and managed.
4 The expected return on investments.
5 The realisation of investments.
6 The extent (if at all) to which social, environmental, or ethical considerations are taken into account in the selection, retention and realisation of investments.
7 The exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy.
8 Stock lending.

2.04 The statement will be reviewed every six months and if there are any material changes, these will be reported to the Panel and published.

3.00 CHANGES TO THE SIP

3.01 The main changes to the SIP are as follows:

- The content has been updated for the changes to the investment strategy as a result of the 2014 Fund Review.
- The Sustainability Policy and the Myners Principles Compliance has been updated.

4.00 RECOMMENDATIONS

4.01 That Panel Members approve the Statement of Investment Principles for the year 1st June 2015 to 31st May 2016 including the Sustainability Policy and Myner's Principles and Stewardship Code Compliance Statements (as attached).

4.02 That the new SIP be published on the Fund's web-site by 1st July 2015.

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 Consultant.

11.00 CONSULTATION UNDERTAKEN

11.01 Consultant.

12.00 APPENDICES

12.01 Statement of Investment Principles

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Various

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Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for CLWYD PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

JUNE 2015

Contents

1. Introduction

Background

Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund (the Fund) on behalf of its stakeholders; the scheme members and employers participating in the Fund. These responsibilities are primarily set out in Local Government Pension Scheme regulations.

The Pensions Act 1995 requires Trustees of private sector pension schemes to prepare and keep up to date a written statement recording the investment policy of the Pension Fund, through a Statement of Investment Principles (SIP).

The Local Government Pension Scheme (LGPS), which is subject to Regulations made under the Superannuation Act 1972 and the Public Service Pensions Act 2013 and which regulates some of the same issues, was initially exempt from this requirement of the 1995 Act. Nevertheless, the creation, consideration and periodic review of a Statement of Principles on Investment and Fund Management was considered best practice for all funds and one with which the Clwyd Pension Fund voluntarily complied with from 1 April 1997.

With effect from 1 July 2000, LGPS Funds were required by the Local Government Pension Scheme (Management and Investment) (Amendment) Regulations 1999, to publish a SIP. These regulations have been replaced by, the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009. The Regulations state the SIP must include the following:

- the types of investments held
- the balance between different types of investments
- risk, including ways risks are measured and managed
- the expected return on investments
- the realisation of investments
- the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- the exercise of the rights (including voting rights) attaching to investments, if the Authority has any such policy
- stock lending.

The SIP is designed to comply with guidance given by the Secretary of State. It incorporates a Sustainability Policy, covering social, environmental, ethical and governance-related investment issues and, as required, details the Fund's degree of compliance with the Myners 6 principles. The SIP also details the Fund's responsibilities in respect of the FRC UK stewardship Code.

The SIP is effective from June 2015 and will be reviewed every six months with any material changes published.

The SIP should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- Clwyd Pension Fund Annual Report and Accounts
- Clwyd Pension Fund Actuarial Valuation.

All the above statements and documents can be found on the Fund's web site at http://www.clwydpensionfund.org.uk/

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 40,000 current and former members of the Fund, and their dependants
- around 29 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

The Fund's Mission Statement is:

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

2. Objectives

Primary Funding and Investment Objectives

The primary funding and investment objectives of the Clwyd Pension Fund can be summarised as the following:

- Achieve and maintain assets equal to 100% of liabilities within an 18 year average timeframe, within reasonable risk parameters
- Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination.

In order that these primary objectives can be achieved, the following funding and investment principles have been agreed.

Funding Principles

The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2014 includes a number of investment return assumptions:

- An investment return (discount rate) for the funding target of gilts + 1.4% (assumed 4.6%)
- An investment return for the future service contribution rate of 5.6% (Inflation + 3.0%).

Over a three-year period an investment return above these assumptions will contribute to reducing the funding deficit and thus employer contributions, providing that liability assumptions such as longevity and inflation remain on target. The Fund's triennial Valuation considers all these factors when determining employer contribution rates. New employer rates were implemented from 1st April 2014. The next Actuarial Valuation will be as at 31st March 2016.

A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013. The Statement outlines the strategy for recovering the funding deficit over 18 years. A copy of the FSS can be obtained from the Fund's web site at http://www.clwydpensionfund.org.uk/. The funding strategy will be monitored during 2014/17.

In managing the Fund, the key funding objectives are:

- to aim for a funding level of 100% and
- to aim for long term stability in employers' contribution rates.

The Clwyd Pension Fund was funded at 68% of liabilities (2013 Actuarial Valuation) and employers' rates are currently structured to achieve a gradual return to 100% funding by 2031.

Whilst stability of costs from the employers' rates has the higher priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice
- employers will adopt appropriate and economic policies in those areas where they have discretion and where the costs of their actions fall on the Fund
- the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will continue to take an active risk relative to its liability profile.

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

Investment Principles

The key investment objectives for the Fund are to aim for sufficient excess investment returns relative to the growth of liabilities to meet the funding objectives set out above on an ongoing basis, whilst striking the appropriate balance between long-term consistent investment performance and the funding objectives.

The Fund's overall strategic risk and return profile is currently determined through its strategic asset allocation. In establishing the Fund's long-term strategic asset allocation, or strategic benchmark, the key factors are the overall level of return being sought, the minimum level of risk consistent with this and the impact of diversification in reducing this risk further. At asset class or mandate level, asset class weightings, appropriate benchmarks and out-performance targets are the key building blocks in framing this overall Fund strategy.

It is Fund policy to carry out a fundamental review of the Fund's structure and management arrangements at least every four years. The review includes research on market views for the longer-term risk, return and correlation profiles for different asset classes and a more tactical view on the global economic and market environment over the next three to five years. This research is used to determine an optimum future balance between the various assets classes and hence the Fund's fixed strategic benchmark.

The latest Fund review was undertaken in 2014 and changes as a result of this are in the process of being implemented. Details of the revised investment strategy are included in following sections.

3. Investment Roles & Responsibilities

The investment responsibilities of the Clwyd Pension Fund Committee and other third parties involved with the investment management and funding of the Fund are set out below.

Clwyd Pension Fund Committee's Roles & Responsibilities

The Constitution of the administering authority delegates the following investment responsibilities to the Clwyd Pension Fund Committee.

- Approving the Statement of Investment Principles which includes investment strategy, Sustainability Policy, Myners Compliance Statement, setting of investments targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.
- Monitor the implementation of these policies and strategies on an on-going basis.
- Selection, appointment and dismissal of the Fund's investment consultants, global custodian, fund managers, and lawyers.

As allowed for in the Constitution, the Clwyd Committee Fund Committee delegates certain functions relating to the above responsibilities to officers who in turn must take advice where required from the Investment Consultant and/or Pension Advisory Panel. The outcomes from these delegated functions are reported to the Committee. They are listed below:

- Rebalancing and cash management
- Implementation of strategic allocation including use of ranges
- Implementation of flight-path triggers
- Investment mandates and emerging opportunities
- Ongoing monitoring of Fund Managers
- Selection, appointment and dismissal of Fund Managers
- Other urgent (or non- urgent) matters as they arise

Investment Consultants Roles & Responsibilities

The Investment Consultant is responsible for:

- Providing the Clwyd Pension Fund Committee with advice regarding the strategic asset allocation for the Fund.
- Providing the Clwyd Pension Fund Committee with advice regarding the investment structure of the Fund required to meet the investment objectives agreed.
- Assisting the Clwyd Pension Fund Committee in relation to the Tactical Allocation Portfolio.
- Monitoring the performance of the strategy and advising the Clwyd Pension Fund Committee on changes to the strategy or asset allocation that may be required.
- Monitoring the performance of the underlying fund managers and advising the Pension Advisory Panel on changes to the managers that may be required.

- Maintaining and updating the Statement of Investment Principles.

Investment Managers Roles & Responsibilities

The Investment Managers are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation, and each Manager's detailed Investment Management Agreement or Investment Memorandum.
- Where allowed, tactical asset allocation around the benchmarks, as set out in the Investment Management Agreements or Investment Memorandum.
- Stock selection within asset classes (purchases and realisations).
- Preparation of a quarterly review of investment performance.
- Attending review meetings with the Fund's officers and consultants.
- Providing details, as required, to the Fund's custodian and independent performance measurer.

Custodians Roles & Responsibilities

The Global Custodian is responsible for:

- Where the Fund holds segregated assets, the safekeeping of assets, the collection of income, the voting of shares and the execution of transactions in accordance with the Custody Agreement and the Fund's corporate governance guidelines within the Sustainability Policy.
- Its own compliance with prevailing legislation.
- Providing the Fund with monthly valuations of the Scheme's assets, details of all transactions during the month, bank statements and all other relevant documentation.

Actuaries Roles & Responsibilities

The Actuary is responsible for:

- Providing the Clwyd Pension Fund Committee with advice as part of the establishment of strategic asset allocation benchmarks.
- Providing the Clwyd Pension Fund Committee with advice as to the maturity of the Fund, its funding level and flight-path implementation.
- Working with the Fund at each actuarial valuation to produce a Funding Strategy Statement (FSS).
- Performing the triennial valuations.

Independent Adviser Roles & Responsibilities

The Independent Adviser is responsible for:

- Reporting on the investment governance arrangements for the Fund including the performance of the Committee and Advisory Panel.
- Monitoring the management of investment risks.
- Assist the Chief Officer (People and Resources) with the implementation of the Fund's Knowledge and Skills Policy.

4. Investment Strategy

Setting Investment Strategy

The Committee have determined their investment strategy to meet the objectives outlined in Section 2 of this Statement. This includes consideration for the Fund's liability profile and the Committees' attitude to risk.

The strategic benchmark highlighted later in this section takes account of the risk and return characteristics of each asset class and provides a reasonable long-term balance appropriate to the liabilities of the Fund.

The 2014 Review

The 2014 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..

Investigations showed that no radical re-organisation of the current investment structure was required and the portfolio was well diversified and the introduction of the de-risking framework and Flightpath was well designed and its implementation ahead of the majority of other LGPS funds.

However, there were opportunities to reduce risk without sacrificing return.

These opportunities led to four main areas of change.

- 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;
- An increase in the exposure and flexibility of the current Tactical Portfolio and the cessation of the current GTAA portfolio;
- Remove Commodities and Asia Pacific ex Japan Equities as long terms strategic allocations;
- Exposure to major economic regions should be managed through the Global Equity exposure.

These changes, based on the recommended allocation for the Tactical Allocation Portfolio, meant that expected return could be maintained, with the deficit risk being reduced by c. 4%.

Further details in relation to the revised investment strategy are outlined in this Section.

Investment Decisions

The Committee distinguish between three types of investment decision: strategic, tactical and security-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

The Committee take all such decisions themselves. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Fund benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are ultimately the responsibility of the Committee. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund. Furthermore, the Committee have delegated certain powers to the Clwyd Pension Fund Manager taking advice from the Tactical Asset Allocation Group. The purpose of the Tactical Allocation Portfolio is to take advantage of short term (approximately one year) opportunities that are consistent with the long term risk and return goals of the Fund. The Tactical Allocation Group are bound by the Tactical Allocation Portfolio Terms of Reference.

Security Selection Decisions

All such decisions are the responsibility of the investment managers of the funds in which the Fund is invested.

Types of Investments Held

The Fund may invest in any type of investment permitted under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). Consideration of each asset class or investment approach will include potential risk adjusted return expectations and an assessment of non-financial risks, liquidity, product structure and management costs.

The Fund is permitted to invest across a wide range of asset classes, including (but not exclusively) the following:

- UK and overseas equities
- UK and overseas government bonds, fixed and inflation linked
- UK and overseas corporate bonds
- Convertible bonds
- Property
- Commodities
- Timber
- Agriculture
- Hedge funds (including via a managed account platform)
- Managed futures
- Private equity
- Infrastructure
- High yield bonds
- Emerging market debt
- Diversified growth funds
- Liability driven investment products
- Cash (including currency)

The use of derivatives is as permitted by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

The Fund currently only invests in pooled funds but may also invest in segregated portfolios. In addition, the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

Balance between different types of investments

The Regulations require the administering authority to have regard for the diversification of the Funds investments.

The Fund will, at all times, invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing.

The Fund may invest via pooled and segregated portfolios based on the appropriateness for each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

The investment structure agreed in the 2014 investment strategy review is detailed in the table below.

Manager/Fund	**Mandate**	**Objective (net of fees)**	**Strategic allocation (%)**
Investec - Global Strategic Equity	Unconstrained Global Equities	MSCI AC World NR Index + 2.5% p.a.	8
Wellington - Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index + 1.0% p.a.	3.25
Wellington - Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index + 2.0% p.a.	3.25
Aberdeen - Frontier Market	Frontier Markets Equities	MSCI Frontier Equities Index + 1.5% p.a.	2.5
Stone Harbor - LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR + 1.0% p.a. (1)	15
In-House – Property	Property	IPD Balanced Funds Weighted Average	7
In-House - Infrastructure	Infrastructure	3 Month LIBOR + 5.0% p.a.	2
In-House - Timber / Agriculture	Infrastructure	3 Month LIBOR + 5.0% p.a.	2
In-House - Private Equity & Opportunistic	Private Equity	3 Month LIBOR + 5.0% p.a.	10
Pyrford - Global Total Return	Global Tactical Asset Allocation	UK Retail Price Index + 4.5% p.a. (2)	5
Investec – Diversified Growth Fund	Global Tactical Asset Allocation	UK Consumer Price Index + 4.6% p.a.	5
Tactical Allocation Portfolio*	Tactical Allocation	UK Consumer Price Index + 3.0% p.a.	9
TBC - Managed Account	Managed Account		9
	Managed Futures	*1 Month LIBOR + 4.0%*	
	Hedge Funds	*1 Month LIBOR + 3.0%*	
Insight – LDI	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19
TOTAL			**100**

(1) FTSE A Gilts All Stocks Index until 31 March 2014.
(2) UK Retail Price Index + 4.4% p.a. until 31 March 2015.

* 9% to be tactically allocated according to shorter-term market views. This can be implemented by increasing the allocation to any of the funds listed above or by separate fund(s) in any type of investment permitted under the regulations. This allocation is made through consultation with the Tactical Allocation Group, which is bound by the Tactical Allocation Portfolio Terms of Reference. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

The legacy funds in the table below do not form part of the long-term strategy but may be used in the interim as part of the Tactical Allocation Portfolio, in line with the Terms of Reference of the Tactical Allocation Group.

Manager/Fund	**Mandate**	**Objective (net of fees)**	**Strategic allocation (%)**
Duet - Global Opportunities	Unconstrained Global Equities	3 Month LIBOR + 4.5% p.a.	
BlackRock - GASL - Global Ascent (Sterling) Ltd	Global Tactical Asset Allocation	3 Month LIBOR + 4.5% p.a.	
Bluecrest - AllBlue Ltd	Global Tactical Asset Allocation	3 Month LIBOR + 4.0% p.a.	
Pioneer - Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR + 5.0% p.a.	
SSARIS - Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR + 3.0% p.a.	
Liongate - Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR + 5.0% p.a.	
Aberdeen - Asia Pacific ex Japan	Asia Pacific ex Japan Equities	MSCI AC Pacific (ex Japan) Index + 2.75% p.a.	
Wellington – Commodities	Commodities	S&P GSCI Equal Weighted (Hedged) + 1.0% p.a.	

The Fund's investment managers are remunerated either by way of an ad valorem fee, i.e. the fee is a percentage of the value of assets under management, or a combination of an ad valorem and performance-related fee. The principle of performance-related fees is that the base fee is lower and that the manager is only paid a higher fee if the performance objective set by the Fund is met or exceeded.

The majority of the Fund's investment managers are remunerated on an ad valorem fee basis, with the fee being incorporated in the unit price of the fund invested in. Currently, only two of the Fund's investment managers have their fees paid by explicit payment of an invoice rather than the fees being incorporated in to the unit price.

Asset Allocation and Long Term Expected Return on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under- or out-performance compared to the long term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored ('Strategic Allocation'). In addition there are ranges for each asset category that allow limited deviation within the framework ('Strategic Range'). The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing.

In addition to the Strategic Allocation and Strategic Ranges, a conditional medium term asset allocation (Conditional Range) exists, to manage major risks to the long term strategic asset allocation which may emerge between Fund Reviews.

The Fund's strategic benchmark, as set out below, does not assume any outperformance from the investment managers. The expected returns stated in this table are as at the date of the 2014 strategic review.

Asset Class	Strategic allocation (%)	Strategic range (%)	Conditional range (%) **	Expected return above Government Bonds p.a.***
Developed Global Equity	**8.0**	**5.0 – 10.0**	**0 – 30**	**+4.0%**
Emerging Market Equity	**6.5**	**5.0 – 7.5**	**0 – 15**	**+5.0%**
Frontier Market Equity	**2.5**	**1.0 – 4.0**	**0 – 5**	**+6.0%**
Multi-Asset Credit	**15.0**	**12.5 – 17.5**		**+2.0%**
Government Bonds			0 – 30	+0.0%
Corporate Bonds			0 – 30	+1.0%
Overseas Government Bonds			0 – 30	+1.0%
Emerging Market Debt			0 – 30	+2.1%
High Yield Debt			0 – 30	+2.1%
Property	**7.0**	**5.0 – 10.0**	**5 – 15**	**+3.0%**
Infrastructure	**4.0**	**2.0 – 7.0**	**2 – 10**	**+3.1%**
Private Equity	**10.0**	**8.0 – 12.0**	**8 – 12**	**+5.1%**
Tactical Allocation Portfolio *	**19.0**	**15.0 – 25.0**	**10 – 30**	**+2.0%**
Commodities			0 – 10	+2.2%
Managed Account	**9.0**	**7.0 – 11.0**		
Managed Futures			0 – 15	+4.0%
Hedge Funds			0 – 10	+3.0%
Cash	**-**	**0.0 – 5.0**	**0 – 30**	**+0.0%**
Liability Hedging******	**19.0**	**10.0 - 30.0**	**10 - 30**	**+4.0%**

* The Tactical Portfolio can be invested in any asset class permitted by the regulations. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

** The Conditional ranges are at a total fund level, including the Tactical Allocation Portfolio but excluding the Liability Hedging mandate.

