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Head of Legal and Democratic Services
Pennaeth Gwasanaethau Cyfreithiol a Democrataidd

To: Cllr Alan Diskin (Chair)

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

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

CS/NG

16 July 2014

Maureen Potter 01352 702321
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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 **TUESDAY, 22ND JULY, 2014** at **10.00 AM** to consider the following items.

Yours faithfully

Democracy & Governance Manager

AGENDA

1 **APOLOGIES**

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

GOVERNANCE

3 **GOVERNANCE POLICY STATEMENT** (Pages 1 - 20)

To approve the Fund's Governance Policy Statement

4 **<u>WORKING PRACTICES</u>** (Pages 21 - 30)

To approve delegation of certain functions to officers

5 **<u>DRAFT GOVERNANCE REGULATIONS</u>** (Pages 31 - 56)

To update Members on the draft LGPS Governance Regulations

6 **<u>SERVICE PLAN 2014/15</u>** (Pages 57 - 86)

To provide Members with the Clwyd Pension Fund Service Plan 2014/15

7 **<u>GOVERNANCE UPDATE</u>** (Pages 87 - 148)

To provide Members with an update on governance related issues

<u>PENSION ADMINISTRATION</u>

8 **<u>LGPS UPDATE</u>** (Pages 149 - 154)

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

9 **<u>PENSION ADMINISTRATION UPDATE</u>** (Pages 155 - 184)

To enable Members to monitor the performance of the pensions administration section

<u>INVESTMENT AND FUNDING</u>

10 **<u>STATEMENT OF INVESTMENT PRINCIPLES</u>** (Pages 185 - 226)

To provide Members with the 2014/15 Statement of Investment Principles

11 **<u>ECONOMIC AND MARKET UPDATE</u>** (Pages 227 - 240)

To provide Members with an economic and market update

12 **<u>INVESTMENT STRATEGY AND MANAGER SUMMARY</u>** (Pages 241 - 256)

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

13 **<u>FUNDING AND FLIGHT PATH UPDATE</u>** (Pages 257 - 266)

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

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **22nd JULY 2014**

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

SUBJECT: **GOVERNANCE POLICY STATEMENT**

1.00 PURPOSE OF REPORT

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

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 updating as a result of the creation of the Pension Fund Committee 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 A has been updated to incorporate the new governance structure relating to the Fund, in particular the establishment of the Pension Fund Committee and the recent review of officers' delegations. The opportunity has also been taken to articulate some governance related objectives against which the effectiveness of the governance arrangements will be monitored.

3.05 The Governance Compliance Statement in Appendix A of the Statement shows the administering authority is fully compliant in all but one matter when compared to the Secretary of State's Governance Guidance. The only point where it is not fully compliant relates to there being no employer representative covering admission bodies. When establishing the Pension Fund Committee it was decided against that, due to admission bodies being a very small proportion of the Fund's overall liabilities, and other means of communication being in place for them, such as the Annual Joint Consultative Meeting.

3.05 The Statement will be updated later in 2014 or early 2015 to incorporate the information relating to the establishment of a local Pension Board, which is a new requirement to be implemented by 1 April 2015. This matter is considered in a separate Pension Fund Committee report (Draft Governance Regulations).

4.00 RECOMMENDATIONS

4.01 That Committee Members agree the revised Governance Policy Statement.

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 Employers and scheme members were consulted on the proposed structure of the new Pension Fund Committee.

12.00 APPENDICES

12.01 Governance Policy Statement

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Flintshire County Council (30 April 2014) – Clwyd Pension Fund Governance
Flintshire County Council (20 May 2014) - Constitutional Changes For New Senior Management Structure

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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

July 2014

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 regulations.

Flexibility is provided for each Administering Authority to determine their own governance arrangements. However the Local Government Pension Scheme 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 Local Government Pension Scheme Regulations. The compliance statement required by point (d) is included as Appendix A. This statement of policy and compliance will be updated in relation to the requirements of (e) by April 2015, which is the date the local pension board must be established by and the Pensions Regulator becomes responsible for oversight of some LGPS governance matters.

Aims and Objectives

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

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

Our Fund's Mission Statement is:

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

In relation to the governance of the Fund we will aim to:

- 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

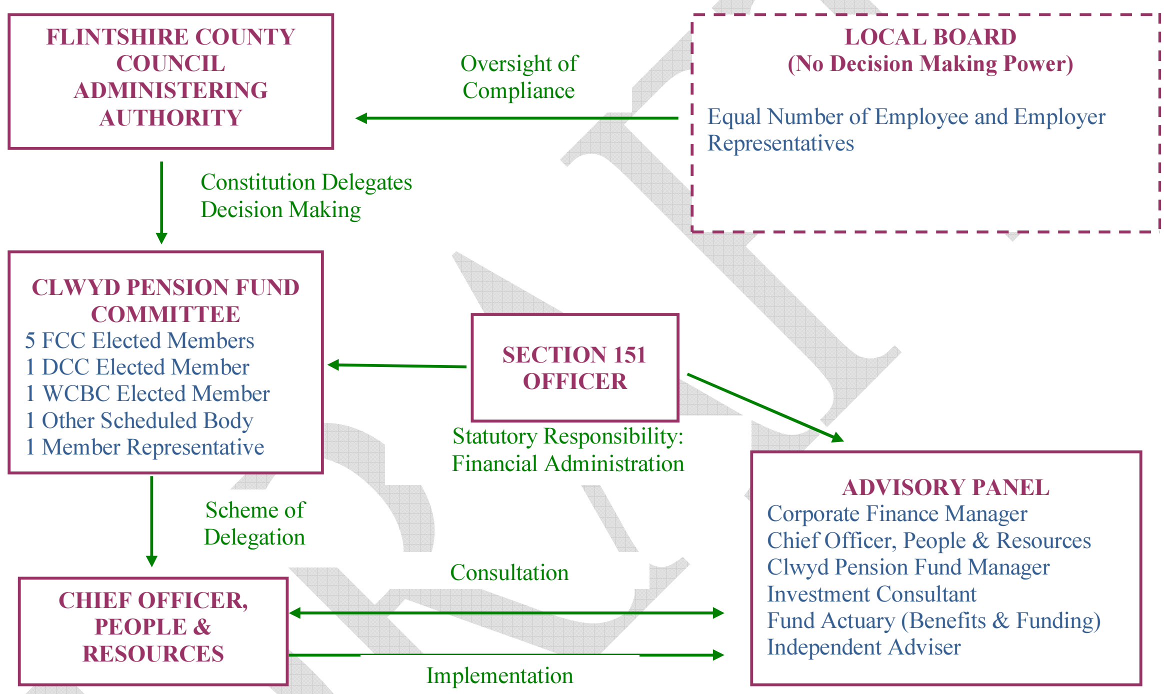
Background to Governance Arrangements

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 has a statutory responsibility for the proper financial affairs of Flintshire County Council which including Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Officer – People and Resources. It is expected that this governance structure will be expanded later in 2014 or 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. Taking this into account, 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 Local Government Pension Scheme 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 Head of Finance 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 Head of Finance 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

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.

We will be developing the Fund's Training Policy later in 2014, albeit it already has an intensive Training Plan in place.

We will report on an annual basis how well these policies have 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 statement once it has been developed.

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. • 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.
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.
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.
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 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, 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 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 22 July 2014. 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:

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council
E-mail - Philip.latham@flintshire.gov.uk
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**	

Best Practice	Compliant or not?	Explanatory Note
B. REPRESENTATION		
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.

Best Practice	Compliant or not?	Explanatory Note
C. SELECTION AND ROLE OF LAY MEMBERS		
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.
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.

Best Practice	Compliant or not?	Explanatory Note
E. TRAINING / FACILITY TIME / EXPENSES		
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**	Training is delivered through several avenues including: • An initial induction for new Pension Fund Committee 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 receive payments for attendance at meetings (including training events) as detailed within the Flintshire County Council Members' Remuneration Scheme.
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 is developing 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 .
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.

Best Practice	Compliant or not?	Explanatory Note
H. SCOPE		
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.
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: **22nd JULY 2014**

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

SUBJECT: **WORKING PRACTICES**

1.00 PURPOSE OF REPORT

1.01 To ask Committee Members to approve the delegation of certain functions to officers.

2.00 BACKGROUND

2.01 The Council's Constitution delegates the management of the Clwyd Pension Fund, in the main, to the Pension Fund Committee. The role of the Pension Fund Committee includes the power for it to "delegate a limited range of its functions to one or more officers of the Authority." In doing so, the Pension Fund Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pension Fund Committee.

2.02 This report outlines a number of areas which are recommended to be delegated to officers so as to ensure that:

- there is sufficient time available at Pension Fund Committee meetings to consider business items,
- the items considered at Pension Fund Committee are the more strategic and high risk matters, and
- decisions can be made in a timely manner.

2.03 Appendix A outlines the proposed delegations together with proposed means for ongoing reporting on the use of these delegations. In the main these relate to sub-sets of the Committee's functions.

2.04 One of the areas included in Appendix A relates to the Administering Authority's Discretions Policy. The areas recommended as being delegated relate to a range of generally day to day administration matters where the Council in its role as administering authority has some element of flexibility. To assist Committee Members in better understanding the matters being delegated, the majority of the areas that will be covered by the Discretions Policy are listed in Appendix B.

3.00 RECOMMENDATIONS

3.01 That Committee Members agree the matters outlined in Appendix A should be delegated to officers as outlined in that Appendix.

4.00 FINANCIAL IMPLICATIONS

4.01 None directly as a result of this report.

5.00 ANTIPOVERTY IMPACT

5.01 None directly as a result of this report.

6.00 ENVIRONMENTAL IMPACT

6.01 None directly as a result of this report.

7.00 EQUALITIES IMPACT

7.01 None directly as a result of this report.

8.00 PERSONNEL IMPLICATIONS

8.01 None directly as a result of this report

9.00 CONSULTATION REQUIRED

9.01 None directly as a result of this report

10.00 CONSULTATION UNDERTAKEN

10.01 None directly as a result of this report.

11.00 APPENDICES

11.01 Proposed Delegations
11.02 Discretionary Policy

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Flintshire County Council (30 April 2014) – Clwyd Pension Fund Governance

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Appendix A

Delegation of Functions to Officers by Pension Fund Committee

Key:

PFC – Pension Fund Committee
PAP - Pension Advisory Panel
PFM – Pension Fund Manager
CFM – Corporate Finance Manager
COPR - Chief Officer, People & Resources
IC – Investment Consultant
FA – Fund Actuary
IA – Independent Advisor

Function delegated to PFC	**Further Delegation to Officer(s)**	**Delegated Officer(s)**	**Communication and Monitoring of Use of Delegation**
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. Monitoring the implementation of these policies and strategies on an ongoing basis.	Rebalancing and cash management Implementation of strategic allocation including use of ranges Implementation of the agreed Flightpath triggers	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP
	New mandates / emerging opportunities	PFM and either the CFM or COPR (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers	PFM, CFM and COPR (having regard to ongoing advice of the IC) and subject to ratification by PFC	High level monitoring at PFC with more detailed monitoring by PAP
	Selection, appointment and dismissal of Fund Managers	PFM, CFM and COPR (having regard to ongoing advice of the IC) and subject to ratification by PFC	Notified to PFC via ratification process.

Function delegated to PFC	**Further Delegation to Officer(s)**	**Delegated Officer(s)**	**Communication and Monitoring of Use of Delegation**
Agreeing the terms and payment of bulk transfers into and out of the Fund.	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Exceptions to this would be where there is a dispute over the transfer amount or it relates to significant assets transfers relating to one employer or the Fund as a whole	PFM and either the CFM or COPR after taking appropriate advice from the FA.	Ongoing reporting to PFC for noting
Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.	PFM and either the CFM or COPR after taking appropriate advice from the FA.	Ongoing reporting to PFC for noting
Discretions – determining how the various administering authority discretions are operated for the Fund.	Approving administering authority discretions policy other than in relation to: • any key strategy/policies and • matters relating to admission bodies and bulk transfers as included in the preceding two rows.	CFM and COPR (having regard to the advice of the rest of the PAP)	Copy of policy to be circulated to PFC members once approved.

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PFC.	PFM and either the CFM or COPR, subject to agreement with Chairman and Deputy Chairman (or either, if only one available in timescale)	PFC advised of consultation via e-mail (if not already raised previously at PFC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PFC for noting.
Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice[1]	COPR	Regular reports provided to PFC and included in Annual Report and Accounts.
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pension Fund Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pension Fund Committee.	Other urgent matters as they arise	PFM and either CFM or COPR, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	PFC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PFC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PFC and subject to monitoring agreed at that time.

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

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Appendix B

Administering Authority Discretions Policy – Key Policy Areas

Regulation Number and Subject Matter	Description of Discretion
Stage One Internal Dispute Resolution Procedure (IDRP)	We must appoint a person for dealing with applications under stage one of the dispute resolution procedures in relation to any disputes relating to our role as administering authority.
Stage two of Internal Dispute Resolution Period (IDRP)	We must put in place procedures for dealing with applications under stage two of the dispute resolution procedures.
Appeal against an employer	We may lodge an appeal to the Secretary of State against an employer where we disagree with a pension decision they have made or where they have failed to make a decision.
Admission bodies (revised rates and adjustment certificate)	We may request a revision of the rates and adjustment certificate (i.e. specifying the employer contribution rates) where we believe an admission body will be ceasing.
Approving employers' medical advisors	We are required to approve the IRMP used by employers for ill health pension purposes.
Admission bodies (separate pension fund)	We may set up a separate pension fund in respect of any admission bodies.
Payment for strain cost	We may require an employer to pay additional payments ("strain costs") relating to the early payment of pension benefits for early retirement cases.
Provision of information by employers	We may decide what information must be provided by employers to us so we may carry out our pension duties.
Intervals for payment and notification of contributions	We may determine the intervals for employers to pay their pension contributions and the intervals for providing information relating to those contributions and the form of that information.
Interest on late payment of contributions, etc	We may require any employer to pay interest on any payments outstanding to the Pension Fund that are not made by the due date.
Recovery of additional costs from employer	We may recover from an employer additional costs incurred as a result of the employer not meeting its pension scheme administrative obligations (e.g. failing to provide timely and accurate information relating to new scheme members).
Definition of "employed in connection with"	Employees are only entitled to remain in the LGPS whilst employed by a contractor whilst they continue to be employed in connection with the original services that were transferred. We may define what this means.
Recipients of death grants Recipients of AVC/SCAVCs on death	We can pay a death grant to any of the scheme member's nominee(s), personal representative(s) or any person(s) appearing to have been a relative or dependant. We can also pay any AVC/SCAVCs including life assurance monies on the death of a scheme member to any of the scheme member's nominee(s), personal representative(s) or any person(s) appearing to have been a relative or dependant.
Payment of death grant of less than £5,000	Where the total death grant due to personal representatives is less than £5,000 (level subject to statutory increases), we can choose to make the payment to the personal representatives, or any persons appearing to be entitled to the estate, without sight of a probate or letters of administration.
"cohabiting partner" Determining dependency or interdependency for cohabiting partner	We must determine whether financial dependency or interdependency exists so an individual may be treated as a cohabiting partner.
Children's pensions – disregarding breaks in education/training	We may disregard a break in education or training so children's pensions can resume payment after the break has ended. This will only apply in relation to children under age 23.
Payment of child(ren)s pensions - applies to pre 1/4/14 leavers	We may pay the whole or part of a child(ren)'s pension to a person other than the eligible child providing it is for the benefit of that child(ren).

Regulation Number and Subject Matter	Description of Discretion
Apportionment of children's pensions – applies to pre 1/4/08 leavers	Where a children's pension is payable to more than one child, we may apportion the payment amongst the children as we think fit.
Suspension of pre 1/4/98 spouses' pension during marriage/ cohabitation – applies to pre 1/4/98 deaths	We may suspend a spouses' pension if he or she remarries or cohabits.
Final Pay: Reductions	We may give notice on the member's behalf to have their Final Pay calculated in accordance with LGPS:Ben07 regulation 10(4) where the member died prior to giving notice.
Certificates of Protection issued with regards to reductions or restriction in Pay - applies to pre 1/4/08 leavers	We may give notice on the member's behalf to have their Final Pay calculated in accordance with regulation 23(9) where the member died prior to giving notice.
Selecting appropriate final pay period for a deceased member - applies to pre 1/4/2008 leavers	Where a member has died, on their behalf we may select a different period for calculating their final pay (e.g. where fees are paid or there has been an unpaid period of leave).
Extension of time limit to elect to transfer in benefits from another pension scheme	We (with the agreement of the employer) may extend the 12 month time limit for a scheme member to elect to transfer in benefits from a non local government pension scheme or personal pension plan.
Aggregating concurrent employments	Where a deferred member also has ongoing multiple concurrent employments, the member may be able to choose which employment the deferred benefits are aggregated with. We can decide this where the member does not elect within 12 months.
Payment of trivial commutation lump sums	We may pay a lump sum to a scheme member to discharge it from paying future pension payments where that pension is very low in value (known as trivial commutation).
Commutation on Serious Ill-Health - applies to pre 1/4/08 leavers	We can apply this discretion where a scheme member has been diagnosed as having life expectancy of less than one year due to serious ill-health. In these circumstances, we may choose to pay a lump sum of 5 x pension plus retirement grant, instead of ongoing pension benefits.
Revised rates and adjustment certificate due to cost-sharing	Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as a result of "cost sharing"
Payments for persons incapable of managing their affairs	Where LGPS pensioners and other beneficiaries of the scheme (except children) are no longer capable of handling their own affairs due to incapability or mental disorder, we may pay the benefits (or part of the benefits) to a third party who is likely to be a person caring for the person who is entitled to receive those benefits or otherwise apply them for the benefit of the member. All monies paid to a third party should be used for the benefit of the member.
Extension of time limit for capitalisation of additional contributions	A scheme member who is made redundant or retired on efficiency grounds may elect to pay off their additional contributions by way of a capital payment within three months of being made redundant or retiring on efficiency grounds. We may extend this three month period.
Pension Credits	We may discharge our liability in respect of a pension credit in accordance with Schedule 5 of the 1999 Act (Sharing of Pension Rights)
The form of a pension account	We can determine the form a pension account may be kept in.
Entitlement to more than one type of benefit	If a scheme member could be entitled to two or more different benefits in relation to the same period of scheme membership, and they do not choose which benefit they want to receive, we may notify the scheme member which benefit is to be paid.
Extending time limits for drawing benefits	A scheme member wishing to receive benefits other than at normal pension age, or on flexible retirement, must elect to do so within certain time limits. We may extend these time limits.

Regulation Number and Subject Matter	Description of Discretion
Time period of which an APC/SCAPC must be paid	We are able to turn down a request to pay an APC/SCAPC by regular contributions over a period of time where we believe it would be impractical to allow such a request, for example, due to the pension being bought resulting in very small payments
Medical requirements prior to allowing payment of APCs/SCAPCs	We may require a satisfactory medical report to be provided prior to letting an employee pay APCs/SCAPCs. This does not apply for APCs/SCAPCs in relation to a period of authorised absence.
Recovery of administration costs for AVC transfers in	On retirement, a member may elect to convert an in-house AVC fund into additional pension in the Pension Fund. We may recover the costs of calculations undertaken for scheme members considering doing this, if they decide not to proceed.
Recovery of outstanding employee contributions - applies to pre 1/4/14 leavers	We may recover pension contributions due from an employee (where they cannot be deducted from their pay) from their benefits or via a court action.
Relevant date for annual benefit statements	The relevant date for the illustration of benefits in annual benefit statements is usually 31 March, although we may determine a later date to be used.
Reduction or suspension of pensions on re-employment ("abatement")– applies to pre 1/4/14 leavers	We are required to determine whether retirement pensions should be reduced, or suspended, if the pensioner commences further employment with an LGPS employer (regardless of whether they again join the LGPS). This does not apply in flexible retirement cases.
Retention of CEP where member transfers out – applies to pre 1/4/08 leavers	Where a member transfers their benefits to a contracted in pension scheme, we may retain an amount (called the CEP) to meet the liability in respect of the contracted out rights
Flexible retirement (where an employer no longer exists)	An employer can choose to waive, in whole or in part, any reduction that might otherwise apply to that scheme member's benefits on flexible retirement. We may decide this if that employer no longer exists.
Waiving of actuarial reduction on voluntary retirement (where an employer no longer exists)	An employer can choose to waive, in whole or in part, any early retirement reduction that might otherwise apply to a scheme member's benefits on voluntary retirement. These provisions only apply to scheme members who have reached age 55. We may decide this if that employer no longer exists.
Applying "Rule of 85" protections (where an employer no longer exists)	An employer can choose to allow rule of 85 protections to apply to a scheme member's benefits on voluntary retirement. In doing this some or all of the early retirement reduction would not apply. This provision can only apply to scheme members who have reached age 55. We may decide this if that employer no longer exists.
Waiving of any further actuarial reduction on compassionate grounds for "Rule of 85" protected benefits	An employer can choose to waive on compassionate grounds any reduction to benefits that might otherwise not be reduced or have less reduction due to rule of 85 protections. . We may decide this if that employer no longer exists. Note this does not relate to ill-health retirement.
Early Payment of Pension: Ill Health (Deferred and Former Tier 3) (where an employer no longer exists)	A former employer must decide whether a deferred member meets the criteria for permanent ill health. This also applies to a scheme member who was formerly in receipt of Tier 3 ill-health benefits. We may decide this if that employer no longer exists.
Early payment of pension benefits for existing deferred members or for former Tier 3 Ill-Health Members – applies to pre 1/4/14 leavers (where an employer no longer exists)	An employer may consent to the early payment of reduced retirement benefits for scheme members between age 55 and 60, who are deferred members or former Tier 3 Ill-Health members. For a small group of employees this could be paid from age 50. If the employer uses this discretion some employees may have protections that mean we will pay their benefits unreduced. This discretion does not apply to these scheme members once they reach age 60 as they then have an automatic right to immediate payment of pension benefits. We may decide this if that employer no longer exists. Note this does not relate to ill-health retirement.

Regulation Number and Subject Matter	Description of Discretion
Waiving of actuarial reduction on compassionate grounds including for former Tier 3 Ill-Health members – applies to pre 1/4/14 leavers (where an employer no longer exists)	An employer may consent on compassionate grounds to waive any actuarial reduction for scheme members between age 55 and 65, who are deferred members or former Tier 3 Ill-Health members. They can only waive the whole reduction. We may decide this if that employer no longer exists. Note this does not relate to ill-health retirement.

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **22nd JULY 2014**

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

SUBJECT: **DRAFT GOVERNANCE REGULATIONS**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with an update on the draft LGPS Governance Regulations and initial plans for implementing the local Pension Board.

2.00 BACKGROUND

2.01 The Public Service Pensions Act (PSPA) provides the platform for a number of changes to public service pension schemes, including the introduction of the new benefit structure in the Local Government Pension Scheme (LGPS) from 1 April 2014. There are a number of key changes impacting on the governance of public service pension schemes, and the Secretary of State for Communities and Local Government (DCLG) has now issued a consultation on draft regulations detailing the expected changes to be made within the LGPS. A copy of the consultation is attached as Appendix A.

2.02 There are two key elements included within the draft regulations:

- the requirement for each LGPS administering authority to introduce a local Pension Board. Throughout this report, for clarity purposes, these new Pension Boards will be referred to as the "PSPA Boards".
- the introduction of a national Scheme Advisory Board.

2.03 The consultation closes on 15 August 2014. Final regulations are expected to be made in September or October 2014 with some of the provisions effective from 1 October 2014 to allow the establishment of these bodies before the deadline date of 1 April 2015.

3.00 Local PSPA Board

3.01 It is worth noting that the provisions included in these draft regulations are relatively light touch, providing administering authorities with a significant amount of flexibility when developing their local PSPA Board. In many places the provisions are effectively repeating the requirements of the PSPA.

3.02 The provisions relating to PSPA Boards are included on pages 17 and 18 of the attached consultation document. Some of the key elements are outlined below:

Establishment

- Each administering authority is required to establish a local PSPA board no later than 1 April 2015.
- As well as assisting the administering authority with securing compliance with regulations and requirements imposed by the Pensions Regulator, the new PSPA Board will also be responsible for assisting in ensuring effective and efficient governance and administration of the Scheme.
- Where a pension committee already exists as a committee of a local authority (which is the case with most administering authorities), there is an option to create one combined pension committee and PSPA Board. However, this will be subject to the Secretary of State’s approval because the practical and legal hurdles for doing so are considered extremely challenging.

Membership

- As had been expected, there must be equal numbers of scheme member representatives and employer representatives.
- There must be at least two of each of these representatives (so a PSPA Board must comprise of at least four individuals)
- However, these representatives:
    - **cannot** be local authority members (i.e. councilors from the administering authority or any other local authority.)
    - must have "relevant experience and capacity", although the covering letter explains that this experience requirement is not to be confused with the PSPA requirement to have ongoing knowledge and understanding of pension matters; it will be up to each administering authority to determine what they consider to be 'relevant experience'
- Other members can be appointed to the PSPA Board in addition to the representatives but the number of these other members must be less than the total number of representatives

These points are illustrated below:

2 or more…
Employer representatives

- Not a councillor
- Has relevant experience and capacity

=

2 or more…..
Scheme member representatives

- Not a councillor
- Has relevant experience and capacity

+

Others

- Must be less than total of employer plus scheme member reps

Conflicts of Interest

- Each administering authority must be satisfied that appointees to a PSPA board do not have a conflict of interest (initially and on an ongoing basis).
- This is defined in the PSPA as "“a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)”.

Establishment

- The consultation provides two alternatives relating to how procedures are established for the PSPA Boards and are asking authorities to indicate their preferred method:
  - For local authorities, Part 6 of the Local Government Act could be made to apply to the PSPA Board as if it were a local authority committee, or
  - Each administering authority determines its own procedures.

Implementing the Clwyd Pension Fund PSPA Board

3.03 It is expected that Flintshire County Council will be responsible for establishing the Clwyd Fund’s PSPA Board, including deciding its size, membership and role. The Pension Fund Manager will be meeting with Democratic and Legal Services officers to discuss how this should be taken forward. It is recommended that the Committee Members agree that the Pension Fund Manager works with Democratic Services officers to progress these matters subject to ongoing updates to and input from the Chairman of the Pension Fund Committee (or the Deputy Chairman in his absence).

3.04 An update on progress will be provided to the November Pension Fund Committee and it is envisaged that the PSPA Board will be established at a Council meeting later in 2014 or early 2015. In the meantime, Committee Members are asked to consider and provide any views on these matters.

4.00 <u>Scheme Advisory Board</u>

4.01 The provisions relating to the establishment of the national Scheme Advisory Board (SAB) are also relatively light touch. These are set out in pages 19 to 20 of the draft regulations in the attached consultation. The key points are summarised below:

Establishment/Purpose

- The role of the SAB will be two-fold; providing advice to the Secretary of State on desirable changes to the scheme, and providing advice to administering authorities and local PSPA Boards on the effective and efficient administration and management of the Scheme and its pension funds.
- The SAB can determine its own procedures (i.e. voting, structure, payments etc).

Membership

- The membership of the Board will consist of between 2 and 12 members, appointed by the Chair, who in turn is appointed by the Secretary of State.
- Sub-Committees can also be established and individuals who are not members of the SAB can be appointed to these sub-committees.

Funding

- The SAB's costs will be recharged to administering authorities by way of an annual payment which is determined by the SAB, and which we understand is likely to be calculated in proportion to the number of scheme members in each Fund.

4.02 These provisions will result in a smaller SAB than is currently the case for the existing Shadow SAB, which has 18 members (6 scheme member representatives, 6 employer representatives, an independent chairperson and 5 advisers) in addition to other observers.

5.00 Other Matters in Covering Letter

5.01 The covering letter to the consultation also asks for views in relation to a number of other policy matters including:

- Whether to make **annual general meetings** and/or employer forums compulsory; these are currently best practice but some funds do not hold such events.
- Whether to extend the **Public Sector Equality Duty** to the PSPA boards and SAB.
- Whether to include a statutory responsibility on Pension Committee members to comply with the **CIPFA Knowledge and Understanding Framework** and other relevant training requirements; again, this is currently only best practice. This is to avoid the situation where the PSPA Board members have a higher knowledge and understanding requirement than the decision making committee members.

6.00 Response to Consultation

6.01 Due to the timeframe for responses to the consultation, it is recommended that PFC members delegate responsibility for developing a response to the Pension Fund Manager, subject to formal approval by the Chairman of the PFC (or the Deputy Chairman in his absence).

7.00 RECOMMENDATIONS

7.01 That Committee Members:

1) Note the contents of the report and provide any views on the matters raised.

2) Delegate responsibility for developing a response to the consultation to the Pension Fund Manager, subject to formal approval by the Chairman of the Pension Fund Committee (or the Deputy Chairman in his absence).

3) Agree that the Pension Fund Manager works with Democratic Services officers to progress the establishment of the PSPA Board, subject to ongoing updates to and input from the Chairman of the Pension Fund Committee (or the Deputy Chairman in his absence).

8.00 FINANCIAL IMPLICATIONS

8.01 None directly as a result of this report albeit the creation of the local PSPA Board and the Shadow Advisory Board (SAB) will result in additional costs to the Clwyd Pension Fund.

9.00 ANTIPOVERTY IMPACT

9.01 None directly as a result of this report.

10.00 ENVIRONMENTAL IMPACT

10.01 None directly as a result of this report.

11.00 EQUALITIES IMPACT

11.01 None directly as a result of this report.

12.00 PERSONNEL IMPLICATIONS

12.01 None directly as a result of this report, albeit the creation of the local PSPA Board will result in additional work loads for the Pension Fund Manager and his staff which will be monitored.

13.00 CONSULTATION REQUIRED

13.01 Ongoing internal discussions regarding the creation of the local PSPA Board will be required, and in due course employer and scheme member representatives will need to be appointed, at which point stakeholders of the Fund will be consulted with.

14.00 CONSULTATION UNDERTAKEN

14.01 None directly as a result of this report.

15.00 APPENDICES

15.01 LGPS Governance Regulations Consultation

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None.

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Department for
Communities and
Local Government

The Local Government Pension Scheme (Amendment) Regulations 2014

Draft Regulations on Scheme Governance

Consultation

This document/publication is also available on our website at www.gov.uk

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

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The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	The Local Government Pension Scheme (Amendment) Regulations 2014
Scope of this consultation:	This consultation seeks responses from interested parties on draft scheme governance regulations for the new Local Government Pension Scheme which came into force on 1 April 2014.
Geographical scope:	England and Wales.
Impact Assessment:	These Regulations have no impact on business or the voluntary sector.

Basic Information

To:	This consultation is aimed at all Local Government Pension Scheme interested parties.
Body responsible for the consultation:	The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise.
Duration:	8 weeks. As timing allows, account will be taken of representations made after the close of the consultation.
Compliance with the Code of Practice on Consultation:	This consultation complies with the Code and it will be for 8 weeks. The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted

Background

Getting to this stage:	The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Lord Hutton's final report was published on 10 March 2011. In that report he made clear that change is needed to "make public service pension schemes simpler and more transparent, fairer to those on low and

	moderate earnings". The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013. The Act included a requirement for DCLG as a responsible authority to make regulations establishing a national scheme advisory board and enabling each LGPS administering authority to establish local pension boards. In June 2013, the Department published an informal discussion paper inviting comment from a wide range of interested parties on how the requirements of the 2013 Act should be taken forward into the new 2014 Scheme. The outcome of that exercise and comments from the Shadow Scheme Advisory Board has been fully taken into account in the preparation of the draft regulations. These draft regulations carry forward these requirements into the 2014 Scheme

How to respond

1. You should respond to this consultation by **15 August 2014**.

2. You can respond by email to Sandra.layne@communities.gsi.gov.uk. When responding, please ensure you have the words "LGPS Governance Regulations 2014" in the email subject line.

Alternately you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Zone 5/F5 Eland House
Bressenden Place
LONDON SW1E 5DU

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

7. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about the policy issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the consultation criteria from the Code of Practice on Consultation is at http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator, Zone 8/J6, Eland House, Bressenden Place London SW1E 5DU.

Contents

Chapter 1

Introduction

1.1 This document commences a period of statutory consultation on the new governance arrangements for the 2014 Local Government Pension Scheme ("LGPS") which came into effect on 1 April 2014. Your comments are invited on the set of draft regulations at **Annex A**. and also on the separate policy issues included at Chapter 3 below.

1.2 **The closing date for responses is 15 August 2014**.

Background and context

1.3 This consultation on the Local Government Pension Scheme (Amendment) Regulations 2014 represents a key step in the process of reform that began with the commitment given in the Coalition Government's programme to review the efficiency, effectiveness and sustainability of public service pension schemes.

1.4 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

1.5 The Public Service Pensions Act 2013 included two main provisions to achieve this policy objective. Firstly, a requirement for responsible authorities such as DCLG to establish at national level a Scheme Advisory Board with responsibility to provide advice to the Department on the desirability of changes to the Scheme. And secondly, in cases where schemes like the Local Government Pension Scheme are subject to local administration, for scheme regulations to provide for the establishment of local pension boards to assist administering authorities with the effective and efficient management and administration of the Scheme.

Consultation responses

1.6 In view of the need to give administering authorities and other interested parties sufficient lead-in time to establish local pension boards, Ministers have agreed to a consultation period of 8 weeks.

1.7 To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.

1.8 Your comments should therefore be sent by 15 August 2014 to LGPS Governance Regulations 2014, Department for Communities and Local Government, Zone 5/G6, Eland House, Bressenden Place, London SW1E 5DU. Electronic responses can be sent to Sandra.layne@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

2.1. The Regulations are being made under the powers conferred by the Public Service Pensions Act 2013. Under Section 3(5) of the 2013 Act, the Regulations require the consent of Treasury before being made.

