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

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

21 September 2016

Dear Councillor

You are invited to attend a meeting of the Clwyd Pension Fund Committee which will be held at 10.00 am on Tuesday, 27th September, 2016 in the Delyn Committee Room, County Hall, Mold CH7 6NA to consider the following items

A G E N D A

1 **APOLOGIES**

To receive any apologies.

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

To receive any Declarations and advise Members accordingly.

3 **MINUTES** (Pages 5 - 22)

To confirm as a correct record the minutes of the meetings held on 24 May 2016 and 5 July 2016.

GOVERNANCE

4 **CLWYD PENSION FUND ANNUAL REPORT, ACCOUNTS AND AUDIT 2015/16.** (Pages 23 - 130)

To provide Committee Members with the Clwyd Pension Fund Annual Report and Accounts for discussion and approval.

5 **POOLED INVESTMENTS**

To provide Committee Members with a verbal update on the progress of the Working Together in Wales Project.

6 **GOVERNANCE UPDATE** (Pages 131 - 166)

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

ADMINISTRATION AND COMMUNICATIONS

7 **LGPS UPDATE** (Pages 167 - 178)

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

8 **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE** (Pages 179 - 200)

To update Committee Members on the Pensions Administration Section.

INVESTMENT AND FUNDING

9 **INVESTMENT AND FUNDING UPDATE** (Pages 201 - 278)

To provide Committee Members with an update of investment and funding matters for the Clwyd Pension Fund.

10 **ECONOMIC AND MARKET UPDATE** (Pages 279 - 296)

To provide Committee Members with an economic and market update.

11 **INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 297 - 314)

To update Committee Members on the performance of the Fund's investment strategy and Fund Managers.

12 **2016 ACTUARIAL VALUATION, FUNDING AND FLIGHT PATH UPDATE** (Pages 315 - 326)

To update Committee Members on the progress of the actuarial valuation project, funding position and liability hedging undertaken as part of the Flight Path strategy for managing liability risks.

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

Purpose:

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

The meeting will discuss details of a proposed contract. Whilst the contract details will be made public in due course the public interest in maintaining the exemption outweighs the public interest in disclosing the information until such time as the contract has been concluded.

14 **INVESTMENT STRATEGY REVIEW** (Pages 327 - 370)

To provide Committee Members with the results of the Investment Strategy Review for discussion and approval.

Yours faithfully

Peter Evans
Democracy & Governance Manager

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CLWYD PENSION FUND COMMITTEE
24 MAY 2016

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Tuesday, 24 May 2016.

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

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

ALSO PRESENT (AS OBSERVERS): Mark Owen (Employer representative Clwyd Pension Fund Board) and Gaynor Brooks (Member representative Clwyd Pension Fund Board)

APOLOGIES: Councillor Matt Wright. Councillor Huw Llewelyn Jones (Denbighshire County Council) and Mr. Paul Middleman (Fund Actuary – Mercers)

IN ATTENDANCE:
Advisory Panel comprising: Colin Everett (Chief Executive), Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Mr. Nigel Thomas and Ms Nikki Gemmell (Fund Actuaries – Mercers), Mr. Kieran Harkin (Fund Investment Consultants – JLT Group)

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

Prior to the start of the meeting the Chair welcomed the members of the Clwyd Pension Fund Board and the Committee agreed that they could contribute to the meeting.

1. **APPOINTMENT OF CHAIR**

Members were informed that Councillor Alan Diskin had been appointed to this role at the Council's Annual General Meeting on 10 May 2016 and therefore a vote on the nomination was not required.

RESOLVED:

That Councillor Alan Diskin be appointed Chair for the Committee.

2. **APPOINTMENT OF VICE-CHAIR**

The Chairman sought nominations for the appointment of Vice-Chair for the Committee. Councillor Ron Hampson proposed Councillor Haydn Bateman and this was duly seconded. No further nominations were received. The Chairman advised that the nomination of Councillor Haydn Bateman was subject to approval by County Council and therefore the Committee would recommend that the appointment be confirmed at the next meeting of the County Council to be held on 14 June 2016.