*** Expected return is expressed as an excess long-term return over UK government bonds of an appropriate duration or the “premium over gilts” to reflect the extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2014 strategic review. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.

**** The Liability Hedging Portfolio is a combination of Liability Driven Investment (LDI) and an equity overlay which will be managed as part of a de-risking approach. As the funding level improves, the equity exposure will be reduced and the LDI hedge ratio increased in a pre-determined way. Given the nature of this mandate i.e. protection against liability changes, it is not intended to rebalance the allocation, which can lead to a movement away from the initial strategic benchmark allocation of 19% at inception of the mandate.

The inclusion of a diversified range of assets and the scope for tactical allocation in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. This was the case when modelling the revised investment strategy in 2014.

Cash is included in the strategic benchmark but in principle the Fund will aim to be fully invested. Cash is held by the managers, at their discretion within their investment guidelines, and internally to meet working requirements. The strategic benchmark allows cash to be held for tactical or operational reasons.

The strategic policy and the medium term performance of the managers are monitored at quarterly Advisory Panel and Committee meetings.

LDI flightpath strategy

In March 2014, the Fund established a Liability Hedging programme covering both nominal and inflation linked interest rates.

A Flightpath for increasing the level of protection of the hedges was agreed along with other funding level triggers. An LDI manager was appointed to manage this hedging portfolio in relation to market yield triggers and the Pension Fund Advisory Panel monitors the funding level triggers relating to the overall funding and investment risk management.

As mentioned above, the Liability Hedging Portfolio is a combination of Liability Driven Investment (LDI) and an equity overlay, which will be managed as part of the de-risking approach. As the funding level improves, the equity exposure will be reduced and the LDI hedge ratio increased, in a pre-determined way. More detail is set out in the Funding Strategy Statement and separate flightpath monthly and quarterly reports.

Realisation of investments

The Fund's investment policy is structured so that the majority of its investments (in equities, DGFs and bonds) can, except in the most extreme market conditions, be readily realised.

However, the availability of alternative investment vehicles enables the Fund to invest in less liquid asset classes and to build well-diversified portfolios. Investments such as property, infrastructure and private equity are long term investments which the Fund will not be able to realise in a short period. "Lock-up" periods are normal practice in hedge funds (to manage the in/out flows to ensure existing clients' capital is protected) which means that these investments are not readily realisable either.

Notwithstanding this, the Fund maintains sufficient investments in liquid assets to meet its liabilities in the short and medium term as they fall due.

Cash Strategy

From 1st April 2011 Investment Regulations require the Pension Fund to have a separate bank account from the Local Authority.

The Pension Fund does not have a strategic allocation to cash for investment purposes but holds surplus cash for paying:

- Benefits and transfers as per the Regulations.
- The administration costs of the Fund.
- The Investment management fees.
- Commitments to real assets and alpha seeking alternative asset managers.

However, in extreme market conditions cash could be used as part of the Conditional Asset Allocation.

The aim is to avoid requiring to borrow for liquidity purposes, although Investment Regulations allow Pensions Funds to borrow for a maximum of 90 days.

The cash could be deposited in one of the following, subject to cash flow requirements:

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

The Clwyd Pension Fund Manager will arrange for the daily implementation of the cash strategy.

Stock Lending

The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund.

5. Risk

Types of Risk

The Committee are aware, and seek to take account, of a number of risks in relation to the Fund's investments.

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence, if the investment returns are less than that required in the funding strategy the funding level will deteriorate, all else being equal. The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is controlled through diversification of asset holdings.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely manager, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is discussed in Section 7 – Sustainability of the SIP.

Manager Risk

The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's investments are managed by external investment managers who are required to invest the assets in line with the investment guidelines set by the Fund, appropriate for each mandate. Independent custodians safekeep the assets on behalf of the Fund.

Market Risk

Investment risk is controlled through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers. As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.

Credit Risk

Credit (and counterparty) risk arises in the bond portfolios, the management of cash balances and the trade settlement process. At all times the Fund ensures it appoints reputable and creditworthy external suppliers and that credit management policies are adhered to.

Liquidity Risk

Liquidity risk is the risk that the Fund cannot realise its assets as needed. As a result, the Fund limits its investment in less liquid asset classes such as property, hedge funds, private equity and infrastructure.

Liability Based Risk

The investment strategy provides some protection against the liability based risks, mainly interest rates and inflation. The LDI and bonds (to some extent) provide interest rate and inflation hedges. Infrastructure, property and, to a lesser extent, timber, agriculture, equities and DGFs, provide an inflation hedge over the medium to longer term. The Fund is not hedged against mortality risk.

Risk Budgets

In formulating the revised investment strategy, expected risk and return figures were utilised for each asset class. The figures used in the 2014 strategic review are as follows.

Asset Class	**Expected return above Government Bonds p.a.***	**Expected Risk (Volatility) p.a.****
Developed Global Equity	**+4.0%**	**14%**
Emerging Market Equity	**+5.0%**	**21%**
Frontier Market Equity	**+6.0%**	**20%**
Multi-Asset Credit	**+2.0%**	**6%**
Government Bonds	+0.0%	10%
Corporate Bonds	+1.0%	9%
Overseas Government Bonds	+1.0%	10%
Emerging Market Debt	+2.1%	12%
High Yield Debt	+2.1%	10%
Property	**+3.0%**	**5%**
Infrastructure	**+3.1%**	**10%**
Private Equity	**+5.1%**	**28%**
Tactical Allocation Portfolio	**+2.0%**	**9%**
Commodities	+2.2%	15%
Managed Account		
Managed Futures	+4.0%	6%

Hedge Funds	+3.0%	6%
Cash	**+0.0%**	**1%**
Liability Hedging	**+4.0%**	**21%**

* Expected return is expressed as an excess long-term return over UK government bonds or the "premium over gilts" to reflect the extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2014 strategic review. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.

** Expected risk is based on 10 year historic returns and volatility

Risk Register

The Clwyd Pension Fund has a Risk Policy and Risk Register in place.

The Clwyd Pension Fund Risk Register has a section dedicated to Funding & Investment Risks (including accounting and audit). Specific asset/investment risks highlighted in the risk register include those around investment markets, the failure of managers to achieve their objectives, missing out on market opportunities, and liquidity.

The risk register is kept up to date and ongoing consideration of key risks is undertaken at Committee and Advisory Panel meetings.

Regulatory limits

The regulations impose certain limits on the way in which the Fund's assets can be invested. In principle these are designed to ensure diversification and reduce risk.

For example there are limits on the amounts which can be invested in partnerships, unlisted securities, unit trusts and life funds. There is a two tier system of limits. The first tier is the "normal" limit; the second tier is a set of higher limits which can only be utilised once the Committee has passed a resolution, having complied with certain conditions.

6. Monitoring of Investment Advisers and Manager

Investment Advisers

All advisers have fixed term contracts and the performance of contract specifications is reviewed annually as part of the overall governance review.

Further details in relation to this are included in the latest Business Plan.

Investment Managers

The Advisory Panel and Committee receive at least quarterly monitoring reports on the performance of their investment managers against their specific benchmark. In addition, the Investment Consultant carries out ongoing research with investment managers and highlights changes that could impact on future performance. Officers also meet with investment managers on a frequent basis.

7. Sustainability

Responsible Investing Policy

The Clwyd Pension Fund recognises that responsible investing (RI) issues can have a material impact on the value of the investments held by the Fund. It also believes it has a responsibility to carry out its stewardship activities effectively. As a result the Committee have incorporated this into the investment decision-making process.

The Clwyd Pension Fund has incorporated these areas and others into its Sustainability Policy, a copy of which is included in Appendix A.

At the strategic level, a manager's approach to identifying and managing RI risks and opportunities is evaluated as part of the tender process for appointing new managers. It is also incorporated into the on-going process of monitoring the investment managers' performance.

The Fund has adopted the FRC UK Stewardship Code which aims to enhance the quality of engagement between institutional investors and companies. The aim is to improve long-term returns to shareholders and by setting out good practice on engagement with investee companies, improve governance standards. The Fund seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to adopt the Code.

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum, a collaborative body seeking to promote best practice in corporate governance.

Exercise of Voting Rights

The Fund recognises its responsibility as a shareholder to actively encourage good corporate governance standards in the companies in which it invests as poor governance can negatively impact shareholder value.

Whilst all the Fund's holding are through pooled voting, it takes its voting responsibilities seriously.

8. Compliance with Guidance

The Investment Regulations require the Fund to explain the extent to which it complies with guidance given by the Secretary of State. The most significant guidance published in 2009 is CIPFA's "Investment Decision Making and Disclosure", a guide to the application of the revised Myner's Principles. The six Myner's Principles are:

- Effective Decision Making
- Clear Objectives
- Risk and Liabilities
- Performance Assessment
- Responsible Ownership
- Transparency and Reporting

The Fund's compliance statement on these Myners Principles is attached in Appendix B, explaining the extent of compliance with each Principle and the reasons for this.

The Financial Reporting Council (FRC) has published a Stewardship Code. The aim is to set out best practice principles in respect of shareholder engagement with companies and disclosure of such activity. It is intended that shareholders adhere to these principles using a 'comply or explain' approach. The extent of the Fund's compliance with each of the seven principles is attached in Appendix C.

The Fund's Annual Report and Accounts sets out current details relating to the following areas, as determined by the LGPS Regulations 2008 :

- A report on the management and financial performance of the Fund
- A report explaining the investment policy and performance
- A report on the administration arrangements
- An actuarial statement including the funding level
- Funding Strategy Statement
- Statement of Investment Principles (SIP)
- Governance Compliance statement
- Pension Fund Accounts
- Pension Fund Administration strategy
- Communication Policy statement

Approval, Review and Consultation

The investment strategy of the Clwyd Pension Fund was reviewed by its Committee and Advisers in November 2014. Representatives of employers and scheme members who are Pension Fund Committee members were involved in the review.]

This Statement of Investment Principles was approved at the Clwyd Pension Fund Committee on 21 May 2015. It will be formally reviewed and updated at least every six months or sooner if the matters included within it merit reconsideration.

Further Information

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

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E-mail - Philip.latham@flintshire.gov.uk
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Appendix A – Sustainability Policy

Definition

At its simplest, sustainability is about focusing attention on longer-term issues. More specifically for pension fund investors, it concerns delivering the long-term returns required to fund long-term liabilities by ensuring that the long-term risks inherent in investments are recognised and, where possible, addressed. These risks are many and varied but include environmental, social, ethical and governance issues.

Legal Framework, Constraints & Considerations

In framing a Sustainability Policy, the following are pertinent –

- There already exists a regulatory requirement to include in the Fund's Statement of Investment Principles (SIP) details of its policy on social, ethical and environmental issues. This Sustainability Policy encompasses such issues and will be updated as required to take account of relevant new regulatory requirements.
- The Fund is required to fulfil its overriding fiduciary duty to focus as a primary consideration on financial performance and the maximisation of Fund returns, after taking full account of all existing and future financial risks. Such risks increasingly include sustainability issues.
- As the Fund uses third part providers for the most part and invests largely through pooled vehicles, its level of active engagement with underlying investment companies and its control over governance issues is limited to some extent.
- The investment industry tends to focus on short term factors in terms of company interaction, shares prices and performance, and fund managers incentives tend to reflect this rather than being aligned with the longer-term objectives of pension fund investors.

Objective

<u>Objective</u>

Within the above legal framework, constraints and considerations, the Clwyd Pension Fund's objective aim will be to –

- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability;
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

United Nations Principles for Responsible Investing (UNPRI)

Given the constraints outlined above and particularly the pooled nature of many of the Fund's investments, it would be difficult for the Fund to become a formal signatory to the UNPRI.

<u>United Nations Principles for Responsible Investing (UNPRI)</u>

The Clwyd Pension Fund –

- Is committed to the principles underlying the United Nations Principles for Responsible Investing (UNPRI) and will be an active supporter of these;
- Will encourage its external managers to become signatories to the UNPRI.

The Fund Objective stated above already encompasses most of the UNPRI.

Application of Sustainability Principles

In order to achieve its stated objective, the Clwyd Pension Fund will apply a series of guidelines covering most aspects of pension fund investment under the following headings –

- Sustainability approach
- Investment strategy (UNPRI 1)
- Company engagement & voting (UNPRI 2)
- Investment management & performance monitoring (UNPRI 3)
- Investment manager selection & contracts (UNPRI 4)
- Collaboration (UNPRI 5)
- Reporting & disclosure (UNPRI 6)
- Review

The paragraphs below set out the Fund's thought processes in establishing such guidelines and detail the guidelines adopted as part of this Sustainability Policy document.

Sustainability Approach

In framing an approach to sustainability, the key focus has to be on the UNPRI principles 1 and 2 as these underlie most investment and governance processes. Sustainability-related issues have been considered on a regular basis for many years, with broad corporate governance policy guidelines in place from 1996. More recently these form part of the Fund's SIP and are reviewed annually.

The Clwyd Pension Fund approach has always been and continues to be based upon "active engagement". This involves the Fund's managers researching and forming a view on the sustainability credentials of companies, taking this into account in investment decisions and, where there are sustainability concerns, on environmental, social, ethical or governance grounds, engaging with companies to seek and achieve positive change.

<u>Sustainability Approach</u>

The Clwyd Pension Fund believes in an active engagement approach to the pursuit of its sustainability objectives and, on this broad basis, it –

- Will not adopt a negative approach to sustainability which involves screening and excluding investment opportunities;
- Will not invest in pooled vehicles constructed using this same approach;
- Will encourage its managers to adopt a long-term approach that involves working with companies to encourage improvement in all sustainability areas;
- Will monitor the performance of managers in pursuing such objectives;
- Will invest directly in specific vehicles and investment areas that clearly match its sustainability objectives.

Investment Strategy

The Clwyd Pension Fund recognises that there is a relationship between good environmental, social, ethical and governance practices and long-term sustainable business profitability and in its investment strategy aims to place a strong focus on this. It is recognised that, whilst there are links, the three main sustainability areas, environmental, social and ethical, each raise their own issues, although the approaches and guidelines appropriate to each are similar.

Environmental

The impact of poor environmental practices on profit sustainability is very clear. There are direct costs in terms of fines for pollution etc. and increasingly now for carbon-charging and waste disposal that can have major impacts on business models. In addition there are potential indirect costs from bad publicity and reputational risk. On the positive side, however, there are opportunities to promote sustainability through investment in new technologies aimed at cleaner solutions.

Social

This concerns areas such as employee relations, community relations and health & safety and again can lead to direct financial costs from health and safety breaches and strike action etc, as well as more subtle risks to company operations, reputation and long-term profitability.

Ethical

This is a difficult area as ethical views can vary considerably but there are some areas that are widely accepted for inclusion. These include supply chain issues that reflect potential breaches of human rights and especially the employment of children, bribery and corruption and operations in certain world areas such as Zimbabwe.

<u>Investment Strategy</u>

On forming and implementing its investment strategy, the Clwyd Pension Fund –

- Will encourage its managers to use their own resources or specifically-focused research agencies to identify at company level actual or potential financial risks attributable to sustainability issues – environmental, social or ethical;
- Will seek, through its managers, to engage with companies that have questionable environmental, social or ethical practices in order to seek improvements;
- Will seek, through its managers, to engage with companies that have a carbon-intensive or water-intensive focus in order to promote alternative approaches and longer-term reductions;
- Will encourage the adoption of the best environmental standards amongst its property and infrastructure managers;
- Will, subject to fiduciary duties, make selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry etc.

Company Engagement & Voting

Getting the Board right with the right behaviours and structures means that better decisions are more likely and this adds value over the longer-term. The Fund's former broad corporate governance policy guidelines, whilst touching upon environmental, social and ethical issues, were largely designed to address these Board factors and related voting issues. Myners Principle 5 is also relevant here. This requires that trustees adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. The Institutional Limited Partners Association (ILPA) has authored the ILPA Private Equity Principles, a document that contains best practice concepts and that speaks to issues relating to the alignment of interest between general partners and limited partners, fund governance, transparency and reporting guidelines in order that these can be taken account of in their investment management decision-making processes.

In order to monitor the performance of external managers in terms of their degree of compliance with the guidelines and the performance of underlying investments with the Fund's sustainability objectives, there needs to be regular reporting and disclosure on sustainability issues, particularly areas of concern, as well as actions taken to address these.