Preliminary Provisions

2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and, for the most part, will come into operation on 1 October 2014 to allow sufficient time for the new Scheme Advisory Board and local pension boards to become operational on 1 April 2015.

2.3 **Regulation 2** amends the Principal 2013 Regulations in accordance with regulations 3 to 5.

2.4 **Regulation 3** deletes Regulation 53(4) from the Principal 2013 Regulations because that provision becomes obsolete in view of the amendments introduced by these Regulations.

2.5 **Regulation 4** amends Schedule 1 to the Principal 2013 Regulations to include definitions of "Local Government Pensions Scheme Advisory Board" and "local pension board".

2.6 **Regulation 5** inserts new regulations 105, 106,107, 108, 109, 110, 111, 112 and 113 into the Principal 2013 Regulations. These provisions are described in detail immediately below.

Main Provisions

2.7 **New Regulation 105** confers power on the Secretary of State to delegate functions under the Principal 2013 Regulations and administering authorities to delegate their functions. It also allows for any delegated function by an administering authority to be sub-delegated.

Local pension boards : establishment

2.8 **New Regulation 106** concerns the establishment of local pension boards.

2.9. **Regulation 106(1)** provides that each administering authority must establish a local pension board no later than 1 April 2015. This would not prevent a board being established before that date.

2.10 **Regulation 106(1)(a) and (b)** sets out the role of a local pension board as being to assist the administering authority in securing compliance with (i) the Principal 2013 Regulations, (ii) any other legislation, and (iii) requirements imposed by the Pensions Regulator in relation to the Scheme. The role is further extended by **Regulation 106(1)(b)** to assist the administering authority in ensuring the effective and efficient governance and administration of the Scheme. These provisions mirror those set out in section 5(2) and (3) of the Public Service Pensions Act 2013.

2.11**. Regulation 106(2)** carries forward into the Principal 2013 Regulations, section 5(7) of the Public Service Pensions Act 2013. This provides that where the scheme manager of a Scheme under section 1 of the Act is a committee of a local authority, the scheme regulations may provide for that committee also to be the board for the purposes of this section. This is discussed in more detail in Chapter 3.

To ensure that any proposal to combine the committee and local pension board into a single, dual-function body is appropriate and practicable, **Regulation 106(2)** requires such proposals to be approved by the Secretary of State. Where appropriate, the Department may seek advice from relevant interested parties, in particular, the Scheme Advisory Board and Pensions Regulator.

2.12 **Regulation 106(3)** provides that the Secretary of State may, in giving such approval, impose any such conditions that he thinks fit.

2.13 **Regulation 106(4)** enables the Secretary of State to withdraw any approval given under Regulation 106(2) if any of the conditions given under Regulation 106(3) are not met or, more generally, that there is evidence to suggest that the combined body is no longer working as intended.

2.14 **Regulation 106(5)** sets out the means by which an administering authority establishes its local pension board but the draft offers two different alternatives of the regulations as described later in Chapter 3 (Other connected policy issues). Consultees are specifically invited to indicate and comment on their preference.

2.15. **Regulation 106(6)** provides that the costs of local pension boards are to be regarded as administration costs charged to the fund.

Local pension boards : membership

2.16. **Regulation 107(1) –** requires each administering authority to determine the membership of the local pension board; the manner in which such members may be appointed and removed and the terms of their appointment.

2.17**. Regulation 107(2)** provides that in determining membership of their local pension board, an administering authority must include employer representatives and member representatives in equal numbers, the total of which cannot be less than four.

2.18**. Regulation 107(2(a)** prevents a councillor member of a local authority being included either as an employer or member representative, but this does not prevent an administering authority from appointing councillor members of a local authority (or any other person) to the local pension board over and above the required equal number of employer and member representatives.

2.19**. Regulation 107(2)(b)** requires an administering authority to be satisfied that employer and member representatives appointed to a local pension board have the relevant experience and the capacity to perform their respective roles. There is a risk that could act as an unhelpful barrier to people putting themselves up as pension board nominees but we believe that this pre-condition is necessary to ensure that appointees to the board have the background and capacity to undertake the duties and responsibilities required of pension board members. The Department will work closely with all relevant interested parties in preparing and publishing guidance on the experience and capacity required of local pension board nominees.

(It is important to note that Regulation 107(2)(b) and the pre-condition of “relevant experience and capacity” is not to be confused with the requirement for pension boards members to acquire “knowledge and understanding” under section 248A of the Pensions Act 2004 as introduced by paragraph 19 of Schedule 4 (Regulatory oversight) to the Public Service Pensions Act 2013.

2.20**. Regulation 107(3)** ensures that the number of employer and member representatives appointed to a local board must represent a majority of total members.

Local pension boards : conflict of interest

2.21. **Regulation 108(1)** carries forward section 5(4) of the Public Service Pensions Act 2013 and requires each administering authority to be satisfied that any person appointed to a local pension board does not have a conflict of interest as defined in section 5(5) of that Act.

2.22**. Regulation 108(2)** requires an administering authority to monitor conflict of interests over time.

2.23. **Regulations 108(3) and (4)** impose requirements on persons to provide relevant information to the administering authority on nomination as a member of a local pension board and, if appointed, during membership.

<u>Local pension boards : guidance</u>

2.24. **Regulation 109** requires an administering authority to have regard to guidance issued by the Secretary of State in relation to local pension boards. In formulating such guidance, the Department will work closely with all relevant interested parties, including the Scheme Advisory Board and the Pensions Regulator.

<u>Scheme advisory board : establishment</u>

2.25. **Regulation 110(1)** provides that a scheme advisory board is established.

2.26. **Regulation 110(2)** sets out the responsibility of the scheme advisory board to provide advice to the Secretary of State on the desirability of making changes to the Scheme in accordance with section 7(1) of the Public Service Pensions Act 2013. But note that we are not proposing to carry forward the provision in the Act that such advice is to be at the Secretary of State's request. We believe that the interaction between the Department and the scheme advisory board should be open and transparent and that scheme regulations should not prevent the scheme advisory board from initiating its own advice or recommendations to the Secretary of State.

2.27. **Regulation 110(3)** extends the scope of the scheme advisory board to include advice and assistance to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

2.28. **Regulation 110(4)** permits the scheme advisory board to establish its own procedures.

<u>Scheme advisory board : membership</u>

2.29. **Regulation 111(1)** sets out the membership requirements of the scheme advisory board. The Chair of the scheme advisory board is to be appointed by the Secretary of State and the Department will work closely with the Shadow scheme advisory board in formulating and organising the nomination and appointment process. Membership of the board must comprise at least 2 and no more than 12 persons appointed by the Chair with the approval of the Secretary of State.

2.30. **Regulation 111(2)** confers a duty on the Secretary of State to ensure that approval under Regulation 111(1)(b) is subject to consideration of how fair the Chair has been in nominating employer and scheme members to the board for approval.

2.31. **Regulation 111(3)** requires the constitution of the scheme advisory board to include details of the terms and conditions of members' appointments.

2.32. **Regulation 111(4)** permits persons who are not members of the scheme advisory board to be appointed as members of any sub-committee to the board.

2.33. **Regulation 111(5)** applies the same provision in Regulation 111(3) to members of any sub-committee to the board.

Scheme advisory board : conflict of interest

2.34. **Regulation 112** applies the provision in sections 7(4) and (5) of the Public Service Pensions Act regarding conflict of interest to nominees and members of the scheme advisory board.

Scheme advisory board : funding

2.35. **Regulation 113(1)** provides that the expenses of the scheme advisory board are to be treated as administration costs to the Scheme and recharged to administering authorities in such proportions as are determined by the board.

2.36. **Regulation 113(2)** ensures that safeguards are in place to ensure value for money. Before any monies can be levied on administering authorities by the scheme advisory board, the board's annual budget must first have been approved by the Secretary of State.

2.37. **Regulation 113(3)** requires an administering authority to pay the amount determined by the scheme advisory board under Regulation 113(2).

Chapter 3

Other connected policy issues

Combined Section 101 committee and local pension board (Regulation 106(2)).

3.1. Draft **Regulation 106(2**) enables a single, dual function body to carry out the functions of both a section 101 committee established by the administering authority to manage and administer the Scheme and those of a local pension board.

3.2. In practice, a combined body would be subject to two separate legal codes under both the Local Government Act 1972 and associated legislation, and the Public Service Pensions Act 2013. A combined body might also have difficulty in ensuring that all members had both knowledge and understanding that is currently expected of elected members and the experience and capacity required of local pension board members. There could also be difficult and different issues about conferring voting rights and compliance with local government law on the political composition of committees.

3.3. The Public Service Pensions Act 2013 does allow for this facility in scheme regulations but we are not compelled to introduce it. Comments are therefore invited on whether the Regulations should include such provision.

Establishment of local pension boards (Regulation 106(5)}

3.4. The draft regulations offer two alternatives to the way in which an administering authority could establish their local pension board.

3.5. The first version of **Regulation 106(5)** offers a simple solution by proposing that establishment of a local board should be undertaken as if it was a committee under section 101 of the Local Government Act 1972. This would automatically apply the section 101 regime to the way in which local boards are to be established. Although this option would provide administering authorities with a ready-made set of provisions to help them establish local pension boards, it is arguable that local pension boards should be established on a bespoke basis best suited to their own role and responsibilities.

3.6. The alternative version of **Regulation 106(5)** confers a wide discretion on administering authorities to establish the procedures applicable to a local pension board such as voting rights, the establishment of sub-committees, the formation of joint committees and payment of expenses. This list is not exhaustive, and could include some of the features of the section 101 regime, such as voting rights, political composition, etc. Although this option would represent more of a burden to administering authorities, it would allow greater flexibility and choice at local level in the way that local pension boards are established.

3.7. Consultees are therefore invited to state their preference for option 1, option 2, or any other proposal. Where option 2 is preferred, it would be helpful if the response could also set out those elements which should either be specifically excluded or included from the wide discretion afforded by the second version of Regulation 106(5).

Funding of the Scheme Advisory Board (Regulation 113)

3.8. It is accepted that funding the Scheme Advisory Board will be a complex and difficult matter. **Regulation 113** has been drafted on the basis of informal discussions with interested parties but we acknowledge that more work needs to be done to both ensure that the board is adequately funded to enable them to carry out their agreed work plans and that the cost of the board to each administering authority is fair and represents value for money.

3.9. Comments are therefore invited on what additional provision we need to make to Regulation 113 to achieve both objectives and regarding any other aspect of the scheme advisory board's funding.

Joint pension boards

3.10. As currently drafted, these Regulations require each administering authority to establish a local pension board. However, the extent to which administering authorities are either already sharing, or planning to share, their administration with other administrating authorities, suggests that provision ought to be made in these Regulations for a single pension board to serve more than the one administering authority.

3.11. On the other hand, it would run counter to the spirit of the primary legislation if a single board ended up serving a significant number of administering authorities. We believe therefore, that the default position must be one local pension board for each administering authority, but that exceptions where administration and management is mainly or wholly shared between two or more administering authorities should be catered for. This could be demonstrated by the management and administration being undertaken by a joint committee of the participating administering authorities.

3.12. Comments are invited on whether the Regulations need to provide for shared local pension boards and, if so, what test, if any, should be applied. For example, should provision be made for either the scheme advisory board or the Secretary of State to approve any proposal for a shared pension board?

Annual general meetings, Employer forums, etc

3.13. The staging of AGMs, employer forums, etc, is currently a recommendation in the Department's statutory guidance on governance compliance. There is evidence to suggest that a significant minority of administering authorities do neither and also that those that do, receive positive feedback from employers and scheme members alike.

3.14. Comments are invited on whether the Regulations should require administering authorities to facilitate a forum for both employers and employees on at least an annual basis.

Public Sector Equality Duty

3.15. The Equality Duty is a duty on all public bodies and others carrying out public functions to ensure that public bodies consider the needs of all individuals in their day to day work. It also encourages public bodies to ensure that their policies and services are appropriate and accessible to all and meet different people's needs.

3.16. This raises the question of whether these Regulations should extend the role of the scheme advisory board to have regard to the Equality Duty in making recommendations to the Secretary of State on the desirability of making scheme changes and extending the scrutiny/.compliance role of local pension boards to include the Equality Duty.

3.17. Comments are invited on the appropriateness and practicality of this proposal.

Knowledge and Understanding

3.18. These regulations would require members of local pension boards to have the knowledge and capacity to undertake that role. This contrasts with members of committees established by the administering authority to discharge its pension functions who, although recommended to have regard to the Knowledge and Skills Framework published by CIPFA, are under no regulatory requirement to do so. Whilst recognising that the knowledge and training needs of section 101 and local pension boards are not identical, it is open to question whether the same level of regulatory requirement ought to apply to both bodies.

3.19. Comments are invited on whether either in these Regulations or at some stage in the future, provision should be made in the Principal 2013 Regulations to require members of committees established by the administering authority to discharge its pension functions to comply with the Knowledge and Understanding Framework and other relevant training.

Annex A

STATUTORY INSTRUMENTS

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2014

Made - - - -	*2014*
Laid before Parliament	*2014*
Coming into force - -	*2015*

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(**1**).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement interpretation and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2014.

(2) In these Regulations "the Principal Regulations" means the Local Government Pension Scheme Regulations 2013(**2**)

(3) These Regulations come in to force as follows—

(a) on 1st October 2014, regulations 2, 4 and 5—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

(**1**) 2013 c. 25
(**2**) S.I. 2013/2356.

(ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 111 (scheme advisory board: membership) and 112 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and

(b) on 1st January 2015—

(i) regulations 2, 4 and 5 so far as not already commenced, and

(ii) the remainder of these Regulations.

(4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations 2013 are amended in accordance with regulations 3 to 5.

3. Omit regulation 53(4) (scheme managers: establishment of pension board).

4. In Schedule 1 (interpretation) after the entry for "local government service" insert—

""Local Government Pensions Scheme Advisory Board" means a board established under regulation 110 (Scheme advisory board: establishment);

"local pension board" means a board established under regulation 106 (local pension boards: establishment);"

5. After regulation 104(**3**) insert—

"PART 3

Governance

Delegation

105.—(1) The Secretary of State may delegate any functions under these Regulations.

(2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme, and

(iii) requirements imposed by the Pensions Regulator in relation to the Scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(**3**) Regulation 104 was inserted by S.I. 2014/1146.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) [Where a local pension board is established by a local authority within the meaning of section 270 of the Local Government Act 1972(**4**), Part 6 of that Act applies to the board as if it were a committee established under section 101 of that Act].

(5) [An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses].

(6) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

(a) the membership of the local pension board;

(b) the manner in which members of the local pension board may be appointed and removed;

(c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives (**5**) and for these purposes—

(a) a member of a local authority is not to be appointed as an employer or member representative; and

(b) the administering authority must be satisfied that—

(i) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and

(ii) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) The number of members appointed under paragraph (2) must exceed the number of members otherwise appointed to a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest(**6**).

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

(**4**) 1972 c. 70.
(**5**) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.
(**6**) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

Scheme advisory board: establishment

110.—(1) A scheme advisory board ("the Local Government Pension Scheme Advisory Board") is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of the following members—

(a) the Chair appointed by the Secretary of State; and

(b) at least 2, and no more than 12, persons appointed by the Chair with the approval of the Secretary of State.

(2) When deciding whether to give or withhold approval to appointments under paragraph (1)(b) the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

(4) The Chair of the Local Government Pension Scheme Advisory Board may appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(5) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing, or approving the appointment of any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest(**7**).

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(**7**) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

(a) its annual budget approved by the Secretary of State; and

(b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.”.

We consent to the making of these Regulations

Names

Date Two of the Lords Commissioners of Her Majesty’s Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name

Parliamentary Under Secretary of State

Date Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 and 4 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pensions board. Local pensions boards must have equal representation of employer representatives and member representatives who must not be councillors of the administering authority and who must constitute the majority of members of the board.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **22nd JULY 2014**

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

SUBJECT: **SERVICE PLAN 2014/15**

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with the Clwyd Pension Fund Service Plan 2014/15 for discussion and approval.

2.00 BACKGROUND

2.01 Agreeing Pension Fund business plans and monitoring progress against them is one of the roles within the constitution for this Committee.

2.02 An update on progress will be included within each quarterly Committee Agenda.

3.00 CONSIDERATIONS

3.01 The draft Clwyd Pension Fund Service Plan 2014/15 is attached as an Appendix. In particular, the following should be noted:

- The purpose of the Service Plan
- Priorities and improvements for 2014/15
- Corporate responsibilities
- Operational tasks relating to Governance, Pensions Finance and Pensions Administration

4.00 RECOMMENDATIONS

4.01 That Committee Members discuss and approve the Clwyd Pension Fund Service Plan for 2014/15.

5.00 FINANCIAL IMPLICATIONS

5.01 The budget for 2014/15 is considered as part of the Service Plan.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 Energy, resource consumption and sustainability are considered as part of the Service Plan.

8.00 EQUALITIES IMPACT

8.01 Equalities and welsh language are considered as part of the Service Plan.

9.00 PERSONNEL IMPLICATIONS

9.01 Recruitment and retention of specialist officers is an improvement objective within the Service Plan.

10.00 CONSULTATION REQUIRED

10.01 The Clwyd Pension Fund Advisory Panel is required to develop and monitor the Service Plan.

11.00 CONSULTATION UNDERTAKEN

11.01 The Clwyd Pension Fund Advisory Panel has agreed the draft Service Plan.

12.00 APPENDICES

12.01 2014/15 Service Plan
12.02 Generic Operational Tasks
12.03 Operational Tasks - Pensions

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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Clwyd Pension Fund

Service Plan 2014-15

CYNGOR
Sir y Fflint
Flintshire
COUNTY COUNCIL

Contents **Page**

1. Introduction – The Purpose of the Service Plan

The purpose of the service plan is to:

- explain the background and objectives of the pension service,
- explain the Council's responsibilities as lead authority for the Clwyd Pension Fund
- document the priorities and improvements to be implemented by the pension service
- enable progress and performance to be monitored with on-going tasks and improvement objectives.

The service plan is multi-functional and can be used by management:

- as an internal management monitoring tool
- to engage officers working for the Fund in understanding their role in achieving objectives
- to demonstrate risk management and performance to the Clwyd Pension Fund Committee
- to demonstrate risk management and performance to internal or external audit or other external regulators.

2. Who we are and what we do

The Clwyd Pension Fund is a £1.2bn Local Government Pension Fund which provides death and retirement benefits for local government employees (other than teachers, police and firefighters) in North East Wales and other qualifying bodies which provide similar services.

Total membership is about 33,000 with about 15,000 contributors from 25 contributing employers and about 18,000 retired members, widows and deferred members.

The two principle objectives of a Local Government Pension Fund are:

1. To provide a pension administration service for active members, deferred members and pensioners.

2. To invest contributions from members and employers to maximize returns within reasonable risk parameters, while ensuring that cash is available to pay benefits as and when they fall due and enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to employers.

Our Mission Statement

- 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.

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BACKGROUND TO THE LOCAL GOVERNMENT PENSION SCHEME

Legislation, Regulations and Codes of Practice

The administration of the Clwyd Pension Fund is a statutory duty by Regulations made under the Superannuation Act 1972 and the Public Service Pensions Act 2013. Flintshire County Council is designated as Lead Authority for the Clwyd Pension Fund by Regulations made under Local Government Scheme Regulations.

The Government determines the Regulations for the Local Government Pension Scheme. The Regulations are:

- Local Government Pension Scheme Regulations 2013 (and Transitional Regulations)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

These Regulations refer to various Codes of Practice or Guidance and the following statutory documents are required to be published which underpin the management of the Fund:

- Governance Strategy and Compliance Statement
  - Delegation arrangements; Frequency of meetings/membership; voting; training; access

- Funding Strategy Statement
  - Solvency; target funding levels; risk/control; approach to employer contributions and deficit recovery plans

- Statement of Investment Principles
  - Investment types, allocation, risk, return; compliance with Myner's Principles on investment decision making
  - Social, environmental and ethical considerations; voting rights

- Communication Policy
  - Information/publicity/promotion
  - Format/frequency/distribution

- Pensions Administering Strategy (discretionary)
  - Communication with employers; Performance measurement

These documents are published in another statutory document, the Annual Report which reviews performance and includes the fund's accounts and actuarial statement. The Annual Report can be found at clwydpensionfund.org.uk.

3. Our Priorities

Our aim is to deliver a quality service to our various stakeholders by achieving the objectives set out in the mission statement. Each year we set ourselves a number of improvement priorities to develop the service. The Annual Report and Accounts will be published to demonstrate our performance in carrying out our responsibilities and improvements during the year.

Achievements in 2013/14

Much was achieved in the financial year 2013/14 which will benefit the Fund in 2014/15 and beyond:

- new governance arrangements for the Fund through the introduction of a Pensions Committee to replace the former Panel and a new Advisory Panel to replace the former Mid Panel.
- a new Independent Adviser and an investment consultant were appointed to sit on the Advisory Panel.
- preparations were made for the implementation of new national LGPS 2014 scheme
- a new method of managing funding risks (flight-path) was implemented
- new employer contribution rates and deficit recovery plans were consulted with employers on arising from the 2013 actuarial valuation.
- scheme members' e-mail addresses have been gathered to enable more cost efficient communications in the future.

Priorities for 2014/15

There will continue to be improvements sought in 2014/15 in line with the Fund's Mission Statement.

- Work will continue on developing and reporting on pension administration performance which will enable the documentation of an Administration Strategy.
- Work will continue with employers on improving data quality, including removing a backlog of tasks.
- A fundamental review of the Fund's investment strategy which takes place every 3 to 4 years.
- The development of the Fund's Risk Register.
- Further training all those involved in the new governance of the Fund.
- Preparation for the implementation of a Local Pension Board as required by Public Service Pensions Act from 2015.
- Retention or recruitment of specialist officers

In addition, there remains uncertainty on the management of the Local Government Pension Scheme for England and Wales. A Government announcement is expected shortly which will enable a clearer focus on priorities for the future. Also dependent on this outcome, there will be collaborative work across the eight Welsh Funds which will include a business case for a Collective Investment Vehicle.

4. Managing Our Resources and Our Corporate Responsibilities

4.1 What resources are we responsible for:

Budget 2014/15 PENSIONS

Service Area	**2014/15**
	£m
Governance	0.495
Pension Finance	0.185
Investment and Funding	6.644
Operational Administration	0.493
Technical &Systems	0.305
Pensioner Payroll	0.026
Communication	0.066
Expenditure	**8.214**

Budget 2014/15 PENSIONS

Cost Type	**2014/15**
	£m
Employees	0.871
Transport	0.007
Supplies	7.096
Support Costs	0.240
Expenditure	**8.214**

All the above costs associated with the Pensions Service are a charge to the Clwyd Pension Fund and not to the Council Fund.

4.2 What efficiencies are we trying to achieve

There is a commitment to continually review future vacant posts and actively promote Agile Working to reduce the effect on premises and travelling expenditure, including identifying and implementing further use of technology into the management of the Fund. The investment fees charged to the Fund are considered alongside the expected investment performance.

4.3 Our priority actions under the People Strategy, MTFP, Asset Plan, ICT Strategy and Customer Services Strategy

People Strategy	Recruitment and training in line with Council Policies
Medium Term Financial Plan Develop MTFP	Providing information to employers on the ongoing costs of the scheme
Asset Plan	Commitment to Agile Working which could eventually reduce costs
ICT Strategy	Work with both FCC ICT and Heywood's the pension's software provider.
Customer Services Strategy	The equivalent document for a pension fund is an Administration Strategy which is currently being developed.

4.4 Customer Access and Care – impacts and actions

The main customers are the members of the Fund (active, deferred, pensioners and dependents). The membership will have a representative on the Pension Fund Committee.

As required by Regulation, the Fund documents how we communicate with our membership. Our Communication Strategy provides the details. Regulation also specifies the requirements for a complaints procedure.

The Fund's website provides contact details, on-line forms, statutory documents, pension fund literature and other useful links to other sites. A longer term aim is to provide customer self service and the current work on both historic member data and how new data is provided by employers will eventually enable this.

The Fund employs a Communication Officer who provides 'road shows' for members at their place of employment. The Communication Officer also provides information and training to employers and provides ad hoc assistance as required, such as with auto-enrolment and employer discretions.

The various employers in the Fund with which we have Service Level Agreements are also customers of the Fund. The new organisation structure for Pension Administration implemented from January 2013 was built around providing each employer with a specific team.

The Fund also provides support to new employers to enable them to be admitted to the Fund (or leave the Fund) and provides data to enable employers to meet their pension accounting requirements.

The Fund provides timely financial information to employers for the triennial actuarial valuation but also provides updates on the funding position to enable them to consider the pension cost in their medium term financial plans.

The Fund is also aware of wider its wider stakeholders such as the Government and local taxpayers within the 'Clwyd' area.

4.5 Equalities and Welsh Language – impacts and actions

The Government is responsible for undertaking equality assessments on the LGPS Regulations and any proposed amendments to them.

We will ensure we undertake an Equality Impact Assessment for any changes to our services, policies or working practices

Equality Awareness Training will be provided to identified team members

We have undertaken a baseline assessment of our adherence to the Welsh Language Scheme. The Fund's web-site and literature is bilingual.

4.6 Energy and Resource Consumption – impacts and actions

Our Service aims to comply with the Carbon Reduction Strategy for Flintshire County Buildings. The principal target is a 60% reduction in Carbon emissions by 2021 or sooner, which is equal to 5% reduction target year on year. A supporting Energy Policy was approved in 2010 which provides actions and guidance to achieve the target.

An important benefit of our drive to reduce energy use is a reduction of risk from rising utility costs at a time when energy prices are increasing well above the rate of inflation.

As part of this Service Plan we will:

- Practice good housekeeping - good energy management, staff awareness and training.
- Actively encourage recycling
- Promote Agile Working

4.7 Sustainability – impacts and actions

Our service supports the Council's sustainability actions to reduce carbon emissions by:

- Participation in the recycling scheme which operates throughout the Council
- Installation of multi functional printing and copying devices to reduce energy costs and paper usage
- Document management to ensure minimisation of storage space.

The Fund has a Sustainability Policy as part of its Statement of Investment Principles. This is based on United Nation Principles for Responsible Investment. As part of this Policy the Fund also invests directly in projects which either develop or provide environmental improvements for society.

4.8 Health and Safety – impacts and actions

As a responsible employer the County Council provides a safe and healthy working environment.

As part of this service plan we will:

- Complete all health and safety action plans across the service and ensure identified actions are addressed in the timescales set

- Ensure all risk assessments are reviewed

- Record all incidents;

- Link in with the Health and Safety Working Group

4.9 Data Protection

The Pension Service aims to comply with the Data Protection Policy and Practice.

As part of this Service Plan we will:

- Identify the posts for which Data Protection is mandatory and maintain records of all Data Protection training and ensure regular refresher training.

- Ensure that Data Protection is a standing item in team meetings and we will include any communications received from the Data Protection Team

5. Managing Performance

The Fund recognises the need to improve the reporting arrangements for pension administration to better enable the internal management of performance and demonstrate the overall performance to stakeholders. This is one of our priorities for 2014/15.

In terms of investment strategy the Fund has regularly compared itself against other private sector and public sector pension funds through benchmarking. Our success in this area is also demonstrated by entering awards. The recent results are below, with a full history since 2007 shown in the Annual Report.

IPE Real Estate Awards - May 2012

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

Runner up - Best Pension Fund in UK/Ireland (Country Awards)
Runner up - Best Indirect Investment Strategy (Themed Award – Europe-wide)
Runner up - Best Opportunistic Investment (Themed Award – Europe-wide)

IPE Awards - November 2012

Won - Best Public Sector Fund in Europe
Won - Best use of Alternatives

Runner up - Best Fund in Europe
Runner up - Best use of Commodities
Runner up - Best use of Emerging Markets
Runner up - Best use of Hedge Funds
Runner up - Best use of Real Estate
Runner up - Best use of Specialist Investment Managers

IPE Real Estate Awards - May 2013

Won – Best Institutional Investor in UK/Ireland

Monitoring our Progress

Improvement	Lead Officer	Target Date
GOVERNANCE		
Work with the Independent Adviser on developing the risk register	CPFM	March 2015
Work with the Independent Adviser on the Implementation the CIPFA Knowledge & Skills Code of Practice for Elected Members and officers.	CPFM	March 2015
Preparation for implementation of Local Pension Board	CPFM	March 2015
INVESTMENT AND FUNDING		
Fundamental review of the Investment Strategy with the Consultant.	CPFM	March 2015
ADMINISTRATION		
Continue to develop an Administration Strategy for the Fund including service standards with members and employers.	PAM	March 2015
Continue to Improve data quality from the employers, through the implementation of I connect and through other work with employers.	PAM	March 2015
Improve historic membership data by removing a backlog of tasks	PAM	May 2015

NB: Each of the above projects will have a detailed plan which will be monitored throughout the year by the Clwyd Pension Fund Manager and progress reported to the Advisory Panel and Pension Fund Committee. Appendix 2 provides some further detail and timings on the work relating to these improvements.

Working with Regulators – key areas of improvement work to be undertaken as a result of audit/inspection findings

The external auditors, Wales Audit Office, have not raised any major issues about the management of the Fund and their unqualified opinion in the 2012/13 accounts is included in the Annual Report. There were two internal audits relating to 2013/14 on Clwyd Pension Fund Finance and Administration. The main recommendation was on the implementation of the disaster recovery plan for the pension fund systems and this has been arranged with ICT for the first quarter of 2014/15.

The Pensions Regulator will be the regulator for the LGPS from 2015 and any Codes of Practice issued are being monitored by the Fund.

6. Monitoring and Reporting Arrangements

The Clwyd Pension Fund Manager is responsible for ensuring that the plan is adopted at an operational level and used as a working document. There are a number of **corporate tasks and objectives** to be implemented and monitored as shown in Appendix 1. Those tasks specific to the Pension Fund are included in Appendix 2.

At the end of every quarter we will monitor all actions that were due to be achieved as follows:

- Confirmation that the action or target has been achieved.
- Reasons for not achieving agreed actions or targets and planned remedial action.
- Evidence to support reported performance.

The Clwyd Pension Fund Committee will meet quarterly and the agenda covers three main areas: Governance, Investment and Funding, and Administration and Communications. An Annual Report is issued to stakeholders which includes the performance of the Fund and stakeholders are also invited to an Annual Meeting.

The Fund's Independent Adviser is responsible for annually reporting to stakeholders on the performance of the Clwyd Pension Fund Committee in managing risks. This report is included in the Annual Report.