RESOLVED:

That the Committee recommends that the nomination of Councillor Haydn Bateman as Vice-Chair for the Clwyd Pension Fund Committee for 2016/17 be confirmed at the next meeting of the County Council to be held on 14 June 2016.

3. **DECLARATIONS OF INTEREST (including Whipping Declarations)**

Councillor Stephen Wilson declared a personal interest as being a member of the Clwyd Pension Fund for all items.

Karen McWilliam declared a personal interest as an employee of Aon Hewitt who may submit a tender bid to become the CIV platform provider under the following item.

Nigel Thomas also declared a personal interest as an employee of Mercers who may submit a tender bid to become the CIV platform provider under the following item.

Item 7: Pooled Investments

4. **MINUTES**

(i) The minutes of the meeting of the Committee held on 22 March 2016 were submitted.

Matters arising

Governance update
Mark Owen asked for an update concerning the issue of indemnity insurance. Karen McWilliam explained that this matter was to be discussed at a meeting with AON next week and commented that there seemed to be a need for clarification around indemnity insurance at a national level.

(ii) The minutes of the meeting of the Committee held on 28 April 2016 were submitted.

RESOLVED:

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

5. RISK POLICY AND REGISTER

Karen McWilliam, Independent Advisor - Aon Hewitt, introduced a report to advise of the recommended changes to the Risk Policy, which in the main related to the scoring and criteria for evaluating risks.

Mrs. McWilliam advised that the Clwyd Pension Fund Risk Policy had been updated to become more aligned to the Flintshire County Council Risk Management Policy and Strategy. She reported on the key considerations, as detailed in the report, and drew attention to the main risks which could be of concern to the Committee.

Mrs. McWilliam presented the draft Risk Policy, which was appended to the report, and commented on the proposed changes and governance risks. Members were asked to consider and approve the updated Policy.

The Chief Executive referred to risk number 6 on the Governance Risk Register, and commented that there would always be a high risk of loss of expertise due to changes in staffing arrangements and therefore a yellow target was the best that could be aspired to in this respect.

Steve Hibbert, Mark Owen and the Chief Executive made comments on the new format, with a particular focus on the need to focus on risks where there are concerns. Mrs McWilliam agreed to work with the Pension Board and Mr Hibbert, representing the Pension Fund Committee to finalise the format. Mr. Kieran Harkin, Fund Investment Consultants – JLT Group, and Nigel Thomas, Fund Actuary – Mercers, reported on the funding and investment risks as outlined in the Risk Register. Helen Burnham, Pensions Administration Manager, reported on the administration and communication risks.

RESOLVED:

(a) That the report be noted; and

(b) That the updated Risk Policy, as appended to the report, be approved.

6. POOLING INVESTMENTS IN WALES

The Clwyd Pension Fund Manager introduced a report to provide an update on pooling investments in Wales. He advised that the UK Government had agreed that work on a Wales Pool could continue despite not meeting size criteria. He provided background information and a verbal update on the current position and explained that a detailed submission from the Wales Pool was required by 15 July 2016.

The Clwyd Pension Fund Manager reported on the main considerations as detailed in the report. He advised that following a risk analysis of the options available, the SWT (Pension Sub Group) had agreed to continue developing the business case in relation to the rent option, which was the option also supported by the Clwyd Fund practitioners and investment advisor. He explained that Pension Finance Managers were representing the Welsh Pool on the Cross Pool Collaboration Working Groups for both Responsible Investing and Infrastructure and invited Alwyn Hughes and Debbie Fielder, Pensions Finance Managers, to give an overview of the inaugural meetings of both the Cross Pool groups.

The Clwyd Pension Fund Manager commented that Clwyd Fund officers would continue to work on the project and express the views of the Fund to enable the best possible outcome for the management of the Clwyd Fund and its stakeholders. The Committee would be kept updated of future developments.