Company Engagement & Voting

The Clwyd Fund –

- Will aim to comply with the Myners Principle 5 on shareholder activism and become more engaged as an active investor, especially with companies where sustainability factors are a matter of concern;
- Will ensure that its managers adopt or ascertain their level of compliance with the ISC Statement of Principles on the responsibilities of shareholders/agents;
- Will ensure that its managers adopt or ascertain their level of compliance with the ILPA private equity principles;
- Will, wherever practical, exercise voting rights through its managers based upon the following broad criteria –
  - The prime consideration must be financial and the protection of the Fund's assets in the long term;
  - There should be a properly structured Board including an appropriate number of contributing independent non-executive directors;
  - Unless there are strong arguments to the contrary and adequate safeguards guidelines, no director should hold the posts of Chairman and Chief Executive at the same time or be in a position of unaccountability by virtue of having absolute control;
  - All Directors should be subject to at least three-yearly re-election;
  - In view of their stewardship role, non-executive directors should normally be independent in terms of other links to the company and other directorships;
  - The issue of shares with reduced or non-existent voting rights often disadvantages the majority of shareholders and should not normally be supported;
  - Existing shareholders in a company should have a right to subscribe for new equity capital raised by a company, normally in proportion to their existing share of the company's equity capital;
  - Unless financial criteria dictate otherwise, the general policy on take-over bids should be to support incumbent management in good standing;
  - Directors' remuneration packages in different companies should reflect relative performance taking business size and complexity into account;
  - A properly constituted Remuneration Committee is the best judge of what is necessary to recruit, train and motivate;
  - If not already in place, companies should be working towards one year fixed term contracts for executives;
  - There should be a properly constituted Audit Committee;
  - No return that is rightfully the Fund's should be diverted to political donations;
  - Charitable donations are acceptable if they are reasonable and have public relations values.
- Will periodically review these criteria and inform investment managers of changes, should there be any.

Investment Management & Monitoring of Performance

Investment managers need to made aware of the Fund's Sustainability Policy

A similar approach needs to be adopted on in-house managed investments.

Investment Management & Monitoring of Performance

The Clwyd Pension Fund –

- Will endeavour to ascertain the extent to which its fund managers are formal signatories to, support and comply with the UNPRI;
- Will encourage its fund managers to produce policy statements on sustainability issues and report formally on these.
- Will seek, through its managers, to ensure the full disclosure of environmental, social and ethical policies and practices by companies in which the Fund is invested;
- Will ask investment managers for statements on their degree of compliance with the ISC Statement of Principles on the responsibilities of shareholders and agents;
- Will request policy statements and practical evidence of the adoption of the best environmental standards amongst its property and infrastructure managers;
- Will ask private equity managers for statements on their degree of compliance with the ILPA private equity principles;
- Will ensure that investment managers regularly report records of voting on the Fund's investment and periodically produce statements on compliance or otherwise with the broad corporate governance elements of the Fund's Sustainability Policy;
- Will assess the performance of managers both in terms of financial returns and on sustainability issues over a time frame that adequately reflects the Fund's sustainability objectives.

Investment Manager Selection & Contracts

The Fund's standard selection process for managers has always incorporated broad questions on sustainability issues but the main focus has been on investment philosophy, process, personnel and performance. Within process, there has been some limited focus on sustainability inputs to investment decision-making but risk has tended to be quite narrowly defined and linked to shorter-term financial rather than longer-term sustainability considerations. As a result, sustainability has never been a main factor in the comparative assessment of managers prior to appointment or in the formal appointment process itself. This approach has now been reviewed with a view to incorporating into the selection and contracting process a far greater focus on sustainability issues.

<u>Investment Manager Selection & Contracts</u>

As an active part of this process, the Clwyd Pension Fund –

- Will require from potential managers formal statements of their objectives, policies and practices on sustainability and related factors;
- Will ascertain from potential managers the degree to which sustainability factors are taken into account in the investment decision-making process;
- Will seek from potential managers details and the level of in-house tools, agency inputs and other resources on sustainability factors used in their investment processes;
- Will review with potential managers the quality, integration and impact of such research on their investment processes and performance;
- Will consider the record of potential managers on active engagement with companies, voting and governance issues generally;
- Will, in the assessment of potential managers, give appropriate weight to all these sustainability and related factors;
- Will, where relevant and appropriate, build elements of the Fund's Sustainability Policy and detailed guidelines into investment management agreements.

Collaboration

The Clwyd Pension Fund is already a committed member of the Local Authority Pension Fund Forum (LAPFF), a body that seeks improvements in corporate governance, promotes socially responsible investing (SRI) and, with the Fund's active encouragement, is devoting considerable resources to environmental issues and climate change in particular. LAPFF is already a signatory to the UNPRI. The Fund has also had contact with other relevant bodies on sustainability issues both directly and through its managers.

<u>Collaboration</u>

The Clwyd Pension Fund –

- Will join and/or collaborate with organisations that are relevant to pursuit of the Fund's sustainability objectives;
- Will, subject to regulatory and operational constraints, seek relevant information from and share relevant information with such organisations in order to further the effective delivery of its Sustainability Policy.

Reporting & Disclosure

The Clwyd Pension Fund Annual Report already includes copies of various regulatory documents, including various policy statements and the Fund's SIP. The latter includes details of the Fund's current policy statements on social, environmental and ethical considerations and corporate governance issues. The Annual Report is circulated widely and all these documents are also published on the Fund's website. It is already accepted that approaches on sustainability and other policy areas tend to evolve and develop over time. It is essential therefore to keep policies and practices under continual review so as to improve their efficacy.

<u>Reporting & Disclosure</u>

The Clwyd Pension Fund –

- Will, through its quarterly meeting procedure, report regularly and as appropriate on relevant sustainability issues;
- Will, periodically, report formally on managers' level of compliance with the its Sustainability Policy, progress made in the year and areas where further progress needs to be made;
- Will, once a year, review its Sustainability Policy in the light of best practice and agree any proposed changes through its governance procedure;
- Will circulate this revised document to relevant bodies and particularly its managers;
- Will incorporate this revised document into its SIP and publish its contents both in the Annual Report and on its website.

Appendix B – Myners Principles – 2014/15 Compliance

Principle 1

Administering authorities should ensure that :

- Decisions are taken by persons or organizations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation, and
- Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Key Areas and Guidance	Comment & Actions	Compliance
It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.	The administering authority delegates investment decisions to the Clwyd Pension Fund Committee. The Committee delegate functions to Officers who take investment advice as required from a Pension Advisory Panel who provide appropriate focus and skills on investment decision making. Further, a Tactical Allocation Group has been formed to take advantage of short term opportunities that are consistent with the long term risk and return goals of the Fund. Representatives and roles are defined in the SIP. This new governance structure was implemented from May 2014.	Full
The board should have appropriate skills for effective decision-making.	Training is given priority status through compliance with CIPFA Knowledge and Skills Code of Practice for elected members and ongoing sessions provided regularly through managers, collaboration and seminars. The Fund has produced a training policy for Members and Senior Officers. A needs assessment process will be introduced for members of the new Committee.	Partial
There should be sufficient internal resources and access to external resources for trustees and boards to make effective decisions.	The Committee has access to experienced and trained officers and an Advisory Panel of professionals qualified to provide proper advice.	Full
There should be an investment business plan with progress regularly evaluated.	The three year business plan includes an investment business plan, which is approved by the Committee who then receive updates on progress each Committee.`	Full

The remuneration of trustees should be considered.	Remuneration and expenses are reviewed, considered and set by Council.	Full
Particular attention should be paid to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).	The Investment Consultant, Actuary and Independent Adviser all have contracts which are regularly reviewed. Performance of the Investment Consultant and Actuary will be monitored by the Independent Adviser. The Investment Consultant and Independent Adviser contracts were tendered in 2013/14 and new provider contracts commenced in April 2014	Full

Principle 2

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Key Areas and Guidance	Comment & Actions	Compliance
Benchmarks and objectives should be in place for the funding and investment of the scheme.	The Fund's SIP sets out its investment and funding objectives as well as its overall strategic customized benchmark, asset class targets and Conditional Asset Allocation.	Full
Fund managers should have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.	Fund managers operate to detailed written mandates based in the main on 3-year rolling performance objectives, some market-based with others more absolute return in nature. The Liability Hedging portfolio has a liability based benchmark. These are stated in the SIP.	Full
Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.	The Fund has always looked very widely at available asset classes and its extremely diversified structure reflects this. Whilst competitive deals are always sought with managers, fee levels have been less of a consideration on the grounds that, in optimizing structures, returns have always been considered on a net basis and that such costs are anyway offset by minimal additional performance. Other fund costs are very carefully considered and monitored.	Full
Trustees should consider the strength of the sponsor covenant.	The Fund is effectively Government-backed but the Fund impact on stakeholders receives appropriate attention. The Fund monitors each of the participating LGPS employers and admitted bodies.	Full

Principle 3

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Key Areas and Guidance	Comment & Actions	Compliance
Trustees should have a clear policy on willingness to accept underperformance due to market conditions.	Most managers have market-related benchmarks. There is clear acceptance of the fact that markets can be volatile in the short term. The setting of the Fund's strategic benchmarks is based upon the probable long-run performance of specific asset classes. Similarly, whilst the Fund's aim is that managers will outperform their benchmarks at all times, periods of under-performance are accepted as long as longer-term performance remains intact. A Tactical Allocation Portfolio, which looks to take advantage of short term opportunities that are consistent with the long term risk and return goals of the Fund, form part of the new investment strategy.	Full
Trustees should analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.	At each Fund Review exercise, optimization techniques are used that take account of probable performance and risk factors as well as asset class correlations and the Fund's actuarial position. The implementation of the flight-path strategy now requires regular monitoring of the funding position Such issues will be looked at again as part of the next Fund Structure review.	Full
Trustees should take into account the risks associated with their liabilities' valuation and management.	These risks are considered as part of the Fund's flight-path strategy for managing funding risks such as interest rates and inflation. Each Fund Review exercise is aimed at achieving an overall long-term rate of return adequate to cover liability growth (pay/price inflation, interest rate changes and mortality) and to return, in time, to full funding status..	Full
Trustees have a legal requirement to establish and operate internal controls.	Committee members receive regular independent reports from Internal Audit and External Audit on internal controls. Any actions recommended by these bodies are actioned promptly.	Full

Trustees should consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.	The Fund's investment strategy is considered as part of the regular actuarial process used to review and set employers' rates of contribution and consistency between the two is an important factor.	Full

Principle 4

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Key Areas and Guidance	Comment & Actions	Compliance
There is a formal policy and process for assessing individual performance of trustees and managers.	The performance of the Committee is assessed by the Independent Adviser and published in the Annual Report. In line with the SIP, the performance of the Fund and its fund managers is formally monitored by the Investment Consultant and Officers. The Investment Consultant provides regular performance monitoring reports to both the Advisory Panel and Committee. .	Full
Trustees should demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).	Records of attendance at Committee and training events are maintained and reported in the Annual Report. Participation is recorded in the Committee minutes.	Full
The chairman should address the results of the performance evaluation.	All current performance evaluation documents (Training records, Independent Adviser, risk, Audit) are brought to Committee. The Chairman has a key role in this, but also taking input from Officers and the Advisory Panel, with appropriate actions being agreed. .	Full
There should be a statement of how performance evaluations have been conducted.	Investments and Investment Managers are monitored on a quarterly basis by Committee and Advisory Panel. All advisers have fixed term contracts and the performance of contract specifications is reviewed annually as part of the overall governance review.	Full
When selecting external advisers, relevant factors including past performance and price should be taken into account.	Advisers are selected competitively, based on performance, price and other factors.	Full

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Principle 5

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

Key Areas and Guidance	Comment & Actions	Compliance
Policies regarding responsible ownership should be disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.	The Fund's Sustainability Policy is included as part of the SIP. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which considers responsible investment on a collaborative basis.	Full
Trustees should consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.	In formulating investment strategy, the Fund is always mindful of sustainability issues and these are an increasing focus for the Fund across all asset classes. Similarly, when appointing managers, questions are asked about engagement and sustainability although this is probably not given sufficient weight in the evaluation of managers for selection. To ensure best practice, the Fund has produced its own Sustainability Policy which is regularly monitored and managed. In all manager selection exercises undertaken, the sustainability policy that fund managers apply to their investments is reviewed.	Full
Trustees should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.	The Fund is aware of the voting policies of its underlying managers. A questionnaire is issued periodically to all fund managers on their sustainability policy and their replies explain their approach.	Full
Trustees ensure that Investment Consultants adopt the ISC's Statement	The Investment Consultant supports and adheres to the standard agreed with the investment consulting industry	Full

Principle 6

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

Key Areas and Guidance	Comment & Actions	Compliance
Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.	Details of the Fund's Communication Policy Statement and all other key reports – SIP, Annual Report, Corporate Governance Policy Guidelines, Funding Strategy Statement, Governance Compliance Statement and Myners Principles Compliance Statement are all published on the Fund's website. A newsletter is also published periodically. The other two main Scheduled Bodies (Denbighshire and Wrexham) have representation on the Committee along with an employee representative and other employer representative to ensure transparency.	Full

Appendix C – FRC UK Stewardship Code – 2014/15 Compliance

Principles	Comment & Actions	Compliance
Principle 1		
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	The Clwyd Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too. In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and other agents and through membership of collaborative groups. The Fund makes this explicit through its Sustainability Policy document. The Fund's investment strategy seeks long-term returns from investing in a highly diversified portfolio of assets and appoints asset managers who best reflect this long-term sustainability approach in their investment philosophy and process.	Full
Principle 2		
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	Through its Sustainability Policy, the Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest, when it comes to matters of stewardship. The Fund requires all those who are directly involved in its management and governance to disclose any interest in any company, or other entity, in which the Fund has an ownership interest.	Full
Principle 3		
Institutional investors should monitor their investee companies.	Day-to-day responsibility for managing our equity holdings is delegated to the Fund's appointed asset managers. The Fund expects them to monitor companies, and intervene where necessary, and to report back regularly on activity undertaken. Regular review meetings with the Fund's asset managers provide	Full

	an opportunity for particular company issues to be discussed. Under the Fund's Sustainability Policy, managers are required to report any areas of concern.	
Principle 4		
Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	Whilst there is broad guidance in the Fund's SIP and Sustainability Policy,as noted earlier responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.	Full
Principle 5		
Institutional investors should be willing to act collectively with other investors where appropriate.	The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which engages with companies on environmental, social and governance issues on behalf of its member authorities. The LAPFF is a signatory to the United Nations Principles for Responsible Investing.	Full
Principle 6		
Institutional investors should have a clear policy on voting and disclosure of voting activity.	Whilst all the Fund's holding are through pooled voting, it takes its voting responsibilities seriously and its voting policy is detailed as part of its SIP and in its Sustainability Policy document. Within this constraint, the Fund seeks to exercise the voting rights attaching to all its UK equity holdings and, where practical, its overseas stocks. A summary of manager voting is included in the Fund's Annual Report.	Full, but further improvements are possible

Principle 7		
Institutional investors should report periodically on their stewardship and voting activities.	The Fund reviews its SIP and Sustainability Policy document on an annual basis and publishes these both in the Annual Report and Accounts and on the Fund's web site. In addition, the activity undertaken by the LAPFF is reported to the Pension Fund Advisory Panel as are summary voting records from managers. All managers provide details of voting activity and a summary is provided in the Fund's Annual Report.	Partial

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **21st MAY 2015**

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

SUBJECT: **2015 FUNDING STRATEGY STATEMENT**

1.00 PURPOSE OF REPORT

1.01 The purpose of this report is to update the Funding Strategy Statement (FSS) for the Clwyd Pension Fund.

2.00 BACKGROUND

2.01 The FSS needs to be updated in detail triennially as part of the actuarial valuation and should be reviewed periodically and/or when any material changes are made to the investment or funding strategy.

3.00 CONSIDERATIONS

3.01 It is a requirement under the governance structure that any changes to the FSS is agreed by the Committee.

3.02 The FSS has been updated to incorporate updated regulatory references, information regarding the flightpath strategy and the new investment strategy as detailed in the Statement of Investment Principles. No other material change have been made.

4.00 RECOMMENDATIONS

4.01 That Committee Members note and agree the updated FSS.

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 2015 Funding Strategy Statement

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Attached document from Mercer

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Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

2015 FUNDING STRATEGY STATEMENT

May 2015

2015 FUNDING STRATEGY STATEMENT (FSS)

This Statement has been prepared by Flintshire County Council (the Administering Authority) to set out the funding strategy for the Clwyd Pension Fund (the CPF), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

Introduction

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to :-
    - the guidance issued by CIPFA for this purpose; and
    - the Statement of Investment Principles (SIP) for the CPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the CPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the CPF are specified in the governing legislation contained in the 2013 Regulations and the 2014 Transitional Regulations. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the 2013 Regulations which require that an actuarial valuation is completed every three years by the actuary, including the provision of a rates and adjustments certificate. Contributions to the CPF should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a common rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the CPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

Aims and purpose of the CPF

The aims of the Fund are to:

- Achieve and maintain assets equal to 100% of liabilities within an 18 year average timeframe, within reasonable risk parameters
- Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income,
- and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

Responsibilities of the key parties

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the CPF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties
- monitor all aspects of the CPF's performance and funding and amend FSS/SIP,
- with effect from 1 April 2015, establish, support and monitor a Local Pension Board ("LPB") in accordance with the requirements set down in the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding, and
- have regard to the Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

Solvency issues and target funding levels

Funding Objective

To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "*funding target*") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, the employer rate would ultimately revert to the Future Service Rate.

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of the valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
- whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful taking into account any changes in funding after the valuation date up to the finalisation of the valuation.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- In the current circumstances, as a general rule, the Fund does not believe it appropriate for deficit contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain.