Appendix 1

Corporate Tasks

Service Plan 2014-15 – Operational Tasks – Monitoring

Key Action –Task	Frequency	Improvement	Link to PI's	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
People Strategy	On-going				*	*	*	*
Monitor Training and Development Plans								
Staff Appraisals								
Sickness Absence Monitoring								
Statutory Responsibilities	On-going				*	*	*	*
Health and Safety								
Data Protection								
Equality Impact								
Welsh Language Act								

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Appendix 2

Pension Fund Service Plan 2014-15 – Operational Tasks – Monitoring

Key:
** - Project based action
* - Regular ongoing action

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

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
Report to County Council	Annual	To cease after Q1			*			
Staffing – Pensions Administration	Project	Transfer temporary contracts to full time (Q1/2)			*	*		
CIPFA Benchmarking – Pensions Admin.	Annual				*	*		
Annual Budget	Annual				*			

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
<u>Governance - External</u>								
Plan/Action impact of Call for Evidence	Project	Not Known						
Discuss/Plan/Action collaboration in Wales	Project	Not Known						
Impact of 'Williams' Report	Project	Not Known						
Preparation to Implement new Local Board	Project	Develop terms for Pension Board (Q3) Appointments (Q4) Training of Board members (Q4 and ongoing)	Yes				**	**
Impact of The Pensions' Regulators Public Sector Code of Practice	Project	Review current arrangements against Code and develop plan of action (Q3/4)					**	**

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
PENSIONS FINANCE								
Investment and Funding								
Review Investment Strategy	Project	Work with Consultant (Q2/4)	Yes			**	**	**
Monitoring and reporting on Fund Managers and Investments	Project + Qtly	Review and agree Process with Consultant (Q1)			**	*	*	*
Due diligence on new investments	Daily				*	*	*	*
Monitoring and Reporting on Funding Flight-path	Project + Qtly	Develop New Monitoring Process and Reporting with Advisory Panel (Q1)			**	*	*	*
Review AVC Provider Performance	Project					**		
Attend Seminars/Pension Networks etc	Various					*	*	*

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
Accounting								
Annual Accounts and Audit	Annual	Note comments on Valuation from WAO (Q1)			**	*		
Monitoring Employer Contributions	Monthly				*	*	*	*
Budget Monitoring and Reporting	Qrtly	Agree Format for reporting to Committee (Q1)			**	*	*	*
Reconciliations and Recharges	Monthly				*	*	*	*
Statutory and Non Statutory Returns	Various				*	*	*	*
Payment and Monitoring of Third Party Fees	Qtly				*	*	*	*
Annual Report	Annual	Note comments from WAO (Q2/3)				**	*	
Provide Data For Employer Accounts	Annual				*			
Review Third Party Contracts	None in 2014/15							

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
PENSIONS ADMINISTRATION								
Develop Performance measurement and reports	Project	Work on-going in Wales (Q1/2)	YES		*	*		
<u>Operational</u>								
New CARE scheme Implementation	Project	Adapt procedures for new scheme (Q1/2) Continue to train staff on new scheme (Q1/2)			**	**		
Add New Starters	Daily				*	*	*	*
Calculate Refunds	Daily				*	*	*	*
Calculate Transfers In and Out	Daily				*	*	*	*
Calculation of Payment of retirement benefits	Daily				*	*	*	*
Calculation of Payment of death benefits	Daily				*	*	*	*
Calculation of Divorce (court orders)	Daily				*	*	*	*
Maintenance of member records	Daily				*	*	*	*
Reduce Backlog of tasks	Project	Backlog of tasks being actioned (Q1/Q4+) Monitoring and reporting on backlog (Q1/Q4+)	YES		*	*	*	*
Ad hoc queries/complaints	Daily				*	*	*	*

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
Rechargeable employer work (EVR)	Project	FCC (Q1)			**			
Attendance at All Wales Pension Officer Group (POG)	Qtly				*	*	*	*
Attendance at Shrewsbury POG	Qtly				*	*	*	*
Various Seminars	Various				*	*	*	*

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
<u>Technical</u>								
Benefit Statements (Active)	Annual					*		
Benefit Statements (Deferred,)	Annual				*			
Benefit Statements (Cllr)	Annual					*		
AVC (Equitable Life) Statements	Annual				*			
Life Time Allowance Letters (LTA)	Annual				*			
Managing employer data	Project	Appoint to Temporary Position (Q1) Implement I connect with DCC(Q1) Data Cleansing with FCC (Q1/3) Gathering information from Itrent (Q1/4) I connect sign up WCBC (Q1)	Yes		**	**	**	**
Employer Contribution Return Reconciliation	Annual				*			
Actuarial Valuation Data Cleanse	Tri-Ann (2016)							
Altair Updates / Management Tool Kit	As required							
Disaster Recovery	Annual	Test Recovery Plan (Q1)			*			

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress Q1	Q2	Q3	Q4
Attend User Groups	Qtly				*	*	*	*
Forthcoming Benefit Events (diaries)	Monthly				*	*	*	*
Storage of Activity History (Journals/Audit trail)	Monthly				*	*	*	*
Generating report on backlog	Monthly				*	*	*	*
Generating report on membership statistics	Monthly				*	*	*	*
Reports on Payments	Monthly				*	*	*	*
Audit Record of tasks	Monthly				*	*	*	*

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
<u>Payroll</u>								
Run Pensions Payroll	Monthly				*	*	*	*
Run Weekly Payroll (immediate)	Weekly				*	*	*	*
Liaise with HMRC (Real Time Information)	Weekly				*	*	*	*
Checking variances (gross)	Monthly				*	*	*	*
Reconciliation of Altair with Pensions Payroll	Monthly				*	*	*	*
Review Pensioner Status and high earners	Monthly				*	*	*	*
New Pensioner records	Daily				*	*	*	*
Pensions Increase	Annual				*			*
P60s	Annual				*			
Manage deductions for payroll	Monthly				*	*	*	*
Maintaining Pensioner Records (e.g. tax codes+)	Daily				*	*	*	*
Mortality Screening (Atmos)	Monthly				*	*	*	*

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
Processing Deaths	Daily				*	*	*	*
Attend Payroll User Group	Qtly				*	*	*	*
Trivial Commutation	Project							**

Key Action -Task	Frequency	New Actions required (start/end)	Link to Imp Plan	Link to Risk Register	Progress			
					Q1	Q2	Q3	Q4
<u>Communication</u>								
Web-site and infonet maintenance	Daily	Update for New Care Scheme (Q1)			**	*	*	*
Update, document and distribute Pension literature	Various	Issued by e mail where appropriate Update for new CARE Scheme (Q1)			**	*	*	*
Road Shows , Training, Pre-retirement seminars for the membership	Daily	New Scheme Roadshows (Q1)			**	*	*	*
Training for the employers	Daily	New Scheme Training (Q1)			*	*	*	*
Attend All Wales Communication Group	Qtly				*	*	*	*
Attend Shared Services Group	Qtly					*	*	*
Attend AVC (Prudential) Meeting	Bi-annually					*		*
Arrange Annual Employer Meetings	Annual					*	*	
Arrange Annual Report Production	Annual				**	*	*	
Document SLAs with employers	Annual	Update Discretions re CARE Scheme (Q1)						*

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **22nd JULY 2014**

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

SUBJECT: **GOVERNANCE UPDATE**

1.00 PURPOSE OF REPORT

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

2.00 BACKGROUND

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

- A response to a Government consultation (Appendix I)
- The draft pension fund accounts (Appendix 2)
- Internal Audit Reports for 2013/14
- A review of 2013/14 governance performance (Appendix 3)
- An update on training for PFC members (Appendix 5)
- Service Plan 2014/15 update (Appendix 4)

3.00 CONSIDERATIONS

Government Consultation

3.01 In 2010 the Government commissioned Lord Hutton to chair the Independent Public Services Pensions Commission to review how public sector pensions could be made more sustainable and affordable. The 'Hutton' report recommended that the benefits of co-operative working between funds within the LGPS should be investigated further. As a result, The Department for Communities and Local Government (DCLG) issued a call for evidence on the future structure of the Scheme and also selected Hymans Robertson to provide a detailed cost benefit analysis. Following analysis of 133 responses and the finding from Hymans Robertson, the DCLG issued a consultation on 'Opportunities for collaboration, cost savings and efficiencies'. The package of proposals set out in the consultation is:

- Establishing common investment vehicles for listed and alternative assets to reduce investment costs
- Reduce investment fees by investing listed assets on a passive basis.
- Keeping asset allocation decisions at local fund level

- A proposal not to pursue fund mergers at this time

3.02 The question of how to improve the cost effectiveness of administration was posed in the call for evidence. However, given the relatively small savings achievable and the introduction of the 2014 Scheme the Government decided not to consult on administration reform at this time.

3.03 The role of the Committee includes agreeing responses to consultations on LGPS matters. In this case the consultation closed on 11th July 2014, before this first Committee, hence the response was agreed with the Chair and Vice Chair.

3.04 In summary the response is supportive of the package of proposals, providing there is no compulsion and decisions are made locally on a ‘comply or explain’ basis (Appendix I). In terms of collective investment vehicles this has already been considered in Wales but work is on hold until the outcome of this consultation is known.

3.05 The ‘package of proposals’ in 3.01 above remains a topic of much contention, with various opinions across the LGPS. The next step by the Government following the responses to this consultation remains to be seen. The risk of any changes being implemented before 2016 is low, therefore business as usual should continue from a Clwyd Fund point of view, although the potential for change will be considered as part of the Investment Strategy Review.

Draft Pension Fund Accounts

3.06 The role of the Committee is to consider the Fund’s financial statements prior to approval by Council. The Fund must produce a fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices (Appendix 2). Although subject to a separate audit statement the accounts still remain part of the Council’s Statement of Accounts and hence follows the same approval process and oversight by Audit Committee.
The draft accounts were presented to Audit Committee on 16th July 2014 and the audited accounts will be presented on 24th September 2014 to both Audit Committee and then Council. As required by LGPS Regulations 2013 the Fund’s financial statements are included in its Annual Report which must be published by 1st December 2014.

Internal Audit Reports

3.07 An internal audit of Pension Administration was undertaken as part of the agreed internal audit plan for 2013/14. This was a risk based audit which made one ‘high risk’ recommendation and ten ‘low risk’ recommendations. All recommendations have been agreed by management and have or will be implemented. In line with best practice significant internal audit findings should be reported in the Fund’s Annual Report. In this case the ‘high risk’ recommendation related to testing the disaster recovery procedures in case of failure of pension software systems. This is included in the 2014/15 Service Plan and further information is provided in the separate Pension Administration and Communications Update report.

3.08 There was also an internal audit of Pension Investments as part of the audit plan. There was one 'medium risk' recommendation and four low risk recommendations all accepted by management and have or will be implemented. The 'medium risk' recommendation is for a comprehensive risk register to be documented to formalise risk management. This is included in the 2014/15 Service Plan.

Training

3.09 One of the areas covered in the 2014/15 Service Plan is ongoing delivery of training for PFC Members throughout the year. This section updates Committee Members on (a) the training provided to date to meet the CIPFA Knowledge and Skills Framework and (b) forthcoming events and conferences they may wish to consider attending.

3.10 CIPFA Knowledge and Skills Framework – three separate training days were held during June and July delivering a number of training modules designed around the full CIPFA Knowledge and Skills Framework. This training is considered essential for all PFC members, including substitutes, as well as some senior officers. The log of attendance for each module is included in Appendix 5. Catch up training will be provided over the coming months and officers will be in touch with those concerned to arrange suitable dates.

3.11 It is also useful for Committee Members and senior officers to attend various external events and conferences to supplement their knowledge regarding the latest thinking on pension related matters. Members are encouraged to attend at least one event a year. At each meeting, information on forthcoming events which are considered appropriate will be brought to Committee Members' attention. Committee Members wishing to attend any of the following events should contact Debbie Fielder or Alwyn Hughes to make the necessary arrangements. Attendance is currently being arranged for those events that are shaded in the table below:

Dates	Location	Event
9/10 September 2014	Celtic Manor, Newport	LGC Investment Summit - (4 places booked for Committee Members and Officers)
February 2015	Carden Park, Chester	LGC Investment Seminar – details to be confirmed
May 2015	Cotswolds	NAPF Local Authority Forum – details to be confirmed
June 2015	TBC	LGPC LGPS Elected Members Conference – details to be confirmed

Independent Review of Governance Performance for 2013/14

3.12 In line with best practice the Independent Advisor provides an annual report on the governance of the Fund, especially the performance of the Committee (then Panel). This report will be included in the Fund' Annual Report and is attached for information (Appendix 3).

Service Plan Update – Quarter 1

3.13 Appendix 4 provides a dashboard of progress against the one-off projects and improvements planned for 2014/15, as well as "business as usual" project based tasks. Other than items discussed elsewhere on this Committee Agenda there are no matters of exception to highlight.

4.00 RECOMMENDATIONS

4.01 That Committee Members:

1) Note and discuss the response to the Government's consultation on 'Opportunities for collaboration, cost savings and efficiencies'
2) Consider the draft Pension Fund Accounts 2013/14
3) Note the conclusions from the internal audit reports, the independent review of governance performance for 2013/14 and the Service Plan 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 Government Consultation Response
12.02 Clwyd Pension Fund Draft Accounts 2013/14
12.03 Governance Performance Review 2013/14
12.04 2014/15 Service Plan Update
12.05 Training Log

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Internal Audit Report on Pension Administration
Internal Audit Report on Pension Investment
DCLG LGPS Consultation: Opportunities for collaboration, costs savings and efficiencies

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CLWYD PENSION FUND

CONSULTATION RESPONSE

OPPORTUNITIES FOR COLLABORATION, COST SAVINGS AND EFFICIENCIES

Introduction

This is a response on behalf of the Clwyd Pension Fund The consultation questions have been considered by the Advisory Panel for the Fund and agreed with the Chair and Vice Chair of the Clwyd Pension Fund Committee. The Advisory Panel includes senior Flintshire County Council officers with delegations for managing the Clwyd Pension Fund, an investment consultant (JLT Investment Consulting), actuary (Mercer Limited) and independent adviser (Aon Hewitt). In framing our response, we have reviewed evidence produced by our advisors (and others).

Flintshire County Council administers the Clwyd Pension Fund on a lead authority basis. The Clwyd Fund is one of the eight funds in Wales. The Fund is currently valued at £1.2bn with 35,000 members. All our listed assets are already held in pooled vehicles, we do not hold segregated assets.

We have responded to each of your questions and added some additional comments and alternative approaches for consideration as the Government takes this consultation forward.

In summary we would like to express the following beliefs:

- CIVs have the potential to achieve benefits of scale and good governance which was the conclusion of the earlier study undertaken by the eight Welsh Treasurers.
- There is scope to increase the use of passive management but active management still has a role.
- 'Comply or explain' is the best option for both the use of CIVs and passive management
- Good governance is the key at local level and around the CIVs

However it is the size of deficits that poses the significant challenge:
.
- There is no magical solution. However investments are governed it will not solve the problem or reduce employer costs in the short term.
- Tackling accessible cost savings is worthwhile but will only chip away at the deficits.
- Therefore the approach and compulsion to use CIVs and passive management should be commensurate with the impact.

Q1

Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view

In general terms we agree with the Government's conclusion, which itself recognised the research of 8 Welsh Pension Fund's that also concluded, with evidence, that CIVs were a way forward.

However, we do not believe that there should be compulsion to participate and funds should be able to hold assets outside a CIV (s) on a 'comply or explain' basis.

Applying a similar approach to the national frameworks being developed and used for other pension fund services, CIVs should be developed 'by the LGPS for the LGPS'.

In our opinion the benefits of CIVs are:

- Reduction in time and cost of appointing and monitoring fund managers and reduction in transaction costs.
- Focus Committee time on strategy rather than implementation.
- Some reduction of fees through economies of scale.
- Provide access to alternative fund managers and strategies which individual funds may find difficult although Funds should not be prohibited from accessing individual alternative fund managers.

Additional Comment

The Clwyd Fund has experience of investing in alternative asset classes and would like to draw attention to the dispersion of returns within each of these asset classes. These risks will need to be fully understood by all those participating in the 'Alternative CIV'. We would urge the Government, if not already done so, to engage with specialist groups across these asset classes, such as the British Venture Capital Association (BVCA), to fully understand the risks involved before determining the governance arrangements around such a CIV.

Q2

Do you agree with the proposal to keep decisions about asset allocation with local authority fund authorities?

Yes.
A fund's asset allocation should be decided locally, after taking proper advice, to deliver their funding plan and reflect their appetite for investment risk.

Q3

How many common investment vehicles should be established and which asset classes do you think should be separately represented in each listed asset and alternative asset common investment vehicles.

We do not feel able to give advice on the number of CIVs. There is a potential solution, as a Welsh Fund, that a Welsh CIV (s) could be created but in terms of size it may be dwarfed by larger English CIVs, especially the alternative CIV. It is the governance around the CIV that is key, rather than size.

Our preferred approach would be to create CIVs by asset class rather than have multi-asset CIVs.

In terms of asset classes, we list below those we believe are the most important to be established. We think the range should cover those main market areas and be run on a passive basis. Hopefully economies of scale would lead to a small reduction of fees across the LGPS based on current asset allocations. This would not make the level of savings outlined in the consultation but should marginally reduce the amount of governance required. In addition, based on the evidence in the consultation, it is possible that Funds will decide locally to increase their passive allocation and this would make procurement more efficient and lower implementation costs

Listed (NB All passive):

UK Equity
US Equity
European Equity (EX UK)
Japanese Equity

UK Government Bond
UK Government Index Linked

However, evidence we have seen from our investment consultant (and also our own Fund experience) also highlights that there are asset types where a passive fund management approach detracts from return even after allowing for manager fees and transaction costs. Although,we do not feel that CIVs should be established, initially on an active management basis, as there is such a wide potential variation in performance and risk characteristics, over time this could become an attractive option for some smaller Funds which have limited Governance budgets to select and monitor active managers.

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Alternative Assets

The range of fund types in this area is extensive and therefore makes the establishment of even a limited range of CIVs for this area complex. As a result it may be difficult to achieve savings or reach agreement across Funds. Shown below are the areas we feel that need to be covered.

Private Equity (by region and global) and/or
Private Equity (Venture, Mid Market, large MBO)

Property (by region) and/or
Property (Core, added value, opportunistic)

Separate Hedge Fund Strategies (long/short equity, event driven, global macro, managed futures, convertible arbitrage, equity market neutral, credit long/short and distressed)

Currency funds (with various risk/return tolerance for both developed and emerging currencies)

Commodities (various benchmark exposures, plus timber and agriculture)

Infrastructure (higher risk return/green field projects to lower risk/return income generation and inflation protection)

Additional Comment

A manager could be appointed or a platform developed (or purchased from a consultant) which could manage assets on a tactical basis in a separate CIV (or a sub fund).

As required by the 'Myners Principles' each fund is required to have a policy on responsible investment. The Government should factor the need for such local flexibility when considering any compulsion to participate in CIVs.

Q4

What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

In Wales, the next stage of the process would have been the appointment of a consultant to undertake a full business case to advise on the structure of the CIV and the governance arrangements. This has been put on hold until the outcome of this consultation is known. Hence, we cannot advise further on a structure or governance arrangements apart from recognising how difficult this may be especially for an alternative asset CIV where risk of poor performance is much higher.

Additional Comment

As stated in Q3 above our preference would be CIVs by asset class. Each asset class could have its own fiduciary manager and the implementation of each CIV could be directly via the manager or the fiduciary manager may provide a platform of other managers (manager of manager approach). We urge the Government to undertake further research in this area to determine the cost and benefits of such an approach compared with the proposed multi asset CIV. We believe performance of these vehicles would be easier to monitor and the governance structure simplified. The National Advisory Board (via specialist sub groups of LGPS practitioners and consultants) would be responsible for hiring and firing the fiduciary managers. This could be implemented on an incremental basis, asset class by asset class as LGPS funds become comfortable with the approach and see the benefits of participating in the CIVs. This approach could be especially effective for alternative assets.

Critical to the success of any actively managed CIV will be the choice of manager(s). This requires great care, and considerable work will need to be done in respect of who is chosen.

Q5

In light of the evidence on the relative costs and benefits of active and passive management, including Hyman Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, Scheme members and employers.

In our view 'Fund authorities could be required to manage certain types of listed assets passively on a 'comply or explain basis'. The logic behind this choice is explained below.

<u>**Additional Comment**</u>

The Clwyd Fund undertakes its own research every four years. The last fundamental fund structure review was 2010 and another review is planned for later this year. The Fund came to conclusions after interviewing about 10 global fund managers and consultants. We also have an investment performance record for total assets, various markets, LGPS average and our fund manager returns from 1993/94 to 2009/10.

The process involves general research on markets and products, a review of our Fund which involves using an optimisation model to determine the strategic asset allocation (risk, return and cost), and then implementation of the revised strategy.

Returning specifically to your question, a conclusion we made following research and statistical analysis in 2010 was that developed equity markets are efficient and therefore post-fee out-performance against benchmark is more difficult to achieve on a consistent long term basis.

As a result we terminated 5 regional active equity manager mandates (19% of the total Fund) and replaced with one passive manager through a competitive process (NB if a collective investment vehicle had been available it could have been used voluntarily. It would have saved time and cost and possibly at a lower fee). The fund managers terminated had not all underperformed but we took a long term view based on our research. Reduction of fees is simply an outcome of the decision.

Hence as far as developed market equities are concerned we concur with Hyman's research. It should be noted though that we have one unconstrained global equity manager (for 5% of the total fund) who has outperformed the MSCI AC World by 4.3% p.a. as at 31st March 2014 over a 3 year period, net of all manager fees and transaction costs.

However our research suggested that alpha can still be achieved by fund managers in less efficient markets, Asia Pacific, Emerging (and more recently Frontier) equity markets. This seems to be backed up by our fund manager performance in these markets. As at 31st March 2014 both have outperformed their benchmark, one by 2.2% p.a. and another by 3.1% p.a. both over three years (again these returns are net of all manager fees and transaction costs).

From our point of view we have received excellent value for money for the active fees paid and our decision to continue with active managers for these markets has been vindicated. However we recognise that these markets will continue to mature and the decision will be re-considered at our next review.

In terms of fixed income markets we have one manager for corporate bonds, high yield, emerging market debt and loans who manages these on both a tactical and active basis. Credit crisis apart this approach seems to be working and paying for fees and although this approach will be reviewed we would be reluctant to change based on evidence we have since 2007. Detailed evidence is the property of one manager hence we are reluctant to provide any further details here.

We are also following a flight-path methodology for our funding strategy. This involves investing in gilts (or similar) to de-risk and 'match liabilities' as our funding level or markets reach certain triggers. The benchmark is the Clwyd Fund specific liabilities, as calculated by our actuary, but this is then managed on a passive basis and hence passive fees are paid to the fund manager.

The most important part of our Review is the determination of our investment strategy. Here we do make assumptions of the long term beta returns we expect from markets and measure risk through information ratios. We are attempting to find the most efficient portfolio. At this point we consider whether market beta is sufficient or whether the fund needs to pay additional fees for alpha to achieve the returns required to meet the funding plan.

The purpose of the above comment is to outline that we do already consider these matters locally in some detail and believe this discretion should continue to be delegated by the Government to local funds. However, local funds should also be able to demonstrate the reason for using active management and paying active fees for listed assets. Hence we believe 'comply or explain' will provide best value for money for stakeholders.

We would also like to bring the following to the Government's attention:

- Funds have multi asset, growth or tactical funds which will invest in listed assets on an active basis. Our view is that these should be excluded from any decision made on passive management
- Markets and products change over time as we have found during each of our four yearly reviews. Any solution should recognise this and will need to be constantly reviewed.
- Passive management can also be provided on a synthetic basis, which is the Clwyd Fund's current approach for regional developed equity, or using ETFs is another option abeit not as tax efficient over time compared to holding stock. Given these various options the Government will need to consider the exact definition of passive management and how it is provided.

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THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

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

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

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

The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

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

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

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

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

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

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

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

The admitted bodies contributing to the Fund are :-

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

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

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

BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

In summary, accounting policies adopted are detailed as follows:

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

CLWYD PENSION FUND ACCOUNTS

	Note	2014 £000	2014 £000	2014 £000	2013 £000	2013 £000	2013 £000
Contributions and Benefits							
Contributions receivable :							
From employers	**1**	52,289			52,294		
From employees or members	**1**	14,688			14,381		
			66,977			66,675	
Transfers in		3,801			4,735		
Other income		1,918			1,411		
			5,719			6,146	
				72,696			72,821
Benefits payable :							
Pensions	**1**	47,789			44,717		
Lump sums (retirement)	**1**	10,492			10,859		
Lump sums (death grants)	**1**	1,750			1,401		
			60,031			56,977	
Payments to and on account of leavers :							
Refunds of contributions		26			8		
Transfers out (individual)		2,919			1,544		
Transfers out (bulk)		242			0		
Other		77			52		
Administrative and other expenses bourne by the scheme	**2**	1,494			1,047		
			4,758			2,651	
				64,789			59,628
NET ADDITIONS (WITHDRAWALS)				7,907			13,193
Returns on Investments							
Investment income	**4**		2,721			2,397	
Change in market value of investments (Realised and Unrealised)	**4**		29,202			110,113	
Investment management expenses	**2**		(5,873)			(5,294)	
NET RETURNS ON INVESTMENT				26,050			107,216
NET (DECREASE)/INCREASE IN THE FUND				33,957			120,409
OPENING NET ASSETS OF THE SCHEME				1,181,232			1,060,823
CLOSING NET ASSETS OF THE SCHEME				1,215,189			1,181,232

	Note	2014 £000	2013 £000
Net Assets Statement			
Investment Assets :	**5**		
Managed fixed interest fund		174,002	175,148
Managed UK equity funds		0	122,222
Managed overseas equity funds		281,343	391,597
Managed multi strategy funds		115,487	120,380
Property funds		99,176	82,260
Infrastructure funds		29,445	23,907
Timberland / Agricultural funds		21,588	20,511
Commodity funds		32,084	34,588
Private equity funds		139,904	138,137
Hedge fund of funds		48,393	47,070
Liability Driven Investment		227,459	0
Opportunistic Funds		12,517	5,910
Other investment assets	**8**	0	874
Cash	**7**	31,928	17,331
Investment Liabilities :			
Other investment liabilities	**8**	0	0
Current Assets :			
Due within 1 year	**9**	4,745	3,845
Current liabilities	**9**	(2,882)	(2,548)
NET ASSETS AT 31st MARCH		1,215,189	1,181,232

1. ANALYSIS OF CONTRIBUTIONS RECEIVABLE/BENEFITS PAYABLE

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

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

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

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

	Benefits Payable	Contributions Receivable
Scheduled Bodies	**£000**	**£000**
Flintshire County Council	20,580	23,373
Wrexham County Borough Council	19,476	20,474
Denbighshire County Council	13,613	16,567
Fund apportionment with :		
Gwynedd and Powys County Councils	2,370	0
Educational Organisations	2,558	4,482
Town and Community Councils	128	234
Others - scheduled bodies	583	1,152
Others - admitted bodies	723	695
	60,031	66,977

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

2. ADMINISTRATION AND INVESTMENT MANAGEMENT EXPENSES

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

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

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

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

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

3. INVESTMENTS AND PERFORMANCE

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

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

4. ANALYSIS OF TRANSACTIONS AND RETURN ON INVESTMENTS

Overview

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

Transactions and Return on Investments

Details of the 2013/14 investment transactions and the net profit on sales of £107.501m (£8.854m in 2012/13) together with investment income of £2.721m (£2.397m in 2012/13) are set out below. The unrealised loss for 2013/14, because of the change in the market value of investments, amounted to £78.299m (£101.259m profit in 2012/13). Therefore, the increase in market value of investments (realised and unrealised) is £29.202m (£110.113m in 2012/13).

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

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

	Market Value 2012/13	Purchases	Sales	Realised Gain (Loss)	Unrealised Gain (Loss)	Market Value 2013/14	Investment Income
	£000	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	175,148	174,002	(174,002)	43,451	(44,597)	174,002	0
Liability Driven Investment	0	230,000	0	0	(2,541)	227,459	0
UK Equities Passive	122,222	0	(136,167)	33,414	(19,469)	0	0
Overseas Equities Active	288,379	50,042	(49,281)	1,202	(8,999)	281,343	8
Overseas Equities Passive	103,218	0	(111,813)	22,576	(13,981)	0	0
Multi Strategy	120,380	130	0	0	(5,023)	115,487	0
Property	82,260	16,727	(8,050)	6	8,233	99,176	1,790
Infrastructure	23,907	3,847	(1,622)	631	2,682	29,445	203
Timber & Agriculture	20,511	3,068	(413)	0	(1,578)	21,588	0
Commodities	34,588	0	0	0	(2,504)	32,084	0
Private Equity	138,137	17,523	(22,991)	629	6,606	139,904	328
Opportunistic	5,910	5,679	(292)	0	1,220	12,517	254
Hedge Fund of Funds	47,070	0	(412)	83	1,652	48,393	0
	1,161,730	501,018	(505,043)	101,992	(78,299)	1,181,398	2,583
Cash	17,331	0	0	0	0	31,928	0
Fees within Pooled Vehicles	0	0	0	5,579	0	0	0
Interest	0	0	0	0	0	0	138
Currency	0	0	0	(70)	0	0	0
	17,331	0	0	5,509	0	31,928	138
Total 2013/14	1,179,061	501,018	(505,043)	107,501	(78,299)	1,213,326	2,721
2012/13	1,083,854	54,629	(45,161)	8,854	101,259	1,179,061	2,397

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

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

The book cost of the investments as at 31st March 2014 is £1,047.423m (£949.455m in 2012/13). The market value of investments as at 31st March 2014 is £1,181.398m (£1,161.730m in 2012/13); this can be analysed as follows:

By Continent

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

	2014	2013
	£000	£000
UK	323,358	203,154
Europe	119,509	142,201
Asia Pacific	76,598	119,172
North America	87,222	116,680
Emerging/ Frontier markets	83,023	91,714
Global Investments	491,688	488,809
	1,181,398	1,161,730

By Fund Manager

	2014		2013	
	£000	%	£000	%
BlackRock	50,922	4	56,385	5
Wellington	106,314	9	117,468	10
Aberdeen	85,391	7	93,876	8
Insight	227,459	19	0	0
Pioneer	1,539	0	2,001	0
Liongate	22,377	2	21,358	2
SSARIS	24,477	2	23,711	2
Duet	49,954	4	48,826	4
BlueCrest	32,032	3	31,470	3
Investec	71,768	6	62,797	5
Stone Harbor	174,002	15	175,148	15
SSgA	0	0	225,440	19
Pyrford	32,533	3	32,525	3
Property	99,176	8	82,260	7
Infrastructure	29,445	3	23,907	2
Timber / Agriculture	21,588	2	20,511	2
Private Equity	139,904	12	138,137	12
Opportunistic	12,517	1	5,910	1
	1,181,398	100	1,161,730	100

By Listed /Managed

	2014			2013		
	Listed Managed	Listed	Unlisted	Listed Managed	Listed	Unlisted
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	0	0	174,002	0	0	175,148
UK Equities	0	0	0	122,222	0	0
Overseas Equities	231,389	0	49,954	328,800	0	62,797
Multi Strategy	115,487	0	0	120,380	0	0
Property	31,737	0	67,439	29,107	0	53,153
Infrastructure	0	5,549	23,896	0	4,764	19,143
Timber / Agriculture	0	0	21,588	0	0	20,511
Commodities	0	0	32,084	0	0	34,588
Private Equity	0	2,809	137,095	0	3,446	134,691
Hedge Fund of Funds	22,377	0	26,016	21,358	0	25,712
Opportunistic	0	0	12,517	0	0	5,910
Liability Driven Investment	227,459	0	0	0	0	0
	628,449	8,358	544,591	621,867	8,210	531,653
			1,181,398			1,161,730

6. FAIR VALUE OF INVESTMENTS

Financial Instruments

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

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

Fair Value – Valuation Bases

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

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

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

  Managers are required "to use the method that is appropriate in the circumstances and for which sufficient data is used and to apply the approach consistently until no longer appropriate." It is also possible to use multiple or combinations of approaches. Most private equity managers use a combination of the "market" and "income" approaches.
- Infrastructure investments are generally carried at the lower of cost and fair value, except where there are specific upward or downward valuations. In estimating fair value, managers use their judgment, having regard to the EVCA guidelines noted above for valuing unquoted investments. Upward valuations are considered only where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted regardless of the investment stage where the manager considers that there is impairment to the underlying investment.
- Timberland investments are carried at net asset value as determined by the General Partner. In most cases fair value is derived from the audited financial statements provided by underlying managers or vehicles. In circumstances where audited financial statements are not available to 31st March, the valuations are derived from unaudited quarterly reports from the underlying managers or vehicles. Where the timber investments are direct rather than through underlying managers, valuations are based upon regular independent valuation of these holdings.
- Commodity exposure is actively managed through the use of exchange traded and OTC derivative instruments (Futures, Options and Swaps) and some securities. Exchange traded derivatives are priced using a vendor file sent daily from Bloomberg with IDC as a second source. These prices are sourced directly from the derivative exchanges. Options receive the last trade price on the primary exchange. If an option does not trade, the bid price is utilized to value the option. Valuations for OTC options are sourced from brokers/dealers that are usually the counterparty to the deal. If the necessary inputs are available from vendors on a schedule that permits same day pricing, OTC options may be valued using a vendor- supplied option calculator, with the dealer price used to validate the model results. Residual cash is primarily invested in short-dated investment-grade, US dollar-denominated debt obligations.

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

Fair Value – Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

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

	Market Value 2013/14	Level 1	Level 2	Level 3
	£000	£000	£000	£000
Fixed Interest Securities	174,002	17	173,985	0
Liability Driven Investment	227,459	227,459	0	0
Overseas Equities Active	281,343	280,147	1,196	
Multi Strategy	115,487	47,377	68,110	0
Property (1)	99,176	0	31,737	67,439
Infrastructure (1)	29,445	5,549	0	23,896
Timber & Agriculture (1)	21,588	0	0	21,588
Commodities	32,084	15,432	16,652	0
Private Equity (2)	139,904	2,809	0	137,095
Hedge Fund of Funds	48,393	0	45,809	2,584
Opportunistic Funds (2)	12,517	0	0	12,517
	1,181,398	578,790	337,489	265,119
Cash	31,928	31,928	0	0
Total 2013/14	1,213,326	610,718	337,489	265,119

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

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

Within the investments shown above as (1) or (2), whilst a small proportion are listed, the majority of the holdings are in unquoted investments; (£294.272m) compared to £262.515m in 2012/13. These are valued at a fair value by the fund managers, using an appropriate basis of valuation. The valuations are reliant upon a significant degree of judgment, and due to the subjectivity and variability of these valuations there is an increased likelihood that the valuations included in the financial statements would not be realised in the event of a sale. The difference could be materially lower or higher.