Councillor Steve Wilson asked for confirmation of the plans in relation to how the Pension Fund Committee would receive full information to make the appropriate decisions in relation to the proposed solution. Mr Latham confirmed this would be a key part of the additional Pension Fund Committee meeting on 5 July and future meetings. Councillor Wilson requested information about the size of the proposed pooling arrangements in Wales and the voting arrangements. Mr Latham confirmed these were areas where proposals were still to be developed. The Chief Executive highlighted that there was much still to be considered in relation to the governance arrangements and how the platform will be managed, and these were fundamental to the success of the arrangement. He also confirmed that WLGA were now fully engaged in the process. Mrs Debbie Fielder highlighted that very little input had been received in relation to infrastructure discussions.

Mrs McWilliam highlighted some concern over the pace and clarity of progress and level of detail being considered by the Welsh group, compared with other pooling arrangements, although she noted there had been some improvement in recent weeks. She advised the Pension Fund Committee that the Advisory Panel are having weekly discussions with the Clwyd Pension Fund officers to provide ongoing support. Mr Harkin raised similar concerns about the progress of the Welsh Pool.

RESOLVED:

(a) That the Committee supports the recommendation to rent a provider; and

(b) That the minutes should formally record that the Committee welcomes the infrastructure opportunities pooling should provide and encourages greater engagement from the other Welsh administering authorities in relation to infrastructure matters.

7. GOVERNANCE UPDATE

Alwyn Hughes, Pensions Finance Manager, introduced a report to provide a quarterly update on governance related issues. He reported on the main considerations, as detailed in the report, concerning the Business Plan 2016/17, the National Scheme Advisory Board, Local Pension Board, governance related policy/strategy implementation and monitoring, and delegated responsibilities.

The Pensions Finance Manager advised that a calendar of future events for the Committee, which included training and conference dates, was appended to the report. Karen McWilliam drew attention to the Annual LGPS Trustees' Conference which she recommended members to consider attending. The Pension Fund Manager explained that a special meeting of the Committee would be held on 5 July 2016 to consider the 'Pooling of investments', the draft Funding Strategy Statement and actuarial valuation as per item 14.

Helen Burnham referred to the routine annual audit of Pension Administration undertaken during the final quarter of 2015/16. She advised that one medium priority action and four low priority actions were identified and reported on the remedial tasks agreed as detailed in appendix 6 of the report.

During discussion Debbie Fielder, Pensions Finance Manager, provided clarification in response to the query raised by Councillor Haydn Bateman on the figures concerning 'Transfers Out' in the Business Plan 2016/17 to 2018/19 which was attached as appendix 1 to the report.

RESOLVED:

That the update be received.

8. LOCAL GOVERNMENT PENSION SCHEME (LGPS) CURRENT ISSUES

Nigel Thomas (representing the Fund Actuary – Mercers), introduced a report to provide an update on the key issues affecting the LGPS as at May 2016. Mr. Thomas explained that an update on the LGPS specific and wider pensions issues affecting the whole of the industry was provided in the appendix to the report. He gave a brief overview of the main points and, in particular commented on the forthcoming European Union referendum and Public Sector exit payments.
Mr. Thomas recommended that members noted the following:

- update following the 2016 Budget in March
- 2016 actuarial valuation
- Code of Practice update on incentive exercises and the valuation presenting an opportune time to explore this
- LGPS Scheme Advisory Board and sub committees

The Pensions Fund Manager also drew attention to the update provided on the New Fair Deal.

RESOLVED:

(a) That the update be received; and

(b) That progress on the 2016 actuarial valuation be noted.

9. ADMINISTRATION AND COMMUNICATIONS UPDATE

The Pensions Administration Manager introduced a report to provide a quarterly update on administration and communication related matters for the period up to 30 April 2016.

The Pensions Administration Manager gave an overview of the main considerations as detailed in the report. She referred to the Business Plan 2016/17 to 2018/19 update which was appended to the report and advised that all areas were on target. Commenting on current developments and news she drew attention to the Universal Data Extract delays and Equitable Life changes to investments.