- In addition, a maximum deficit recovery period of 20 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below). This has resulted in an average recovery period of 18 years being adopted across all employers.

- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 20 year period (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions will be phased down as appropriate.

- The employer contributions will be expressed and certified as two separate elements:

  - a percentage of pensionable payroll in respect of the future accrual of benefit

  - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to review from April 2017 based on the results of the 2016 actuarial valuation.

- Where increases in employer contributions are required from 1 April 2014, following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2013/14 may be implemented in steps, over a maximum period of 3 years.

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. The full termination policy is set out in Appendix 3.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles

- relevant guidance issued by the CIPFA Pensions Panel

- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and

- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer to employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the security of future income streams;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc;
- length of expected period of participation in the Fund; and
- changes in the funding position after the valuation date which is deemed reasonable.

In certain instances, and in particular for Fund employers which are considered by the Administering Authority to provide a high level of financial covenant, an allowance may be made as part of the Recovery Plan for investment performance at a higher level than that assumed for assessment of the funding target. It is envisaged that this option will only be afforded to eligible employers where an increase in contributions is required (compared to the 2013/14 level of contribution) when adopting the maximum 20 year recovery period. This higher level of return assumed will, in particular reflect the actual investment strategy of the Fund, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore, after specific agreement has been obtained by Fund Officers from the Clwyd Pension Fund Committee, would be willing to use its discretion to negotiate an *evidence based* affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

The Normal Cost of the Scheme (Future Service Contribution Rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Appendix 1.

Link to investment policy set out in the Statement of Investment Principles (See Appendix 2)

The results of the 2013 valuation show the liabilities at 31 March 2013 to be 68% covered by the current assets, with the funding deficit of 32% being covered by future deficit contributions.

In assessing the value of the CPF's liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the CPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the CPF's assets in line with the least risk portfolio would minimise fluctuations in the CPF's ongoing funding level between successive actuarial valuations. Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

Asset Class	*Initial Strategic allocation (%)*	*Strategic range (%)*	*Conditional range (%) ** *	*Expected return above Government Bonds p.a.**** *
Developed Global Equity	8.0	5.0 – 10.0	0 – 30	+4.0%
Emerging Market Equity	6.5	5.0 – 7.5	0 – 15	+5.0%
Frontier Market Equity	2.5	1.0 – 4.0	0 – 5	+6.0%
Multi-Asset Credit	15.0	12.5 – 17.5		+2.0%
Government Bonds			0 – 30	+0.0%
Corporate Bonds			0 – 30	+1.0%
Overseas Government Bonds			0 – 30	+1.0%
Emerging Market Debt			0 – 30	+2.1%
High Yield Debt			0 – 30	+2.1%
Property	7.0	5.0 – 10.0	5 – 15	+3.0%
Infrastructure	4.0	2.0 – 7.0	2 – 10	+3.1%
Private Equity	10.0	8.0 – 12.0	8 – 12	+5.1%
Tactical Allocation Portfolio *	19.0	15.0 – 25.0	10 – 30	+2.0%
Commodities			0 – 10	+2.2%
Managed Account	9.0	7.0 – 11.0		
Managed Futures			0 – 15	+4.0%
Hedge Funds			0 – 10	+3.0%
Cash	-	0.0 – 5.0	0 – 30	+0.0%
Liability Hedging****	19.0	10.0 - 30.0	10 - 30	+4.0%

** The Tactical Portfolio can be invested in any asset class permitted by the regulations. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.*
*** The Conditional ranges are at a total fund level, including the Tactical Allocation Portfolio but excluding the Liability Hedging mandate.*
**** Expected return is expressed as an excess long-term return over UK government bonds of an appropriate duration or the "premium over gilts" to reflect the extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2014 strategic review. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.*
***** The Liability Hedging Portfolio is a combination of Liability Driven Investment (LDI) and an equity overlay which will be managed as part of a de-risking approach. As the funding level improves, the equity exposure will be reduced and the LDI hedge ratio increased in a pre-determined way. Given the nature of this mandate i.e. protection against liability changes it is not intended to rebalance the allocation which can lead to a movement away from the initial strategic benchmark allocation of 19% at inception of the mandate.*

The funding strategy adopted for the 2013 valuation is based on an assumed average asset out-performance of 1.4% per annum.

Identification of risks and counter measures

The funding of defined benefits is by its nature uncertain. Funding of the CPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the CPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the Key Risks?

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Committee membership.

The Fund has restructured their governance arrangements with the implementation of the Advisory Panel. The Advisory Panel is made up of Fund officers, an investment advisor, an independent advisor and the Fund Actuary.

Full details of the risks and the controls in place are set out on the CPF risk register.

Monitoring

Flightpath - De-risking strategy

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a "Flightpath" risk management investment strategy with effect from 1 April 2014. A Liability Driven Investments (LDI) mandate has also been implemented.

The principal aim of this risk management strategy is to effectively control and limit interest and inflation risks being run by the Fund (as these factors can lead to significant changes to liability values). At the outset, its aim was to achieve a 'base level' of interest rate and inflation hedging of 10%. The intention is that the hedging ratio will be at 40% by no later than April 2019 and will achieve a hedge ratio of 80% in the long term. The overall funding flightpath strategy is to consider and structure the investment strategy to determine a balance between return-seeking and risk-hedging assets. More detail is included in the Fund's Statement of Investment Principles (SIP).

Flightpath – Monitoring/trigger review

A summary report is provided to the Fund (on a monthly and quarterly basis) which includes a "traffic light" analysis of the key components of the Flightpath and hedging mandate. The "traffic light" indicates whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required.

There are funding level triggers in place which will result in the disinvestment of growth assets as the funding level improves over time. This is summarised in the table below:

	Funding level	Impact on strategic asset allocation	Change to the hedge ratio
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%

In addition, a separate fund-wide mechanism has been introduced, such that if the funding level falls more than 5% below the "expected" funding level (based on valuation assumptions), then discussions will follow at the Advisory Panel level as to the continued appropriateness of the funding strategy.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations as part of the Flightpath monitoring detailed above and detailed funding reviews. If considered appropriate, the funding and flightpath strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the CPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- if there have been any significant special contributions paid into the CPF

Approval, Review and Consultation

The funding strategy of the Clwyd Pension Fund was reviewed to coincide with the actuarial valuation as at 31 March 2013. The Administering Authority has taken advice from the actuary in reviewing the strategy, and has also consulted with employing organisations.

This Funding Strategy Statement was approved at the Clwyd Pension Fund Committee on 21 May 2015. A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

Further Information

If you require further information about anything in or related to this Funding Strategy Statement, please contact:

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APPENDIX 1

ACTUARIAL VALUATION AS AT 31 MARCH 2013

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)
A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.4% per annum.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)
The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases
The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. This results in a total salary increase of 1% per annum for 3 years.

Pension increases/Indexation of CARE benefits
Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality
The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting CPF specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation
It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics
Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, allowing for take-up of the 50:50 option will be made up to a maximum of 5% of current and future members for certain employers (who have sufficient size of current contributing members). Other assumptions are as per the last valuation.

Expenses
Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits
The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Primary Rate" of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	94% / 93%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	156% / 106%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	106% / 98%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	87% / 82%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	114% / 102%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	99% / 93%	CMI_2012	1.5%

Other demographic assumptions are noted below:

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.
50:50 Option	Up to 5% take-up for certain employers

APPENDIX 2

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to 2013/14 levels) when adopting the maximum recovery period of 20 years, an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the funding target. Therefore the required contributions are adjusted to allow for the following variation in assumptions during the period of the recovery plan:

Investment return on existing assets and future contributions

A maximum overall return effective as at the valuation date of 6.0% p.a. (i.e. a return of 2.8% p.a. in excess of gilts) reflecting the underlying investment strategy of the scheme and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the additional return over and above that built into the funding target assumptions will be limited so that the total employer contributions emerging from the valuation will be no less that the current level of contributions payable by the employer or the Future Service Contribution Rate.

Appendix 3

Clwyd Pension Fund

Policy on Termination Funding for Employers ("Termination Policy")

1. Introduction

1.1. This document details the Clwyd Pension Fund's (CPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers CPF's policy on admissions into the Fund and sets out the considerations for current and former *admission bodies*. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

1.2. *Admission bodies* are required to have an "*admission agreement*" with the Fund. In conjunction with the Regulations, the *admission agreement* sets out the conditions of participation of the *admission body* including which employees (or categories of employees) are eligible to be members of the Fund.

1.3. *Scheme Employers* have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (*Part 2 Scheme Employers*) do need to designate eligibility for its staff.

1.4. A list of all current *employing bodies* participating in the CPF is kept as a live document and will be updated by the *Administering Authority* as bodies are admitted to, or leave the CPF.

1.5. Please see the glossary for an explanation of the terms used (in italics) throughout this Appendix.

2. Principles

Termination of an employer's participation

2.1. When an *employing body* terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

2.2. In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different *Administering Authority*.

2.3. In the event that unfunded liabilities arise that cannot be recovered from the *employing body*, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

2.4. The CPF's policy is that a termination assessment will be made based on a *least risk funding basis*, unless the *employing body* has a guarantor within the Fund or a successor body exists to take over the *employing body's* liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the *employing body's* liabilities will become *orphan liabilities* within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

2.5. If, instead, the *employing body* has a guarantor within the Fund or a successor body exists to take over the *employing body's* liabilities, the CPF's policy is that the *valuation funding basis* will be used for the termination assessment unless the guarantor informs the CPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the *employing body* within the Fund. (For *Admission Bodies*, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing *employing body* itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

2.6. It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases no termination assessment is required as there will no longer be any *orphan liabilities* in the CPF. Therefore, a separate assessment of the assets to be transferred will be required.

Funding basis

2.7. An *employing body* may choose to pre-fund for termination i.e. to amend their funding approach to a least risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the least risk basis.

2.8. For any *employing bodies* funding on such a *least risk* strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the *employing body's* notional asset share of the Fund will be credited with an investment return in line with the *least risk funding* assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

Administering Authority options relating to Admission Bodies

2.9. Prior to admission to the Fund, an *Admission Body* is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the *Administering Authority*. If the risk assessment and/or bond amount is not to the satisfaction of the *Administering Authority* (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the least risk methodology and assumptions.

2.10. Some aspects that the *Administering Authority* may consider when deciding whether to apply a least risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the *admission body* relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- If the *admission body* has an expected limited lifespan of participation in the Fund;

- The average age of employees to be admitted and whether the admission is closed to new joiners.

2.11. In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

3. Implementation

New admissions (admitted after 1 April 2014)

3.1. With effect from 1 April 2014 the CPF will apply the above principles to the admission of new bodies into the Fund and to the methodology for assessment of a termination payment on the cessation of such an *admission body's* participation in the CPF.

Transferee admission bodies (TABs)

3.2. *Transferee admission bodies* are a category of *admission body* that generally will have a guarantor in the Fund. This is due to the Regulations requiring that, in the event of any unfunded liabilities on the termination of the admission, the contribution rate for the relevant *Scheme Employer* should be revised. Accordingly, in general, the least risk approach to funding and termination will not apply for TABs.

3.3. Any risk sharing arrangements agreed between the *Scheme Employer* and the TAB will be documented in the commercial agreement between the two parties and not the admission agreement.

3.4. On termination of a TAB admission, any *orphan liabilities* in the Fund will be subsumed by the relevant *Scheme Employer*.

3.5. The *Admission Body* is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the *Administering Authority*. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the CPF. As the *Scheme Employer* is effectively the ultimate guarantor for these admissions to the CPF it must also be satisfied (along with the *Administering Authority*) over the level (if any) of any bond requirement.

3.6. In the absence of any other specific agreement between the parties, deficit recovery periods for TABs will be set in line with the Fund's general policy as set out in the FSS.

3.7. An exception to the above policy applies if the guarantor is not a participating employer within the CPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the CPF the *Administering Authority* may in this case treat the *admission body* in accordance with paragraph 2.9.

Community admission bodies (CABs)

3.8. Historically, there was no requirement to carry out an assessment of the level of risk on termination of the admission agreement for a CAB until changes were made to the Regulations. For bodies admitted under previous legislation, despite no requirement to do so the *Administering Authority* may nevertheless have decided to carry out such a risk assessment where appropriate. As noted in 3.5, all *Admission Bodies* are now required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the *Administering Authority*.

3.9. The CPF's policy is to consider applications on a case-by-case basis, in line with the principles set out above. In general, if any risk assessment or determination of a bond amount is not to the satisfaction of the *Administering Authority*, or if a guarantor (of sufficient standing acceptable to the *Administering Authority*) is not forthcoming, the *admission body* will be required to pre-fund for termination with contribution requirements assessed using a least risk methodology and assumptions as set out in 2.9. Where bond agreements are to the satisfaction of the *Administering Authority*, the level of the bond amount will be subject to review on a regular basis.

3.10. Deficit recovery periods will be determined consistent with the policy set out in the FSS. Alternatively, the *Administering Authority* may determine an employer specific deficit recovery period will apply.

Future Terminations

3.11. In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the *Administering Authority* becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the *employing body* is neither materially more nor materially less than its anticipated liabilities at the date it appears to the *Administering*

Authority that it will cease to be a participating employer. In this case, *employing bodies* are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the *employing body's* approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

3.12. The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

Least Risk Termination basis

3.13. The least risk financial assumptions that applied at the actuarial valuation date (31 March 2013) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant *employing body's* cessation date.

Least risk assumptions	**31 March 2013**
Discount Rate	3.2% p.a.
CPI price inflation	2.9% p.a.
Pension increases/indexation of CARE benefits	2.9% p.a.

All demographic assumptions will be the same as those adopted for the 2013 actuarial valuation, unless modified otherwise.

Glossary

Admission bodies: A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Community admission bodies: A subset of, and the traditional type of *admission bodies* – bodies who operate in and/or are connected to local government. They also include *admission bodies* that are not associated to local government, as follows:

- Bodies which provide a public service in the UK otherwise than for the purposes of gain and which have sufficient links with a *Scheme Employer* to be regarded as having a community of interest.

- Bodies which provide a public service in the UK otherwise than for the purposes of gain and which are approved by the Secretary of State to be admitted to the LGPS. Approval may be subject to such conditions as the Secretary of State thinks fit and he may withdraw approval at any time if such conditions are not met.

- Bodies to which any *Scheme Employer* provides funding. Where at the date that the admission agreement is made with such a body the total contribution from any one or more *Scheme Employers* to its contribution income equals 50% or less of the funding contributed by third parties it must be a term of the admission agreement that the *Scheme Employer* who provides funding (and, if more than one, all of them) guarantees the liability of the *admission body* to pay all amounts due from it under the Regulations.

Employing bodies: any organisation that participates in the LGPS, including *admission bodies* and *scheme employers*.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

Least risk funding basis: more cautious funding basis than the existing valuation basis. The relevant discount rate used for valuing the present value of liabilities is consistent with that used under the most recent valuation but removing the allowance for asset out-performance.

Orphan liabilities: liabilities in the CPF for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Part 2 Scheme Employers: employers that have the statutory right to participate in the LGPS, although these bodies (set out in Part 2 of Schedule 2 of the 2013 Regulations) would need to designate an employee, or a class of employees to which he/she belonged, as being eligible for membership of the LGPS.

Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 *Scheme Employers*.

Administering Authority: Flintshire County Council, as the lead authority of the CPF, responsible for all aspects of its management and operation.

Transferee admission bodies: A subset of *admission bodies* and participates in the Fund for employees involved with delivery of a specific function or service for a *Scheme Employer*. An example is where a local authority outsources a specific service to a private sector employer. In these cases the relevant *Scheme Employer* would be a party to the admission agreement, as well as the *admission body* itself and the *administering authority*.

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE : **21ST MAY 2015**

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

SUBJECT: **INVESTMENT AND FUNDING UPDATE**

1.0 PURPOSE OF REPORT

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

2.00 BACKGROUND

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

- Business Plan 2015/16 update (Appendix 1)
- Delegated Responsibilities

3.00 CONSIDERATIONS

Business Plan 2015/16 Update

3.01 Appendix 1 shows the Funding and Investment Business Plan 2015/16. The key actions for quarter 1 (1st April to 30th June) are:

- Flight path "Health check" Review (see agenda 14)
- Final Accounts
- Review of In House Investments
- Establishment of Managed Account Platform (see agenda 15)
- Tactical Management Portfolio
- Update of Statement of Investment Principles (see agenda 9).

Final Accounts

3.02 The closure of the Pension Fund accounts commenced in April 2015 and discussions have been held with Wales Audit Office (WAO) to determine and agree the format and timescales for the 2015/16 accounts. The formal audit will commence in June 2015. The final accounts and annual report will be presented to the 23rd September 2015 Committee and the accounts will be approved by County Council on 24th September 2015.

Review of In House Investments

3.03 As previously reported, following the approval of the strategic review in November 2014, Fund officers and Bob Young, the previous Independent Consultant to the Clwyd Pension Fund have been progressing with a review of the In-House portfolio of Private Equity and Real Asset holdings. The 1st stage of this review was presented to JLT on March 17th 2015 in advance of the Advisory Panel on March 24th. This focused on the performance of the various asset classes and regions in the portfolio to determine which types of investments to concentrate on in the future. The 2nd stage of this review is now underway which is concentrating on cash flows to determine the appropriate levels of commitments to investments which can be considered over the next few years. It is intended to provide Committee Members with training on the different asset classes within the In-House portfolio over the next 12 months.