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

7. INVESTMENT RISKS

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

Procedures for Managing Risk

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

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

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

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

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

Roll risk

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

Manager Risk

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

Credit Risk

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

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

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

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

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

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

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

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

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

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

Liquidity Risk

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

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

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

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

	Market Value 2013/14 £000	1 Month £000	2 - 3 Months £000	3 - 6 Months £000	6 - 12 Months £000	Closed - ended £000	Locked £000
Fixed Interest Securities	174,002	174,002	0	0	0	0	0
Liability Driven Investment	227,459	227,459	0	0	0	0	0
Overseas Equities Active	281,343	276,431	4,912	0	0	0	0
Multi Strategy	115,487	115,487	0	0	0	0	0
Property	99,176	0	0	0	31,737	67,439	0
Infrastructure	29,445	5,549	0	0	0	23,896	0
Timber & Agriculture	21,588	0	0	0	0	21,588	0
Commodities	32,084	32,084	0	0	0	0	0
Private Equity	139,904	2,809	0	0	0	137,095	0
Hedge Fund of Funds	48,393	0	0	46,854	0	0	1,539
Opportunistic Funds	12,517	0	0	0	0	12,517	0
	1,181,398	833,821	4,912	46,854	31,737	262,535	1,539

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

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

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

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

Market Risk

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

Market risk is comprised of two elements –

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

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

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

	Manager	Market Value 2013/14 £000	Benchmark	Target (Gross)	Risk (<) %
Fixed Interest Securities	Stone Harbor	174,002	FT All Stocks	+1.5%	4.0
Liability Driven Investment	Insight	227,459	Liability / FTSE	Match	
Foreign equities–active	Investec	71,768	MSCI AC World NDR	+3.5%	10.0
	Aberdeen	76,598	MSCI AC Asia/P ex Japan	+3.0%	12.0
	Aberdeen	8,793	MSCI Frontier Markets	+3.0%	12.0
	Wellington	74,230	MSCI EM Free	+2.5%	8.0
	Duet	49,954	Absolute	+8-10%	3.0
Multistrategy funds	BlackRock	50,922	7 day LIBID	+15.0%	20.0
	BlueCrest	32,032	Absolute	+10-15%	6.0
	Pyrford	32,533	RPI	+5.0%	8.0
Hedge fund of funds	Liongate	22,377	Absolute	+8-10%	6.0
	SSARIS	24,477	Absolute	+8-10%	5.0
	Pioneer	1,539	Absolute	+8-10%	4.0
Commodity fund	Wellington	32,084	GCSI Equally Weighted	+1.5%	4.0
Property funds	Various	99,176	IPD Balanced PUTs	Exceed	
Infrastructure funds	Various	29,445	Absolute	+15.0%	
Timber /Agricultural funds	Various	21,588	Absolute	+15.0%	
Private equity funds	Various	139,904	Absolute	+15.0%	
Opportunistic funds	Various	12,517	Absolute	+15.0%	
		1,181,398			

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

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

	Market Value 2014 £000	Managers No.	Funds No.	Properties / Companies Estimated No.
Real Assets	150,209	21	36	>280
Private Equity / Opportunistic	152,420	19	61	>4,000

Other Price Risk

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

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

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

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

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

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

Asset Type	Market Value	Percentage Change	Value on Increase	Value on Decrease
	2013/14	%	£000	£000
Cash and cash equivalents	31,928	0.02	31,934	31,922
Investment portfolio assets:-				
Global Equity inc UK	121,722	7.97	131,423	112,021
UK Equity	0	12.25	0	0
Overseas Equity	159,621	12.30	179,254	139,988
Global Fixed Income	174,002	5.34	183,294	164,710
Alternatives	626,877	2.93	645,244	608,510
Property	99,176	3.71	102,855	95,497
	1,213,326		1,274,004	1,152,648

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

Interest Rate Risk

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

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

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

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

Currency Risk

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

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

Currency Exposure - Asset Type	Market Value 2013/14	Market Value 2012/13
	£000	£000
Global Fixed Income	174,002	175,148
Overseas Equities Active	281,343	288,379
Overseas Equities Passive	0	103,218
Multi Strategy	115,487	120,380
Commodities	32,084	34,588
Hedge Funds	48,393	47,070
Property	39,770	39,755
Infrastructure	15,409	11,521
Timber / Agriculture	21,588	20,511
Opportunitistic	12,517	5,910
Private Equity	117,447	112,096
	858,040	958,576

Following analysis of the historical data in consultation with the fund's Performance Measurers, WM Company, and analysis of the exposures to foreign currency for the year to 31st March 2014, it was considered that the likely volatility associated with foreign exchange rate movements to be 5.05%. For the period to 31st March 2013, this was calculated to be 5.1%.

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

Currency Exposure - Asset Type	Market Value	Percentage Change	Value on Increase	Value on Decrease
	2013/14	%	£000	£000
Global Fixed Income	174,002	5.05	182,791	165,213
Overseas Equity - Active	281,343	5.05	295,554	267,132
Overseas Equity - Passive	0	5.05	0	0
Multistrategy	115,487	5.05	121,321	109,653
Hedge Funds of Funds	48,393	5.05	50,837	45,949
Commodities	32,084	5.05	33,705	30,463
Timber & Agriculture	21,588	5.05	22,678	20,498
Infrastructure	15,409	5.05	16,187	14,631
Property	39,770	5.05	41,779	37,761
Opportunistic	12,517	5.05	13,149	11,885
Private Equity	117,447	5.05	123,380	111,514
	858,040		901,381	814,699

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

8. OTHER INVESTMENTS

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

9. DEBTORS/CREDITORS

	2014		2013	
	£000	£000	£000	£000
Current Assets :				
Contributions due - Employees	1,160		1,099	
Contributions due - Employers	2,276		2,105	
Added years	26		52	
H.M. Revenue and Customs	41		54	
Pension strain	1,063		251	
Administering authority	2		210	
Miscellaneous	177		74	
		4,745		3,845
Less Current Liabilities :				
Lump sums	(1,848)		(1,774)	
Death grants	(359)		(131)	
Administering authority	(236)		(303)	
Added years	(81)		(55)	
Miscellaneous	(358)		(285)	
		(2,882)		(2,548)
Net Current Assets		1,863		1,297

Analysis of debtors

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

Analysis of creditors

	2014	2013
	£000	£000
Other Local Authorities	(298)	(331)
Other Entities and Individuals	(2,584)	(2,217)
	(2,882)	(2,548)

10. POST BALANCE SHEET EVENT

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

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

11. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

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

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

12. RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2014, no Members of the Pension Panel have taken this option. The Members of the Pension Fund Panel do not receive any fees in relation to their specific responsibilities as members of the Panel.

Key Management Personnel

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

Flintshire County Council

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

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

13. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

14. TRANSACTION COSTS

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

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

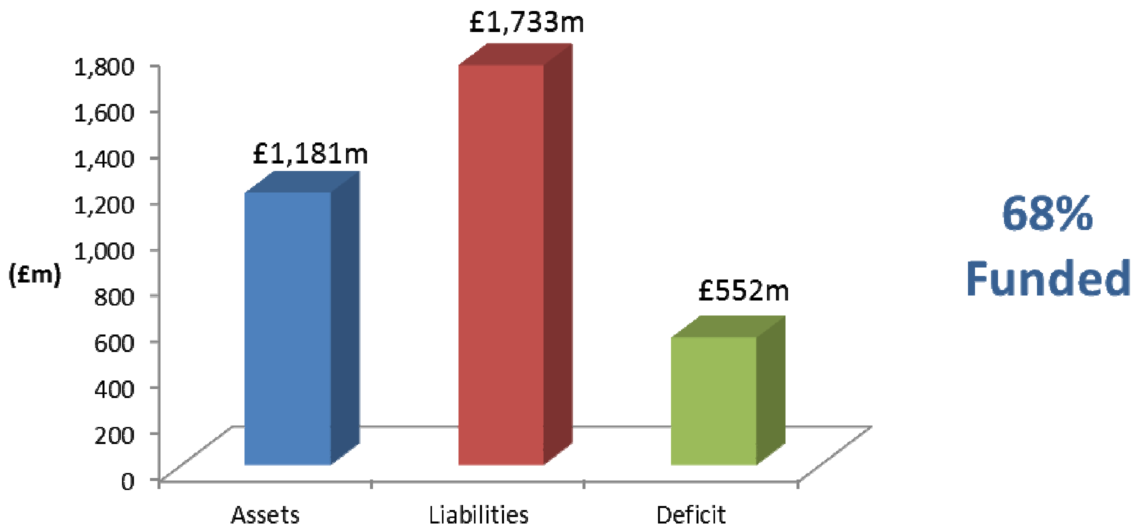
CLWYD PENSION FUND

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

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

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

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



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

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

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

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

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

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

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

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

The assets were assessed at market value.

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

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

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

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

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

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

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

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

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

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

Paul Middleman

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

June 2014

YCS UK LIMITED
YOUNG CONSULTANCY SERVICES

ANNUAL REPORT 2013/14

Independent Adviser/Consultant
July 2014

INDEPENDENT ADVISER/CONSULTANT ANNUAL REPORT ~ 2013/14

1. The purpose of this commentary is to provide an independent annual appraisal of the administration, governance and performance of the Clwyd Pension Fund. As my appointment to the Independent/Adviser role commenced on 1 July 2008, this report covers my fifth and last full year in this dual capacity role. Overall, the year 2013/14 was one of review, reflection and reassessment both in terms of world markets and the Local Government Pension Scheme (LGPS) itself.

2. Over recent years, the LGPS environment has been characterised by an increasing flow of regulatory documents on funding, risk, policy and governance. More recently, there have been various initiatives under the broad banner of "working together", ranging from potential fund amalgamations to simple increased collaboration between LGPS funds, which are all largely concerned with reducing costs, particularly the level of fees paid to investment managers. At the same time, there had been an ongoing review of the scheme to make it fair and affordable, which ultimately resulted in the new LGPS 2014.

3. As part of this environment of change and initiatives, the first half of 2013/14 saw LGPS funds inundated with documentation – a consultation paper on the detail of LGPS 2014, a discussion paper on new LGPS governance arrangements in England and Wales and a "Call for Evidence" on the future structure of the LGPS. Whilst the consultation paper on LGPS14 sought responses on a number of the detailed regulations proposed for implementing the new scheme and, in this sense, was a technical consultation with LGPS pension administration officers, the other two papers were more fundamental, with potentially far-reaching consequences for LGPS funds. However, all required detailed and careful responses, putting the in-house teams on both investments and pensions administration under particular pressure.

4. On governance it was an accepted fact that practices amongst LGPS funds varied considerably and that the Public Service Pensions Act 2013 had provided a broad framework for a common approach. The discussion paper raised various questions and sought views around the implementation and operation of this framework within the LGPS. The Fund responded accordingly but broadly accepted the move to a formal Committee structure and this is currently being implemented.

5. However, many of the details around national oversight and additional scrutiny at a local level are still being fine-tuned. The results of these deliberations should become clear in later 2014, although it is already known that each LGPS authority will be required to establish a formal set of internal controls for administering and managing its scheme, in addition to all the information on risk currently being provided in each fund's Statement of Investment Principles and its reporting requirements in the Annual Accounts under IFRS 7.

6. The key paper, however, was clearly the "Call for Evidence" on the future structure of the LGPS, which followed on from some peripheral comments in the Hutton report about the quality and consistency of LGPS data. These were picked up in early 2013 by the Local Government Minister Brandon Lewis, who talked about the need for "robust data" and not shying away from "a smaller number of funds" if this could be shown to improve efficiency and cost-effectiveness. This national initiative effectively put on hold the already long-running project aimed at examining possibilities for "Collaborative Working in Wales", which itself had been the subject of various data collection exercises and consultations.

7. The "Call for Evidence" paper itself was based around a set of objectives and a series of questions that respondents were asked to address. Whilst these objectives were designed primarily to generate discussion and debate, they did seem a slightly odd collection, ranging from the very general (dealing with deficits) to the very specific (providing greater investment in infrastructure). At the same time, it was not always clear how the questions set related to these objectives, although there was clearly some overlap. In addition, there was no reference to key funding and investment considerations such as liabilities and their control, and no mention whatsoever of risk.

8. Pension funds are extremely complex vehicles, where all the moving parts are inter-linked. Funding level, strategy, risk and return targets, performance and fees etc. are all inter-dependent and cannot be looked at in isolation. In fact, some of the objectives identified were potentially contradictory. In summary, there was concern that the context set by the objectives and questions failed to appreciate the complexity of pension funds, with little apparent consideration given to the wider fund picture, the relationships between various investment objectives and the impact of some of these objectives on others. The Fund response made these points whilst attempting to cover all the objectives and questions comprehensively and constructively.

9. The "Call for Evidence" was followed in later 2013 by the Government appointment of a consultant to evaluate various options for change, resulting in a current Government consultation exercise on the future of the LGPS. Whilst the outcomes from this have not been delivered yet, forced fund mergers no longer appear to be on the agenda, with the Government focus now more on the creation of Common Investment Vehicles and the use of more passive management. The Fund continues to participate in this ongoing debate and is monitoring potential outcomes very carefully.

10. Clearly the above events consumed a lot of resource in 2013/14 but, despite these distractions, the business of running the Fund on a day to day basis had to be maintained by the fund finance and administration teams. Agreed staffing structures are now in place but, as noted in last year's report, recruiting staff with the appropriate LGPS expertise continues to be a challenge. Consequently, there remained during the year a number of staff within the pension administration team covering permanent posts on temporary contracts, whilst they received in-depth training to ensure competency in these roles. It is pleasing to note that these positions were reviewed towards the end of 2013 and some permanent appointments were made. However, as a result of staffing and recruitment issues in prior years, backlog problems persist. A specific team to tackle this was established in May 2013 but again recruiting experienced staff proved a problem and progress in reducing the backlog has suffered.

11. It is important, however, to put all this into the context of the additional pressures faced by the pension administration team during the year and to acknowledge its achievements. In addition to the detailed consultation exercise noted earlier and, later in the year, preparations for implementing effectively the new LGPS 2014, 2013/14 was also a Fund valuation year. This involved the preparation and successful delivery of all the valuation data to the actuary during the summer. At the same time, a revised website was launched and the communications programme maintained, continuing to receive critical acclaim from both scheme employers and scheme members.

12. For the fund finance team, the year was one of real progress despite the pressures. In mid-year the key part of the revised staff structure was completed, with the appointment to the vacant Pension Finance Manager post, whose additional initial training was supplemented by an intense period of meetings with many of the Fund's alternative asset managers. Clearly this team, and the Clwyd Pension Fund Manager in particular, was also heavily involved in the various Government responses required, in conjunction with the Fund's external advisers.

13. In addition, the team successfully completed the first questionnaire exercise aimed at testing investment managers' compliance with the Fund's Sustainability Policy. This policy, a key element of the Fund's investment philosophy, recognises the relationship between good environmental, social and governance practices and long-term business profitability. The questionnaire exercise, probably the first of its kind amongst LGPS funds, was very well received by managers and proved generally positive. The responses received, particularly the weaker ones, will be pursued as part of the normal pattern of officer meetings with managers during the coming year. This questionnaire exercise is likely to be a recurring one and the aim of the initial piece of work was to set a benchmark for each manager in order to measure improvement going forward.

14. However, the team's major project during the year was implementation of the Fund's flightpath project. Last year's report noted that in recent years overall funding levels had been affected as much by fluctuations in liability levels as by asset performance, leading to a growing focus on liability-drivers such as inflation, interest rates and mortality. The Fund had already introduced broad diversification and risk diversity within the asset structure to minimise volatility. Flightpath's applies similar principles to liabilities, through a specialist provider on the long-term management of funding risk. After considerable in-house research into the concept, the exercise to appoint a specialist provider commenced in late 2012. This proved a lengthy, complex and challenging exercise, carried out in close association with the Fund's actuary and Independent Adviser/Consultant. However, after several separate stages and reviews, an appointment was made in late Autumn 2013.

15. The implementation through Insight, the chosen provider, raised further complexities that required resolution, but the first phase was completed successfully by 1 April 2014, as planned. As noted previously, the flightpath project proved to be extremely challenging and the fund finance team was absolutely correct in taking it slowly and adopting a cautious, professional and thoroughly-researched approach, especially as the Fund was one of the first LGPS funds to implement this strategy in full.

16. In summary, 2013/14 certainly produced a challenging environment for both pension administration and fund finance staff as the preparations for LGPS 2014 and the wider changes gathered pace. All performed heroically in ensuring that day to day duties were maintained as far as possible within the staffing constraints and the additional pressures being faced. This bodes well for 2014/15 and implementation of the changes required in terms of governance and the scheme itself.

17. After the personnel changes post the 2012 elections, which produced a new Chairman and Vice-Chairman, the Pension Fund Panel continued to gel and develop during the year, with attendance and participation strong. It is pleasing to report that the Chairman, who had suffered an enforced period of absence through illness returned to lead the Panel in mid-year. Training remained a key focus. Most Panel meetings continued to include training elements and members also attended more formal seminars and conferences. The clear aim here is to ensure that members are kept up to date in an investment environment that is forever evolving both in terms of approaches and products. On approaches, the obvious example is flightpath, whilst on products, the Fund again maintained its ground-breaking reputation through new investments in social impact-based venture capital and sub-Saharan private equity.

18. As noted in the opening paragraph, 2013/14 was also a year of reflection and reassessment for world markets. The March quarter of 2013 and the year 2012/13 generally were typified by unusual exuberance, with all equity markets posting solid positive returns, the majority in double figures, but largely on the back of a liquidity-driven environment. In response, the new financial year saw markets pausing for thought and contemplating whether such enthusiasm was justified for all markets.

19. Whilst certainly there appeared to be gradually improving economic news, particularly from the US, and a return to GDP growth, albeit modest initially for most countries, this period of reflection brought back to the fore many of the concerns that had troubled markets for the majority of 2012. Whilst these remained centred on US debt, the slowdown in China, the sustainability of the restructuring ambitions in Japan and especially the resolution of issues in Europe, later developments in the Middle East, the Ukraine and Thailand added to these worries. In short, these competing factors made for another volatile year in world markets, with fears persisting about the strength of this recovery and whether this could be sustained, as well as the wider political issues

20. As a result, markets overall produced only modest progress, with global equities delivering around 6%. However, this overall position conceals a much more complex picture, with the more considered environment in 2013/14 leading to greater discrimination between markets and, in simple terms, producing a dichotomy in performance between developed and developing world equities. The US and UK posted returns of 9-10% whilst Europe led the field with a positive 18% gain. The exception to this in developed markets was Japan, where confidence in the ability of politicians to deliver the structural reforms promised appeared to stall and Japanese equities largely stood still in the year. In contrast, emerging market equities faltered after the significant gains made in prior years, losing around 10% in the year as liquidity was withdrawn. The exception here was frontier markets, the new emerging markets, which produced strong positive returns.

21. Away from equity markets, private equity and real assets such as property and infrastructure produced solid returns in the year, slightly above those for global equities. However, commodities returns were negative and bonds overall were about flat, with the negative returns from Government stock only partly offset by credit. In absolute terms, therefore, the overall Fund return in 2013/14 is likely to be disappointing, with performance positive but only marginally so.

22. In comparative terms too, 2013/14 is likely to be a weak year for the Fund within its peer group of local authorities. As noted in previous reports, the Fund is structured to provide protection when markets fall through broad diversification and a lower weighting to more volatile assets such as equities. This was exacerbated in 2013/14 by the Fund's long-term focus on developing markets and its deliberately low weighting to Europe in particular.

23. At manager level within equities, most met their targets and a number made up ground in terms of since-inception performance, with the weaker performance overall largely down to asset mix. Other asset categories performed largely as expected, although the hedge fund managers, whilst offering downside protection, do continue to disappoint in terms of the returns achieved.

24. The key disappointment elsewhere in the portfolio was the continuing weak performance of its tactical asset allocation managers, particularly Blackrock. These three managers comprise 12% of the Fund's assets and, within this, Blackrock is double-weighted at 6%. The aim of these managers is to move assets between asset categories tactically to take advantage of differing market environments and to produce a positive return from this. Whilst the two smaller-weighted managers were flat or marginally positive and producing returns not too far below expectations, Blackrock delivered a negative 10% in 2013/14, with the 3-year number showing a negative 4% per annum, despite stronger performance in some earlier years. Clearly this area of tactical asset allocation and the managers employed is one that will require reassessment as part of the forthcoming Fund Structure review.

25. As for next year, the economic environment is improving but many of the concerns remain. Globally, China needs careful management as its urbanisation programme and housing investment boom continue to moderate, reducing asset price and credit growth and thus producing a potentially deflationary outlook. Within Europe, the focus will probably be on Germany. European growth is certainly stronger and credit demand building, but on competiveness, Germany remains an outlier and the issue is whether it is willing to reflate wages to create some sort of economic convergence. On the UK, the economy is booming but spare labour capacity is reducing, potentially leading to rising wages and ultimately inflation. In summary, market volatility looks likely to continue, as many of the concerns, particularly the politic ones, persist and worsen, despite a generally improving economic environment.

26. On governance, there will also be changes in 2014/15, with the demise of the Pension Fund Panel and its replacement by a formal committee, probably with a larger membership, as well as some sort of scrutiny body. Whilst it is hoped that there will be a good degree of continuity through existing Panel members, clearly there are significant ongoing implications in terms of establishing revised governance arrangements and the training of committee members new to pension fund administration and investing.

27. Next year, therefore, is likely to be another challenging one for the in-house team and those elected members involved with the Fund. As well as implementation of the above governance changes and the introduction of the new LGPS 2014, towards the end of the year the Fund will be undertaking and implementing the results of its regular Fund Structure Review, a major and resource-intensive exercise impacting upon the Fund's advisers, officers and elected members alike.

28. As implied by the opening paragraph of this report, my planned retirement as the Fund's Independent Adviser/Consultant took place on 31 March 2014. This joint role has now been split and it is pleasing to note that appointments to these positions were made early in 2014/15. John Finch of JLT was made Fund Consultant and Karen McWilliam of Aon Hewitt appointed Independent Adviser, although this latter role has been modified slightly to place a far greater emphasis on governance, an understandable adjustment given the changes that are imminent. I wish them all well in their respective roles and have every confidence that the Fund is in good hands.

29. Despite such a challenging year on both administration and fund matters, it is pleasing to report further external recognition for the Fund. At the Europe-wide IP Real Estate Awards in May 2013, the Fund won the award for Best Real Estate Investor UK & Ireland and finished runner-up in the Best Medium-sized Real Estate Investor in Europe. Overall since 2007, the Fund has been honoured with 21 awards and has finished as runner-up in a further 18 categories. As noted previously, these awards are not given lightly and are highly prized throughout the UK and particularly wider Europe. Their award is a tremendous honour and a clear acknowledgement of the Clwyd Fund's pro-active and innovative approach. This in turn reflects the commitment of its Panel members and their willingness to move the Fund forward, as well as the continuity and strength of the in-house team.

30. As noted earlier, this report ends my formal connection with the Fund. This started in 1979, although my involvement on the investment side did not commence until 1982. At that time, the Fund was valued at just £100 million rather than its current £1.2 billion. The investment environment has certainly changed dramatically, growing more complex year by year and thereby increasing both the demands and workloads involved. However, from my own perspective the work has been both enjoyable and rewarding, and the last 30 years or so has been an amazing journey both for the Fund and for all those active in its management.

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

R T Young
Independent Adviser/Consultant
July 2014

APPENDIX 4

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

Key:
** - Project based action
* - Regular ongoing action

Progress (in relation to planned period):
- Complete
- On track or ahead of schedule
- Commenced but behind schedule
- Not commenced

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

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

Key Action -Task	Frequency	New Actions required (start/end)	Progress			
			Q1	Q2	Q3	Q4
Investment and Funding						
Review Investment Strategy	Project	Work with Consultant (Q2/4)		**	**	**
Monitoring and reporting on Fund Managers and Investments	Project	Review and agree Process with Consultant (Q1)	**			
Monitoring and Reporting on Funding Flight-path	Project	Develop New Monitoring Process and Reporting with Advisory Panel (Q1)	**			
Review AVC Provider Performance	Project			**		
Accounting						
Annual Accounts and Audit	Annual	Note comments on Valuation from WAO (Q1)	**			
Annual Report	Annual	Note comments from WAO (Q2/3)		**	*	
Provide Data For Employer Accounts	Annual		*			

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APPENDIX 5

Attendance at Essential Training Sessions
CIPFA Knowledge and Skills Framework Modules

Subject Heading	Sub-Heading	Topics	Cllr Alan Diskin (Chair)	Cllr Hadyn Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw Ll. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Steve Hibbert (Member Rep)	Cllr Nigel Steele-Mortimor (Sub)	Cllr George Hardcastle (Sub)	Helen Stappleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham
Pensions legislative and governance context	General pensions framework	A general awareness of the pensions legislative framework in the UK.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Scheme-specific legislation	An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Scheme-specific legislation	An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme (Administration) Regulations 2008 and their main features.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014

Subject Heading	Sub-Heading	Topics	Cllr Alan Diskin (Chair)	Cllr Hadyn Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw Ll. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Steve Hibbert (Member Rep)	Cllr Nigel Steele-Mortimor (Sub)	Cllr George Hardcastle (Sub)	Helen Stappleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham
	Scheme-specific legislation	An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Scheme-specific legislation	A regularly updated appreciation of the latest changes to the scheme rules.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Scheme-specific legislation	Knowledge of the role of the administering authority in relation to the LGPS.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Pensions regulators and advisors	An understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	General constitutional framework	Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014

Subject Heading	Sub-Heading	Topics	Cllr Alan Diskin (Chair)	Cllr Hadyn Bateman (Vice Chair)	Cllr Brian Dunn	Cllr Ron Hampson	Cllr Matt Wright	Cllr Huw Ll. Jones (DCBC)	Cllr Steve Wilson (WCBC)	Steve Hibbert (Member Rep)	Cllr Nigel Steele-Mortimor (Sub)	Cllr George Hardcastle (Sub)	Helen Stappleton (CO P&R)	Gary Ferguson (S151)	Phil Latham	Debbie Fielder	Alwyn Hughes	Helen Bernham
	General constitutional framework	Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	General constitut-ional framework	Knowledge of consultation, communication and involvement options relevant to the stakeholders.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Pension scheme governance	An awareness of the LGPS main features.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Pension scheme governance	Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Pension scheme governance	A detailed knowledge of the duties and responsibilities of committee members.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014
	Pension scheme governance	Knowledge of the stakeholders of the pension fund and the nature of their interests.		05/06/2014	05/06/2014	05/06/2014			05/06/2014	05/06/2014			05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014	05/06/2014

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

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

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

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

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **22nd JULY 2014**

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

SUBJECT: **LGPS CURRENT ISSUES UPDATE**

1.00 PURPOSE OF REPORT

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

2.00 BACKGROUND

2.01 Mercer will produce regular "current issues" document focussing on the Regulations and other matters that will form the background of this report for future Committee meetings.

2.02 Any items that either the Fund Actuary, a Pension Fund officer, or a member of the Advisory Panel below is of key significance will be highlighted in the covering report to Mercer's current issues paper. This will be expanded in section 3 of this report.

3.00 CONSIDERATIONS

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

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

3.03 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

JULY 2014
A BRIEF UPDATE

IN THIS ISSUE

2014 BUDGET - TRIVIAL COMMUTATION

The 2014 Budget included significant changes for Defined Contributions (DC) schemes and other changes which affect the LGPS. In particular the Budget made changes to the "trivial commutation" rules where members can take a taxable lump in lieu of a small pension. Whilst there are currently some technical restrictions for the LGPS owing to the structure Regulations for certain members, we believe that there is an opportunity to extinguish a potentially significant number of small pensions by offering a lump sum. This will benefit the Fund in an operational and financial sense. The administration team will be considering in conjunction with other Funds.

2014 BUDGET - ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Budget also has potential implications for AVCs (which are a DC benefit) if members are allowed to take them entirely as a part taxable lump sum. Whilst AVCs are primarily member related contributions, the fiduciary duty to members rests with the Administering Authority. This is in addition to the TPR's recently issued 31 "Quality Features" which it expects to be embedded in all DC/AVC schemes. Our recommendation is that, given the above and alongside the Budget changes, now is an appropriate time to review the AVCs currently offered to members.

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - JULY 2014

It has been a very busy period for LGPS pension funds. After the implementation of the new scheme on 1 April 2014, there remains no let up with further Statutory Consultations. These include the structural reform consultation following last year's call for evidence alongside the new Governance requirements.

STRUCTURAL REFORM: COLLABORATION, COST SAVINGS AND EFFICIENCIES

The deadline for responses to the consultation is 11 July and Funds are in the process of responding. Advisors have provided various briefing notes on the questions asked as well as commenting on some of the wider issues.

GOVERNANCE - SCHEME ADVISORY BOARD, LOCAL PENSIONS BOARDS & POTENTIAL SEPARATION OF LGPS SCHEME MANAGERS & THE LOCAL AUTHORITY

The Public Service Pensions Act requires each Public Service Scheme to establish a national Scheme Advisory Board, as well as a local pensions board to assist the relevant Scheme Manager, with effect from 1 April 2015, and the Government issued a consultation on 23 June with deadline for responses on 15 August.

Whilst not final, the indications are that much will need to be determined at local level and so Administering Authorities (Scheme Managers) should be considering how best to address the requirements within their own local authority structure.

This has been covered separately by the Governance advisor but it has implications for a number of the issues raised here.

In addition to the requirements of the Public Service Pensions Act, a wider aspect that is increasingly being raised is whether or not there should be greater separation of the Fund from the 'corporate local authority'. Stakeholders should be aware that this is being looked at and we await future developments on the issue.

TPR's DRAFT CODE OF PRACTICE CONSULTATION

The TPR has issued an interim report providing details of what views were put forward when responding to the consultation covering the strategy and code that dealt with governing the public service pension schemes, managing risk, administration (including information to be provided to members) and resolving issues. Current expectations are that we'll hear more from TPR in the Autumn, following the conclusion of the current consultation on the Code of Practice for Northern Ireland later this month.

LOCAL GOVERNMENT PENSION SCHEME CURRENT ISSUES - JULY 2014

At a more local level, current issues that need to be factored into Fund's business plans are the review of existing practices and policies (in light of the new scheme), systems challenges and the potential need for short-term "work-arounds", and the increasing focus on data quality and reconciliation.

PENSION FUND POLICY REVIEW

The new scheme Regulations make a number of variations to certain clauses (eg cessation of an employer's participation) where Fund Policies underpin the application adopted. In order to assist with the future management of the Fund, we are recommending to Funds that they add the task of reviewing and updating all policies (or developing them where absent) to their business plans.

SOFTWARE ISSUES & EARLY RETIREMENTS

We understand that there have been a number of challenges faced by Fund where systems / IT capabilities have not been fully operational for a number of Funds since the inception of the new scheme. This has been challenging to the administration teams which has affected service levels.

One area that needs further input from us is the assessment of early retirement costs incurred. In conjunction with the administration team we are therefore in the process of implementing an updated approach to be used for these calculations and notifying employers of the impact.

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

DATA QUALITY & GMP RECONCILIATION SERVICE

Data quality has long been a focus of TPR and the draft Code of Practice for public sector pensions lead us to conclude that this will equally apply to the LGPS going forward. The Record Keeping requirements (Consultation and Government response issued in early July) also covered some aspects of this. Prior to the actuarial valuations we wrote to funds to cover how TPR might

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review each fund's data and provided a sample data quality report. Now the dust from the valuations has settled, it is 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.

In addition, HMRC have recently announced a reconciliation service to allow contracted-out pension schemes to reconcile scheme membership and GMPs in advance of the cessation of contracting-out in April 2016. Given the scheme's size and the fact that the LGPS is a multi-fund single scheme, we are recommending that Funds use this service and register as soon as possible (as it could be a lengthy and challenging process and cases will be dealt with on a first-come-first-served basis). We understand that the Clwyd Pension Fund is already moving forward with the reconciliation.

LGPS REGULATIONS UPDATE

1. There are significant aspects of the new 2013 LGPS Regulations that requirement amendment/correction to some extent. We understand that these are being worked on by DCLG and it's hoped that an update to the Regulations will be forthcoming before the summer recess.

2. A response to the Record Keeping consultation was issued in early July. Whilst most of the requirements would not pose any problems, after a number of comments from respondents, the DWP have decided to remove the minimum period regulation. It is anticipated that best practice will be promoted through TPR's Codes of Practice.

3. The LGPC Secretariat recently has sought clarity on the potential for an ongoing salary link to apply to deferred benefits, if that member did not have a disqualifying break. This arises due to section 20 and Schedule 7 of the Public Service Pensions Act 2013. DCLG have confirmed that an ongoing salary link will apply in certain circumstances. We understand that a consultation will follow in due course, but consistency of application across all England and Wales funds will be needed.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **22nd JULY 2014**

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

SUBJECT: **PENSION ADMINISTRATION AND COMMUNICATIONS UPDATE**

1.00 PURPOSE OF REPORT

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

- progress of administration and communication matters against the Service Plan for 2014/15,
- progress against the Fund's Communications Policy,
- new and leaving employers and bulk transfers, and
- delegated functions.

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

2.00 BACKGROUND

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

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

2.03 The Council's Constitution outlines the role of the Committee and this includes the following matters relating to administration of the Fund:

- Ensuring the Fund is managed and pension payments are made in compliance with the appropriate legislation,
- Making decisions relating to employers joining and leaving the Fund,
- Agreeing the terms and payment of bulk transfers into and out of the Fund.
- Monitoring implementation of policies and strategies,
- Monitoring progress against the Fund's business plans, and
- Receiving reports in relation to delegated functions.

2.04 The Pension Fund Committee has been asked to approve the Fund's 2014/15 Service Plan and agree delegated functions as part of separate reports to this meeting. In relation to pensions administration the only key strategy that has already been approved is the Communication Strategy.

3.00 UPDATE AGAINST SERVICE PLAN

3.01 In this section we provide an update against the Fund's annual Service Plan split into two key areas:
- Part 1 – Projects and improvements
- Part 2 – Performance measurements against day to day tasks

Part 1 - Projects and Improvements

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

New CARE Scheme Implementation (1)

3.03 The new CARE scheme commenced from 1st April 2014. Some of the Regulations were received very late from the Government which means that software suppliers have not been able to update systems. Hence, much manual intervention is currently required by pension administration officers across the 89 LGPS administering authorities.

3.04 Although this is being managed by the administration team there will inevitably be some impact on the service provided to employers and scheme members. Employers and those members concerned have been informed of these difficulties to manage expectations and reputational risk

Reduce Backlog of Tasks (2)

3.05 An improvement within the Service Plan is to improve historic membership data by removing a backlog of tasks. The number of cases has reduced from 2961 to 1738 over a period of 12 months. Additional resource has now been secured until May 2015 to complete these outstanding cases and administration officers are working closely with employers. There has been some turnover in the team which has hindered progress until replacements are appointed and trained. The outstanding backlog relates to more complex calculations and therefore will take longer to complete. Due to the issues with the implementation of LGPS 2014 current workload has been prioritised which again will slow down progress with the backlog. Management will continue to monitor progress with a view to re-evaluating the timeframe and will update the Committee of the any revised timescale at the next meeting.

Pensions Administration Strategy (PAS) (3)

3.06 The development of a PAS is part of the Fund's improvement plan. This will include service standards for the administration section and employers. As part of this project the team has reviewed all tasks and are leading on a service standard collaboration across the 8 welsh pension funds. Only a small number of the 89 funds have such a strategy (which is optional in the regulations), albeit many are now developing their strategy.

3.07 Currently the focus must be on the new Scheme and reducing the existing backlog, but work is planned with assistance from the Independent Adviser early next year. The results of this project will then be brought to Committee.