The Pensions Administration Manager reported on the latest monitoring information in relation to administration tasks as outlined in the report. In response to a query raised by Karen McWilliam concerning the figures provided in appendix 2, the Pensions Administration Manager agreed to provide further information to Mrs. McWilliam following the meeting.

RESOLVED:

That the update be received

10. INVESTMENT AND FUNDING UPDATE

Debbie Fielder, Pensions Finance Manager, introduced a report to provide a quarterly update on investment and funding related issues.

The Pensions Finance Manager explained that a summary of progress against the investment funding section of the Business Plan up to 30 June 2016 was appended to the report. She advised that all relevant tasks relating to the Actuarial Valuation and Asset Pooling were 'on track' for the current period.

The Pensions Finance Manager reported on the main considerations as detailed in the report and referred to developments concerning Working Together in Wales and WM Performance Services. She also reported on policy and strategy implementation and monitoring and referred to the Fund's Funding Strategy Statement.

Referring to delegated responsibilities the Pensions Finance Manager advised that an update on the areas of delegation used since the last meeting was appended to the report.

RESOLVED:

That the update including the delegated responsibilities be noted.

11. ECONOMIC AND MARKET UPDATE

Kieran Harkin, Fund Investment Consultant – JLT Group, presented a report to provide an economic and market update for the period ending 31 March 2016. He advised that the economic and market environment during the quarter had been split into two halves, with a poor start followed by a reversal towards the end of the quarter. He referred to the following key contributors which had been the main drivers:

- rebound in oil price
- diminishing fear of a US recession
- encouraging comments from China

Mr. Harkin explained that over the quarter positive returns were seen across all Growth assets with the exception of UK and Japanese equities. He commented on the market background and economic statistics as detailed in the report.

RESOLVED:

That the update be noted.

12. INVESTMENT STRATEGY AND MANAGER SUMMARY

Kieran Harkin, Fund Investment Consultant – JLT Group, presented a report to provide an update on the performance of the Fund's investment strategy and performance of the Fund's investment managers for the quarter ending 31 March 2016. He advised that the Fund had experienced a mixed quarter from an Investment Strategy perspective with positive returns from a number of asset classes but negative returns from others.

Mr. Harkin reported on the key considerations, as detailed in the report, and said there were no concerns with any of the Fund's investment managers. He advised that the Fund's investment strategy would be reviewed later in 2016 as part of the Actuarial Valuation process. Mr. Harkin explained that a number of the Fund's investment managers had outperformed their respective targets during the quarter and there had been strong performance from the Fund's in-house portfolio.

The Clwyd Pension Fund Manager commented on performance summary as detailed in section 4 of the appended report and explained that the target included the outperformance above the benchmark.

During discussion Debbie Fielder, Pensions Finance Manager, responded to the question raised by Steve Hibbert concerning the number of in-house managers. In response to the comment made by Steve Hibbert on the aim to reduce the number of managers, the Pensions Finance Manger explained that as part of the strategy review last year, it was agreed to try to reduce the individual investments but many can take up to 15 years to materialise. Since that decision, there had been a significant slow-down in the number of investments.

RESOLVED:

That the investment strategy and manager performance as detailed in the report be noted.

13. FUNDING AND FLIGHT PATH UPDATE

Nigel Thomas, representing the Fund Actuary - Mercer, introduced a report to provide an update on the funding position as at 30 April 2016 and an overview of the hedging mandate implemented to date.

Mr. Thomas reported on the key issues, as detailed in the report, concerning the funding positon and level of hedging. He drew attention to page 163 of the report and commented on the estimated funding level and deficit as at 30 April 2016. He advised that a review of the flightpath framework and funding assumptions were being considered as part of the 2016 actuarial valuation. This was expected to have a positive effect on the funding position based on preliminary discussions.