Tactical Management Portfolio

3.04 Monthly meetings of the Tactical Asset Allocation Group (TAAG) involving Fund officers and JLT Consultants are now in place. Standard agenda items for the meetings cover the short term (12 months) market outlook and discussions to determine which asset classes should be included in the 9% of the Fund's assets which is based on JLT's suggested "best ideas". The minutes of the TAAG are circulated to the Advisory Panel.

The rationale behind this short term tactical allocation is twofold:

- To take advantage quickly of new "best ideas" as they emerge in markets
- To be able to adjust quickly the risk exposures within the overall investment structure as market expectations change and economic scenarios develop and change.

3.05 The TAAG have been considering the most appropriate solution to implement this within one fund and following research and investigation of a number of alternative structures have identified a Unit Linked Life Insurance Policy with Mobius Life Limited.

Under this option it is possible to hold all assets for the tactical portfolio within a special 'blended' fund specifically created for the Clwyd Pension Fund. It would be priced and unitised on a daily basis and therefore it is straightforward to measure and monitor. It would be identified as the Clwyd Tactical Fund. Mobius invest only through third party funds and the vehicle is designed to make dealing and pricing easy and straightforward. Costs for underlying managers are reduced as all holdings are aggregated across the Mobius Platform.

With regard to use of managers, this too would not present a problem as Mobius have already carried out the operational due diligence on over 150 different funds and managers.

In terms of the investment quality of the managers that might be used within the Clwyd Tactical Fund, these would only be those on JLTs approved list of managers. Having reviewed the range of funds and managers, it has been determined that there are no current gaps in those available and all investment exposures likely to be required could be met.

3.06 The latest meeting of the TAAG identified the following areas to allocate to the short term tactical asset portfolio:

- Commodities (2%)
- US Equities (2%)
- Managed Futures (5%)

The rationale for this decision is included in the minutes of the TAAG provided to the Advisory Panel.

3.07 These allocations would be facilitated through current existing managers and mandates as part of the ongoing transition.

Reorganisation of Asset Portfolio

3.08 The new Fund Strategy was agreed at the November 2014 Committee and the 1st stage of the transition (£100m of assets) was carried out by Fund officers and completed in March 2015, details of which were reported to the Committee on 24th March 2015.

The next stage of the transition of assets totalling £115m has now been completed and has involved:

- £15 m additional subscription to Frontier Market Equities (Aberdeen)
- £50m additional subscription to Hedge Funds including Managed Futures (SSARIS) – this is part of the short term tactical portfolio
- £50m redemption of Global Tactical Asset (BlackRock).

Delegated Responsibilities

3.09 The Pension Fund Committee has delegated a number a responsibilities to officers or individuals. The following delegations have been used since the last meeting:

- Rebalancing and cash management (see 3.10)
- Short Term Tactical Asset decisions (see 3.06)
- Ongoing monitoring of Fund Managers (see 3.11)

Rebalancing and Cash Management

3.10 In-house cash balances as at April 30th 2015 were £20.0m (£43.7m at March 31st 2015). The Fund is still transitioning assets between the previous strategic allocations and the allocations agreed in the Fund Strategy Review (see agenda 13).

Monitoring of Fund Managers

3.11 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 to be seen in quarter 1 2015/16 is shown in the following table. Further details on the managers are reported by JLT, the Fund's Investment Consultant, in agenda item 13 of the committee papers.

Manager	Strategic Weight %	Jun 2015	Sept 2015	Dec 2015	Mar 2016
Insight	19				
Stone Harbor	15	✓			
Investec	13	✓			
Managed Account	9				
Wellington	6.5	✓			
Pyrford	5	✓			
Aberdeen	2.5	✓			

4.00 RECOMMENDATIONS

4.01 That Committee Members note the report and ratify the appointment of a Unit Linked Life Insurance Policy with Mobius Life Limited.

5.00 FINANCIAL IMPLICATIONS

5.01 Mobius apply a charge over the underlying manager charges. However, this cost is normally off set by the aggregation discounts received from managers.

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 Business Plan 2015/16 (Investments & Funding)

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Documents:	5th November 2014 Pension Fund Committee – Delegation of Functions 24th March 2015 Pension Fund Committee – Clwyd Pension Fund Business Plan 2015/16 – 2017/18
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Appendix 1

BUSINESS PLAN 2015-2017 – Key Tasks

Funding and Investments (including accounting and audit)

Ref	Key Action –Task	2015/6 Period				Later Years	
		Q1	Q2	Q3	Q4	2016 /17	2017 /18
FI1	2015 Funding review		x	x			
FI2	Triennial Actuarial Valuation					x	
FI3	Employer risk monitoring framework		x	x		x	x
FI4	Flightpath “Healthcheck” Review	x			x	x	x
FI5	Review of admission and termination policy		x				
FI6	Consider financial impact of the budget reforms		x			x	
FI7	Consider impact of 2016 end of contracting out			x	x	x	
FI8	Final Accounts, Production of Annual Report and External Audit	x	x			x	x
FI9	Review of In-House investments	x	x	x	x		
FI10	Establishment of Managed Account Platform	x	x				
FI11	Introduction of Tactical Management Portfolio and on-going management	x	x	x	x	x	x
FI12	Update of Statement of Investment Principles	x					
FI13	AVC Review				x		
FI14	Review of Investment Strategy						x
FI15	Re-organisation of Asset Portfolio	x	x	x			

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **21st MAY 2015**

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

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Clwyd Pension Fund

Committee Report:

Economic and Market Update Q1 2015

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1 Market / Economic Data to 31 March 2015

Market Statistics

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	4.7	6.6	10.6
Global Developed Equities	7.6	19.7	15.6
USA	6.4	26.4	19.1
Europe	10.8	6.8	13.1
Japan	16.4	27.1	12.7
Asia Pacific (ex Japan)	9.5	20.0	9.4
Emerging Markets	7.4	13.2	3.2
Frontier Markets	2.0	8.7	13.5
Property	3.0	18.3	11.4
Hedge Funds	7.4	17.0	7.9
Commodities	-3.6	-33.0	-14.9
High Yield	5.4	9.4	9.0
Emerging Market Debt	2.0	5.6	5.4
Senior Secured Loans	2.4	4.1	6.6
Cash	0.1	0.5	0.5

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	4.1	27.0	10.0
Index-Linked Gilts (>5 yrs)	3.3	21.1	8.9
Corporate Bonds (>15 yrs AA)	5.2	21.8	11.3
Non-Gilts (>15 yrs)	5.0	21.6	11.8

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-4.8	-11.0	-2.4
Against Euro	7.3	14.3	4.8
Against Yen	-4.8	3.7	10.6

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	-0.2	0.9	2.2
Price Inflation – CPI	-0.4	0.0	1.5
Earnings Inflation*	0.7	1.6	1.4

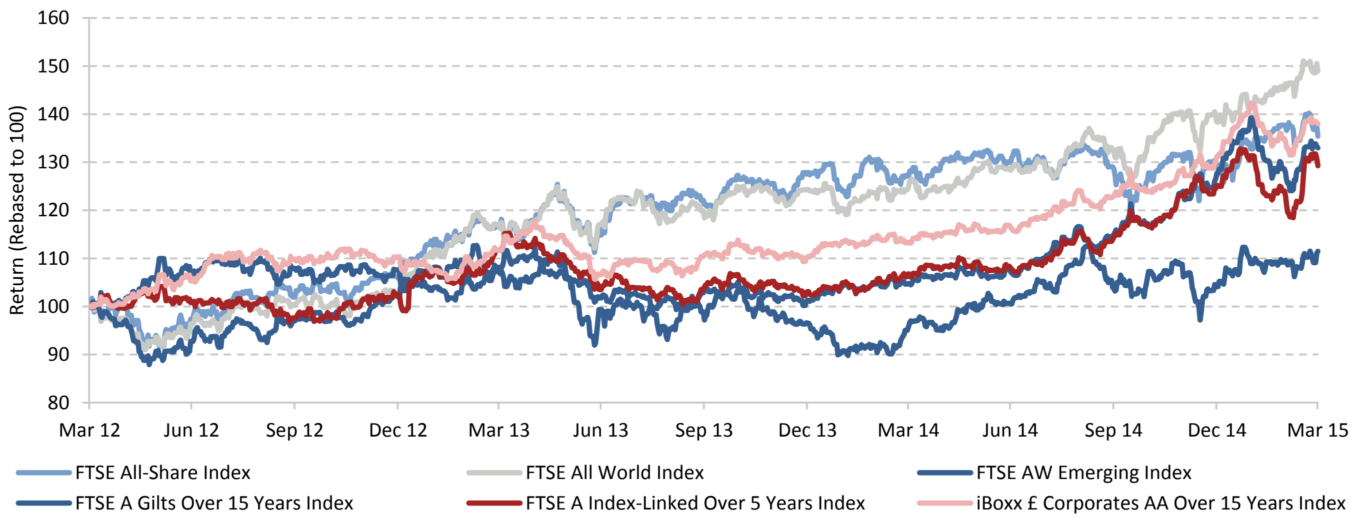
Yields as at 31 March 2015	% p.a.
UK Equities	3.33
UK Gilts (>15 yrs)	2.23
Real Yield (>5 yrs ILG)	-0.93
Corporate Bonds (>15 yrs AA)	3.10
Non-Gilts (>15 yrs)	3.37

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	-0.04	-0.08	-0.12
UK Gilts (>15 yrs)	-0.19	-1.20	-1.03
Index-Linked Gilts (>5 yrs)	-0.16	-0.83	-0.82
Corporate Bonds (>15 yrs AA)	-0.31	-1.19	-1.52
Non-Gilts (>15 yrs)	-0.36	-1.22	-1.51

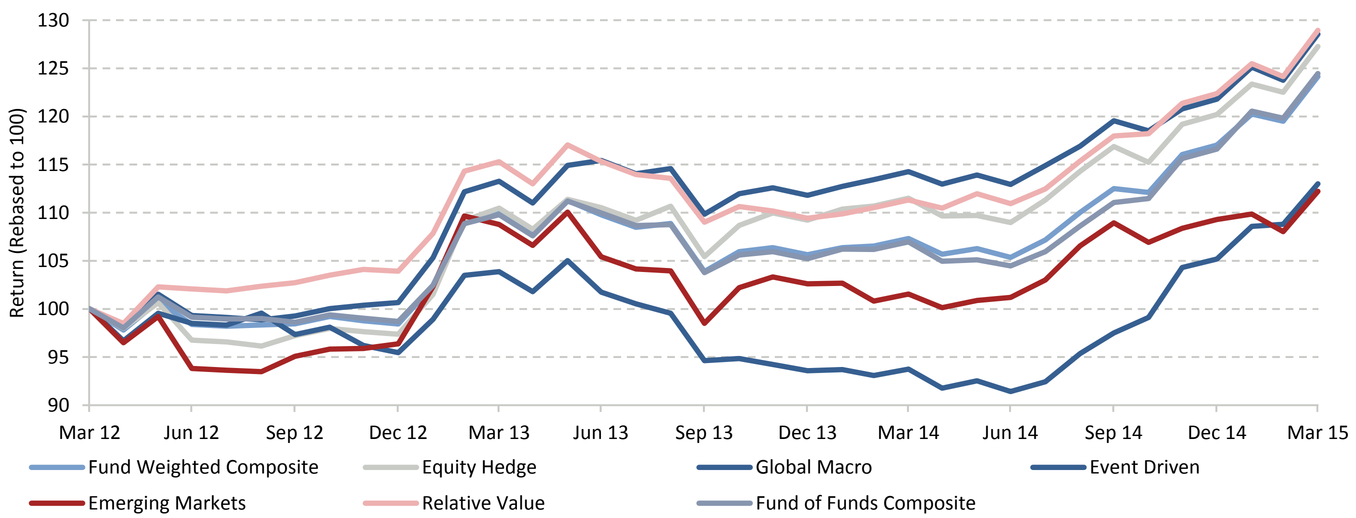
Source: Thomson Reuters and Bloomberg
* Earnings inflation is lagged by 1 month.

Market Charts

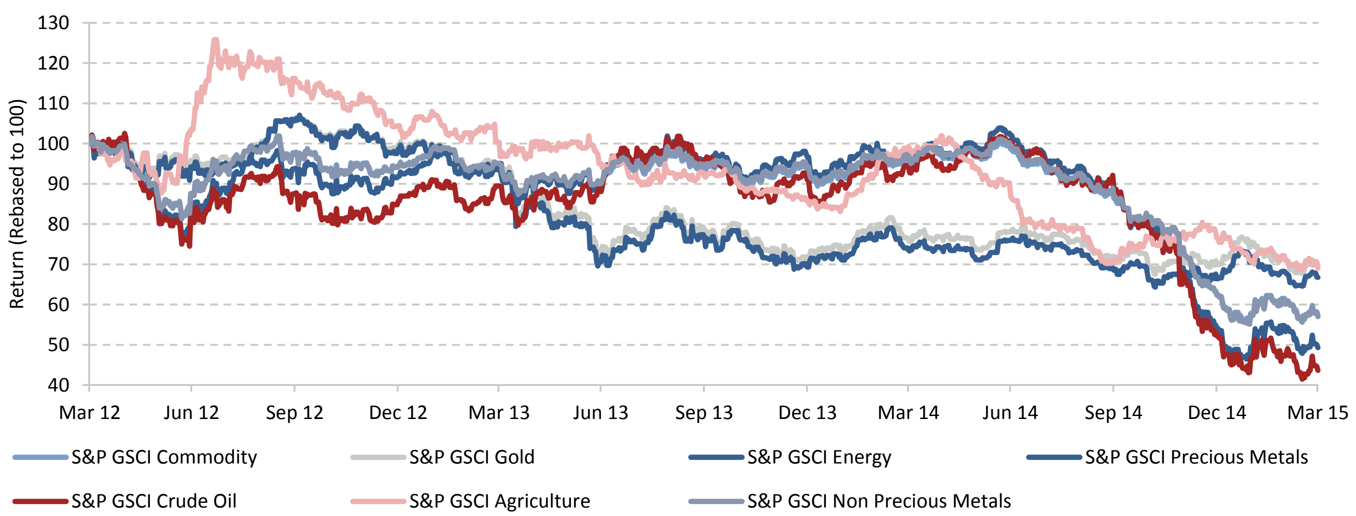
Market performance – 3 years to 31 March 2015



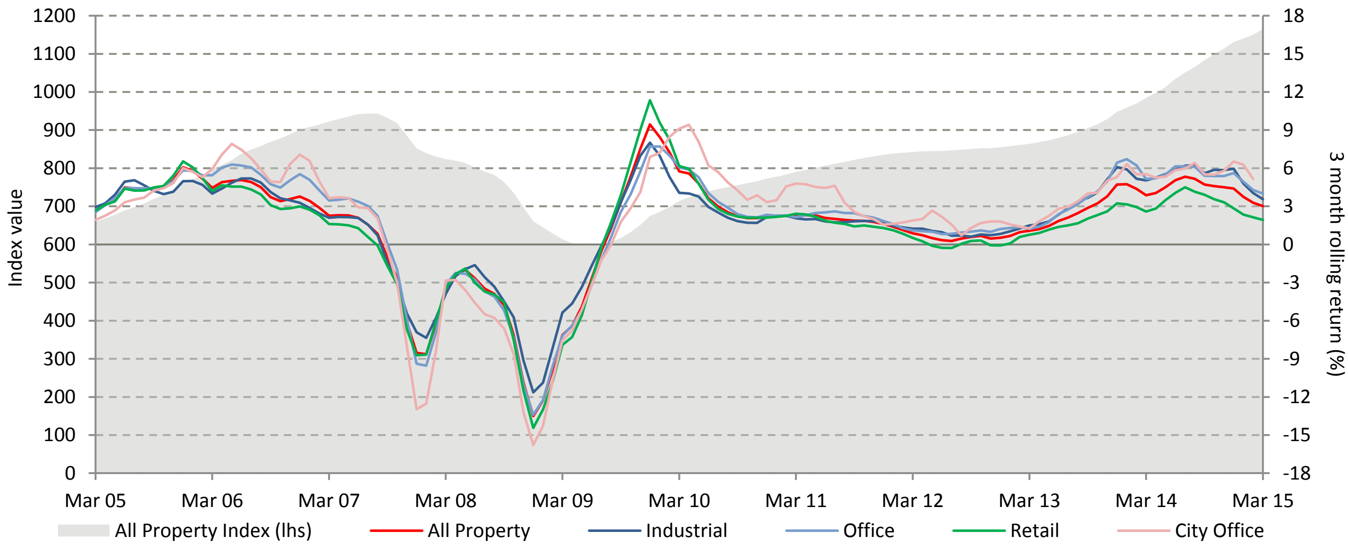
Hedge Funds: Sub-strategies performance – 3 years to 31 March 2015