Disaster Recovery - Pension Software Systems (4)

3.08 The pension systems are provided by Heywood's and includes a package of integrated systems, called Altair, which includes:

- Image (which enables all member records and documents to be held electronically)
- Task Management (which enables to management of workflow)
- Pensioner Payroll
- iconnect (an interface between employer payroll and pension systems)
- Atmos (informs the pension fund of member deaths)

3.09 In terms of the Service Plan for quarter one, the testing of the disaster recovery of these systems is included and was raised in an internal audit report. Pension officers are working with ICT to complete by the end of July 2014.

Data Quality (5)

3.10 An improvement on the Service Plan is to continue to improve data quality received from the employers. A key element of this is the implementation of iconnect which is a system to interface between employer payroll systems and pension systems and should improve data quality at source. We are working with employers on the timing of implementation. Initially, a lot of data cleansing and data mismatching will need to be resolved and a business case for additional resource within Pensions Administration to assist with this was agreed at the last Pension Panel. Hopefully, progress will be made in the autumn.

Pensioner Payroll – Pensions Increase Letters and P60s (6)

3.11 The service has been provided in line with the Service Plan which included this quarter providing pensioner members with pension increase letters and P60s. The current pensioner payroll is 11,908 including Teachers Compensation payments

Part 2 - Performance measurements against day to day tasks

Workflow

3.12 Despite the difficulties created by the new scheme the workflow is being managed by the operational team. The table below illustrates the number of cases completed during the first quarter compared to the same period of last year.

Case	Q1. 2013	Q1. 2014
Retirements	155	201
Deaths	98	82
Transfers In	40	22
Transfers Out	20	20
Estimates	76	76
Deferreds	101	394

Performance targets are being developed alongside service standards as mentioned in 3.06 and these will be reported to the Committee at a later date.

The latest membership figures compared to the same quarter last year are:

Status	Q1. 2013	Q1. 2014
Active	15,045	15,738
Undecided Leaver	3,404	3,065
Deferred	7,648	8,600
Pensioner	8,471	8,930
Spouse/Dependants	1,526	1,557
Frozen	880	821
Opt Outs	62	529
Total	37,036	39,240

There are 12 members who are currently in the 50:50 scheme.

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

Status	30 June 2014
Active	54
Undecided Leaver	2
Deferred	10
Pensioner & Spouse/Dependants	24
Total	90

Internal Dispute Resolution Procedures

3.13 Monitoring complaints is a useful method of identifying any specific issues. The LGPS Regulations require an administering authority to have an Internal Dispute Resolution Procedure (IDRP). This is a two stage process. Stage 1 is handled by a specified person that has been appointed by the Clwyd Pension Fund. This is Yunus Gaiji who is the Development Manager (Strategic) at the West Yorkshire Pension Fund. If a member is unhappy with the explanation provided after Stage 1, Stage 2 is handled by an appointed officer from Flintshire County Council who has had no previous involvement with the case. The appointed officer is the Democracy and Governance Manager. If the member is still not satisfied they can then contact the Pensions Ombudsman. The Pensions Advisory Service can give help to the member throughout the process.

3.14 Administration Officers are successful in resolving most disputes before this formal process starts but currently there are three at stage 1, but none at Stage 2 or with the Pensions Ombudsman.

4.00 DELIVERY OF COMMUNICATIONS POLICY

4.01 As required by LGPS regulation the Fund publishes a Communication Policy Statement which was agreed with the former Pension Fund Panel. This is included in Appendix B. The Strategy on how the Fund communicates with its various stakeholders is reviewed annually and will be brought to Committee next year for discussion and approval.

4.02 The service provided in the first quarter is in line with the Service Plan. The Communication Officer has provided the following services in quarter one:

- 13 One to One sessions to 155 individual members of numerous employers
- 5 New Scheme Presentations to 92 members
- 3 Pre-Retirement Courses to 79 members
- 2 Redundancy Presentations to 26 members
- Employer Training & New Scheme Presentation to 2 Employers

4.03 The following communications have been distributed or worked in quarter one:

- Penpal (Newsletter for Active Members) issued in March 2014.
- Clwyd Catch Up (Newsletter for Pensioner Members) which was distributed with Pension Increase letters in April 2014
- Deferred Benefit Statements issued June 2014
- Service Level Agreements with employers (Draft)
- Reviewed/Rewritten all internal forms/letters due to New Scheme

Copies of Penpal and Clywd Catch Up are enclosed for information. (Appendix C and D)

5.00 NEW/LEAVING EMPLOYERS AND BULK TRANSFERS

New/leaving Employers

5.01 There is one new potential admission body into the scheme which is currently being discussed with the relevant employer and actuary. This relates to the creation of a new company.

Bulk Transfers

5.02 There are no current or planned bulk transfers in or out of the Fund

6.00 UPDATE ON DELEGATED FUNCTIONS

6.01 There are no delegated functions as of yet. Updates will be provided as required at future Pension Fund Committee meetings.

7.00 OTHER MATTERS

Life certificates

7.01 The purpose of this project during 2013/14 was to identify any potential benefit fraud. Each life certificate returned enabled the pension section to determine whether the member is still alive and use the information provided on the certificate to update any personal information and power of attorney details. In total 10319 life certificates were issued to our pensioners in April 2013.

7.02 The former Pension Panel were provided with updates as the project progressed. Currently, there are 17 pension payments which have been suspended until such time as the pensioner member contacts the Fund. Although many steps have already been taken to contact the pensioner member, including contacting their bank and the Department of Work and Pensions, management will consider any further steps.

8.00 RECOMMENDATIONS

8.01 That Committee Members note the report.

9.00 FINANCIAL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 ANTIPOVERTY IMPACT

10.01 None directly as a result of this report.

11.00 ENVIRONMENTAL IMPACT

11.01 None directly as a result of this report.

12.00 EQUALITIES IMPACT

12.01 None directly as a result of this report.

13.00 PERSONNEL IMPLICATIONS

13.01 None directly as a result of this report

14.00 CONSULTATION REQUIRED

14.01 None directly as a result of this report.

15.00 CONSULTATION UNDERTAKEN

15.01 None directly as a result of this report.

16.00 APPENDICES

16.01 Service Plan Progress
16.02 Communications Policy
16.03 Penpal
16.04 Clwyd Catch Up

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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APPENDIX A

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

Key:
** - Project based action
* - Regular ongoing action

Progress (in relation to planned period):
Complete
On track or ahead of schedule
Commenced but behind schedule
Not commenced

Note	Key Action -Task	Frequency	New Actions required (start/end)	Progress Q1	Q2	Q3	Q4
	GOVERNANCE						
3	Update Statutory Documents	Yearly	Document Administration Strategy (Q3/4)			**	**
	Staffing – Pensions Administration	Project	Transfer temporary contracts to full time (Q1/2)	*	*		
	CIPFA Benchmarking – Pensions Admin.	Annual		*	*		
	PENSIONS ADMINISTRATION						
	Develop Performance measurement and reports	Project	Work on-going in Wales (Q1/2)	*	*		
	<u>Operational</u>						
1	New CARE scheme Implementation	Project	Adapt procedures for new scheme (Q1/2)	**	**		

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Note	Key Action -Task	Frequency	New Actions required (start/end)	Progress Q1	Q2	Q3	Q4
			Continue to train staff on new scheme (Q1/2)				
2	Reduce Backlog of tasks	Project	Backlog of tasks being actioned (Q1/Q4+) Monitoring and reporting on backlog (Q1/Q4+)	*	*	*	*
	Rechargeable employer work (EVR)	Project	FCC (Q1)	*			
	Technical						
	Benefit Statements (Active)	Annual			*		
	Benefit Statements (Deferred,)	Annual		*			
	Benefit Statements (Cllr)	Annual			*		
	AVC (Equitable Life) Statements	Annual		*			
	Life Time Allowance Letters (LTA)	Annual		*			
5	Managing employer data	Project	Appoint to Temporary Position (Q1) Implement I connect with DCC(Q1) Data Cleansing with FCC (Q1/3) Gathering information from Itrent (Q1/4) I connect sign up WCBC (Q1)	**	**	**	**

Note	Key Action -Task	Frequency	New Actions required (start/end)	Progress			
				Q1	Q2	Q3	Q4
	Employer Contribution Return Reconciliation	Annual		*	*		
	Altair Updates / Management Tool Kit	As required					
4	Disaster Recovery	Annual	Test Recovery Plan (Q1)	*	*		
	Payroll						
6	Pensions Increase	Annual		*			*
6	P60s	Annual		*			
	Communication						
	Web-site and infonet maintenance	Daily	Update for New Care Scheme (Q1)	**	**		
	Update, document and distribute Pension literature	Various	Update for new CARE Scheme (Q1)	**	**		
	Road Shows , Training, Pre-retirement seminars for the membership	Daily	New Scheme Roadshows (Q1)	**			
	Training for the employers	Daily	New Scheme Training (Q1)	**			
	Arrange Annual Employer Meetings	Annual			*	*	

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Note	Key Action -Task	Frequency	New Actions required (start/end)	Progress			
				Q1	Q2	Q3	Q4
	Arrange Annual Report Production	Annual			*	*	
	Document SLAs with employers	Annual	Update Discretions re CARE Scheme (Q1)	**	**		*

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Communication Policy Statement

The Clwyd Pension Fund has had a Communications Policy Statement since April 2006. This statement is reviewed and updated each year to ensure that there is a continual improvement in the provision of information.

This statement outlines Clwyd Pension Fund's policies concerning communications with the following people and organisations:

- Scheme Members
- Prospective Members
- Employing Authorities
- Fund Staff
- Other Bodies

Mission Statement

The Fund's communication policy statement follows the principles of the Clwyd Pension Fund Mission Statement which is identified as:

- We will be known as forward thinking, responsive, pro-active and professional providing excellent customer focused, reputable and credible service to all our customers

- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources

- We will work effectively with partners, being solution focused with a can do approach

Diversity of Communication

All of the Fund's communication material is bi-lingual and members are able to receive all personal communications in Welsh should that be their preferred language.

The Clwyd Pension Fund's correspondence is also available in alternative formats for example, Braille, large print, BSL Video/DVD, audio tape and other languages on request.

The Clwyd Pension Fund's aim is to use the most appropriate communication medium for the audience receiving the information. This may involve using more than one method of communication.

Communications with Scheme Members

Local Government Pension Scheme (LGPS) members include contributing members, deferred members and pensioners. Each type of member receives different forms of communication according to their individual needs.

Annual Benefit Statements – These statements are distributed annually to both contributing and deferred members' home addresses as per regulation requirements. The Clwyd Pension Fund continues to use the format of pension figures and guidance notes combined in one user-friendly booklet. In addition, the statement included a projection of State pension benefits at State pension age for all LGPS members who elected to receive the information.

The format of the statements has been reviewed by the All Wales Group in line with the LGPS regulations. The Annual Allowance (AA) information has been provided to members since 2012.

Newsletters – The Clwyd Pension Fund has a newsletter for contributing members entitled Penpal. The purpose of this newsletter is to keep members up-to-date with any changes to the pension scheme regulations.

The Fund also sends a newsletter to its pensioners entitled Clwyd Catch Up. This is sent out with the annual pensions increase notification and explains how their new annual rate of pension has been calculated. It also includes topical information regarding the budget, State benefits etc.

Both newsletters are distributed to home addresses at least once a year.

Pensions Extra is an additional newsletter that the Clwyd Pension Fund uses to notify members of urgent issues concerning LGPS. It is only published on an ad-hoc basis as and when required. In March 2012 the latest edition was distributed to inform members about the Annual Allowance Fixed protection and the deadline to apply for it.

Presentations/Road-shows/Drop-in Sessions – The Clwyd Pension Fund offer LGPS presentations, road-shows, and drop-in sessions throughout the year.

The amount of visits to employers is likely to rise, due to a combination of departmental reviews and the introduction of the 2014 Scheme.

2012/13 financial year saw the Clwyd Pension Fund carry out 21 drop-in sessions. These sessions were used, not only to discuss individual member issues and also how the current pension scheme works, but also used to discuss the public sector pensions review.

The information given out at these events is constantly reviewed to ensure that it is up-to-date and takes into account any changes in the pension regulations. LGPS literature, ranging from scheme booklets to death grant expression of wish forms, is always available at these events.

Pre-Retirement Courses – Fund Officers attend pre-retirement courses to inform members who are approaching retirement age, about Local

Government retirement procedures. Historically four courses have been held per annum but, due to high demand, this has increased to six courses per annum. The courses are still run in partnership with Gwynedd County Council. All course material is reviewed in advance to ensure the information is up-to-date according to regulation changes.

In circumstances where there is a higher demand, courses are organised by Clwyd Pension Fund Employers in addition to the ones held in collaboration with Gwynedd. A Fund officer also attends these courses to give a presentation on LGPS and retirement procedures.

Website – All members have access to the Fund's website which can be found at **www.clwydpensionfund.org.uk.** The website was set up to provide comprehensive information regarding the Local Government Pension Scheme and the Clwyd Pension Fund. It enables members to download scheme literature and forms.

The website also has links to other useful websites, for example, the new scheme website (LGPS2014), Prudential – our AVC provider, and the Department for Work and Pensions (D.W.P.)

Literature – Current pensions literature, available to scheme members include:

- Employee Guide to the Local Government Pension Scheme, which is sent to all members upon joining the Clwyd Pension Fund. This booklet is amended as and when required.
- Topping Up Your Benefits, which explains how members can pay extra contributions to increase their benefits on retirement. This booklet is currently being reviewed and updated where necessary.
- Retirement pack sent to all members about to retire from the Clwyd Pension Fund. This booklet has recently been reviewed and updated.

Pensions Fact-sheets – Several fact-sheets are available and are updated as and when pension regulation changes make it necessary. They are produced on an All Wales basis. Most of the Welsh Pension Funds use the fact-sheets for general distribution to their LGPS members. The fact-sheets available are:

- Authorised Unpaid Leave
- Changing Working Arrangements
- Commutation
- Pensions on Divorce or Dissolution of Civil Partnerships
- Flexible Retirement
- Ill Health Retirement
- Maternity Leave
- The Rule of 85
- Pension Transfers

Pensions Taxation Correspondence – Correspondence was distributed in March 2012, to all members who are high earners. It made clear their option to apply for Fixed Protection on the Life Time Allowance no later than 5th April 2012 so that they can use £1.8m LTA instead of reduced £1.5m

The Clwyd Pension Fund will issue further correspondence, so that our members are aware of taxation rules including Annual Allowance. They can then take any action required to ensure they do not have pension savings in excess of the Annual Allowance and have to pay a tax charge.

Facts & Figures – An extract of the Fund's facts & figures for each financial year is included in the Penpal newsletter so that contributing members have easy access to the Fund's current financial position.

Annual Report – The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment principles, funding strategy, and governance.

Contacting the Clwyd Pension Fund – All members have the opportunity to telephone, fax, email or visit the Clwyd Pension Fund for information in addition to the other lines of communication open to them.

Communications with Prospective Members

Literature – Various literature is available to prospective members that promotes the Local Government Pension Scheme and explains the scheme benefits. Booklets include:

- Your Pension at Retirement, which is distributed to all new employees alongside their contract of employment. This leaflet is updated each year and has recently been re-written.
- Opted Out? Missing Out! Is sent to employees who request to opt out of the scheme. It informs them of the benefits they may miss out on.

Induction Days – Flintshire County Council Corporate Training Unit organise induction days for new employees. As part of these induction days, Clwyd Pension Fund is invited to give presentations to prospective scheme members in order to promote the benefits of joining the Local Government Pension Scheme. This service has also been offered to our other scheme employers.

Website – The Clwyd Pension Fund website address is advertised in all available literature and is also mentioned in induction presentations so that prospective members can visit our website for more information if they wish to do so.

Communications with Employing Authorities

AJCM – The Annual Joint Consultative Meeting is held every November and an invitation is extended to employers and Union representatives. The Annual Joint Consultative Meeting offers employers the opportunity to discuss the latest pension issues and to keep up-to-date with Local Government Pension Scheme regulations. The Annual Joint Consultative Meeting also includes a presentation summarising the Fund's annual report and accounts.

Individual Employer Meetings - Employers have the opportunity to meet with members of staff from the Clwyd Pension Fund to discuss any issues with regard to the Local Government Pension Scheme. These meetings take place as and when they are required.

Training Sessions – Training sessions are offered to both Payroll and Personnel departments within each employer. The sessions include training on the Local Government Pension Scheme regulations and administration procedures.

Service Level Agreements (SLAs) – Service Level Agreements were introduced in April 2007 in order to improve best practice and also to comply with audit requirements.

The Service Level Agreement sets out, in detail, the obligations and responsibilities of both the Employing and Administering Authorities concerning all aspects of Local Government Pension Scheme administration. These Agreements are reviewed and updated annually.

Website – The Clwyd Pension Fund website is a vast log of information available 24 hours a day, 365 days of the year. All of the information on it is up-to-date and takes into account current LGPS regulations.

The employing authorities also have their own website section that they can visit to find out how to implement LGPS regulations. They are able to download password protected pensions forms which must be completed by the employer in order for pension benefits to be calculated. The website's Employer section also has a 'News Alerts' feed. This allows the Clwyd Pension Fund employers to stay up to date on urgent LGPS issues via the website.

Email Updates – Clwyd Pension Fund has an email distribution list of all employers. Regular emails are sent to the group with updates on the LGPS. This email distribution list is also used to remind employers of facilities available to them and their staff, i.e. pension presentations and drop-in sessions.
The email distribution list is used to inform them when a news alert is added to the website.

Employer Bulletins – These are emailed to employers annually, normally in September. The bulletin was created with a view to informing employers of important LGPS issues. It is also used to summarise all of the LGPS changes for the past 12 months – to ensure that employers have not missed any of these updates.

The Clwyd Pension Fund retains the option to email additional Employer Bulletins throughout the year if urgent information needs to be sent to our employers.

<u>Communications with Pension Fund Staff</u>

Clwyd Pension Fund Manager – The Clwyd Pension Fund Manager maintains an open-door policy and attempts to make himself available to staff both within and outside the Pensions office.

Management Meetings – These are to assist the management team in planning ahead and focusing on the next 12 months issues, for example staffing, workloads, and accommodation.

Team Leader Meetings - Weekly meetings for the Pensions Manager and the Team Leaders take place to discuss day to day issues from all perspectives including priorities and procedures.

Communications Meetings – Monthly meetings for the Pensions Manager and the Communications Officer. These are to discuss the current communication projects.

Technical Meetings – The Pensions Manager meets with both Technical Team Leaders. The purpose is to discuss the current technical projects.

Section Meetings – Office and/or Team Meetings are held on a monthly basis to discuss operational issues. The purpose is to update the team on issues covered in the meeting mentioned above.

Any items arising from any of the above meetings are escalated to the Clwyd Pension Fund Manager and raised at Senior Management Team meetings when necessary.

Staff Training – The Clwyd Pension Fund ensures that all pension staff receive both in-house and external training, with regard to pension matters, so that they are able to administer the scheme effectively, answer member queries and offer a good customer service.

The Pensions Section staff attend various one day courses run by the Local Government Association (LGA) regarding the LGPS as and when these courses are made available.

To develop a deeper knowledge, many pensions staff have completed a 2 year Local Government Pension Scheme Diploma with the Chartered Institute of Pension and Payroll Professionals (CIPP). A further member of staff has also committed to this qualification over the next 2 years.

Fund staff are encouraged to attend other training courses that will assist in their personal development.

Communications with Other Bodies

Regional Forums – The Shrewsbury Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Managers and other Pension Officers from administering authorities in the region to share information and ensure uniform interpretation of the Local Government Pension Scheme, and other prevailing regulations.

Partnership Meetings with the 8 Pension Funds in Wales – The Pensions Manager regularly meets representatives from the other 7 Pension Funds in Wales to discuss best practice and to ensure that all the Welsh Funds have a consistent approach to their administration procedures.

In addition, all of the Communications Officers from the 8 Welsh Pension Funds meet on a regular basis to share ideas about forms of communication. Some of the scheme literature that is produced is on an “All Wales” basis.

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PENPAL
L G P S
LOCAL GOVERNMENT PENSION SCHEME

Issue 18 Spring 2014

Introduction

Welcome to a special edition of Penpal, the Clwyd Pension Fund newsletter.

On 19th September 2013 the initial set of the Local Government Pension Scheme (LGPS) regulations 2013 were published. They detail the new scheme which will begin on 1 April 2014.

This issue has been designed especially to introduce you to the LGPS2014.

If you have queries regarding any of the information in this newsletter, please contact us. Our contact details are below.

Regards,

Helen Burnham - Pensions Administration Manager

Phil Latham - Clwyd Pension Fund Manager

Kerry Feather - Treasurer and Administrator

Clwyd Pension Fund Contact Details

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Email: pensions@flintshire.gov.uk

Website: www.clwydpensionfund.org.uk

Please ensure you notify the Clwyd Pension Fund, in writing (emails accepted), when you change your name, address, or marital status, and send copies of any relevant certificates. We are not able to accept notification of these changes over the phone.

Why has the scheme changed?

The release of the 'Hutton Report' on 10 March 2011 concluded that Public Sector pensions were unsustainable and unaffordable.

A working party, consisting of representatives from the Local Government Association (LGA), leading Trade Unions and the Department of Communities & Local Government (DCLG), were tasked to develop a new LGPS.

Following various periods of consultation, the LGPS regulations were laid before parliament on 19 September 2013.

The New LGPS 2014 will be introduced on 1 April 2014.

Protection for existing members

All existing 'active members' on 31 March 2014, will automatically transfer to the New LGPS 2014 on 1 April 2014.

Transitional protection has been given to all active members (as at 31 March 2014). Membership to 31 March 2014 will continue to be linked to your final salary upon retirement.

Additional protection has been awarded to members that were age 55 (within 10 years of their Normal Pension Age) as at 1 April 2012.

Upon retirement, your benefits will be assessed to ensure that they are at least equal to the benefits that you would have received under the 2008 Scheme i.e. the 'BEST OF BOTH'.

Who can join the new scheme?

There is no longer a lower age limit. The upper age limit, that benefits must be paid before age 75, remains unchanged.

You must have an employment contract of at least 3 months to be automatically entered into the scheme.

However, if you have an employment contract of less than 3 months you can opt to join.

Please note - This information is available in alternative formats for example Braille, large print, BSL Video/DVD, Audio tape and other languages on request.

Cronfa Bensiynau Clwyd
Clwyd Pension Fund
Administered by
Cyngor Sir y Fflint
Flintshire County Council

How much will I contribute?

A contribution banding arrangement will remain. Your rate will be calculated using your annual 'actual pensionable pay' rather than your annual full time equivalent pay.

'Non-contractual overtime' will become pensionable from 1 April 2014.

Actual Pensionable Pay	Gross Rate (%)	Net Rate (%)
Up to £13,500	5.50	4.40
£13,501 to £21,000	5.80	4.64
£21,001 to £34,000	6.50	5.20
£34,001 to £43,000	6.80	5.44
£43,001 to £60,000	8.50	5.10
£60,001 to £85,000	9.90	5.94
£85,001 to £100,000	10.50	6.30
£100,001 to £150,000	11.40	6.84
£150,001 or more	12.50	6.88

What will my employer pay?

Your employer pays the balance of the cost of providing your benefits after taking into account investment returns. Every three years, an independent actuary calculates how much your employer should contribute to the scheme.

When will I be able to retire?

You can retire at anytime from age 55 to 75.

As an active member on 1 April 2014, you no longer need your Employer's Consent to retire and draw your benefits, between age 55 and 60. However, it will effect protection given by the 85 year rule, meaning your benefits will be reduced.

Your Normal Pension Age (NPA) will be linked to your 'current' State Pension Age (SPA)...

Born on or before 5 December 1953 > age 65

Born on or between
6 December 1953 & 5 April 1960 > age 66

6 April 1960 & 5 April 1977 > age 67

Born on or after 6 April 1977 > age 68

Any future change in State Pension Age, will mean a change to your Normal Pension Age.

How will my benefits be calculated?

You will no longer be contributing to a 'final salary' scheme from 1 April 2014.

The new Scheme will operate on a 'Career Average Re-valued Earnings' (CARE) basis.

Benefits will be calculated, using 'actual pensionable pay', (from 1 April to 31 March) and a '1/49th' accrual rate.

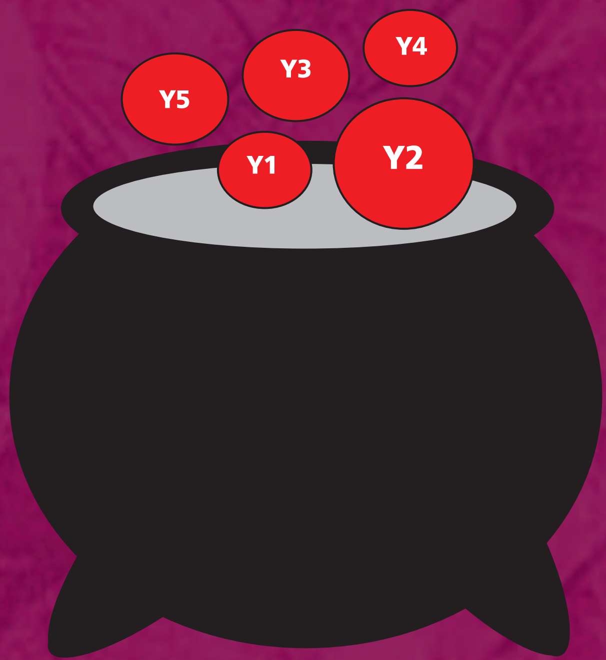
You will have a 'pension pot' for each of your employments, which will be credited annually with the amount of pension built up for that year (from 1 April to 31 March).

Your pot will then accumulate and will be re-valued annually in line with Treasury Orders (TO).

Membership in each scheme, (up to 31 March 2008, 1 April 2008 to 31 March 2014 and from 1 April 2014) will be calculated separately and added together to establish your retirement benefits.

Calculating your 'CARE' benefits

- Actual Pensionable Pay ÷ 49
- Pension deposited to 'pension pot'
- Pension pot is re-valued annually by Treasury Orders to follow inflation



'97 Scheme FS

Membership...

up to 31 March 2008

Annual Pension (80th)
+
Automatic Lump Sum (3/80th)

+

'08 Scheme FS

Membership...

1 April 2008 to 31 March 2014

Annual Pension ONLY (60th)

+

'14 Scheme CARE

From...

1 April 2014

Annual Pension ONLY (49th)

=

Total Benefits

Annual Pension
Automatic Lump Sum

+

Commutation Option

£1 pension = £12 tax free cash
(subject to HMRC limit)

STEP 1 - Calculating the 'CARE' element...
For the purposes of this example, TO has been predicted to be 2%. This is for illustration purposes only. Pay rises of 1% have also been included.

Period	Annual pension calculation	Running total
Year 1 (2014/15)	1/49 x £29,000 = £591.84	£591.84
Re-valued = £591.84 + £11.84 (2%) = £603.68		
+ Year 2 (2015/16)	1/49 x £29,290 = £597.76	£1,201.44
Re-valued = £1,201.44 + £24.03 (2%) = £1,225.47		
+Year 3 (2016/17)	1/49 x £29,582 = £603.71	£1,829.18
Re-valued = £1,829.18 + £36.58 (2%) = £1,865.76		
+Year 4 (2017/18)	1/49 x £29,877 = £609.73	£2,475.49
Re-valued = £2,475.49 + £49.51 (2%) = £2,525.00		
+Year 5 (2018/19)	1/49 x £30,175 = £615.82	£3,140.82
Total value of 'CARE Pension Pot'		**£3,140.82**

STEP 2 - Calculating 'Final Salary' element...
Membership from
1 April 2000 to 31 March 2008: 8 years

1 April 2008 to 31 March 2014: 6 years

Final pay as at 31 March 2019: £30,175

Annual Pension:
(8 ÷ 80 x £30,175 = £3,017.50
+6 ÷ 60 x £30,175 = £3,017.50) = £6,035

Automatic Lump Sum:
8 ÷ 80 x £30,175 = £3,017.50 x 3 = £9,052.50

STEP 3 - Total value of Pension Benefits...

CARE pension pot...	
Annual Pension:	£3,140.82
Final Salary element...	
Annual Pension:	£6,034.00
Automatic Lump Sum:	£9,052.50
Total Value of Annual Pension:	£9,174.82
Automatic Lump Sum:	£9,052.50

STEP 4 - Commutation Option...

Annual Pension:	£9,174.82
Automatic Lump Sum:	£9,052.50
Amount of Annual Pension to be given up:	£2,791.86
Remaining Annual Pension: (£9,174.82 - £2,791.86)	£6,382.96
Maximum Tax Free Lump Sum: (12 x £2,791.86 + £9,051)	£42,553.28

At retirement. you can choose to convert any amount of annual pension up to the maximum. Her Majesty's Revenue & Customs limit your maximum tax free cash to 25% of your total pension pot.

Will my benefits be reduced?

Benefits payable before 'Normal Pension Age' (NPA) will continue to be actuarially reduced to take account of early payment.

Exclusions to the rule... benefits payable on the grounds of ill health, redundancy or efficiency.

Benefits paid later than your NPA will continue to be actuarially increased to take account of late payment.

The Government Actuary Department (GAD) have yet to release any factors for the New LGPS 2014.

The 'Transitional Regulations' will contain further information on how existing '85 Year Rule' protections' are to be treated from 1 April 2014.

Can I increase my benefits?

You can improve your pension by paying more contributions. You might want to pay more for a number of reasons, maybe you joined the scheme later in life or you had a career break after having a family and missed out on paying into a pension.

In LGPS 2014 you have two tax efficient ways of making additional pension savings to increase your pension.

OPTION 1
Additional Voluntary Contributions (AVC)

As the appointed provider, Prudential administer the Clwyd Pension Fund In-house Additional Voluntary Contributions (AVC) scheme.

As a NEW contributor you are able to contribute up to 100% of monthly pensionable pay (previously 50%) and in full 'tax relief'.

However, the 100% tax free cash option (subject to HMRC limits) will not be available to NEW Contributors in the LGPS2014.

Options available upon retirement: tax free cash and / or scheme annuity (if retiring from active service) OR

Annuity purchased with chosen provider or on open market.

AVCs are flexible and appeal to all ages:

- You can start, stop or change how much you pay in, to suit your circumstances
- Your choice of Lump Sum or Pension is made at retirement, not when you start
- No medical is required

If you are interested in AVCs, you can call the Pension Connection LG Team Freephone number on 0800 731 0466. Alternatively, you can visit www.pru.co.uk/localgov and click on 'Complete application' then 'online application form'.

OPTION 2
Additional Pension Contributions (APC)

Replaces the Additional Regular Contributions (ARC) option.

ALL existing 'Added Years' / ARC contracts will be honoured.

An in-house option to purchase an additional pension amount (maximum amount that can be purchased is £6,500).

The cost of the 'contract' is calculated using a factor table, issued by the Government Actuaries Department (GAD). The percentage of pay/total cost is based on factors including the length of contract, age and amount of pension purchased. The cost can be paid monthly via the payroll or as a 'one off lump sum'.

Contributions must NOT exceed 100% of your monthly pensionable pay. You receive tax relief on the additional contributions made.

Applications are subject to medical examination (as paid for by the member).

When topping up your pension, deductions from your pay are before tax.

For example:

- For 20% taxpayers, £100 is invested but your net pay will drop by £80.
- For 40% taxpayers, £100 is invested but your net pay will drop by £60.

Absence

APCs will be used to purchase pension lost through absence. For Authorised absence and maternity/ paternity adoption based leave, you will pay 1/3 and your employer will pay 2/3. You will need to make your election to purchase this within 30 days of returning to work.

For strike and topping up your benefits you will cover the whole cost.

Can I pay less into the Scheme?

You can pay 50% of normal contribution, to receive 50% of benefits during that period (per employment) under the new 50 / 50 option.

For example... instead of paying 6.50% you can elect to pay 3.25% but benefits will then be calculated at a 1/98th for this period.

However, you will retain FULL ill health / death cover during the 50/50 period.

You will need to give written notice to your employer to 'start and stop' this option.

After three years you will be brought back into the full scheme automatically.

The 50/50 Contribution Arrangement

Band	Actual Pensionable Pay	Full Rate (%)	Half Rate (%)
1	Up to £13,500	5.50	2.75
2	£13,501 to £21,000	5.80	2.90
3	£21,001 to £34,000	6.50	3.25
4	£34,001 to £43,000	6.80	3.40
5	£43,001 to £60,000	8.50	4.25
6	£60,001 to £85,000	9.90	4.95
7	£85,001 to £100,000	10.50	5.25
8	£100,001 to £150,000	11.40	5.70
9	£150,001 or more	12.50	6.25

How will the 50/50 option affect my benefits?

Example:
Sian joined the LGPS on 1 April 2000 and is retiring on 31 March 2019 i.e. her Normal Pension Age (benefits will NOT be actuarially reduced). Sian has always worked full time.

** However, Sian opted for the 50 / 50 option from 1 April 2016 to 31 March 2018 and returned to the main scheme on 1 April 2018.*

Calculating the 50/50 element

For the purposes of this example, TO has been predicted to be 2%. This is for illustration purposes only. Pay rises of 1% have also been included.

Period	Annual pension calculation	Running total
Year 1 (2014/15)	1/49 x £29,000 = £591.84	£591.84
Re-valued = £591.84 + £11.84 (2%) = £603.68		
+ Year 2 (2015/16)	1/49 x £29,290 = £597.76	£1,201.44
Re-valued = £1,201.44 + £24.03 (2%) = £1,225.47		
+Year 3 (2016/17)	1/98 x £29,582 = £301.86	£1,527.33
Re-valued = £1,527.33 + £30.55 (2%) = £1,557.88		
+Year 4 (2017/18)	1/98 x £29,877 = £304.87	£1,862.75
Re-valued = £1,862.75 + £37.25 (2%) = £1,900.00		
+Year 5 (2018/19)	1/49 x £30,175 = £615.82	£2,515.82
Total value of 'CARE Pension Pot'		**£2,515.82**

What if I choose to leave the Scheme?