RESOLVED:

(a) That action is required to review the funding framework (including overall return expectations) as part of the 2016 valuation of the Fund ; and

(b) That a review of the flightpath and liability hedging strategy be carried out in conjunction with the actuarial valuation.

14. 2016 ACTUARIAL VALUATION

Nikki Gemmell, representing the Fund Actuary - Mercer, presented a report to provide an update on the actuarial valuation project as at May 2016. She reported on progress, as detailed in the report, and explained that a special meeting of the Clwyd Pension Fund Committee would be held on 5 July 2016 to discuss the draft Funding Strategy Statement and the initial assumptions to adopt for the 2016 valuation. As part of the consultation on the Funding Strategy Statement, Ms. Gemmell reported that the Fund would continue dialogue with all employers over the coming months. A copy of the 2016 Actuarial Valuation timeline and Project Plan was appended to the report.

RESOLVED:

That the progress being made with the actuarial valuation project and the planned meetings with employers be noted.

15. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There were no members of the press or public in attendance.

(The meeting commenced at 10.00 am and ended at 12.42 pm)

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Chairman

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CLWYD PENSION FUND COMMITTEE

5 JULY 2016

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold, on Tuesday, 5 July 2016.

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

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

ALSO PRESENT (AS OBSERVERS): Mark Owen (Employer representative Clwyd Pension Fund Board), Gaynor Brooks (Member representative Clwyd Pension Fund Board)

APOLOGIES: Councillor Huw Llewelyn Jones (Denbighshire County Council), Colin Everett (Chief Executive)

IN ATTENDANCE:

Advisory Panel comprising: Philip Latham (Clwyd Pension Fund Manager), Gary Ferguson (Corporate Finance Manager), Karen McWilliam (Independent Advisor - Aon Hewitt), Mr. Paul Middleman (Fund Actuary – Mercers), Mr. Kieran Harkin (Fund Investment Consultants – JLT Group)

Officers/Advisers comprising: Alwyn Hughes (Pensions Finance Manager), Debbie Fielder (Pensions Finance Manager), and Kerry Robinson, Communication Officer.

At the start of the meeting the Chair welcomed the members of the Clwyd Pension Fund Board and John Wright from Hymans Robertson, and the Committee agreed they could contribute to the meeting. He also welcomed and thanked Kerry Robinson who had agreed to take the minutes of the meeting.

16. VARIATION IN ORDER OF BUSINESS

The Chairman indicated that there would be a change in the order of the agenda and the item on Pooling Investments in Wales would be brought forward.

17. DECLARATIONS OF INTEREST (INCLUDING CONFLICTS OF INTEREST)

Councillor Stephen Wilson declared a personal interest as being a member of the Clwyd Pension Fund for all items.

Karen McWilliam declared a personal interest as an employee of Aon Hewitt who may submit a tender bid to become the CIV platform provider under the following item.

Paul Middleman also declared a personal interest as an employee of Mercers who may submit a tender bid to become the CIV platform provider under the following item.

Item 7: Pooling Investments in Wales

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

RESOLVED:

That the press and public be excluded for the following item by virtue of exempt information under paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

19. POOLING INVESTMENTS IN WALES

John Wright (Hymans Robertson) presented on the Welsh draft submission to DCLG for pooling of investments which included:

- Background
- Process
- Structure
- Aims
- Potential impact on the Clwyd Fund
- Expected results

A lengthy discussion took place throughout the presentation where John Wright answered a number of questions. The Committee noted a number of areas of detail that might benefit from being refined at the next stage of the project, such as the objectives of the Pool.

The Committee made it clear that they would want to be able to comment and approve the key decisions relating at the establishment of the Wales Pool, which included at least the following:

- Terms of Reference for the Joint Governance Committee (JGC)
- The specification for the potential operator

The Committee requested John Wright feed back to the Pool that the following should be included in the final submission to DCLG:

- Consideration of Member Representation within the governance structure
- Consideration of an Independent Chair on the JGC

The Committee asked John Wright to ensure they were also provided with information outlining the individual fund costs and savings for Clwyd Pension Fund.