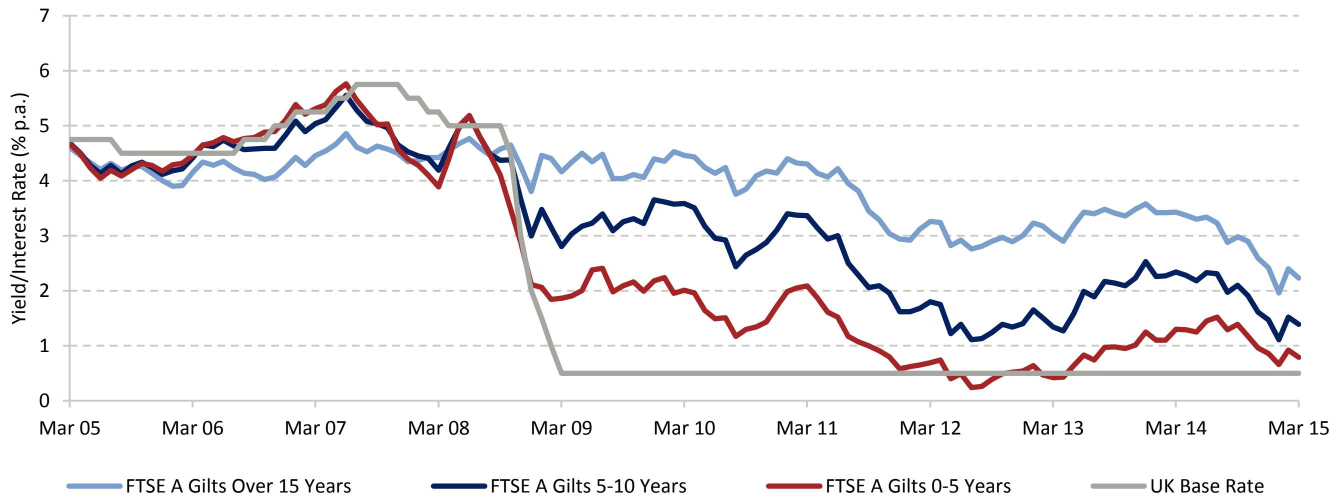
Commodity sector performance – 3 years to 31 March 2015



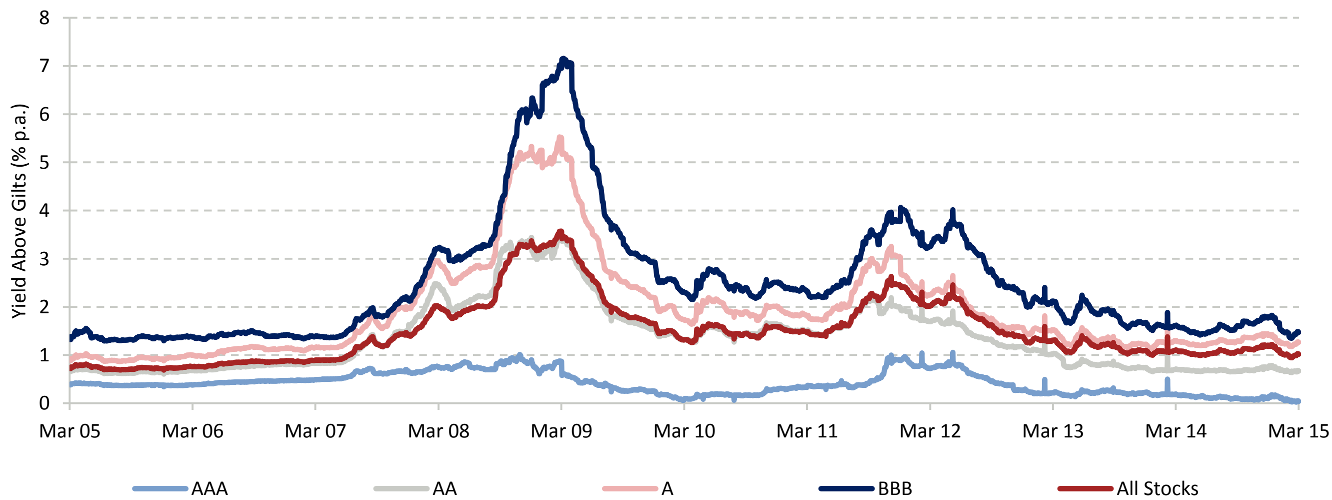
Property sector performance – 10 years to 31 March 2015



UK government bond yields – 10 years to 31 March 2015



Corporate bond spreads above government bonds – 10 years to 31 March 2015



Economic statistics

Economic statistics as at:	31 March 2015			31 December 2014			31 March 2014		
	UK	Europe[1]	US	UK	Europe[1]	US	UK	Europe[1]	US
Annual Real GDP Growth[2]	2.4%	1.8%	3.0%	3.0%	1.8%	2.4%	2.7%	1.5%	1.9%
Annual Inflation Rate[3]	0.0%	-0.1%	-0.1%	0.5%	-0.2%	0.8%	1.6%	0.5%	1.5%
Unemployment Rate	5.6%	11.3%	5.5%	5.8%	11.4%	5.6%	6.9%	11.7%	6.6%
Manufacturing PMI[4]	54.0	52.2	55.7	52.7	50.6	53.9	55.1	53.0	55.5

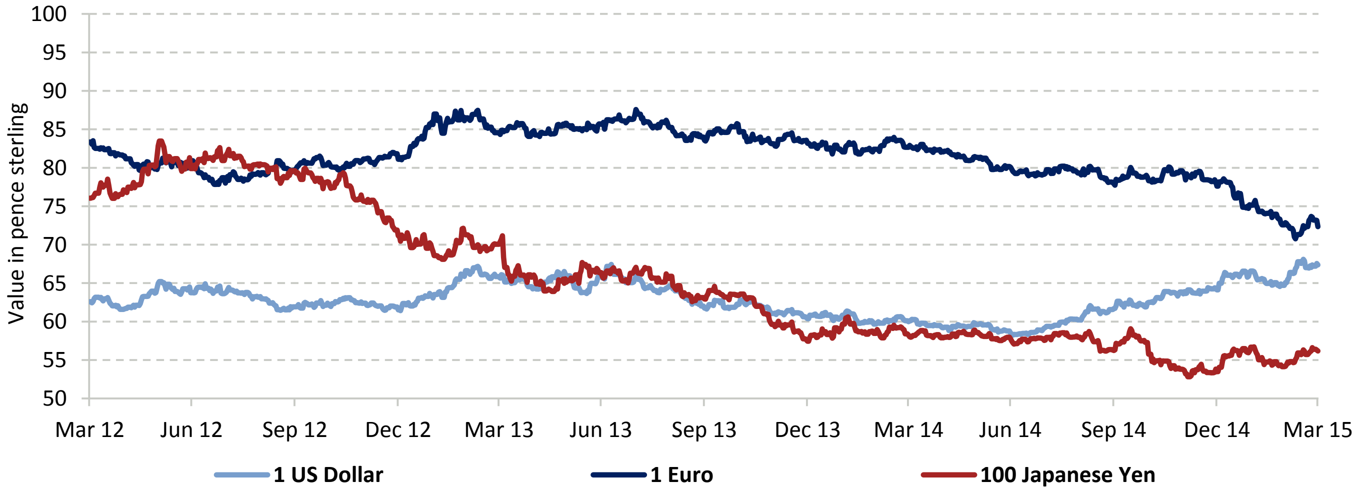
Change over periods ending: 31 March 2015	3 Months			12 Months		
	UK	Europe[1]	US	UK	Europe[1]	US
Annual Real GDP Growth[2]	-0.6%	0.0%	0.6%	-0.3%	0.3%	1.1%
Annual Inflation Rate[3]	-0.5%	0.1%	-0.9%	-1.6%	-0.6%	-1.6%
Unemployment Rate	-0.3%	-0.2%	-0.1%	-1.1%	-0.5%	-1.0%
Manufacturing PMI[4]	1.3	1.6	1.8	-1.1	-0.8	0.2

Notes: 1. Euro Area 19 Countries. 2. Euro GDP is lagged by 1 quarter. 3. CPI inflation measure. 4. Headline Purchasing Managers Index.
Source: Thomson Reuters, Markit, Institute for Supply Management, Eurostat, United States Department of Labor and US Bureau of Economic Analysis.

Exchange rates

Exchange Rates	Value in Sterling (Pence)			Change in Sterling	
	31 Mar 2015	31 Dec 2014	31 Mar 2014	3 months	12 months
1 US Dollar is worth	67.36p	64.13p	59.98p	-4.8%	-11.0%
1 Euro is worth	72.35p	77.61p	82.67p	7.3%	14.3%
100 Japanese Yen is worth	56.17p	53.49p	58.24p	-4.8%	3.7%

Exchange rate movements – 3 years to 31 March 2015



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

2 Market Commentary

Introduction

Markets generally were quietly positive in January and February, but since the beginning of March have begun to diverge.

The effect of Quantitative Easing can be strongly seen in Japan (equities up 16.4% in sterling terms over the quarter) and, recently, in Continental Europe (+10.8%). Asia's rise has been on the back of the increase in Japan.

However, concerns about the US economy and corporate earnings have limited the rise in the US equity index to 6.4% (albeit after briefly hitting new all-time highs) and in the UK, of course, the imminent election has apparently outweighed better economic news.

Albert Einstein once said he '*used to go away for weeks in a state of confusion*'.

Markets have been concentrating on the actions of Central Banks, on their pronouncements – especially the Federal Reserve – and the liquidity flowing from them.

Investors have been ignoring the prospects for deflation, the undeclared currency wars around the world (with every major country trying, officially or unofficially, to depreciate their currency against the US dollar), and rising volatility in bond markets.

Investors have also seemingly ignored the brinkmanship in Europe concerning Greece and the latest flare-up in the Middle East – between Yemen, Saudi Arabia and Iran – which has the potential to develop in something much more serious.

So a positive quarter, but with equity markets performing almost in a vacuum, rising because of low interest rates and Quantitative Easing in Japan and the Eurozone.

United Kingdom

- As this report is being written we are part way through the General Election campaign, making comments even more problematic than usual.
- First the good news – the economy is continuing to thrive.
- Factory orders are expanding at the fastest rate in eight months. Manufacturing has been growing every month for two years. Exporters have been seeing a rise in orders from the US, China, Germany and the Middle East. Inflation has reached zero (due to the falls in food prices and oil – both of major benefit to the consumer), with March seeing the weakest price growth since 1960. Job creation is continuing to rise.
- The overall economy grew in 2014 at the fastest pace for nine years (+2.8%) powered by the service sector and household spending (+3% is the current forecast for 2015). As a result the UK's top 100 companies briefly breached the previously unattainable 7000 level before falling back into its previous range.
- So is everything in the garden rosy? Not quite.
- The current – and future – problem is the trade deficit, which at 5.6% of Gross Domestic Product is the highest since records began in 1948.
- How to deal with this deficit is one of the major points of difference between the parties ahead of the election, with possibly profound effects on the market under the next government – of whatever hue.
- In 4 of the past 5 elections the index swung sharply in the three months after the election, not before. This time is unlikely to be different.
- The result is impossible to predict, with another coalition the most likely outcome at the time of writing. But who will combine with whom? And at what cost? All parties will be wary of a repeat of 2010, when the Liberal Democrats seized

the opportunity of being in power, only to see much of their popularity disappear as a result. Should UKIP win enough seats to be able to make demands, the price will be an early in-out referendum on European Union membership, which will unsettle investors even more. Should the Scottish National Party make a formal or informal agreement with the Labour Party, the constitutional consequences could be profound.

- The whole process could be messy – and time consuming. A minority government is a possibility. The last occasion was in February 1974, but Harold Wilson had the luxury of being able to call a second election in October which he then won with a small, but workable, majority. This is still an option, but the Fixed Term Act would somehow have to be repealed first.
- 'Foreigners slash gilts exposure at record pace' is a recent newspaper headline. This has always been the danger as the election approaches. Sterling, too, could come under severe pressure. Should this happen, the Bank of England's reaction will be key. In the past interest rates would have been raised to protect the currency. But in the modern world?
- The UK equity market is underpinned by rising corporate profits and dividends, and does not look overly expensive, but the election result could change this, at least in the short term.

Europe ex UK

- Quantitative Easing has been put in place in the Eurozone at a rate of £44bn per month, and is due to last until September 2016 – in theory. Interest rates are also expected to remain low for the same period (although, like the Federal Reserve, the European Central Bank has a history of raising rates too early – most recently in 2008 and 2011).
- So far the result has been the same as in the US, Japan and the UK. The currency has weakened, corporate profits are being forecast to rise – and equity prices have shot up to new highs (all-time highs in Germany).
- Only time will tell whether deflation, Japanese style, has been averted and whether economic growth will pick up from its current anaemic levels. If volatile elements, for example the oil price, are stripped out, 'core inflation' is the lowest ever. Some confidence surveys are showing signs of improvement as consumers become more optimistic, so perhaps 2015 will for once prove forecasts of growth to have been too pessimistic.
- Overriding everything is Greece, which investors in equities (and bonds) have been blithely ignoring on the expectation that 'it will be alright on the night' – another compromise will be agreed, postponing a resolution still further. However, there is no getting away from the fact that Greece appears bankrupt and has done since 2010, a default, which would be the first in a developed country, will come at some stage. 'Grexit' (Greece Euro exit) still has a high, and rising, probability.
- Who will blink first? The only radical left government in Europe in the modern era is flexing its muscles, now having discussions with Russia (and Iran, if rumour be true) on possible assistance. The geo-political consequences could be far reaching for NATO and the west. Russia (and the Orthodox Church) has been a ready ally since Tsarist times and the initial Greek independence, so this is nothing new.
- The European Central Bank, the International Monetary Fund and the German (and even more so, the Spanish) governments are all being hard-line on discussions. The Greeks have several significant repayments due in the near future (the first has been paid on schedule, somehow) and few surplus funds. Cash, where possible, is being used to pay wages and pensions, and, to quote Shaw again, '*a government that robs Peter to pay Paul can always depend on the support of Paul*'. In this instance Greece's creditors are Paul.

North America

- Everyone in the US has become a Fed-watcher, waiting with bated breath for the latest publication of Minutes or the latest speech from Janet Yellen (or one of her colleagues). All are trying to predict the timing of the first (small) interest rate rise, and opinions change almost daily.
- George Bernard Shaw once opined '*if all the economists were laid end to end, they'd never reach a conclusion*'.

- The facts on the economy are becoming less reassuring.
- Manufacturing growth slowed in March to its lowest pace in almost two years, partly due to the weather (always a ready excuse) but mainly due to the strength of the currency and still relatively weak growth abroad. New orders have been particularly affected, led by the rapid slowdown in the oil and gas industry. The most recent rise in the non-farm payroll was also much smaller than forecast, ringing more alarm bells.
- Corporate earnings estimates for 2015 have been reduced, and the first quarter figures – due shortly – may show a fall year-on-year for the first time since the 2008 crisis. They will be skewed by the energy sector, of course, where the fall in the oil price is having a severe impact (just the result the Middle Eastern countries that engineered the fall wanted, presumably).
- The fall in the oil price has had some beneficial effects on inflation, now nearing zero, and on the consumer. There has been a rise in consumer expenditure across the winter, but not significantly.
- With such a back-drop it seems most unlikely that interest rates will rise anytime soon, unless activity picks up again and recent numbers are an aberration. What worries markets and investors is that the Federal Reserve will increase rates too quickly, perceiving a problem that doesn't exist. The Fed's history doesn't help – this mistake was made in 1937 (and several times since) with disastrous outcomes on all occasions.
- The market is likely to become more volatile, especially if the upcoming results season proves disappointing, and the risks – at least in the short term – appear to have increased.
- In the long term Wall Street has usually been the most resilient equity market.

Japan

- The Japanese market was the best performer of the major developed regions in the first quarter of 2015, even denominated in Sterling, as continuing Quantitative Easing pushed up asset prices – as seen elsewhere. The Nikkei index has been regularly hitting new 15 year highs.
- Abenomics has been in place for two years. Share prices have doubled and the yen has depreciated significantly – both prime objectives for policymakers – but elsewhere the effect so far has been muted.
- Economic data remains mixed. Industrial production is rising, but so too is unemployment and retail sales have fallen. Overall economic growth forecasts have been downgraded.
- One bright spot is wages, which are showing a larger increase than last year (semi-annual bonuses have already been rising) which may lead the Japanese consumer to spend more as prices are also, slowly, going up.
- The principal beneficiaries of QE have been Japanese corporations, due to the depreciating currency. Exports have risen sharply and profits have followed. Companies are also beginning to reward shareholders with buybacks, higher dividends and takeover activity (many are sitting on vast amounts of cash, which the government is threatening to tax).
- Longer term the structural reforms we have mentioned in previous reports are, as expected, proving hard to implement although Mr Abe, after his election success in December, now has plenty of time to try.

Asia Pacific ex Japan

- There is an old stock market adage – if the dollar is strong, Asia is weak. The first quarter somewhat disproved this notion with the region's indices rising 10% in aggregate.
- Despite the rising dollar, and its effect on the overseas borrowings of many Asian countries and corporations, there has been room for several major Asian monetary authorities to cut interest rates. China, India and Indonesia are prime examples, all trying to boost their economies.

- The Chinese government has lowered its growth forecast for this year to 7%, and even this may be optimistic. The anti-corruption drive that has been hitting the headlines has not helped, with many state-owned enterprises being investigated leading to stagnation in business activity in some areas.
- The new Indian government's recent budget was well received and reform is beginning to accelerate. Throughout the region (including Japan) there is a realisation that Asia has been lagging in corporate governance and suffers from ingrained social attitudes, and governments are attempting to change both. It will take time but initial signs are encouraging.
- There are still concerns that an even stronger dollar, perhaps following an interest rate rise, could lead to a repeat of the 1997/98 crisis. Countries are in a better economic shape than then, but overseas indebtedness has also risen sharply that the situations need to be watched closely.