You can opt out of the Scheme at any time. You MUST obtain an Opt Out form from the Clwyd Pension Fund and return it directly to your employer.

Vesting period has increased from 3 months to 2 years. If you have been in the Scheme for two years or more, and you leave before age 55, the amount of pension you've built up is deferred.

Deferred pensions are increased every year in line with the cost of living - as currently measured by the Consumer Prices Index (CPI) - to ensure it keeps its value.

Your deferred benefit will be paid at your Normal Pension Age. You can choose to take it earlier, from age 55 (when it would normally be reduced to account for receiving it for longer) or later (when it would be increased).

If you leave the Scheme with less than two years membership, you will receive a refund of your pension contributions unless you choose to transfer your pension to another pension provider.

However, if you were in the Scheme before 1 April 2014 and subsequently leave with more than 3 months but less than 2 years membership, you will have the choice of:

- a refund of contributions
- a deferred pension or
- transferring your pension to another pension provider

What are the other changes?

Ill health... enhancements will be up to new Normal Pension Age.

- o The same 3 tier arrangement will apply.
- o Payable from any age, if you have 2 years membership.

Redundancy / Efficiency... NO CHANGE

- o Immediate payment of unreduced pension benefits.
- o Payable from age 55, if you have 2 years membership.

Flexible... NO CHANGE

- o With employer consent... subject to a reduction in working hours or grade.
- o Payable from age 55, if you have 2 years membership.

What happens if I die?

Life cover in the scheme doesn't change from April 2014. If you die in service whilst an active member of the scheme the scheme will still provide a lump sum payment of three times your annual pensionable pay.

The only difference from April 2014 is that pay from non-contractual overtime is included in your annual pensionable pay figure. Therefore:

- Active members - 3 x 'assumed pensionable pay' (inc. non-contractual overtime)
- Deferred members - 5 x annual pension
- Pensioner members - 10 x annual pension (less any already paid)

Survivor's Pension

- Will continue to be calculated at a rate of 1/160th.
- Automatically payable to a Spouse & registered Civil Partner.
- Now automatically payable to a Co-habiting Partner.
- Pensions still payable to any 'eligible children'.

Important to note

Only pension benefits built up after 1 April 2014 will accrue under the new pension scheme rules.

Protections will be in place to ensure that:

- pension benefits built up under current pension regulations
- deferred (frozen) pensions
- pensions in pay

will not be affected by the changes.

Annual Allowance for Pension Savings

Anyone who pays into a pension scheme has an Annual Allowance (AA).

The AA, set by the Government, is the amount of pension you can accrue in a financial year before a tax charge is payable.

The current Allowance is £50,000. However, in April 2014 the Annual Allowance will reduce to £40,000 per annum.

Details of the changes and how AA is calculated were highlighted in our January 2011 edition of Pensions Extra. The Pensions Extra newsletter is available on the "members' literature" section of our website: www.clwydpensionfund.org.uk

To help you determine if you are within the AA limit, your AA information is included on your Annual Benefit Statement.

Alternative communication

The Clwyd Pension Fund uses many forms of communication to keep our active, deferred and pensioner members up to date.

This may include generic information such as details of different contribution options available or changes to the scheme.

If you are happy to receive this information by email in the future, please contact us via the pensions inbox, (pensions@flintshire.gov.uk) and confirm the email address you wish to register.

Your email address will only be used by Clwyd Pension Fund or the in-house AVC provider for the above purposes only.

CLWYD CATCH UP

The Newsletter for Pensioners of the Clwyd Pension Fund

Issue 10 Spring 2014

Introduction

Welcome to issue 10 of Clwyd Catch Up. I would like to thank you for a fantastic response in returning your life certificate which was issued with the 2013 Catch Up.

We have now updated our records with many address changes and other record updates.

As this project will not be run every year, we will not be requiring you to complete a Life Certificate in 2014.

This edition also includes the usual articles:-

- Pensions increase (PI) for 2014
- Pay dates for the next 12 months
- Understanding your PI notification
- Update on the Clwyd Pension Fund's investment performance
- Frequently Asked Questions

The articles in this newsletter should answer most of your queries about your pension with the Clwyd Pension Fund. However, if you do have any additional questions which have not been answered in Clwyd Catch Up, please do contact us.

Our contact details can be found on page 4 of this newsletter.

Regards,
Helen Burnham
Pensions Administration Manager

April 2014 Pensions Increase

Your pension increases in line with the Consumer Price Index (CPI). The full CPI increase from 7 April 2014 has been confirmed as 2.70%. However, you will only receive the full increase if your pension began on or before 22 April 2013. If your pension began after this date, the increase on your pension will be pro-rated as per the table below:-

Pensions Beginning:	%
On or before 22 April 2013	2.70
23 April 2013 - 22 May 2013	2.48
23 May 2013 - 22 June 2013	2.25
23 June 2013 - 22 July 2013	2.03
23 July 2013 - 22 August 2013	1.80
23 August 2013 – 22 September 2013	1.58
23 September 2013 - 22 October 2013	1.35
23 October 2013 – 22 November 2013	1.13
23 November 2013 – 22 December 2013	0.90
23 December 2013 – 22 January 2014	0.68
23 January 2014 – 22 February 2014	0.45
23 February 2014 – 22 March 2014	0.23

Pay Dates for LGPS & Teachers' Compensation Pensions

LGPS and Teachers' Compensation pensions are usually paid on the 28th of each month. If the 28th is a weekend or Bank Holiday, the pension will be paid on the Friday before the 28th.

December pension is always paid earlier due to the Christmas holidays.

The table below shows the pension pay dates for the next 12 months:

28 April 2014	28 October 2014
28 May 2014	28 November 2014
27 June 2014	18 December 2014
28 July 2014	28 January 2015
28 August 2014	27 February 2015
26 September 2014	27 March 2015

Cronfa Bensiynau Clwyd
Clwyd Pension Fund
Administered by Cyngor Sir y Fflint Flintshire County Council

This information is available in alternative formats for example Braille, large print, BSL Video/DVD, audio tape and other languages on request.

Understanding your Pensions Increase notification

Please note that you will only receive pensions increase if:

- You are aged 55 or over
- You are in receipt of a surviving partner's pension or a child's pension
- You retired on ill health grounds

When you become eligible for pensions increase, the Clwyd Pension Fund will write to you to confirm your new rate of pension.

If you are eligible for a pensions increase, you will find enclosed with your copy of Clwyd Catch Up, a notification of the increase that will be applied to your own pension from 7 April 2014.

Please note that if you had more than one employment or you receive a pension in your own right and a dependant's pension, you will receive more than one letter.

Below is an explanation of how to read your PI notification:

EXAMPLE ONLY

Current Annual Pension	£5,000
Less Total G.M.P. (£500)	£4,500
2.7% of Pensions Increase	£121.50
2.7% of Pensions Increase on post 1988 G.M.P. (£200)	£5.40
Total Pensions Increase	£126.90
Add Back on Total G.M.P.	£500
Pension from 7 April 2014	£5,126.90

G.M.P. stands for Guaranteed Minimum Pension. You will only have a G.M.P. if you were paying full rate, contracted out NI contributions between 6 April 1978 and 5 April 1997. The G.M.P. protects you and ensures that your pension value is not below a certain limit determined by the Department for Work and Pensions (D.W.P.)

This is the full amount of pensions increase due to you from the Clwyd Pension Fund.

This is the new value of your pension per annum for the next 12 months. To determine the monthly amount, please divide this figure by 12.

This figure is your gross annual pension including any previous pensions increase applied to it up to 7 April 2014.

This is the amount of pensions increase applied to your standard current pension after the G.M.P. has been deducted.

The Clwyd Pension Fund only pays the increase on any post 1988 G.M.P. you may have.
If you have any pre 1988 G.M.P., the D.W.P. will pay the increase on this element of your LGPS pension.

The D.W.P. increases will be paid as part of your State Pension.

IMPORTANT - Alternative communication - The Clwyd Pension Fund uses many forms of communication to keep our active, deferred and pensioner members up to date. This may include generic information such as details of changes to the scheme.
If you are happy to receive this information by email in the future, please contact us via the pensions inbox, (**pensions@flintshire.gov.uk**) and confirm the email address you wish to register.
Your email address will only be used by Clwyd Pension Fund for the above purposes.

State Benefits Increases

The Department for Work & Pensions (DWP) has confirmed the new rates for State benefits which will be applied from 7 April 2014.

The table below confirms some of the updated main state benefits available. Please note that the figures quoted below are weekly amounts.

Basic Retirement Amount	£113.10
Dependant Spouse Pension	£67.80
Attendance Allowance (higher rate)	£81.30
Attendance Allowance (lower rate)	£54.45
Pension Credit (single)	£148.35
Pension Credit (couple)	£226.50

Paying tax on the State Pension and benefits through your tax code

Your State Pension and some other state benefits count as taxable income, but no tax is taken off when you receive them. HM Revenue & Customs (HMRC) normally asks your pension provider to collect any tax due on your State Pension or other benefit at the same time. They do this by adjusting your tax code to take account of the State Pension or benefit.

If you're still working and getting the State Pension or another benefit, the tax due on your State Pension or benefit will be collected either through your employer's PAYE system or through our PAYE system.

HMRC issues Clwyd Pension Fund with a tax code which determines how much tax (if any) to deduct.

LGPS 2014

The review of the public sector pension schemes, including the Local Government Pension Scheme (LGPS), has now concluded.

From 1 April 2014, all active contributors to the Local Government Pension Scheme will transfer over to the Career Average Re-valued Earnings scheme.

However, any changes that are made to LGPS will **not** affect any pension benefits already in payment.

Only active contributors with a future retirement date are affected by the changes.

Fund Value Update

Please note that the following information about the value of the Clwyd Pension Fund and its investments is included in this newsletter for your interest only.

The LGPS is a Statutory Pension Scheme, which means that the LGPS provides salary related defined pension benefits which are not dependent on investment performance.

It is also a secure pension arrangement with rules set out in legislation made under an Act of Parliament.

Current Value:-
The value of the Clwyd Pension Fund increased from £1.060 billion in March 2012 to £1.181 billion in March 2013.

The table below shows the asset split of the Fund as at 31 March 2013.

	£m
Fixed Interest Securities	175
U.K. Equities	122
Foreign Equities	391
Alternative Investments	473
Cash & Net Assets	20
Total	1.181bn

The Clwyd Pension Fund Annual Report contains comprehensive information about our Fund and its investments. The Report can be found on the Governance and Investment section of our website:-
www.clwydpensionfund.org.uk

Frequently Asked Questions

Who should I contact if I think I am paying too much tax on my pension?

Please contact your local tax office directly as they determine the amount of tax you should pay. The tax office can be contacted on **0300 200 3300**. When you call, they may ask for our tax reference number. It is: **914/YA14288**.

When are P60s distributed?

You will receive your P60 in May. Your P60 is your certificate of pay and tax for the last 12 months so please keep it in a safe place as duplicates cannot be issued. Your P60 will normally be needed as proof of how much pension you draw if you claim benefits such as income support or housing benefit.

Why don't I receive a pay advice slip every month?

Payslips are only issued if there is a change of £5 or more in your net pay so normally you will only receive one in April and May when pensions increase is applied.

How do I inform you of a change of address and/or name?

If you do change your address or name, please let us know in writing. For changes of marital status, please supply us with a photocopy of your marriage certificate, civil partnership certificate, or Decree Absolute.

How do I inform you of a change in my bank details?

Please write to the Pension Section informing us of the change in bank details. Contact details can be found opposite. Please ensure you quote both your old and new bank account details in your letter.

You must tell us of any change at least 14 days before the next pay day in order for your next monthly pension to be paid into the new account.

I am moving abroad. Can my pension be paid into a foreign bank account?

So long as your bank is willing to accept a payment from the UK, the Clwyd Pension Fund can pay your pension into a foreign bank account. The payment is made via Equinity Paymaster and currently costs £2.74 per transaction.

Contacting the Clwyd Pension Fund

Telephone:
Pension amount queries, P60s, Medi-Cash, Welsh Hospital Forms:
Monday - Friday: 9am - 5pm
01352 702859 / 01352 702963

Local Government Pension/Teachers' Compensation:
Monday - Friday 9am - 5pm
01352 702761

Email: pensions@flintshire.gov.uk

Website:
www.clwydpensionfund.org.uk

For change of bank, address, or name details:
Clwyd Pension Fund
County Hall
Mold, Flintshire
CH7 6NA

Useful Contact Details

Tax Office - for your tax and National Insurance queries.
www.hmrc.gov.uk • 0300 200 3300

The Pensions Service - provides information about pensions and other benefits. You can obtain a full entitlement check and determine when you reach State Pension Age by calling The Pensions Service: **0845 60 60 265**

Teachers Pension Scheme - administers the main pension that retired teachers receive. The Clwyd Pension Fund only administers the compensation element of teachers' pensions. **0845 606 6166**

Citizen's Advice Bureau - gives free advice to solve legal, financial and other problems.
www.citizensadvice.org.uk

Age Concern - services include: information, advice and advocacy services; day centres and lunch clubs; home help and 'handyperson' schemes; and IT and other training.
Help line: 0800 169 65 65

-13140 0437

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **22nd JULY 2014**

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

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

1.00 PURPOSE OF REPORT

1.01 To provide Committee Members with the Fund's revised Statement of Investment Principles for approval.

2.00 BACKGROUND

2.01 LGPS Funds are required by the Local Government Pension Scheme (Management and Investment) Regulations 2009, to publish a Statement of Investment Principles (SIP).

2.02 The SIP must cover the Fund's 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.

2.03 The SIP must also state the extent to which the administering authority complies with guidance given by the Secretary of State.

2.04 The SIP must be reviewed, and if necessary, revised before the end of a period of six months beginning with date of that change.

3.00 CONSIDERATIONS

3.01 The attached SIP has been updated to reflect:

- The implementation of the Flight-path strategy from March 2014 which includes the appointment of Insight Investment, the changing of Stone Harbor's benchmark to absolute return and the disinvestment from SSGA's passive equity mandates.
- The change in the Fund's Governance structure.

- The changes of assumptions from the actuarial valuation.
- Updates to statutory references.

3.02 The Fund's Myner's Principles Compliance Statement, Sustainability Policy and compliance with the FRC Stewardship Code are attached as appendices to the SIP.

3.03 The life of this SIP will be short as it will require a fundamental review to reflect changes resulting from the investment strategy review to be undertaken later this year. This SIP will be published on the Fund's website and included in the Annual Report and Accounts 2013/14.

4.00 RECOMMENDATIONS

4.01 That Committee Members review and approve the Fund's Statement of Investment Principles.

5.00 FINANCIAL IMPLICATIONS

5.01 None.

6.00 ANTI-POVERTY IMPACT

6.01 None.

7.00 ENVIRONMENTAL IMPACT

7.01 None.

8.00 EQUALITIES IMPACT

8.01 None.

9.00 PERSONNEL IMPLICATIONS

9.01 None.

10.00 CONSULTATION REQUIRED

10.01 None.

11.00 CONSULTATION UNDERTAKEN

11.01 None.

12.00 APPENDICES

12.01 Appendix 1 – Statement of Investment Principles.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:	The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
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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FLINTSHIRE COUNTY COUNCIL

CLWYD PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

EXECUTIVE SUMMARY

July 2014

STATEMENT OF INVESTMENT PRINCIPLES

EXECUTIVE SUMMARY

1. The Clwyd Pension Fund adopted as best practice from April 1997 the production, publication and regular review of a Statement of Investment Principles (SIP). The Fund continued this practice in response to the Local Government Pension Scheme (Management and Investment)(Amendment) Regulations 1999, which required the formal publication of a SIP. This SIP now complies with Local Government Pension Scheme (Management and Investment)(Amendment) Regulations 2009, including a statement on compliance with the Myner's Principles, the Stewardship Code and a Sustainability Policy.

2. 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

3. 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 Pension Fund Advisory Panel. The Corporate Finance Manager is the Section 151 Officer has a statutory responsibility for the proper financial affairs of Flintshire County Council which including Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Officer (People and Resources). It is expected that this governance structure will be expanded later in 2014 or 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 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.

4. The Fund's investment policy and management of the Fund will be directed at achieving and maintaining a fully funded scheme and, where practical, a stable employers' contribution rate.

5. Since 1 April 1996, the Clwyd Pension Fund has published a set of Corporate Governance Policy Guidelines, supported by other statements on social, environmental, ethical and governance-related investment issues. The Clwyd Pension Fund has incorporated all these areas into a Sustainability Policy.

6. In determining its detailed fund management arrangements and operations, the Pension Fund Committee adopt a positive engagement approach on sustainability. There will therefore be no direct investment restrictions applied and managers will have full freedom to invest. However, under the Fund's Sustainability policy, managers will be encouraged to take account of sustainability issues in their investment decisions and to use their influence with companies on behalf of the Fund to effect improvements. Their performance in these respects will be monitored and reported in accordance with the terms of the Sustainability Policy.

7. The Fund will pursue a policy of controlling risk through diversification of both investments and fund managers (see table below) and the Liability Hedging Portfolio. Fund managers will be given clear investment mandates, incorporating appropriate benchmarks and agreed targets, and will be employed on a fully discretionary basis within these mandates, subject to compliance with any legislative requirements and the Fund's stated policies.

8. Investment management arrangements will be reviewed periodically and as required. A full in-depth review will be carried out at least every four years. However, a conditional medium term asset allocation (CAA) has been introduced to manage major risks to the long term strategic asset allocation which may emerge between Fund Reviews.

9. The security of the Fund's assets will be closely monitored through its Global Custodian or the custodians of pooled vehicles.

10. The Fund's investment managers and custodians will be made aware of this Statement of Investment Principles.

Strategic Asset Allocation (SAA) and Implementation

SAA (%)	Scenario	Rebalancing Range	CAA Range
	Equity - Alpha Seeking		
6.5	PacRim – High Alpha	+/- 1	
6.5	Emerging Markets – Core	+/- 1	
1.0	Frontier Markets		
5.0	Global – High Alpha	+/- 1	
5.0	Other – High Alpha	+/- 1	
24.0		+/- 2	+/- 10
24.0	**TOTAL EQUITY**	+/- 3	+/- 15
	Fixed Interest		
15.0	Unconstrained	+/- 2	
0.0	Government Bonds		
0.0	Cash/Other	+/- 5	
15.0		+/- 2	+/- 15
15.0	**TOTAL FIXED INTEREST**	+/- 2	+/- 15
	Alpha-Seeking Alternatives		
8.0	Private Equity		
5.0	Hedge Fund of Funds		
2.0	Free		
15.0		+/- 3	
	Real Assets		
7.0	Property		
2.0	Infrastructure		
2.0	Timber/Agriculture		
4.0	Commodities		
15.0		+/- 3	
30.0	**TOTAL OTHER ASSETS**	+/- 5	+/- 5
	Tactical Asset Allocation		
6.0	GTAA	+/- 1	
3.0	DTAA	+/- 1	
3.0	Macro FOF	+/- 1	
12.0		+/- 2	
	TOTAL TAA	+/- 2	+/- 5
	Liability Hedging portfolio		
	Interest rate hedge		
	Inflation rate hedge		
	Collateral portfolio – Bonds/Cash		
	Collateral portfolio – Equity		
19.0	**TOTAL HEDGING PORTFOLIO**	0-35%	+20%

Manager	Asset Category	Benchmark	Target (Gross)
Stone Harbor	Unconstrained Fixed Interest	1 month Libor	+1.50%
Aberdeen	Asia Pacific (ex Japan) Equities	MSCI AC AP (ex Japan)	+3.50%
Wellington	Emerging Markets Equity	MSCI EM Free	+2.50%
Aberdeen	Frontier Markets Equity	MSCI Frontier Markets	+3.00%
Investec	Global Equity	MSCI AC World NDR	+3.00%
Duet	Global Equity	Absolute Return	+8-10%
Wellington	Commodities	GSCI Sectors	+2.00%
Blackrock	Global Tactical Asset Allocation	7 day LIBID	+15.00%
Bluecrest	Global Tactical Asset Allocation	Absolute Return	+10-15%
Pyrford	Global Tactical Asset Allocation	RPI	+5.00%
Liongate	Fund of Hedge Fund	Absolute Return	+8-10%
SSARIS	Fund of Hedge Fund	Absolute Return	+8-10%
Various	Property	IPD Balanced PUTS Weighted Average	
Various	Private Equity	Absolute Return	+15.00%
Insight	Liability Hedging portfolio	Scheme liabilities	Match

FLINTSHIRE COUNTY COUNCIL

CLWYD PENSION FUND

A REFERENCE GUIDE TO THE FUND'S STATEMENT OF INVESTMENT PRINCIPLES

JULY 2014

1. INTRODUCTION

1.1 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).

1.2 The Local Government Pension Scheme (LGPS), which is subject to Regulations made under the Superannuation Act 1972 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.

1.3 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 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), if any, attaching to investments
- stock lending

1.4 The SIP is designed to comply with guidance given by the Secretary of State. It incorporates a newly formulated 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.

1.5 The SIP is effective from 1 July 2014 and will be reviewed every six months with any material changes published.

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

- Funding Strategy Statement implemented from 1st April 2014
- Governance Policy and Compliance Statement
- Communications Policy Statement
- Clwyd Pension Fund Annual Report and Accounts
- Clwyd Pension Fund Actuarial Valuation as at 31st March 2013

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

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2. STATUTORY FRAMEWORK & GOVERNANCE BACKGROUND

2.1 Flintshire is designated as Lead Authority for the Clwyd Pension Fund by Regulations made under the Local Government (Wales) Act 1995, which dealt with the reorganisation of Local Government in Wales, effective from 1 April 1996.

2.2 The administration of the Clwyd Pension Fund is a statutory duty laid upon the authority by Regulations made under the Superannuation Act 1972. The Fund is simply a Fund of the Council, albeit closely regulated by statutory instruments, and has no separate legal identity from the Council.

2.3 It follows, therefore, that Elected Members are not Trustees of the Fund, even though convenient usage sometimes results in that term being applied to them. Elected Members do, however, have a duty of care to the beneficiaries, employers and the local taxpayers, which is analogous to the responsibilities of Trustees in the private sector. They could therefore be more accurately described as "Quasi-Trustees". The term Quasi-Trustee will be used throughout this document in order to distinguish those responsible for the Fund from contributor, pensioner and deferred members of the Fund who will, collectively, be termed beneficiaries.

2.4 The Clwyd Pension Fund, as a statutory LGPS Fund, is set up to provide death and retirement benefits for Local Government employees in North East Wales, other than teachers, police and fire fighters. In addition, employees of certain other qualifying bodies which provide services similar to that of Local Authorities have been admitted to membership of the LGPS and hence the Fund. The latest Regulations made under the Superannuation Act 1972 are the LGPS Regulations 2014, which came into effect from 1 April 2014. These are amended from time to time to take account of scheme changes.

2.5 In the discharge of this function, in May 2014, the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pension Fund 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 including Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Officer – People and Resources. It is expected that this governance structure will be expanded later in 2014 or 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. Further details of the Fund’s governance arrangements can be found in Fund’s separate Governance Policy & Compliance Statement.

2.6 As noted above, in administering the investments of the Fund, the Chief Officer (People and Resources) and Quasi-Trustees have a duty of care. That duty has been expressed as seeking, ".....to maximise the return on the invested funds so far as it can do so without incurring unacceptable risks" (McFadyen QC 5/90).

2.7 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.

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
- New 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

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 too meet the investment objectives agreed.
- 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 the Pension Advisory Panel on changes to the managers that may be required.
- Maintaining and updating the Statement of Investment Principles.

The Fund 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, advisors and quasi-trustees.
- Providing details, as required, to the Fund's custodian and independent performance measurer.
- Reporting on compliance with this SIP, including the Sustainability Policy.

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 quarterly valuations of the Scheme's assets, details of all transactions during the quarter, bank statements and all other relevant documentation.

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 fligh-path implementation.
- Working with the Fund at each actuarial valuation to produce a Funding Strategy Statement (FSS).
- Performing the triennial valuations.

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.

3. FUNDING LIABILITIES AND INVESTMENT POLICY

3.1 The LGPS is a public sector statutory defined benefit Pension Scheme that provides benefits related to the final salary of members. Each member's pension is specified in terms of a formula, based on salary and service, and is unaffected by the investment return achieved on the Fund's assets. Full details of Scheme benefits are set out in the LGPS Regulations.

3.2 All active members of the Scheme are required to make banded pension contributions dependent on salary.

3.3 The employing bodies are responsible for meeting the balance of costs necessary to finance the benefits payable under the Scheme and their contribution rates are determined on a triennial basis (Actuarial Valuation). These contribution rates take account of both assets and estimated liabilities, both of which are subject to volatility.

3.4 Beneficiaries have an interest in the extent to which the Fund's assets are sufficient to meet accrued benefits, albeit that their benefits are guaranteed by the Regulations. The employers, however, have a direct financial interest in the investment return achieved on the Fund's assets and movements in liabilities, since both can have a direct bearing on their own costs.

3.5 The existence of surpluses or deficits from previous valuation periods can reduce or increase the contributions made by employers. Given constraints on employer spending, volatility in the employers' contribution rate is undesirable.

3.6 In managing the Fund, therefore, the overall investment objective should be:

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

3.7 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.

3.8 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.

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

3.10 At a more detailed level, the Fund's membership comprises approximately 44% contributors and 56% pensioners (including deferred and frozen pensions). The best asset match for index-linked pensions would be index linked gilts, with perhaps some conventional bonds. This would be a “least risk” investment strategy but would also result in an increase in employer contributions. A departure from this “least risk” strategy, particularly the inclusion of equity-type investments, increases risk but also adds the potential for higher returns, which should over time reduce the contribution requirements. The Fund is a long-term investor and can favour the latter.

3.11 The Fund’s current profile also shows that the extent of contributions will exceed the cost of benefits in payment and administration expenses, producing a positive cash flow of over £10 million per annum. This means that there will be no immediate necessity to draw down money from investments to pay pensions in the near future.

3.12 This positive cash flow means there is no pressure to switch to fixed interest stocks to ensure an income stream for benefit payment purposes and a longer-term investment view can be maintained. However the Clwyd Pension Fund is continuing to mature gradually in terms of its scheme member mix and there is therefore a limited window of opportunity to seek higher returns in order to get back to 100% funding from the 68% level noted above.

3.13 The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2013 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,

3.14 A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 35 of the Local Government Pension Scheme Regulations 2008. 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 www.clwydpensionfund.org.uk. The funding strategy will be monitored during 2014/17.

4. INVESTMENT STRATEGY & RISK

4.1 On the basis of the above consideration, the following would appear to be the key factors to be taken into account when determining an appropriate investment strategy for the Fund :

- The Fund is a long-term investor.
- Capital gain is more important than income generation and liquidity.
- The Fund needs to take investment risk.
- The level of out-performance would need to be in excess of gilt returns by more than 1.4% to contribute to the Fund's deficit. For future service liabilities, an investment return of 5.6% per annum is required, so a return in excess of this is needed to contribute to the Fund's deficit.
- Risk or volatility should be constrained as far as possible, consistent with the achievement of the returns required.

4.2 Risk, though defined in many ways, generally refers to the volatility of returns or their tracking error in the context of investments. Investment theory suggests that different asset classes, such as equities and bonds, behave in different ways and that diversifying the asset mix within a Fund can reduce overall risk at total fund level.

4.3 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.

4.4 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.

4.5 The last fundamental Fund Review was in 2010, implemented, in the main, from 1st April 2011 and monitored each quarter. A mandate with Insight to provide protection against the volatility of interest rate and inflation rate changes was implemented in March 2014. In addition a funding and risk management "Flightpath" was implement embedding loger term objectives relating to the control of the volatility of funding outcomes. The optimisation model used in 2010 to determine the strategic benchmark suggests that the asset mix and the requirement for fund managers to deliver out-performance against market indices should produce a long-term return in the region of gilts + 5% with volatility of around 10%. This equates to an information ratio (the return per unit of risk) just below 1 or 100%.

4.6 The latest Fund Review exercise commenced in early 2009, but with economic, fiscal and market indicators extremely unclear so soon after 2008 and the credit crunch, the exercise was postponed. The Fund Review was recommenced in early 2010/11 and implemented from 1 April 2011. The new strategic asset allocation with both rebalancing ranges and Conditional Asset Allocation ranges follows. The next review will commence in September 2014.

Strategic Asset Allocation

SAA (%)	Scenario	Rebalancing Range	CAA Range
	Equity - Alpha Seeking		
6.5	PacRim – High Alpha	+/- 1	
6.5	Emerging Markets – Core	+/- 1	
1.0	Frontier Markets		
5.0	Global – High Alpha	+/- 1	
5.0	Other – High Alpha	+/- 1	
24.0		+/- 2	+/- 10
43.0	**TOTAL EQUITY**	+/- 3	+/- 15
	Fixed Interest		
15.0	Unconstrained	+/- 2	
0.0	Government Bonds		
0.0	Cash/Other	+/- 5	
15.0		+/- 2	+/- 15
15.0	**TOTAL FIXED INTEREST**	+/- 2	+/- 15
	Alpha-Seeking Alternatives		
8.0	Private Equity		
5.0	Hedge Fund of Funds		
2.0	Free		
15.0		+/- 3	
	Real Assets		
7.0	Property		
2.0	Infrastructure		
2.0	Timber/Agriculture		
4.0	Commodities		
15.0		+/- 3	
30.0	**TOTAL OTHER ASSETS**	+/- 5	+/- 5
	Tactical Asset Allocation		
6.0	GTAA	+/- 1	
3.0	DTAA	+/- 1	
3.0	Macro FOF	+/- 1	
12.0		+/- 2	
	TOTAL TAA	+/- 2	+/- 5
	Liability Hedging portfolio		
	Interest rate hedge		
	Inflation rate hedge		
	Collateral portfolio – Bonds/Cash		
	Collateral portfolio – Equity		
19.0	**TOTAL HEDGING PORTFOLIO**	0-35%	+20%

4.7 Although there is no long-term strategic allocation to cash/other assets, a tactical range has been included to accommodate exceptional economic/stock market circumstances, where it is not considered appropriate to re-balance the portfolio or where cash is held temporarily to meet investment commitments in alpha seeking alternatives and real assets.

4.8 Once the asset allocation is agreed, there is a need to keep the Fund's actual position under review. Re-balancing of the Fund to keep it in line with the benchmark will incur costs and such changes need therefore to be considered in light of the relevant costs and benefits. As a result, re-balancing will only take place quarterly when an asset class has moved outside the re-balancing ranges shown in the table above, except in circumstances outlined above.

4.9 In addition, the 2010 Fund Review introduced a medium term asset allocation (Conditional Asset Allocation). The purpose is to manage major risks to the long term strategic asset allocation which may emerge between Fund Reviews. The Pension Fund Committee has delegated authority to implement these changes to the Clwyd Pension Fund Manager after taking advice from the Investment Consultant.

4.10 The 2010 Fund Review also concentrated on risk diversity in place of asset diversification, especially for inflation risk. Hence, new asset class groups have been created for real assets and alpha seeking alternatives.

5. IMPLEMENTATION OF INVESTMENT STRATEGY AND RISK

5.1 When implementing investment strategy, the Fund must comply with the Investment Regulations laid before Parliament, which include:

- The definition of an investment manager
- Manager appointments and terms
- Diversification of fund managers
- The review of fund manager performance
- Restrictions and limits on investments
- Use of fund money by an Administering Authority

5.2 The policy of the Fund is to out-source the implementation of the investment strategy of the Fund to professional fund managers. These fund managers are appointed by following EU procurement legislation. In selecting managers, the Fund gives weight to their past performance, risk and compliance, investment and administration processes, key people, fees and degree of compliance with the Fund's Sustainability Policy.

5.3 On appointment, fund managers are delegated the power under the appropriate client agreement (Investment Management Agreement, Investment Memorandum) to make such purchases and sales as they deem appropriate within their mandate. Each fund manager mandate has either a benchmark or target to outperform or achieve over three-year rolling periods. A quarterly update is received from each of these funds managers and regular meetings are arranged, as outlined in the Fund's Governance and Compliance Statement.

5.4 There are exceptions to the above arrangements. Funds selected within the allocations to alpha seeking alternatives and real assets are treated as specific investment decisions and therefore outside the scope of EU Procurement Regulations. Here, investment funds are selected for recommendation to the Pension Advisory Panel after appropriate due diligence by the Fund's officers and Investment Consultant, with criteria similar to those noted for fund manager appointments. These investments are usually the subject of detailed Limited Partnership agreements or Investment memoranda that set out the arrangements for their operation. As a minimum, an annual review on these investments is undertaken but valuations are provided quarterly for the most part. Although, a size limit for individual investments is not noted within the Fund's policy statements, the commitments made are usually in the region of £5m-£8m.

5.5 In terms of historic background, the Fund has for many years now pursued a policy of lowering risk by diversifying both investments and fund managers. As a result of a fundamental fund management review carried out in 1992, a specialist approach was adopted and three fund managers were appointed with effect from 1 April 1993 to manage specific portfolios, with prescribed benchmarks and out-performance targets. This structure was reviewed again during 1997 and a number of changes were introduced, including the appointment of a fourth manager, aimed primarily at marginally reducing risk and increasing diversification. A further exercise was carried out in 1999 to review detailed asset allocation processes and manager performance on a couple of specific portfolios. No manager changes were proposed as a result of the review but a further exercise in 2000 resulted in the Japanese portfolio being awarded to Fidelity from 1 April 2001. The 2003 Fund Structure Review resulted in an increased allocation to alternative investments.

5.6 The 2006 Fund Review exercise was implemented, in the main, from 1st April 2007. The Fund made no fundamental structural adjustments but there were changes in the method of delivery, aimed at further diversification from, and less constraint on, traditional asset classes. New investment approaches, tools and products were also utilised to improve returns further and reduce volatility. All the investments were in pooled vehicles rather than segregated accounts.

5.7 The only change before the 2010 review was in fund manager arrangements relating to the hedge fund of fund mandates. Pioneer and BlackRock were replaced by Liongate and SSARIS during 2009, although for liquidity reasons some assets still remain with the original managers at this time. BlackRock acquired BGI mandates via a business merger of the companies.

Manager	Asset Category	Benchmark	Target (Gross)
Stone Harbor	Unconstrained Fixed Interest	1 Month LIBOR	+1.50%
Aberdeen	Asia Pacific (ex Japan) Equities	MSCI AC AP (ex Japan)	+3.50%
Wellington	Emerging Markets Equity	MSCI EM Free	+2.50%
Aberdeen	Frontier Market Equity	MSCI Frontier Markets	+3.00%
Investec	Global Equity	MSCI AC World NDR	+3.00%
Duet	Global Equity	Absolute Return	+8-10%
Wellington	Commodities	GSCI Sectors	+2.00%
BlackRock	Global Tactical Asset Allocation	7 day LIBID	+15.00%
Bluecrest	Global Tactical Asset Allocation	Absolute Return	+10-15%
Pyrford	Global Tactical Asset Allocation	RPI	+5.00%
Liongate	Fund of Hedge Fund	Absolute Return	+8-10%
SSARIS	Fund of Hedge Fund	Absolute Return	+8-10%
Various	Property	IPD Balanced PUTS Weighted Average	
Various	Private Equity	Absolute Return	+15.00%
Insight	Liability Hedging portfolio	Scheme liabilities	Match

5.8 The current investment strategy is framed by the 2010 Fund Review exercise and implemented from the 1st April 2011. The following are the main changes made:

- Equity exposure was reduced but tactical asset allocation, which will include some equity exposure, was increased.
- Equity exposure to Pacific Rim and Emerging Markets has increased.
- Global active equity was increased but otherwise active regional equity managers in developed markets have been replaced by one passive manager.
- Continued exposure to alpha seeking alternative managers.

5.9 As a result the Fund redeemed from 6 fund managers and appointed 4 new managers:

- SSgA – Passive Equity, UK, Europe, US and Europe
- Duet Group – Global Equity – High Alpha
- Bluecrest – Tactical Asset Allocation
- Pyrford – Tactical Asset Allocation

5.10 In April 2012, the Fund tendered for a £7 million Frontier Equity manager and appointed Aberdeen in May 2012.

5.11 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. Insight Investment Management were 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.

5.12 As part of the above changes the passive equity exposure with SSGA was sold and the cash transferred to a unit trust managed by Insight Investments. This cash was used as collateral to replicate the equity exposure through total return swaps and to buy exposure or assets to match the Fund's liabilities. Also, the benchmark for the unconstrained fixed income mandate was changed from a gilt benchmark to an absolute return benchmark from April 2014.

6. CASH STRATEGY

6.1 From 1st April 2011 Investment Regulations require the Pension Fund to have a separate bank account from the Local Authority. Therefore a new policy is required on the management of the Pension Fund's cash which was previously deposited together with Council monies following the Council's Treasury Management Policy.

6.2 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.

6.3 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.

6.4 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.
- A BlackRock AAA Money Market Fund for unexpected liquidity requirements or higher rates of return.

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

7. SUSTAINABILITY

7.1 The issue of social, environmental, ethical investment and corporate governance has been considered on a regular basis since 1996. On 1 April 1996, the Clwyd Pension Fund published a set of Corporate Governance Policy Guidelines incorporating requirements on social, ethical and environmental awareness. Further updating has been carried out on a regular basis since then and further supporting statements have been issued. From 1st July 2010 the Clwyd Pension Fund has incorporated all these areas and others into its new Sustainability Policy.

7.2 Committee members are firm supporters of the need for social, environmental and ethical improvements by companies and, subject to its primary fiduciary duties, have a clear view that the investment process should be used as a means of encouraging and achieving this. The key issue, considered at length by the Chief Officer (People and Resources) and the Committee, is how these aims could be best met and the outcome is the new all-embracing Sustainability Policy.

7.3 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.

7.4 In framing an approach to sustainability, the key focus has to be on the application to the Fund's operation of the United Nations Principles on Responsible Investment (UNPRI) and specifically principles 1 and 2, as these underlie most investment and governance processes.

7.5 The aims of the Fund's Sustainability Policy, therefore, will be both to ensure that the Fund's future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability and to promote acceptance of sustainability principles, working together with others to enhance the Fund's effectiveness in implementing these.

7.6 In order to achieve its stated objective, the Clwyd Pension Fund will apply a series of guidelines covering most aspects of pension fund investment, structured in accordance with UNPRI principles 1-6 and covering –

- 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)

7.7 As part of the Policy, the Clwyd Pension Fund continues to believe in an active engagement approach to the pursuit of its sustainability objectives and thus will not adopt a negative approach to sustainability, which involves screening and excluding investment opportunities nor will it invest in pooled vehicles constructed using this same approach. It 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 and will invest directly in specific vehicles and investment areas that clearly match its sustainability objectives.

8. COMPLIANCE WITH GUIDANCE

8.1 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

8.2 The Fund's compliance statement on these Myners Principles is attached, explaining the extent of compliance with each Principle and the reasons for this. In summary the statement demonstrates near full compliance with all six Principles. In areas where compliance is only partial, the statement also identifies areas for review and improvement. The information in the SIP itself provides more details on the application of the Principles.

8.3 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 summary the statement demonstrates full compliance with five of the principles and identifies areas for possible improvement for two of the principles.

8.3 The Investment Regulations require an administering authority to make a statement about its policy on stock lending. The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. However, there may be, subject to the governing document for the pooled vehicle, an option to stock lend within that pooled fund.

8.4 The Secretary of State has indicated that there may be further consultation on changes to the Investment Regulations or further points of guidance issued. The SIP will be updated on a six monthly basis to reflect these and any other changes.

8.5 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

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

Objective

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)

Details of the UNPRI are attached as an Appendix A to this Sustainability policy document. 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.

United Nations Principles for Responsible Investing (UNPRI)

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.***

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.

Sustainability Approach

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.

Investment Strategy

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 hat speaks to issues relating to the alignment of interest between general partners and limited partners, fund governance, transparency and reporting.

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 adopt, ensure that its managers adopt or ascertain their level of compliance with the ISC Statement of Principles on the responsibilities of shareholders/agents;***
- ***Will adopt, 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 and related 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. 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.

Investment Manager Selection & Contracts

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.

Collaboration

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.

Reporting & Disclosure

The Clwyd Pension Fund –

- ***Will, through its quarterly meeting procedure, report regularly and as appropriate on relevant sustainability issues;***
- ***Will, once a year, 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.***

MYNERS PRINCIPLES – 2014 / 2015 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 delegates functions to Officers who take investment advice as required from a Pension Advisory Panel who provide appropriate focus and skills on investment decision making. 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. *A needs assessment process is to be introduced for members of the new Committee.*	Partial Compliance
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 investment business plan is included in the Fund's Annual Service 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 have been 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 targets, some market-based with others more absolute return in nature. 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.	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. *As noted above, in terms of changing managers, performance should not be the sole criterion. The cost and timing of change possibly need to be recognized more as key factors.*	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. .	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 Chairmen has a key role in this and appropriate actions are agreed. .	Full
There should be a statement of how performance evaluations have been conducted.	These are partly covered in the SIP and through specific reports to Committee but there is no statement that brings all these together. *The independent adviser will address this as part of the annual review of performance.*	Partial
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

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 will need to be regularly monitored and managed. In the future greater weight needs to given to such matters in the manager appointment process.	Full
Trustees should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.	A questionnaire has been issued 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 adopts the ICS's statement.	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. The Annual Report, which incorporates many of these documents, is also available in hard copy. A newsletter is also published periodically. The other two main sponsors (Denbighshire and Wrexham) have representation on the Committee along with an employee representative and other employer representative to ensure transparency.	Full

FRC 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 in Section 7 of its Statement of Investment Principles (SIP) and through its recently introduced 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. Quarterly review meetings with the Fund's asset managers provide an opportunity for particular company issues and, under the Fund's Sustainability Policy, managers will be required annually to report any areas of concern.	Full

Principles	*Comment & Actions*	Compliance
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 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. Voting records are reported quarterly to the Pension Fund Panel. *There is currently no disclosure on voting in the Funds Annual Report and Accounts or on the Fund's web site.*	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 quarterly to the Pension Fund Panel as are summary voting records from managers. *However, there is currently no external publication of the Fund's voting record nor is there any retrospective review of stewardship generally.*	Partial

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FLINTSHIRE COUNTY COUNCIL

REPORT TO:	**CLWYD PENSION FUND COMMITTEE**
DATE:	**22nd JULY 2014**
REPORT BY:	**CHIEF OFFICER (PEOPLE AND RESOURCES)**
SUBJECT:	**ECONOMIC AND MARKET UPDATE**

1.00 PURPOSE OF REPORT

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

2.00 BACKGROUND

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

3.00 CONSIDERATIONS

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

4.00 RECOMMENDATIONS

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

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report.

12.00 APPENDICES

12.01 Economic and Market Update

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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Clwyd Pension Fund

Committee Report:

Economic and Market Update Q1 2014

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1 Market / Economic Data to 31 March 2014

Market Statistics

Yields as at 31 March 2014	% p.a.
UK Equities	3.41
UK Gilts (>15 yrs)	3.43
Real Yield (>5 yrs ILG)	-0.10
Corporate Bonds (>15 yrs AA)	4.29
Non-Gilts (>15 yrs)	4.60

Absolute Change in Yields	3 Mths %	1 Year %	3 Years %
UK Equities	0.13	0.06	0.45
UK Gilts (>15 yrs)	-0.15	0.41	-0.87
Index-Linked Gilts (>5 yrs)	-0.13	0.33	-0.73
Corporate Bonds (>15 yrs AA)	-0.13	0.24	-1.24
Non-Gilts (>15 yrs)	-0.03	0.37	-0.93

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	3.4	-3.1	8.7
Index-Linked Gilts (>5 yrs)	3.6	-4.4	9.0
Corporate Bonds (>15 yrs AA)	2.7	1.5	8.8
Non-Gilts (>15 yrs)	2.7	1.1	8.9

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.6	8.8	8.8
Overseas Equities	0.7	6.8	7.6
USA	1.2	11.3	13.3
Europe	2.4	15.7	6.1
Japan	-6.0	-1.6	4.3
Asia Pacific (ex Japan)	0.4	-6.5	0.8
Emerging Markets	-0.7	-10.8	-4.3
Property	3.9	14.0	7.6
Hedge Funds	1.0	7.2	4.7
Commodities	2.3	-7.9	-4.7
High Yield	2.2	-0.7	7.6
Emerging Market Debt	3.7	0.6	7.1
Senior Secured Loans	0.6	7.0	5.0
Cash	0.1	0.4	0.5

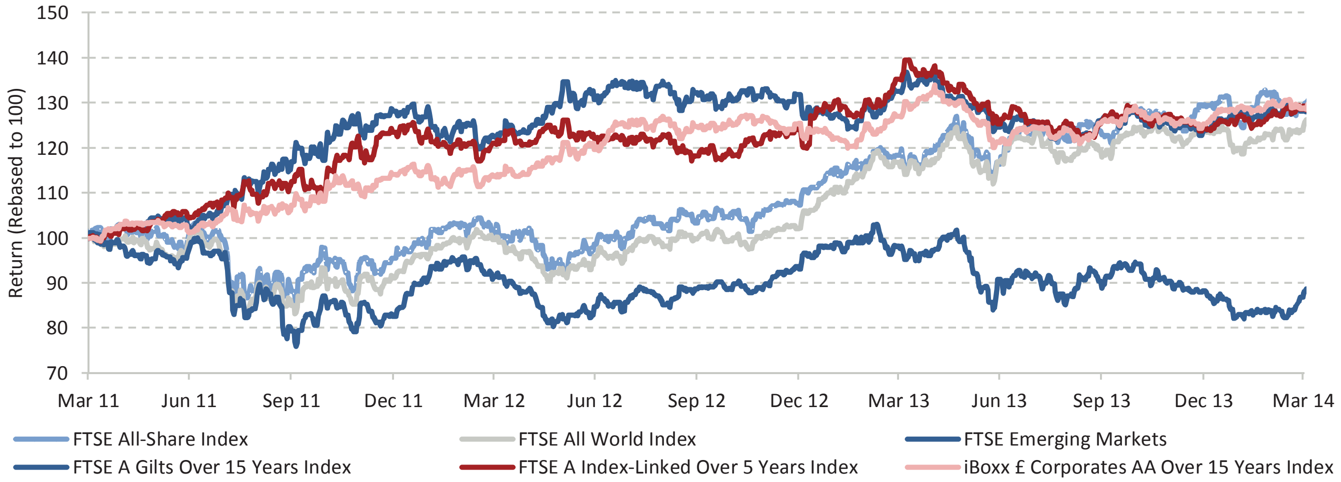
Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	0.7	9.8	1.3
Against Euro	0.6	2.3	2.3
Against Yen	-1.4	20.3	8.9

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.6	2.5	3.1
Price Inflation – CPI	0.1	1.6	2.6
Earnings Inflation	-0.3	1.0	1.2

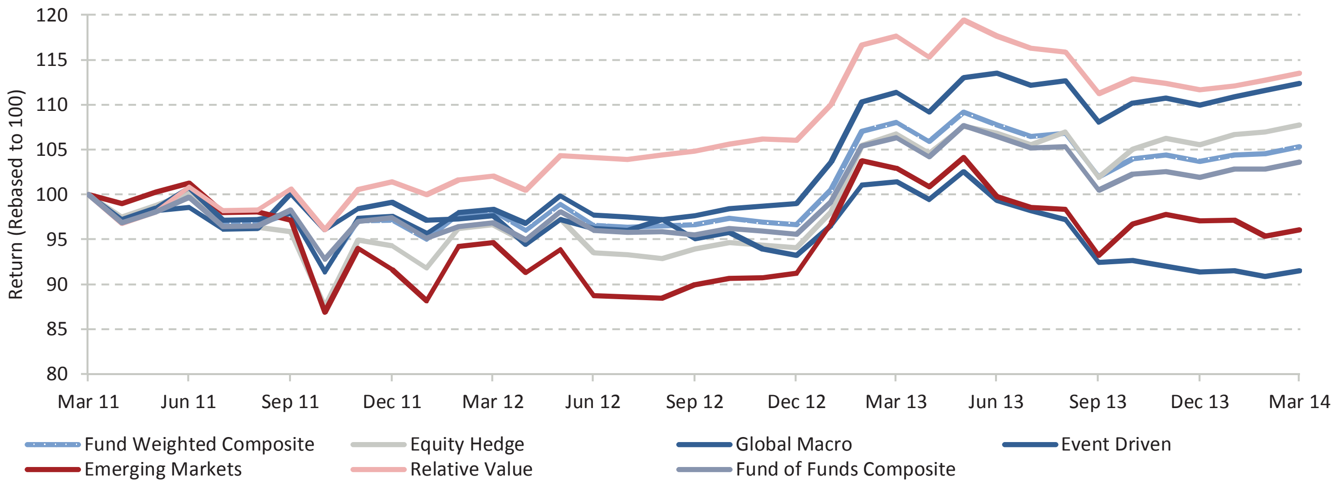
Source: Thomson Reuters and Bloomberg

Market Charts

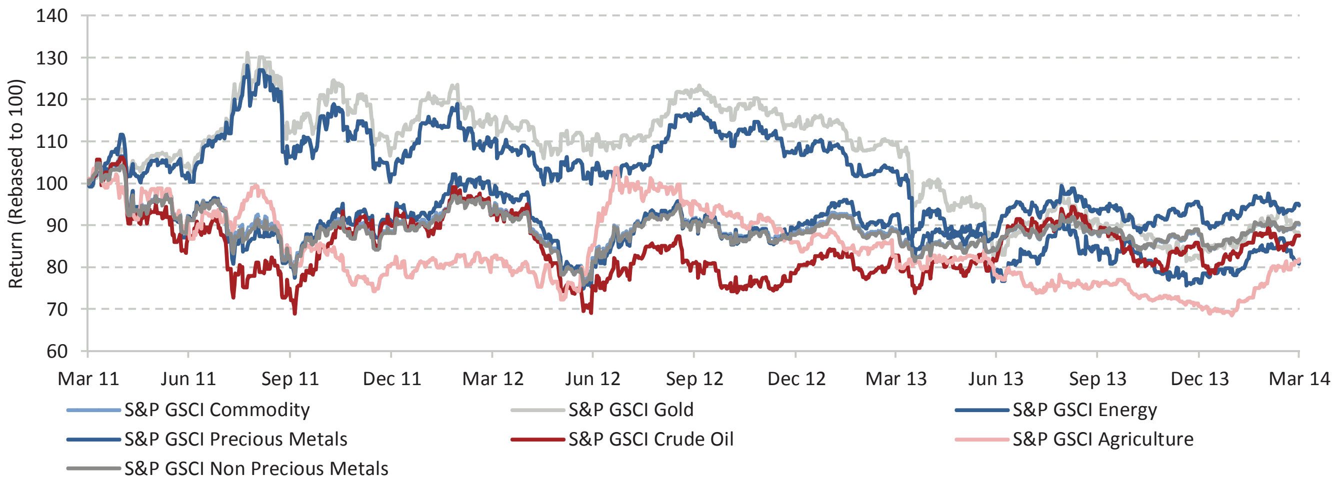
Market performance – 3 years to 31 March 2014



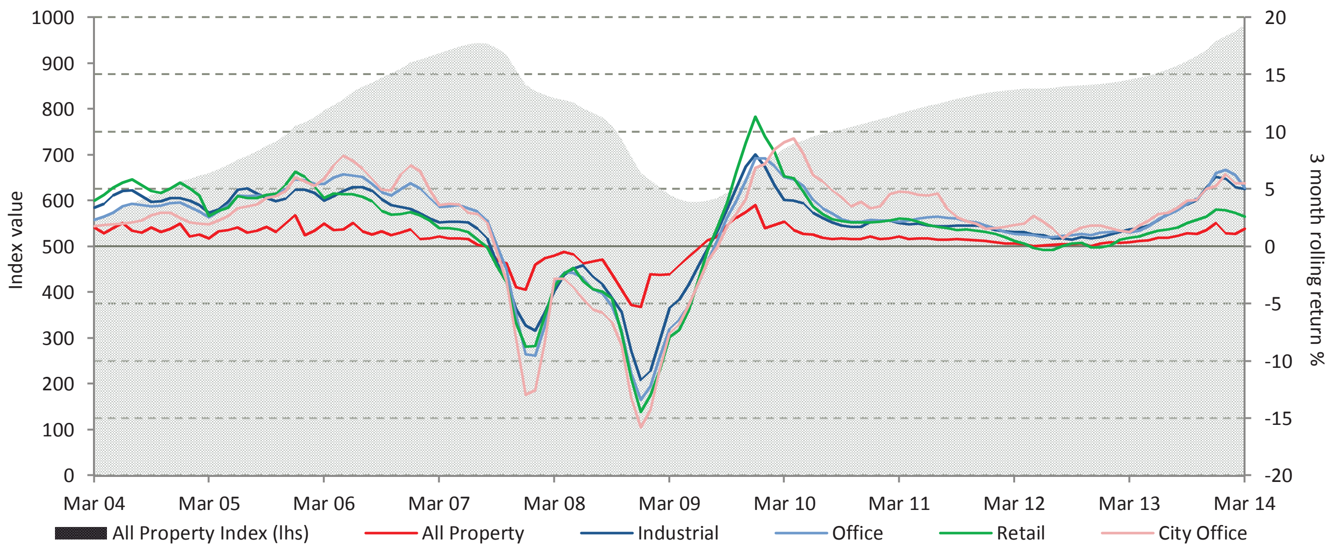
Hedge Funds: Sub-strategies performance – 3 years to 31 March 2014



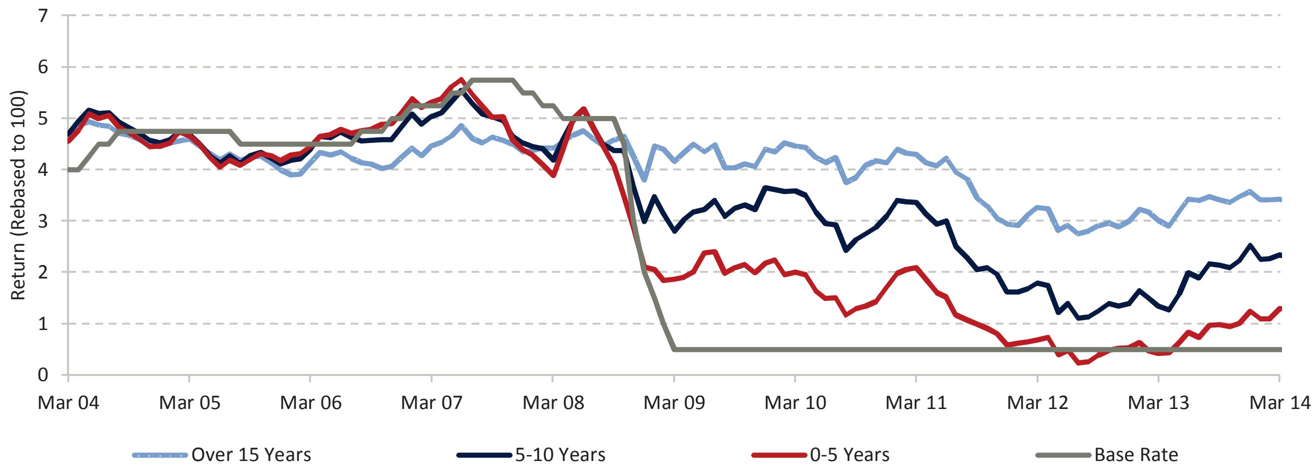
Commodity sector performance – 3 years to 31 March 2014



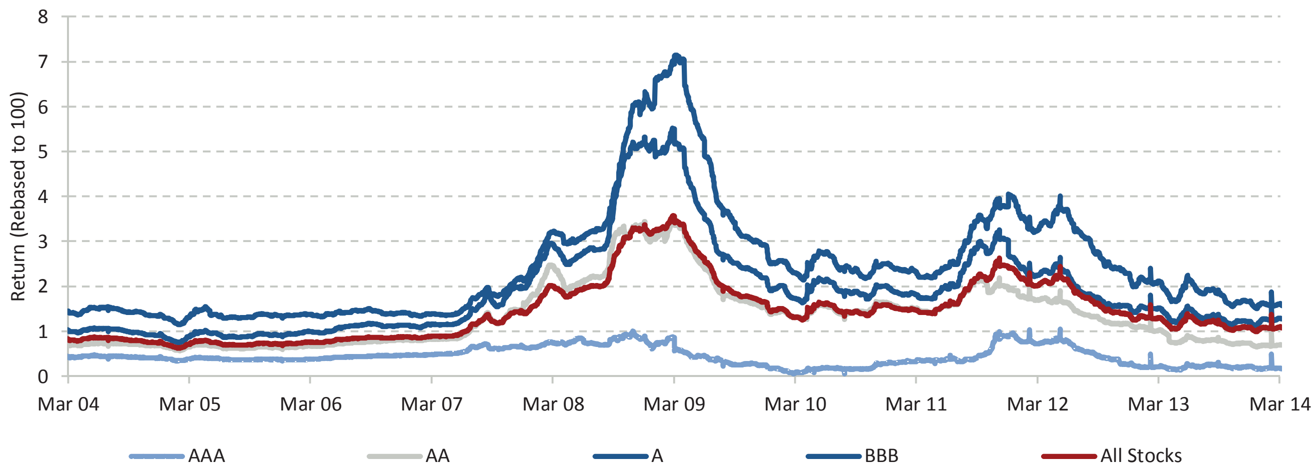
Property sector performance – 10 years to 31 March 2014



UK government bond yields – 10 years to 31 March 2014



Corporate bond spreads above government bonds – 10 years to 31 March 2014



Economic Information

Economic statistics

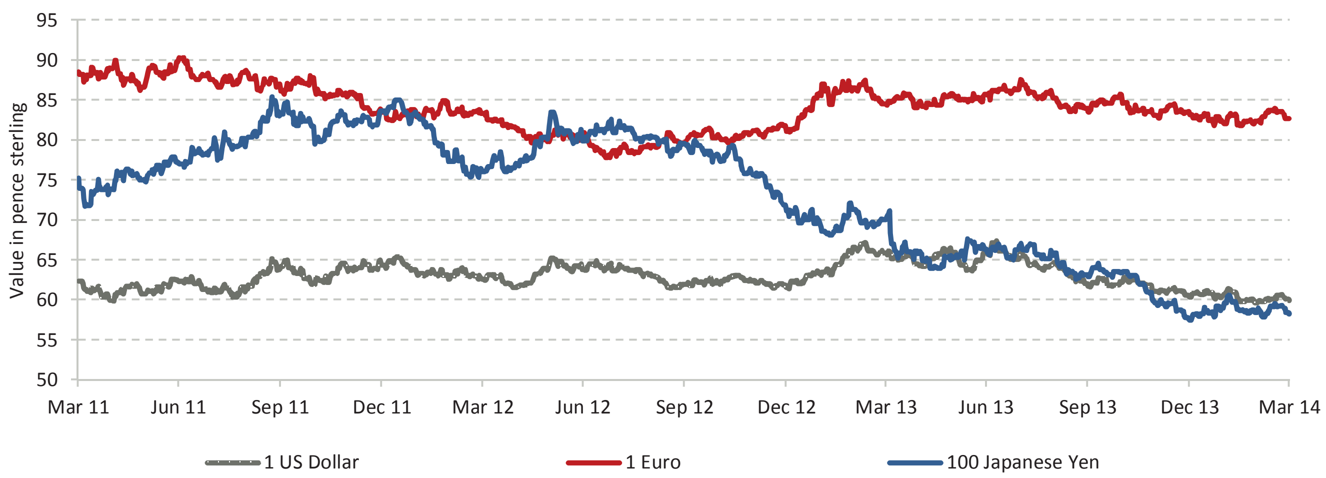
	Quarter to 31 March 2014			Year to 31 March 2014		
	UK	Europe(1)	US	UK	Europe(1)	US
Real GDP growth	0.8%	n/a	0.0%	3.1%	n/a	2.3%
Inflation change(2)	0.1%	0.1%	1.4%	1.6%	0.5%	1.5%
Unemployment rate at quarter-end	6.9%	11.8%	6.7%	6.9%	11.8%	6.7%
Previous rate (last quarter-end / 1 yr ago)	*7.1%*	*11.8%*	*6.7%*	*7.9%*	*12.0%*	*7.6%*
Manufacturing PMI* at quarter-end	55.3	53.0	54.9	55.3	53.0	54.9
Previous PMI (last quarter-end / 1 yr ago)	*57.3*	*52.7*	*57.0*	*48.3*	*46.8*	*51.3*

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

Exchange rates

Exchange Rates	Value in Sterling (Pence)			Change in Sterling	
	31 Mar 14	31 Dec 13	31 Mar 13	3 months	12 months
1 US Dollar is worth	59.98p	60.38p	65.86p	0.7%	9.8%
1 Euro is worth	82.67p	83.19p	84.57p	0.6%	2.3%
100 Japanese Yen is worth	58.24p	57.44p	70.05p	-1.4%	20.3%

Exchange rate movements – 3 years to 31 March 2014



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

2 Market Commentary

Equities - Introduction

The first quarter of 2014 saw little overall movement in equity markets worldwide (with the exception of Japan).

After the rises in developed markets' equities seen in 2013, the falls in January were not unexpected. Many investors had felt at the end of last year that the re-rating of prices in 2013 had gone a little too far, and a period of consolidation was due.

But these falls were quickly recovered in February, with new index highs being reached in some areas, before largely marking time in March. However it has been noticeable that all of this has been achieved on relatively low volume, indicating that investors generally are unwilling to commit themselves too much – in either direction. A 'wait-and-see' attitude prevails, which showed no signs of coming to an end at the end of the quarter.

All of this happened – or more correctly, didn't happen – despite a background, described in more detail below, that was, and is, potentially quite negative. Markets did not ignore events in the Ukraine, or worrying economic numbers from China, the Eurozone and the US, but remained surprisingly calm. This may seem somewhat irrational, but as John Maynard Keynes once said – 'markets can remain irrational longer than you can remain solvent'.

United Kingdom

- The UK stock market has followed the pattern elsewhere in the first quarter, falling in January, recovering in February and moving sideways in March. Expectations of a larger fall (from profit-taking after last year's rises) were not realised and, as in the US, volumes remained low.
- The economy has continued to recover, albeit with some on-going concerns over the residential property market, inflation is still low and interest rates are unlikely to rise anytime soon. There is a growing argument over this, with some forecasters expecting a small rise in rates sooner than the market is anticipating.
- The budget, at the end of the quarter, was in some respects revolutionary, but outside the pensions industry did little to change the bigger economic picture. (In the much longer term it could have a significant effect on both the stock market and, possibly, property, depending on whether Lamborghinis are the preferred pensioners' purchase or not).
- Earnings are the key to the UK market's future progress, as they are in the US. After last year's rises, equity prices appear to discount an increase in profits that seems unlikely to materialise unless world growth accelerates. Momentum has to be seen to increase.
- Three known 'events' on the horizon at the quarter-end will almost certainly have a bearing on the market – the European elections in May, the yes / no vote in Scotland in September, and – a little further off – the General Election in May 2015. In market terms the Scottish vote is unique, with any reaction to the result going either way impossible to forecast, but it is sure to lead to some nervousness over the summer.

Europe ex UK

- Given the geo-political background, it is somewhat surprising that Europe has been the best performing region over the quarter – just.
- As events in the Ukraine have unfolded a sharp correction in European markets might have been expected. This has not happened. It has been obvious from the start that it was in neither side's interests (Russia or the Eurozone) to escalate the situation. Ukraine's ownership of the Crimea happened yesterday in the time-line of Russian history, and the rest of Europe was well aware of this.
- But the American historian, Barbara Tuchman, once wrote 'War is the unfolding of miscalculations'. There has always been the possibility – which still exists – of something going accidentally wrong (the law of unintended consequences writ large).
- Sanctions will be an irritant (they are not usually anything more), but will also have the beneficial effect of accelerating Europe's attempts to reduce its dependency on Russian gas. If that succeeds, the longer-term consequences for Russia could be far-reaching.
- But whilst the world watches the Ukraine, the rest of Europe has continued as before. There is another (young) prime minister in Italy – committed to roll back some of the austerity measures imposed to satisfy Brussels – and now another (again young) prime minister in France, resolved to do the same. The European elections in May were the first time everybody across the Eurozone had the opportunity to give a verdict on 'austerity'.
- But will they have any effect. The European Central Bank continues to do nothing to alleviate the situation. Inflation across the region continues to fall, deflation is already a fact in the peripheral nations, but the ECB refuses to accept that the Eurozone might be repeating the mistakes of Japan in the 1990s. Quoting Barbara Tuchman again – 'Learning from experience is a faculty almost never practiced'.
- Luckily companies across the area have continued to prosper. However, as elsewhere, earnings need to be watched closely. Growth in profits in 2014 must continue to justify current price levels.

North America

- The S&P 500 Index has hit new highs over the quarter, continuing the rise seen in 2013. Corporate earnings growth was largely positive and whenever the economic news disappointed, this was blamed on the unusually bad weather in the Mid-West and East of the country experienced over the period. There is a widespread expectation that any downturn in activity in the first quarter will be recovered in the second.
- The trade deficit in the last quarter of 2013 was the lowest since 1999, and import growth is close to zero. Inflation is falling and the economy is recovering. The Federal Reserve, whilst maintaining its tapering policy (suggesting that all quantitative easing will cease later this year), has also indicated that interest rates are unlikely to rise until late 2015 at the earliest.
- However, some commentators are more wary of this seemingly benign background. Earnings in particular are viewed with suspicion as there is a lack of momentum in many areas. Profits need to grow more quickly to support current equity price levels. This requires an accelerating overall economic growth worldwide, which doesn't look likely at the moment.
- There have also been a few worrying signs of 'irrational exuberance' returning to the market, especially in the technology and biotechnology sectors. There has been a succession of high-profile new issues, not all of which have performed well, which have revived memories of the excesses of 1999/2000. This may be just a temporary aberration, but needs to be watched closely.
- Overall the US equity market does not look expensive, but needs something more to push it to higher levels. For the time being it is being treated as an equity 'safe-haven' by overseas investors, especially as the US dollar looks cheap against other major currencies. Events, such as the crisis in the Ukraine, have also accentuated this safe-haven status.

Japan

- The Japanese market stands out from the rest of the developed world, having fallen sharply in the first quarter – after being one of the best performing major markets last year. Have we seen yet another false dawn or has this been just a correction in a continuing bull market?
- "Abe"-nomics was, and is, revolutionary. The aim is not only to drag Japan out of its twenty year deflationary spiral but also to change Japanese society. Neither can be achieved overnight.
- The first target was the yen, which has fallen over 25% from its highs. This has already had a major beneficial effect on corporate profits which more than doubled in the last year (and which rose 39% in the fourth quarter alone). To say the least this growth is underpinning equity market valuations.
- The correction in the first quarter appears just that – a correction. Investors became concerned about China, emerging markets growth and the Ukraine – and took some profits. They were also aware of the fact that sales taxes were being increased in Japan in April, and were worried this might once again impact consumer confidence.
- The yen has also temporarily regained its safe-haven status, but the authorities have proved they will continue to inject liquidity if this looks likely to become more permanent.
- As the first quarter has shown, it is difficult for any market to act in isolation all the time. But Japan is in a better position than elsewhere to manage its own destiny (perhaps the Eurozone could too, if it was willing).