Emerging Markets

- The index as a whole rallied in the first quarter, up just over 7% (although this masks widely different performances from individual countries), as continuing Quantitative Easing in Japan and the initiation of QE in Europe overflowed into other markets. Sentiment was also helped by an easing of tensions in the Ukraine and a rally in the price of oil.
- Contrary to expectations, investors have also experienced monetary easing in many areas. China, India and Indonesia have been mentioned above, but Turkey and Russia have also followed suit. Others are in a position to do something similar.
- Exports have somewhat benefited from the economic growth being seen in the US and the UK, and if the Eurozone does pick up this year there could be an additional boost. The main problem is commodity prices, which show no signs of stabilising, let alone rising. Emerging Markets' currencies have weakened in the last year against the dollar, but as the Euro and the Yen have depreciated even more, competitiveness has actually declined. Exports have not risen as much as in the past under similar circumstances.

Fixed Income

- Bond markets (government and corporate) have experienced greater volatility of late as investors have reacted to every statement from the Central Banks in the US, the UK, Japan and – most importantly in recent weeks – the Eurozone. This volatility is likely to increase as the year progresses and interest rate rises in the US and the UK come closer.
- But when? In the US, conventional wisdom has expected the first increase in June. This was then pushed out to September. With the latest economic news proving somewhat disappointing, some commentators are now suggesting any rise could now be postponed until 2016.
- In the UK, the increase pencilled in for late 2015 could also be postponed – but this is likely to depend on the outcome of the General Election.
- The numbers are very strange. Four years ago, Irish 10 year bonds yielded 14%, now the yield is 0.8%. Finland, Germany and Switzerland, along with some companies in Europe, are issuing bonds at negative interest rates for the first time.
- And Greece seems closer to defaulting now than in 2011.
- An additional problem, already being seen in some markets is liquidity – or more specifically the lack of it. Changes to the rules have led to a reduction in the number of market-makers (who brought buyers and sellers together, and held bonds themselves as inventory to facilitate deals) and some asset managers are already finding it difficult to trade in any volume.
- Should investors reverse their stance and try to exit fixed income markets in any size, the result could be dramatic.

Alternatives

- Hedge Funds (in sterling terms) experienced a strong quarter with all strategies delivering positive returns. Global Macro was the best performing strategy, continuing its recent rally with a 3 month return of 8.5% and a 12 month return of 22.8% which helped to support a strong year of growth for hedge funds overall (+16.4%). Over the first quarter of 2015, hedge funds posted the highest quarterly performance since the first quarter of 2013.
- Despite a slowing in performance levels from Q4 2014, UK Property provided attractive returns over Q1 2015. Office and industrials were the leading sectors, particularly Offices in Central London, while the retail sector continues to lag behind. As at the end of March 2015, the annual property yield stood at around 6.0%.
- It was another volatile quarter for the commodity markets. Commodities registered a loss of 3.6% and 33.0% over the quarter and 12 months respectively. Continued dollar strength remained a major headwind for the commodities at large. The biggest casualty in the first quarter across the commodity spectrum was iron ore which fell more than 30% as new Australian supply came on board while the demand was already slack on back of a subdued Chinese property market. While the oil price struggled to find a floor, Gold was one of the best performing commodities, defying dollar strength to end the quarter flat.

Conclusion

We expect the global economic recovery to continue, albeit slowly, and possibly boosted by an eventual pickup in Eurozone activity.

With oil prices remaining low, there is little likelihood of any acceleration in inflation, so interest rates should remain at ultra-low levels in many countries. However, in both the US and the UK a rate rise is expected at some stage – the arguments are about timing, not direction. Markets are likely to continue to react, positively and negatively, to any hint from Central Banks of what they intend to do.

Wherever you look there are potential problems. Economic figures, and corporate profits in the US, could disappoint. In the UK, the election result could lead to a period of instability. The Eurozone still has to bite the bullet and come up with a solution to the Greek crisis (and potential deflation). And in Asia, growth forecasts in China and Japan need to be watched closely.

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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.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **21th MAY 2015**

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 31st March 2015 is attached.

3.02 In summary the Fund performed in line with its benchmark over the quarter ending 31st March 2015. In Appendix 1 of the Investment Consultant's report there is a summary of mandates which shows the benchmark and outperformance targets of the funds invested. Some of these have been revised since the last report to targets that are considered achievable under current financial conditions. The new targets are based on managers' stated targets, the views of the Investment Consultant's Market Forecast Group or a combination of these. All performance figures are compared to targets net of fees which include the expected outperformance above relevant indices, where appropriate.

3.03 The Fund has undergone a strategic review, resulting in a new strategic benchmark allocation which has started to be implemented during March 2015. The Investment Consultant's report is written in terms of the current strategic benchmark, which applied for most of the quarter, and so deviation from this should be seen in this context. Further restructuring will take place during quarter 2 2015 which will allow the Investment Consultant's next report, as at 30th June 2015, to be written in terms of the new strategic allocation.

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 Q1 2015

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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Clwyd Pension Fund

Committee Report:

Investment Strategy and Manager Summary: Quarter 1 2015

Contents

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1 Impact on Clwyd Pension Fund Strategy

Overall

- The Fund's total market value increased by £33.9m over the first quarter of 2015 to £1,376,502,264.
- As at 31 December 2014, the Fund's liabilities were valued at £2,043 million, resulting in a funding position of 66%. As at 31 March 2015, the value of the Fund's liabilities had increased by £92million to £2,135 million, resulting in a funding position of 64%.
- Over the last 3 months, total Fund assets returned 3.3% compared with a composite target of 3.3%.
- The most notable returns were from the Equity Assets which returned 6.8% as equities experienced strong gains across most markets. GTAA Assets generated the lowest return, detracting -3.2% over the quarter.
- In relative terms, the Fund produced a return in line with its target as Real and Bond assets added to performance but Equities and GTAA detracted in relative terms:
  - Real Assets, which returned 2.6%, outperformed their target by 2.3%, largely due to the Timber / Agriculture portfolio generating a return of 11.0% and outperforming its target by 9.6%. The Wellington Commodities also added to total Fund's relative performance due to being underweight during a quarter when commodity returns continued to fall. The Property assets underperformed the market and slightly offset some of these gains.
  - Bond Assets added to total Fund performance as the Stone Harbor LIBOR Multi-Strategy Fund outperformed its target by 0.2%.
  - Total Equity Assets returned 6.8% over the period, but detracted from total Fund performance as the overall strategy underperformed the composite target by 0.6%. This was mainly due to exiting from Asia Pacific equities in early March, immediately before the Asia Pacific equity index experienced a rally. The performance of the Emerging Market Equity Funds was also below their target.
  - GTAA Assets produced a negative return of -3.2% and detracted 0.4% from total Fund performance over the period. BlackRock GASL was the main contributor as the fund returned -12.4%.
  - Alpha Seeking Assets produced a modest return of 0.8%. In relative terms, gains made in the SSARIS portfolio were offset by the Private Equity and Opportunistic portfolios underperforming their respective targets.

Equities

- Developed equity markets were positive over the first quarter of 2015. Japan and Continental Europe were the strongest markets over the period, returning 16.4% and 10.8% respectively. Japanese equities ended the year with the strongest growth, increasing by 27.1% although US equities were also very strong and advanced 26.4% over the year.
- UK equities experienced the lowest growth of the developed markets, returning just 4.7% over the quarter and 6.6% over the last 12 months.
- Emerging Markets equities were up by 7.4% over the quarter and Frontier Markets equities were up by a modest 2.0%. The recovery in the Emerging Markets was a result of the continuing Quantitative Easing in Japan and the initiation of QE in Europe which overflowed into these markets coupled with an easing of tensions in the Ukraine and a rally in the price of oil from the year-end low.
- The Fund's total Equity Assets returned 6.8% over the quarter, which was behind their target by 0.6%. All equity funds delivered positive absolute returns, but only two funds outperformed their respective targets. The redemption from Aberdeen's Asia Pacific (ex Japan) Fund detracted from total return as the exit was made immediately before a rising Asia Pacific equity market. Global equities added 0.2% to total performance and offset some of the relative underperformance made elsewhere in the equity portfolio.

Bonds

- Bond markets were generally positive over the quarter. UK bonds had a solid quarter of growth, with long gilts increasing by 4.1%, index-linked gilts increasing by 3.3% and long-dated corporate bonds increasing by 5.2%.
- Elsewhere, global bonds returned 3.2%, Emerging Market debt returned 2.0%, High Yield bonds returned 5.4% and Leveraged Loans returned 2.4%.
- Total Bonds Assets generated 0.6% over the quarter, ahead of their target by 0.2%. Outperformance was predominantly a result of having a broad exposure across credit markets which all produced positive returns. Global Rates added 0.2% and Emerging Market Debt added 0.1% to total strategy performance, however, stock selection in Investment Grade Credit (which accounts for around 63% of the Bond portfolio) was neutral.
- The fall in commodity prices negatively impacted security selection in oil producing and oil exploration companies in EMD, High Yield and Investment Grade markets. Price stability, albeit a volatile form of stability, has allowed credit concerns surrounding Venezuela and Russia to subside. Adding to this, a lull in the political tensions over the Ukraine, has allowed the Russian Rouble to benefit the Emerging Market Debt positions.

GTAA

- Total GTAA assets returned -3.2%, behind their target of +1.0%. Pyrford (+2.9%) and BlueCrest (+2.6%) both delivered returns above their targets, however this positive performance was offset by the BlackRock GASL Fund returning -12.4% and underperforming its target by 13.6%.
- Fixed income and commodity strategies within the GASL Fund were the most detrimental to the total GTAA strategy. All commodity sectors, particularly metals, hurt the strategy. Equity-based strategies were particularly beneficial across the portfolios as European and Japanese equities rallied and Emerging Markets rebounded. Credit exposure was positive for Pyrford and BlueCrest portfolios, particularly the US, Europe, EMD and High Yield allocations.

Real Assets

- Total Real Assets returned 2.6%, ahead of their composite target by 1.3%. Outperformance was mainly due to the return from the In-House Timber / Agriculture portfolio and the underweight allocation to commodities.
- Despite a slowing in performance levels from Q4 2014, the In-House Property portfolio provided a return of 2.3% compared to a market return of 3.0% over Q1 2015. Overall this detracted 0.1% from total Fund relative return. Office and industrials were the leading sectors, particularly Offices in Central London, while the retail sector continues to lag behind.
- Infrastructure assets produced positive absolute returns throughout the period and also outperformed their target.
- Commodities endured a challenging quarter, with negative returns in three of the four sectors. However, Wellington's Commodities Fund returned -5.0%, and outperformed its target by 0.5%.
- Timber/Agriculture generated a strong return of 11.0%, ahead of its target by 9.6% and contributing the majority of the outperformance for the Real Assets portfolio.

Alpha Seeking Assets

- Total Alpha Seeking Assets returned 0.8%, below its target by 0.4%. Private equity was the leading detractor as the portfolio underperformed by 1.2%. The hedge fund portfolio produced positive returns over the period with each fund ahead of its respective target.

2 Strategic Asset Allocation – 31 March 2015

Allocation by underlying asset class

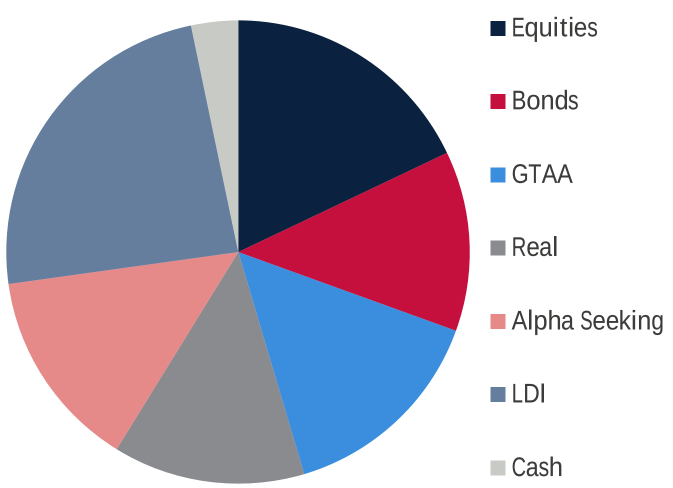
Asset Class	31 March 2015 Valuation £	Weight %	Strategic Benchmark^ %
Developed Market Equities	153,338,780	11.1	16.5
Emerging and Frontier Market Equities	93,652,925	6.8	7.5
Global Tactical Asset Allocation (GTAA)	205,266,332	14.9	12.0
Bonds	172,749,552	12.5	15.0
Fund of Hedge Funds	48,753,822	3.5	5.0
Property	100,991,199	7.3	7.0
Commodities	24,962,403	1.8	4.0
Private Equity	133,489,663	9.7	8.0
Infrastructure	31,983,323	2.3	2.0
Timber / Agriculture	26,453,668	1.9	2.0
Opportunistic	10,611,718	0.8	2.0
LDI	329,100,505	23.9	19.0
Cash	45,148,374	3.3	0.0
TOTAL CLWYD PENSION FUND	**1,376,502,264**	**100.0**	**100.0**

^ The strategic benchmark represents the benchmark from the previous investment strategy; this will be updated in the Q2 2015 report after the transition to the new strategy has been further implemented.

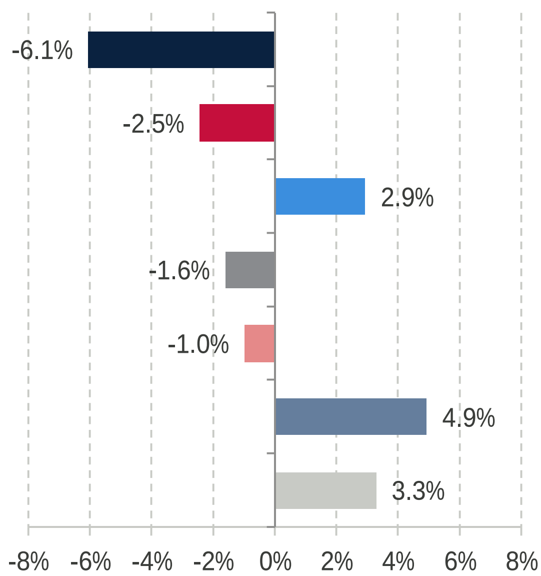
Points to note

- Allocation to LDI has risen by 0.9% over the quarter and is 4.9% overweight relative to its strategic benchmark.
- In March, Aberdeen's Asia Pacific Equity Fund was sold and reinvested into Investec Diversified Growth (£60m) and Pyrford Diversified Growth(£25m); £15 million also transferred to Investec Global Equity from the Trustee bank account.

Strategic Asset Allocation as at 31 March 2015*



Deviation from Strategic Benchmark*



**Strategic asset class categorisation to be updated in Q2 2015 report to reflect the new strategy.*

Performance of the strategic asset classes and total Fund to 31 March 2015

Asset Class	3 Months %	12 Months %	3 Years % p.a.
Total Equities	6.8	13.5	9.9
Composite Target	7.4	16.2	11.3
Relative	*-0.6*	*-2.7*	*-1.4*
Total Bonds	0.6	-0.9	2.3
Composite Target	0.4	1.5	1.4
Relative	*0.2*	*-2.4*	*0.9*
Total GTAA	-3.2	4.0	0.6
Composite Target	1.0	4.8	5.4
Relative	*-4.2*	*-0.8*	*-4.8*
Total Alternatives - Real Assets	2.6	7.2	4.5
Composite Target	0.3	2.9	3.6
Relative	*2.3*	*4.3*	*0.9*
Total Alternatives - Alpha Seeking Assets	0.8	5.8	5.5
Composite Target	1.3	5.3	5.3
Relative	*-0.5*	*0.5*	*0.2*
Total ex Alternatives, GTAA and LDI	**4.5**	**8.0**	**7.7**
Composite Target	**4.6**	**10.3**	**8.3**
Relative	***-0.1***	***-2.3***	***-0.6***
Total ex GTAA and LDI	**3.2**	**7.3**	**6.7**
Composite Target	**2.9**	**7.6**	**6.9**
Relative	***0.3***	***-0.3***	***-0.2***
Total ex LDI	**2.3**	**6.9**	**6.0**
Composite Target	**2.6**	**7.2**	**6.7**
Relative	***-0.3***	***-0.3***	***-0.7***
Total Clwyd Pension Fund	**3.3**	**14.2**	**8.3**
Composite Target	**3.3**	**13.7**	**8.8**
Relative	***0.0***	***0.5***	***-0.5***

Source: JLT Employee Benefits

- Manager benchmarks and target objectives were reviewed during the quarter, and a number have now been revised (please see Appendix 1 for details). These are shown for all of the time periods detailed in this report.