Asia Pacific ex Japan

- As has been the case for many months now, China has been the driver of performance in the region, with other emerging markets not far behind.
- The first quarter in China is always difficult to interpret because of the effects of Chinese New Year.
- Many commentators are suggesting that the slowdown in the economy is gathering pace, whereas others believe that this is overly pessimistic.
- The reversal of credit growth in China being engineered by the authorities is already leading to slower industrial production growth. Retail and property sales are also slowing. The Renmimbi has been weakening, with serious knock-on effects in the rest of the region. And Chinese private capital, whenever possible, is moving offshore – emphasising the lack of confidence in the domestic market.
- What does this mean for the rest of the region? Asia ex-Japan equities have been underperforming the developed world for well over a year and valuations are now discounting a lot of bad news. Profits and dividends are still growing for many companies. But sentiment is almost universally negative (suggesting we might be nearing the end of the relative underperformance?). Until there is some news from China that is considered positive, markets are likely to languish, although opportunities still exist – and with yields of over 5% available, investors are at least being paid to wait for better times.

Emerging Markets

- The Federal Reserve's tapering programme continued to have a deleterious effect on emerging markets around the world, albeit less so in the first quarter of 2014 than last year.
- Slower global growth, a strengthening US dollar, lower hard commodity prices (ex gold) and reduced liquidity are all headwinds that developing countries are finding difficult to weather.
- Many investors have reduced their exposure to the sector, preferring the more predictable developed markets in the short term. Valuations have fallen, and now look attractive (relative to the recent past).
- One of the principal positive arguments for longer term investors is the rapid growth of the middle class (or the aspiring middle class) in many countries, with the propensity to spend, this benefiting many companies who sell to this

sector. But even this is under pressure in the short term. For example, in India, people have seen the rupee fall by 10% in the last year plus inflation also of 10%.

Fixed Income

- Fixed income investments remain expensive. This is particularly true of government backed securities, e.g. UK gilts. Bonds issued by companies still offer a small pick-up in yield, but credit quality is the key in this sector.
- Both the Federal Reserve and the Bank of England have made it clear that official interest rates will be kept as low as possible for as long as possible. The European Central Bank is following a different course but may be forced to change tack in the near future.
- This all remains the consensus view – everybody is negative. Despite this, the first quarter has actually been a positive one for the sector, as government bonds in particular regained (temporarily, one would imagine) their 'safe-haven' status during the crisis in Ukraine.
- As before the risks are on the downside – especially for Emerging Market debt, beset by both potentially rising interest rates and a stronger US dollar.

Alternatives

- Hedge Funds were more muted in than last quarter, but generally positive. Event Driven and Equity Hedge strategies led the way, with Merger & Acquisitions and high profile activist campaigns driving the gains. Emerging Market strategies continued to detract although Global Macro strategies finally posted positive returns following a period of poor performance. Total hedge fund assets increased by $26.3 billion (to $2.7 trillion) in the first quarter of 2014, as investors allocated the most 'new capital' to the industry since Q2 2011.
- Property continues its growth story with a 19th successive quarter of positive performance and index levels currently at an all time high. Four quarters of encouraging capital growth coupled with a steady income yield has led investors returning to the UK property market. City offices provided the largest source of return, however commercial property in the rest of the UK is showing signs of a recovery and growth.
- Commodities were positive overall in Q1, this was led by agriculture as concerns over poor weather conditions such as drought in Brazil boosted the sector, and the precious metal sectors as Gold rose as tensions developed in the Ukraine.

Conclusion

- The first quarter was a non-event in most markets. Investors have largely been sitting on their hands, waiting. But waiting for what? They have been watching the crisis in Ukraine unfold, not panicking, but wary. A resolution, suitable to all parties, is hoped for, but may not happen. In the meantime, markets will continue to be nervous.
- As for some time, they have been following the statements of the major Central Banks. None have changed their stance, although there were small signs that the European Central Bank might be inching towards some sort of quantitative easing. Tapering will continue, but not accelerate, and interest rates will stay low.
- They have been eyeing corporate profits with some concern, to see whether growth in 2014 justifies the valuations being placed on individual equities (and markets).
- And finally they have been waiting for more positive news from China – so far with disappointment.
- At the moment the future looks cloudy rather than thunderous.

JLT Employee Benefits

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **22nd JULY 2014**

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

SUBJECT: **INVESTMENT STRATEGY AND MANAGER SUMMARY**

1.00 PURPOSE OF REPORT

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

2.00 BACKGROUND

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

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

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

3.00 CONSIDERATIONS

3.01 The report from the Fund's Investment Consultant on the performance of the investment strategy and fund managers as at 31st March 2014 is attached. The Investment Consultant will present the report at the Committee meeting including a verbal update for the quarter ending 30 June 2014.

3.02 In summary the Fund performed in line with its benchmark over the quarter ending 31st March 2014. In appendix 1 of the Investment Consultant's report there is a summary of mandates which shows a number of fund managers or asset classes which have long term absolute return targets of 8-10% or 15% per annum. Under current financial conditions it should be recognised that these targets are not achievable and the 'red circles' shown in the manager performance section of the report should be read in this context.

3.03 As part of the Service Plan 2014/15 there will be a fundamental review of the Fund's investment strategy and the implementation of the strategy, including a review of the current fund managers, benchmarks and targets. The intention is to bring recommendations to the 5th November 2014 Committee. In preparation, a meeting will be organised in October for Committee Members to discuss in detail various options with the Investment Consultant and pension finance officers.

3.04 Until the completion of the investment review there will be no further commitments made within the alternative asset allocations.

4.00 RECOMMENDATIONS

4.01 That Committee Members:

1. Note and discuss the performance of the investment strategy and fund managers.
2. Agree for a meeting in October to be organised to discuss the outcomes of the investment strategy review.

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 Performance Review

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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Clwyd Pension Fund

Committee Report:

Investment Strategy and Manager Summary Q1 2014

Contents

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1 Impact on Clwyd Pension Fund Strategy

Overall

- The Fund performed in line with its benchmark over the quarter, with a return of 1.2%. Each asset class produced a modest positive return apart from the GTAA assets. The largest contributors in absolute terms were bonds and alpha-seeking assets.
- In relative terms, the Fund's equities, bonds and alpha-seeking assets each added around 0.2% to the relative performance, which was offset by a contribution of around -0.6% from GTAA.
- In terms of asset allocation, the Fund was slightly underweight to GTAA assets (9.6% weight versus benchmark of 12.0%), which helped relative performance in a quarter in which GTAA produced the poorest returns. Other positions were close to the benchmark and had a negligible effect on relative performance.

Equities

- Equities were reasonably benign over the first quarter. Markets fell in January and then recovered, giving an overall small positive return.
- UK equities were marginally negative over the quarter, ending their positive run which was due to improved business confidence, earnings and falling employment.
- Overseas equities (with the exception of Japan) were positive, with emerging market equities marginally negative as they continued to be affected by sentiment from slowing growth and a weakening of domestic and export demand in China. Japanese equities fell back following a run of strong performance.
- The Fund's absolute equity performance was affected by this environment, producing an overall return of 1.0%, however this was higher than the benchmark return of 0.3%.
- The Fund's developed equities generally performed better than those in the emerging and frontier markets. In the developed world, overweight holdings to technology and consumer stocks in the US and Europe, together with financial stocks in the Asia Pacfic (ex Japan) region helped the Fund outperform.
- The Fund's emerging market stocks were impacted negatively by its exposure to Russian stocks, which fell sharply over the quarter.
- Frontier Markets continued to perform significantly well, however the Fund's assets in this area did not due to underweight allocation in UAE and Qatar (which outperformed) and an overweight allocation to Nigeria (which underperformed).

Fixed Interest

- Bond markets generally performed well as they were seen as a 'safe haven' during the crisis in Ukraine.
- The Fund's bonds produced a strong performance in absolute terms and outperformed their benchmark, contributing positively to the relative performance of the Fund.
- The Fund's allocation to Investment Grade Credit added the most value against the benchmark. In addition, modest growth in US and European high yield and emerging market debt (in particular Brazil) were beneficial.
- Detractors were in the Emerging Markets, in particular the allocation to Russia affected overall returns on the back of the growing tensions in Crimea. The Fund also suffered marginally in the loans sector.

GTAA

- The underweight allocation to GTAA, compared to its strategic allocation of 12%, benefited the Fund in a quarter in which the overall GTAA return was negative in absolute terms.
- However, the GTAA's underperformance relative its absolute benchmark was the largest negative component over the quarter, contributing -0.6%, or around -£6.9m, to the Fund's relative performance.
- The main reason for the negative return was the short exposures. In developed market equities, short exposures in the financial and consumer cyclical sectors together with the wrong country views within these sectors adversely affected performance. Within fixed income, short exposure to German Bunds and UK Gilts also affected performance.
- Credit across all sectors was reasonably positive for the majority of GTAA assets, along with allocations to hedge funds, particularly in the equity market neutral equities and long/short fixed income strategies.

Real Assets

- Each of the Real asset classes (property, infrastructure, timber and commodities) produced positive absolute returns over the quarter. However, each sector apart from timber underperformed relative to their respective benchmark and contributed -0.1% to the Fund's overall relative return.
- The UK property market continued its positive performance, driven by strong capital growth and positive rental yields. City offices provided the largest source of return, with commercial property in the rest of the UK also showing signs of a recovery and growth.
- Commodities were positive overall in Q1, this was led by agriculture as concerns over poor weather conditions such as drought in Brazil boosted the sector and the precious metal sectors as Gold rose as tensions developed in the Ukraine.

Alpha Seeking Assets

- The Alpha Seeking assets produced the highest absolute return of the five asset class groupings, as Private Equity performed well and the in-house funds produced a double-digit return.
- Overall, they added 0.2% to the Fund's relative performance.
- Hedge Fund performance was modest, but generally positive. Event Driven contributed the most due to increasing levels of corporative activity in which the fund could capitalise. In particular, from positions in construction businesses that are undergoing restructuring. Fixed Income strategies also contributed due to a low duration approach and investing in sectors that will benefit from rising interest rates. Emerging Market strategies detracted, affected by speculation and actual tapering of QE by the Federal Reserve.

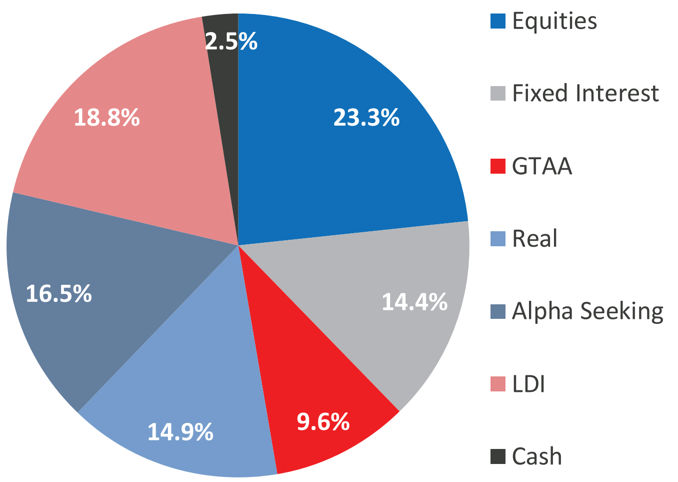
2 Strategic Asset Allocation Information

Allocation by underlying asset class

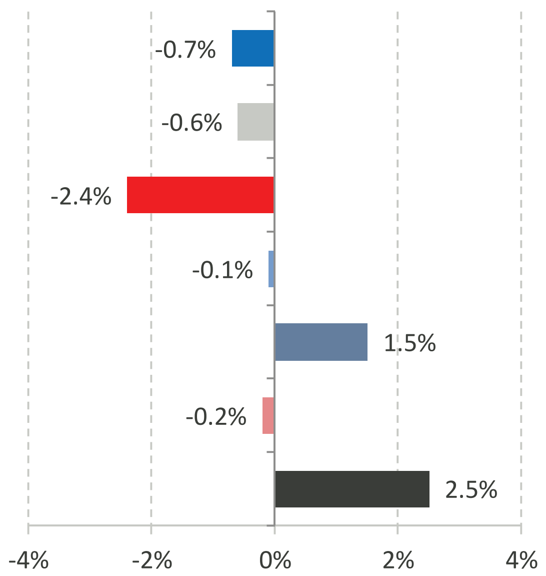
Asset Class	31 March 2014 Valuation £	Weight %	Strategic Benchmark* %
Developed Market Equities	198,319,805	16.4	17.0
Emerging Market Equities	83,023,164	6.9	7.0
Fixed Interest	174,002,369	14.4	15.0
Global Tactical Asset Allocation (GTAA)	115,487,047	9.6	12.0
Property	98,264,246	8.1	7.0
Commodities	32,084,444	2.7	4.0
Infrastructure	28,978,370	2.4	2.0
Timber / Agriculture	20,851,182	1.7	2.0
Private Equity	138,753,505	11.5	8.0
Fund of Hedge Funds	48,393,118	4.0	5.0
Opportunistic	12,628,581	1.0	2.0
LDI	227,459,382	18.8	19.0
Cash	31,945,576	2.5	0.0
TOTAL CLWYD PENSION FUND	**1,210,190,791**	**100.0**	**100.0**

* Strategic benchmark based on past weights and is to be reviewed later in 2014 as part of a strategic review.

Asset Allocation as at 31 March 2014



Deviation from Strategic Benchmark



3 Strategic Asset Class Performance

Performance of the total Fund and strategic asset classes

Manager / Fund / Benchmark	3 Months %	12 Months %	3 Years % p.a.
Total Equities*	1.0	-0.7	4.0
Composite Benchmark*	0.3	-1.8	2.3
Relative	*0.7*	*1.1*	*1.7*
Total Fixed Interest	3.4	-0.7	7.1
Composite Benchmark	2.1	-2.6	5.5
Relative	*1.2*	*2.0*	*1.6*
Total Alternatives - Real Assets	2.5	2.5	n/a
Composite Benchmark	3.2	6.0	n/a
Relative	*-0.7*	*-3.4*	*n/a*
Total Alternatives - Alpha Seeking Assets	3.8	6.3	n/a
Composite Benchmark	2.6	10.6	n/a
Relative	*1.2*	*-3.9*	*n/a*
Total GTAA	-4.0	-4.2	n/a
Composite Benchmark	0.8	3.2	n/a
Relative	*-4.7*	*-7.2*	*n/a*
Total ex Alternatives and GTAA	**1.0**	**2.0**	**6.3**
Composite Benchmark	**0.5**	**1.4**	**5.5**
Relative	***0.5***	***0.6***	***0.8***
Total ex GTAA	**1.7**	**2.8**	**5.3**
Composite Benchmark	**1.3**	**3.7**	**6.0**
Relative	***0.4***	***-0.9***	***-0.7***
Total Clwyd Pension Fund	**1.2**	**2.1**	**4.7**
Composite Benchmark	**1.2**	**3.7**	**5.7**
Relative	***-0.1***	***-1.5***	***-0.9***

Source: WM Performance Services

*Weighted average of individual funds held on 31 March 2014 and their strategic benchmarks, calculated by JLT

4 Manager Summary

	Manager	Fund	31 March 2014 Valuation £'000	31 March 2014 Weight %	Strategic Weight %	3 Yr Performance vs Objective*
● (red)	Duet	Global Opportunities	49,954	4.1	5.0	Target not met
● (green)	Investec	Global Free Enterprise	71,768	5.9	5.0	Target met
● (red)	Aberdeen	Asia Pacific ex Japan Equities	76,598	6.3	7.0	Target not met
● (green)	Wellington	Emerging Market Equities (Core)	36,508	3.0	7.0	Target met
	Wellington	Emerging Market Equities (Local)	37,722	3.1		
n/a	Aberdeen	Frontier Markets Equities	8,793	0.7	-	n/a
Total Equity Assets			**281,343**	**23.2**	**24.0**	
● (green)	Stone Harbor	LIBOR Multi-Strategy Portfolio	174,002	14.4	15.0	Target met
Total Fixed Interest Assets			**174,002**	**14.4**	**15.0**	
● (red)	BlackRock	GASL	50,922	4.2	6.0	Target not met
● (red)	Bluecrest	AllBlue Ltd	32,032	2.6	3.0	Target not met
● (red)	Pyrford	Global Total Return	32,533	2.7	3.0	Target not met
Total GTAA Assets			**115,487**	**9.6**	**12.0**	
● (green)	In-House	Property	98,264	8.1	7.0	Target met
● (green)	In-House	Infrastructure	28,978	2.4	2.0	Target met
● (red)	In-House	Timber / Agriculture	20,851	1.7	2.0	Target not met
● (red)	Wellington	Commodities	32,084	2.7	4.0	Target not met
Total Real Assets			**180,178**	**14.9**	**15.0**	
● (red)	Pioneer	Fund of Hedge Funds	1,539	0.1	5.0	Target not met
● (red)	SSARIS	Fund of Hedge Funds	24,477	2.0		Target not met
● (red)	Liongate	Fund of Hedge Funds	22,377	1.8		Target not met
● (red)	In-House	Private Equity	138,754	11.5	8.0	Target not met
n/a	In-House	Opportunistic	12,629	1.0	2.0	n/a
Total Alpha Seeking Assets			**199,775**	**16.5**	**15.0**	
n/a	Insight	LDI assets	227,459	18.8	19.0	n/a
n/a	Trustee	Cash	31,946	2.6	0.0	n/a
TOTAL CLWYD PENSION FUND			**1,210,191**	**100.0**	**100.0**	

Note: 'n/a' against the objective is for funds that have been in place for less than three years.
* Performance objectives are to be reviewed as part of a strategic review later in 2014.

● (green) Fund has met or exceeded its performance objective ● (red) Fund has underperformed its performance objective

5 Manager Performance to 31 March 2014

	Manager / Fund		3 months %		12 months %		3 years % p.a.		3 yr Performance
			Fund	Bmark	Fund	Bmark	Fund	Bmark	vs Objective
	Duet	Global Opportunities	-0.2	1.9	2.3	8.0	1.5	8.0	Target not met
	Investec	Global Free Enterprise	3.9	0.4	15.0	6.2	11.7	7.1	Target met
	Aberdeen	Asia Pacific ex Japan	2.1	0.4	-9.1	-6.5	3.0	0.8	Target not met
	Wellington	Emerging Markets	-2.0	-1.0	-9.5	-9.9	-0.8	-3.8	Target met
n/a	Aberdeen	Frontier Markets	-0.2	6.8	1.4	14.3	n/a	n/a	n/a
	Total Equity Assets*		**1.0**	**0.3**	**-0.7**	**-1.8**	**4.0**	**2.3**	
	Stone Harbor	Fixed Interest	3.4	2.1	-0.7	-2.6	7.2	5.5	Target met
	Total Fixed Interest Assets		**3.4**	**2.1**	**-0.7**	**-2.6**	**7.2**	**5.5**	
	BlackRock	GASL	-9.6	0.1	-9.7	0.4	-4.0	0.4	Target not met
	Bluecrest	AllBlue Ltd	1.8	2.4	1.8	10.0	3.4	10.0	Target not met
	Pyrford	Global Total Return	0.1	0.6	-0.4	2.5	3.2	3.1	Target not met
	Total GTAA Assets		**-4.0**	**0.8**	**-4.2**	**3.2**	**n/a**	**n/a**	
	In-House	Property	2.5	3.3	7.5	11.9	6.7	6.1	Target met
	In-House	Infrastructure	0.9	1.9	9.3	8.0	10.1	8.0	Target met
	In-House	Timber / Agriculture	2.4	1.9	-10.1	8.0	-1.4	8.0	Target not met
	Wellington	Commodities	3.6	4.2	-6.4	-6.0	-5.9	-6.7	Target not met
	Total Real Assets		**2.5**	**3.2**	**2.5**	**6.0**	**n/a**	**n/a**	
	Pioneer	Fund of Hedge Funds	0.6	0.1	-2.4	0.4	4.5	0.4	Target not met
	SSARIS	Fund of Hedge Funds	0.2	1.9	4.3	8.0	2.0	8.0	Target not met
	Liongate	Fund of Hedge Funds	2.7	1.9	4.8	8.0	-1.3	8.0	Target not met
	In-House	Private Equity	3.9	3.6	6.3	15.0	5.8	15.0	Target not met
n/a	In-House	Opportunistic	14.2	1.9	11.9	8.0	n/a	n/a	n/a
	Total Alpha Seeking Assets		**3.8**	**2.6**	**6.3**	**10.6**	**n/a**	**n/a**	
n/a	Insight	LDI assets	0.5	n/a	n/a	n/a	n/a	n/a	n/a
	Total LDI		**0.5**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	

Source: WM Performance Services except * Weighted average of individual funds held on 31 March 2014 and their strategic benchmarks, calculated by JLT

Appendix 1: Summary of Mandates

Manager	Fund	Mandate	Benchmark	Objective*	Strategic Weight	Rebal Range
Duet	Global Opportunities	Unconstrained Global	Absolute Return	8-10% p.a. abs	5.0%	+/-1%
Investec	Global Free Enterprise	Unconstrained Global	MSCI AC World Index	+3.0% p.a.	5.0%	+/-1%
Aberdeen	Asia Pacific ex Japan Equities	Asia Pacific ex Japan	MSCI AC Pacific (ex Japan) Index	+3.5% p.a.	7.0%	+/-1%
Wellington	Emerging Market Equities (Core)	Emerging Markets Equities	MSCI Emerging Markets Free Index	+2.5% p.a.	7.0%	+/-1%
Wellington	Emerging Market Equities (Local)	Emerging Markets Equities	MSCI Emerging Markets Free Index	+2.5% p.a.		
Aberdeen	Frontier Markets Equities	Frontier Markets Equities	MSCI Frontier Equities Index	+3.0% p.a.	-	-
Stone Harbor	LIBOR Multi-Strategy Portfolio	Multi-Asset Fixed Income	1 Month Libor	Outperform	15.0%	+/-2%
BlackRock	GASL	GTAA	7 Day LIBID Index	15% p.a. abs	6.0%	+/-1%
Bluecrest	AllBlue Ltd	GTAA	Absolute Return	10-15% p.a. abs	3.0%	+/-1%
Pyrford	Global Total Return	GTAA	UK Retail Price Index	+5.0% p.a.	3.0%	+/-1%
Pioneer	Fund of Hedge Funds	Fund of Hedge Funds	7 Day LIBID Index	8-10% p.a. abs	5.0%	+/-3%
SSARIS	Fund of Hedge Funds	Fund of Hedge Funds	Absolute Return	8-10% p.a. abs		
Liongate	Fund of Hedge Funds	Fund of Hedge Funds	Absolute Return	8-10% p.a. abs		
In-House	Private Equity	Private Equity	Absolute Return	15% p.a. abs	8.0%	
In-House	Opportunistic	Opportunistic	Absolute Return	8-10% p.a. abs	2.0%	
In-House	Property	Property	IPD Balanced Funds Weighted Average	Outperform	7.0%	+/-3%
In-House	Infrastructure	Infrastructure	Absolute Return	8-10% p.a. abs	2.0%	
In-House	Timber / Agriculture	Timber / Agriculture	Absolute Return	8-10% p.a. abs	2.0%	
In-House	Commodities	Commodities	Equal Weighted GSAM Commodity Index	+2.0% p.a.	4.0%	
Insight	LDI	LDI	TBC	Outperform	19.0%	TBC

Note: * Performance objectives are to be reviewed as part of a strategic review later in 2014.

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FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CLWYD PENSION FUND COMMITTEE**

DATE: **22nd JULY 2014**

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

SUBJECT: **FUNDING AND FLIGHT-PATH UPDATE**

1.00 PURPOSE OF REPORT

1.01 To update Committee Members on the funding position and liability hedging undertaken as part of the Flight-path strategy for managing liability risks.

2.00 BACKGROUND

2.01 A role of the Committee is to monitor the funding position of the Fund and the management of the liabilities.

2.02 Mercer provides advice to the Fund on liability hedging and flight-paths. Insight Investments were appointed to manage the assets on behalf of the Fund.

2.03 The flight-path strategy commenced from 1st April 2014 with the following aims:

- Achieve a 'base level' of interest rate and inflation hedging (10% hedge ratio) at the outset.
- Aim for a target interest rate and inflation hedge of 40% by April 2019.
- Achieve a target interest rate and inflation hedge ratio of 80% in the long term.

To this end, Insight will construct and manage a portfolio of assets that aims to hedge a proportion of the Fund's liability cash flows.

2.04 By replacing the Fund's passive equity exposure with an Equity Total Return Swap (synthetic equity exposure) the Fund freed up capital to be used as collateral for a liability hedging portfolio. This enables the Fund to maintain its exposure to return seeking assets, while reducing the interest and inflation risks.

2.05 From the 'base level' further hedging will be achieved through an incremental build up over time overlaid with triggers according to prevailing market conditions. In addition there are funding level triggers which will result in the disinvestment of growth assets as the funding level improves. All the above is fully documented and understood by Mercer and Insight.

2.06 The triggers have been formulated on the understanding that the Fund's overall objective is to be fully funded within 10 to 12years which is ahead of the average recovery plan based on deficit contributions of 18 years.

3.00 CONSIDERATIONS

3.01 The report from Mercer on the funding level and liability hedging is attached. This will be presented at the Committee meeting including a verbal update.

3.02 In summary since the commencement of the strategy a number of interest rate triggers have been met and the Fund now has an interest rate hedge of about 21%. No inflation rate or funding triggers have been reached.

3.03 The estimated funding position as at 30th June is 72% which is ahead of the current funding plan. I

4.00 RECOMMENDATIONS

4.01 That Committee Members note and discuss the estimated funding level and the liability hedging undertaken to 30th June 2014.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTIPOVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report

11.00 CONSULTATION UNDERTAKEN

11.01 None directly as a result of this report

12.00 APPENDICES

12.01 Funding and Flight Path Update

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None

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TALENT • HEALTH • RETIREMENT • INVESTMENTS

Clwyd Pension Fund
Risk management framework monthly monitoring report

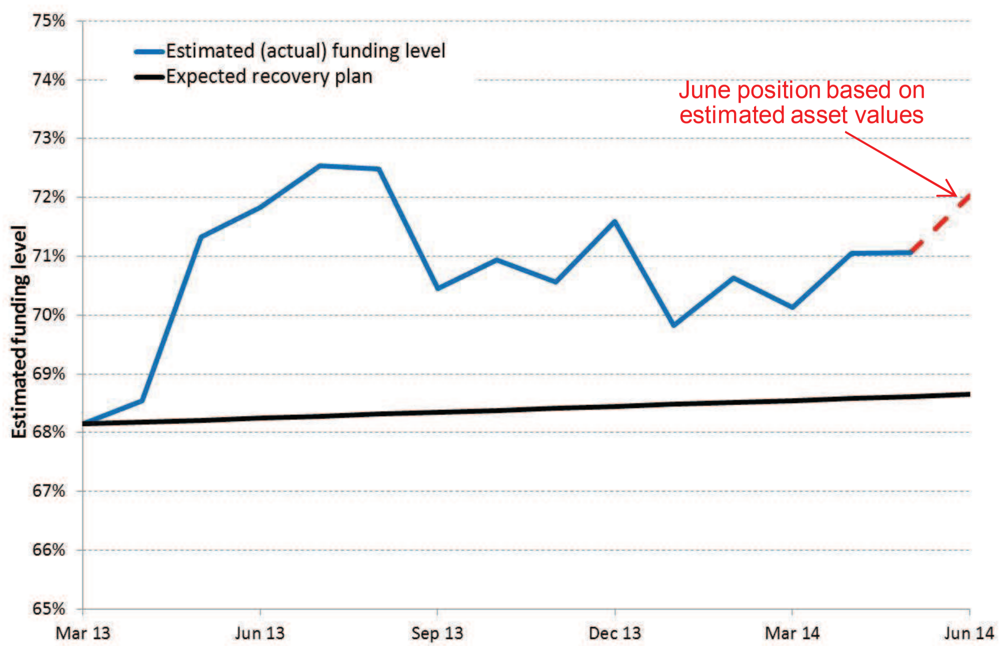
July 2014

Adam Lane, FIA
Paul Middleman, FIA

MARSH & McLENNAN COMPANIES

Clwyd Pension Fund
Funding level monitoring to 30 June 2014

Estimated funding position since 31 March 2013



Comments

The **black line** shows a projection of the funding level from the 31 March 2013 based on the assumptions (and contributions) outlined in the actuarial valuation.

The **blue line** shows an estimate of the progression of actual funding level from 31 March 2013. This shows that the Fund is currently ahead of the funding plan at 30 June 2014.

At the 30 June 2014 we estimate that the funding level and deficit was as follows:

72% (£492m*)

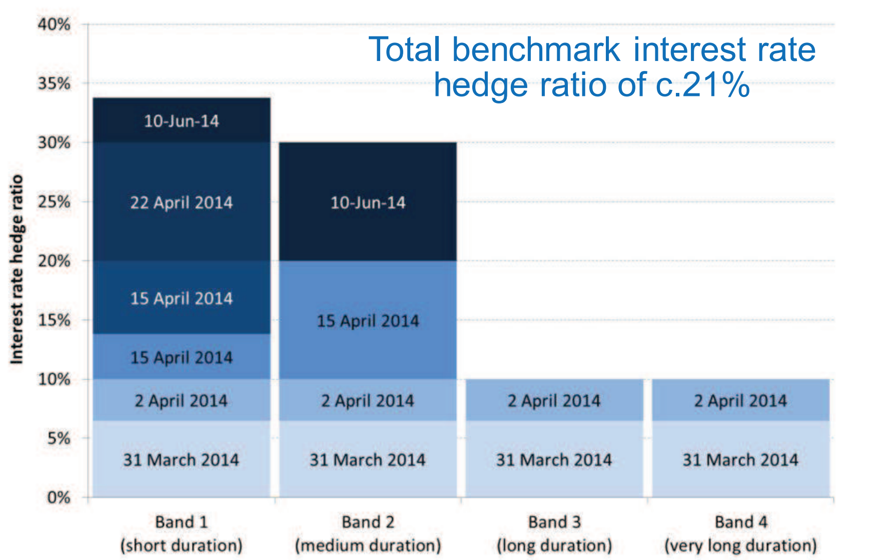
Action: No action required. The funding level is currently below the first funding level trigger which is set at 80% (please see the table below).

	Funding level	Impact on strategic asset allocation	Change to the hedge ratio
30 June 2014	**72%**	**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 the performance of the Insight liability hedging mandate from 31 May 2014 to 30 June 2014. We will monitor this estimate over time against the actual position once final asset values are available.

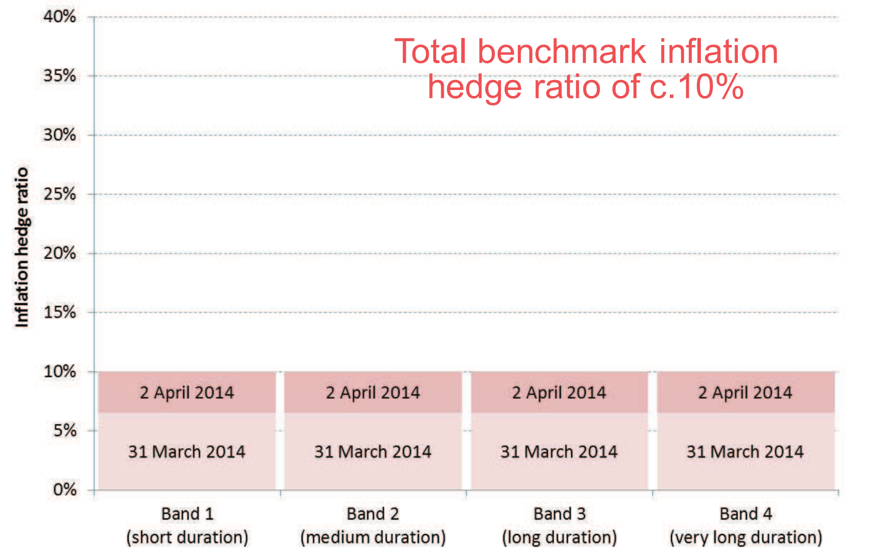
Clwyd Pension Fund
Update on liability hedging (Source: Insight Investment)

Interest rate hedging activity



	Date	Band 1	Band 2	Band 3	Band4
Start position	**31 March**	**6.5%**	**6.5%**	**6.5%**	**6.5%**
Restructuring	2 April	+3.5%	+3.5%	+3.5%	+3.5%
Trigger 1	15 April	+10%	+10%	-	-
Trigger 2	22 April	+10%	-	-	-
Trigger 3	10 June	+3.8%	+10%	-	-
End position	**30 June**	**33.8%**	**30%**	**10%**	**10%**

Inflation hedging activity



	Date	Band 1	Band 2	Band 3	Band4
Start position	**31 March**	**6.5%**	**6.5%**	**6.5%**	**6.5%**
Restructuring	2 April	+3.5%	+3.5%	+3.5%	+3.5%
	-	-	-	-	-
	-	-	-	-	-
	-	-	-	-	-
End position	**30 Jun**	**10%**	**10%**	**10%**	**10%**

In June 2014 the interest rate hedge ratio was increased to 30% in band 2 (medium duration). Due to the impact of coupon payments of gilts at this duration the hedge ratio in band 1 (short duration) increased by c.3.8% (as expected). We will provide more detailed analysis of the above triggers in our full quarterly monitoring report. There was no inflation hedging activity other than the initial restructuring in March and April.

Clwyd Pension Fund
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