3 Manager Summary – 31 March 2015

	Manager	Fund	31 March 2015 Valuation £	Weight %	Strategic Weight % Prev	Strategic Weight % New	3 Yr Performance vs Objective
	Duet	Global Opportunities*	50,001,810	3.6	5.0	-	Target not met
	Investec	Global Strategic Equity	103,336,970	7.5	5.0	8.0	Target met
n/a	Aberdeen	Asia Pacific ex Japan Equities	-	-	6.5	-	n/a
	Wellington	Emerging Market Equities (Core)#	40,761,730	3.0	6.5	6.5	Target not met
	Wellington	Emerging Market Equities (Local)#	43,510,787	3.2			Target met
n/a	Aberdeen	Frontier Markets Equities#	9,380,408	0.7	1.0	2.5	n/a
Total Equity Assets			**246,991,705**	**17.9**	**24.0**		
	Stone Harbor	LIBOR Multi-Strategy Portfolio	172,749,552	12.5	15.0	15.0	Target met
Total Bond Assets			**172,749,552**	**12.5**	**15.0**		
	BlackRock	GASL	50,330,334	3.7	6.0		Target not met
	Bluecrest	AllBlue Ltd+	34,415,059	2.5	3.0		Target met
	Pyrford	Global Total Return	59,973,417	4.4	3.0	19.0[1]	Target not met
n/a	Investec	Diversified Growth	60,547,521	4.4	-		n/a
Total GTAA Assets			**205,266,332**	**14.9**	**12.0**		
	In-House	Property	100,991,199	7.3	7.0	7.0	Target not met
	In-House	Infrastructure	31,983,323	2.3	2.0	2.0	Target met
	In-House	Timber / Agriculture	26,453,668	1.9	2.0	2.0	Target not met
	Wellington	Commodities	24,962,403	1.8	4.0	-	Target not met
Total Real Assets			**184,390,593**	**13.4**	**15.0**		
n/a	Pioneer	Fund of Hedge Funds*#	1,612,737	0.1			n/a
	SSARIS	Fund of Hedge Funds*	25,165,762	1.8	5.0	9.0[2]	Target not met
	Liongate	Fund of Hedge Funds+	21,975,323	1.6			Target not met
	In-House	Private Equity	133,489,663	9.7	8.0	8.0	Target met
n/a	In-House	Opportunistic	10,611,718	0.8	2.0	2.0	n/a
Total Alpha Seeking Assets			**192,855,203**	**14.0**	**15.0**		
n/a	Insight	LDI assets	329,100,505	23.9	19.0	19.0	n/a
n/a	Trustee	Cash	45,148,374	3.3	-	-	n/a
TOTAL CLWYD PENSION FUND			**1,376,502,264**	**100.0**	**100.0**	**100.0**	

Note: 'n/a' against the objective is for funds that have been in place for less than three years. Objectives have been revised as part of a strategic review.
* Duet, SSARIS and Pioneer valuations are lagged by 1 month. + BlueCrest and Liongate valuations are based on estimates provided by the manager.
# Wellington Emerging Markets Core and Local, Aberdeen Frontier Markets and Pioneer valuations have been converted to Sterling using the WM/Reuters closing price exchange rates for the respective dates.

1) Total Tactical Portfolio 2) Managed Account including Managed Futures and Fund of Hedge Funds

Fund has met or exceeded its performance target — Fund has underperformed its performance target

Manager performance to 31 March 2015

	Manager / Fund		3 months %		12 months %		3 years % p.a.		3 yr Performance
			Fund	Target	Fund	Target	Fund	Target	vs Objective
	Duet	Global Opportunities	0.2	1.2	-0.5	5.1	1.8	5.2	Target not met
	Investec	Global Strategic Equity	9.9	7.8	20.9	21.1	17.9	16.3	Target met
	Wellington	Emerging Markets (Core)	6.1	7.7	11.7	14.3	2.0	4.4	Target not met
	Wellington	Emerging Markets (Local)	6.9	8.0	15.3	15.5	7.9	5.0	Target met
n/a	Aberdeen	Frontier Markets	7.0	2.3	6.7	10.3	n/a	n/a	n/a
	Total Equity Assets		**6.8**	**7.4**	**13.5**	**16.2**	**9.9**	**11.3**	
	Stone Harbor	LIBOR Multi-Strategy	0.6	0.4	-0.9	1.5	2.3	1.4	Target met
	Total Bond Assets		**0.6**	**0.4**	**-0.9**	**1.5**	**2.3**	**1.4**	
	BlackRock	GASL	-12.4	1.2	-1.2	5.1	-4.8	5.2	Target not met
	Bluecrest	AllBlue Ltd	2.6	1.1	7.4	4.6	5.5	4.7	Target met
	Pyrford	Global Total Return	2.9	0.8	7.2	5.2	4.6	6.7	Target not met
n/a	Investec	Diversified Growth	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	Total GTAA Assets		**-3.2**	**1.0**	**4.0**	**4.8**	**0.6**	**5.4**	
	In-House	Property	2.3	3.0	14.4	18.5	8.8	11.6	Target not met
	In-House	Infrastructure	3.4	1.3	11.1	5.6	11.4	5.7	Target met
	In-House	Timber / Agriculture	11.0	1.4	13.8	5.6	3.8	5.6	Target not met
	Wellington	Commodities	-5.0	-5.5	-22.0	-22.1	-12.1	-11.3	Target not met
	Total Real Assets		**2.6**	**0.3**	**7.2**	**2.9**	**4.5**	**3.6**	
	SSARIS	Fund of Hedge Funds	3.0	0.9	1.5	3.6	3.2	3.6	Target not met
	Liongate	Fund of Hedge Funds	1.8	1.3	-1.8	5.6	0.8	5.7	Target not met
	In-House	Private Equity	0.2	1.3	7.4	5.6	6.7	5.7	Target met
n/a	In-House	Opportunistic	1.1	1.3	8.9	5.6	n/a	n/a	n/a
	Total Alpha Seeking Assets		**0.8**	**1.3**	**5.8**	**5.3**	**5.5**	**5.3**	
n/a	Insight	LDI Portfolio	6.7	6.7	44.7	44.7	n/a	n/a	n/a
	Total (ex Alternatives, GTAA and LDI)		**4.5**	**4.6**	**8.0**	**10.3**	**7.7**	**8.3**	
	Total (ex GTAA and LDI)		**3.2**	**2.9**	**7.3**	**7.6**	**6.7**	**6.9**	
	Total (ex LDI)		**2.3**	**2.6**	**6.9**	**7.2**	**6.0**	**6.7**	
	TOTAL CLWYD PENSION FUND		**3.3**	**3.3**	**14.2**	**13.7**	**8.3**	**8.8**	

Notes: Performance shown is calculated by JLT Employee Benefits based on data provided by the investment managers.

Appendix 1: Summary of Mandates

Manager	Fund	Mandate	Performance Objective (Net of Fees)	Strategic Weight	Tactical Range
Duet	Global Opportunities	Unconstrained Global Equities	3 Month LIBOR Index +4.5% per annum	5.0%	+/-1%
Investec	Global Strategic Equity	Unconstrained Global Equities	MSCI AC World NDR Index +2.5% per annum	5.0%	+/-1%
Aberdeen	Asia Pacific ex Japan	Asia Pacific ex Japan Equities	MSCI AC Pacific (ex Japan) Index +2.75% per annum	6.5%	+/-1%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% per annum	6.5%	+/-1%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% per annum		
Aberdeen	Frontier Markets	Frontier Markets Equities	MSCI Frontier Equities Index +1.5% per annum	1.0%	-
Stone Harbor	LIBOR Multi-Strategy Portfolio	Multi-Asset Credit	1 Month LIBOR Index +1.0% per annum (1)	15.0%	+/- 2%
BlackRock	GASL	Global Tactical Asset Allocation	3 Month LIBOR Index +4.5% per annum	6.0%	+/- 1%
BlueCrest	AllBlue Ltd	Global Tactical Asset Allocation	3 Month LIBOR Index +4.0% per annum	3.0%	+/- 1%
Pyrford	Global Total Return	Global Tactical Asset Allocation	UK Retail Price Index +4.4% per annum	3.0%	+/- 1%
Investec	Diversified Growth	Global Tactical Asset Allocation	UK Consumer Price Index +4.6% per annum	-	-
GSARIS	Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR Index +3.0% per annum	5.0%	+/- 3%
Liongate	Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR Index +5.0% per annum		
In-House	Private Equity	Private Equity	3 Month LIBOR Index +5.0% per annum	8.0%	
In-House	Opportunistic	Opportunistic	3 Month LIBOR Index +5.0% per annum	2.0%	
In-House	Property	Property	IPD Balanced Funds Weighted Average	7.0%	+/- 3%
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% per annum	2.0%	
In-House	Timber / Agriculture	Timber / Agriculture	3 Month LIBOR Index +5.0% per annum	2.0%	
Wellington	Commodities	Commodities	S&P GSCI Equal Weighted (Hedged) +1.0% per annum	4.0%	
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%	

Notes: Manager benchmarks and target objectives were reviewed during the quarter, and a number have now been revised.
[1]FTSE A Gilts All Stocks Index until 31 March 2014.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **21st MAY 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 30 April 2015. There was no hedging activity in April 2015. 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 30 April 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.

3.02 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. 40.0% at 30 April. No funding triggers had been reached.

3.03 As a result of the hedging noted above we have already reached the planned target level for inflation hedging at April 2019. Mercer is in the process of producing a health check to consider options that exist to adapt the hedging mandate to reflect current market conditions and opportunities.

3.04 The estimated funding position as at 30 April is 66% and an estimated deficit of £721m 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. £90m higher if the hedges since inception had not been implemented via the triggers and the original strategy had remained in place.

3.05 The Actuary will verbally update the Committee on developments since 30 April 2015 at the April meeting.

4.00 RECOMMENDATIONS

4.01 That Committee Members note and discuss the estimated funding level and the liability hedging undertaken to 30 April 2015.

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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MERCER

TALENT • HEALTH • RETIREMENT • INVESTMENTS

Clwyd Pension Fund
Risk management framework monthly monitoring report for Committee

May 2015

Adam Lane, FIA
Paul Middleman, FIA

MARSH & McLENNAN COMPANIES

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 immediate action required although may wish to consider amending the mandate

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

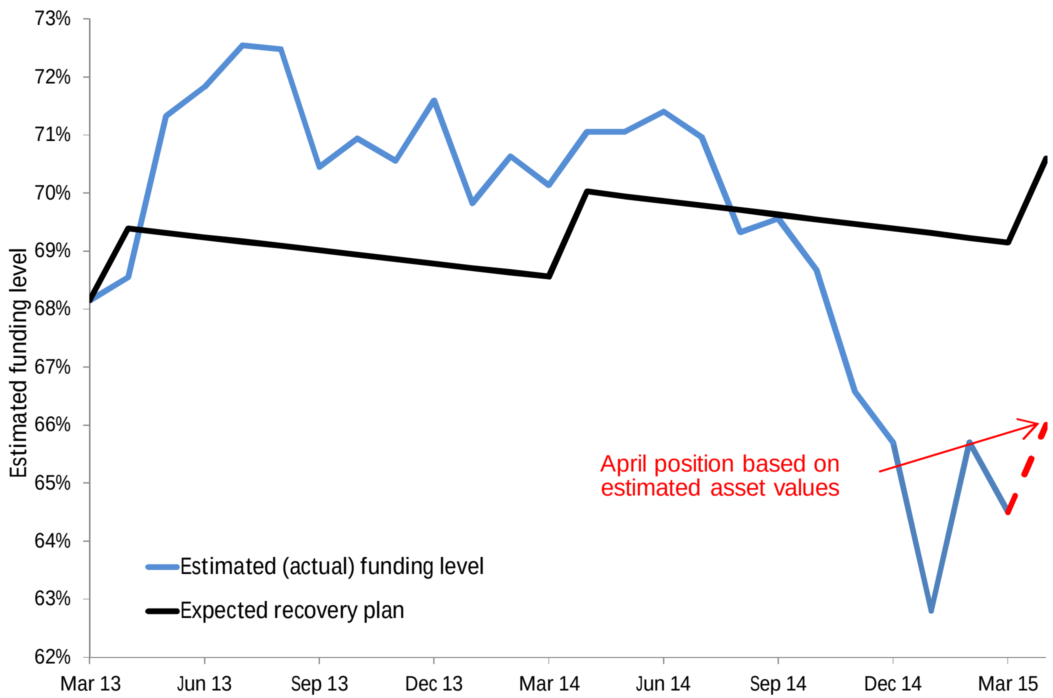
No action required

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 30 April 2015

Estimated funding position since 31 March 2013



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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 30 April 2015 by around 4.5%.

At the 30 April 2015, we estimate that the funding level and deficit was as follows:

66% (£721m*)

Action: No action required. The funding level is below the first funding level trigger which is set at 80% (please see the table below).

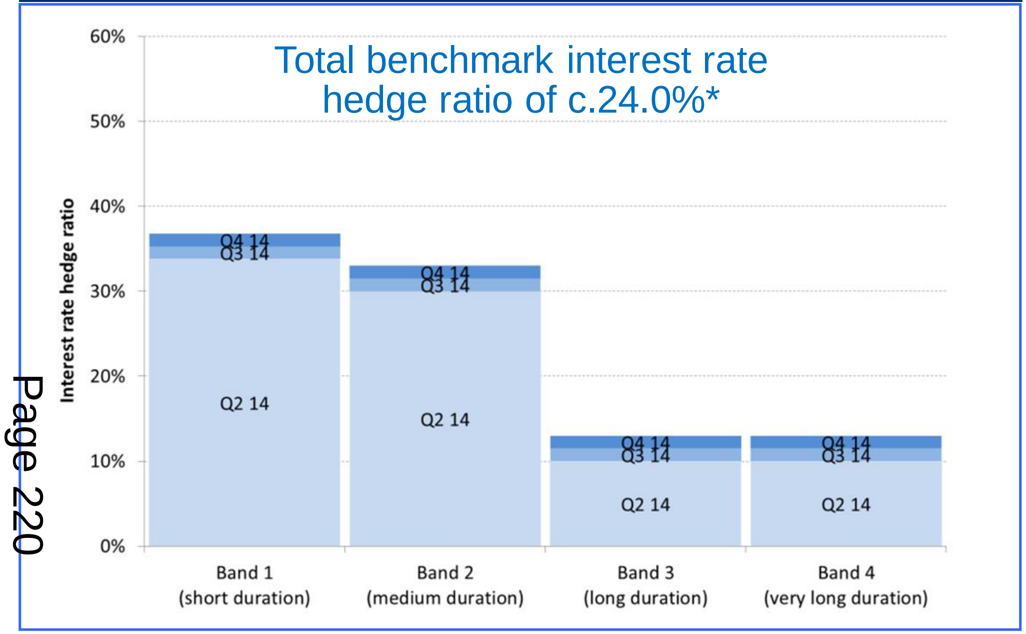
	Funding level	Impact on strategic asset allocation	Change to the hedge ratio
30 April 2015	**66%**	**No action**	**No action**
Funding level Trigger 1	80%	Reduce the Insight equity exposure by 50%	Increase hedge ratio to 40%
Funding level Trigger 2	85%	Remove the Insight equity exposure	Increase hedge 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 values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 31 March 2015 to 30 April 2015 with an allowance for expected deficit reduction contributions received over the month. We will monitor this estimate over time against the actual position once final asset values are available, and have now updated the asset values as at the end of March.

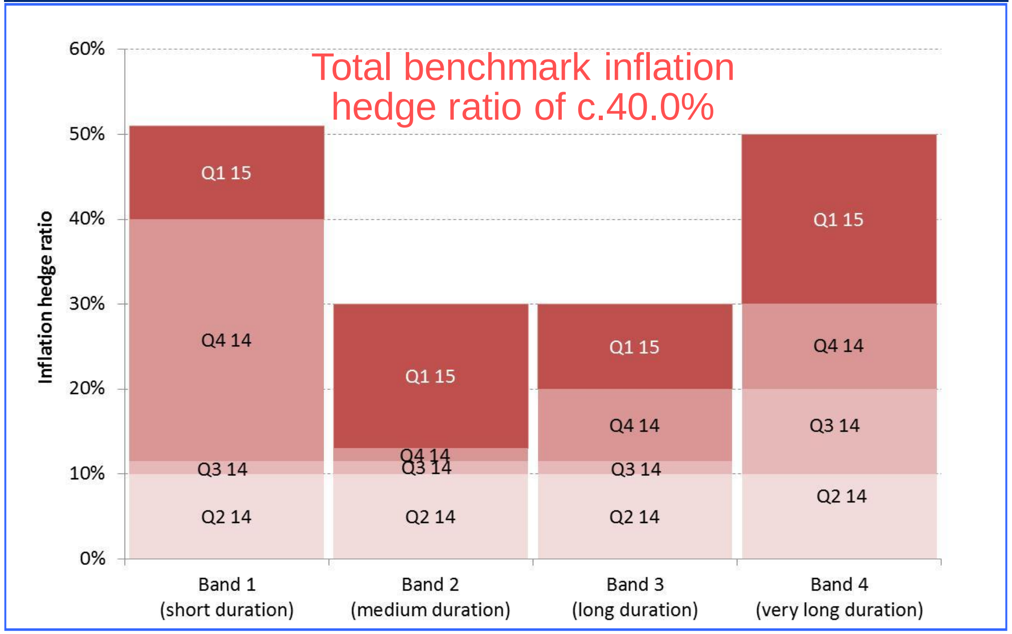
Clwyd Pension Fund

Update on liability hedging (Source: Insight Investment)

Interest rate hedging activity



Inflation hedging activity



	Date	Band 1	Band 2	Band 3	Band4
Start position	31 March	36.8%	33.0%	13.0%	13.0%
	-	-	-	-	-
End position	30 April	36.8%	33.0%	13.0%	13.0%

	Date	Band 1	Band 2	Band 3	Band4
Start position	31 March	51.1%	30.0%	30.0%	50.0%
		-	-	-	-
End position	30 April	51.1%	30.0%	30.0%	50.0%

No hedging activity occurred over April 2015.

*Estimate assuming equal risk weightings across maturity bands

Clwyd Pension Fund
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