John Wright assured the Committee he would deal with all the points they had made. During the presentation he also made assurances to the Committee that the Pool and Operator were focussed on providing a structure that would deliver the investment strategy of each individual fund and therefore Clwyd Pension Fund would not be pressured to adapt their strategy to meet how the Pool is being operated.

RESOLVED:

That the draft submission be noted.

At this point the Chairman reopened the meeting to include attendance by members of the press and public.

20. FUNDING STRATEGY STATEMENT (FSS)

The Fund Actuary, Paul Middleman presented the key elements of the 2016 draft Funding Strategy Statement (FSS). The Committee were asked to approve the draft FSS and delegate the refinement of the document to Fund Officers before it goes to consultation with employers.

In terms of the overall Fund governance it is a requirement to prepare, publish and review the FSS. It was noted as part of the presentation that Mr Middleman does not feel that the pooling of investments in Wales will have a major impact on the 2016 FSS. The Fund is duty bound to consult with participating employers before finalising the document but ultimately it is an Administering Authority decision on the how the funding strategy is implemented. The CIPFA guidance on preparing an FSS is currently being reviewed in light of the change in regulations/oversight and will be published in the coming weeks. It was noted that the draft FSS incorporated the expected changes in the guidance but may need refinement depending on the final outcome.

Paul Middleman stated the key areas to be addressed in the FSS:

- Aims and purpose
- Treatment of Employers (funding and contributions)
- Solvency target
- Risk control and management (including Flightpath)
- Other policies (new and leaving employers)

Paul Middleman discussed the key points of the FSS and main funding objectives which will confirm the employer’s contribution requirements for 2017/2020. These were detailed in the separate report and draft FSS and supporting presentation. An additional consideration of this valuation is the scrutiny under Section 13 of the Public Service Pensions Act 2013, which is performed by the GAD on behalf of the Government. It was noted that whilst this should be a consideration it should not drive funding decisions. Section 13 valuations are simply a mechanism to ensure that all LGPS Funds are setting sufficiently robust funding plans in absolute terms and relative to others.

The key parameters which are proposed to be changed versus the existing FSS from the 2013 valuation were as follows:

- Linking the discount rate to the investment returns above CPI - this is the key driver of liabilities
- Remove allowance for 50/50 benefit take-up other than where a member has already opted for it (for the 2013 valuation, 5% of the membership were assumed to opt for this but the experience does not support it)
- Life expectancy update – initial analysis for CPF suggests there has been a tailing off of life expectancy improvements versus expected which would reduce liabilities
- Reducing recovery period deficit where possible with the total Fund average possibly reducing by 3 years – this will also be a key measure under GAD's Section 13 assessments under the Long Term Cost Efficiency requirements,
- Update/development of related policies – examples were the termination and admission policies. A critical addition at this valuation was the implementation of an employer covenant review framework.

Steve Hibbert queried why the 50/50 option take-up was so low and whether it had been communicated fully. It was confirmed that this is a similar pattern across the LGPS which could be due to a number of factors including communication, inertia and that auto-enrolment is not yet fully up and running. This will continue to be monitored over time.

Paul Middleman went through some preliminary whole Fund results (which were based on an approximate update from the 2013 valuation). It was noted that based on this, stability of deficit contributions (in real terms) may be achievable but it was looking likely that there would be pressure on the future service (primary) rate.

Karen McWilliam asked for clarification in the difference in the discount rate between valuations. Mr Middleman confirmed these are broadly the same based on the analysis of expected investment returns (versus CPI) at each valuation. However, the return expectations will need to be reconsidered post BREXIT, to check the funding plan remains robust. This additional analysis will be carried out during the valuation project.

The Corporate Finance Manager enquired about the flexibility of deficit recovery plans given affordability constraints. Paul Middleman accepted that the draft parameters (in particular the proposed reduction in the period to target the same end point as the 2013 valuation recovery plan) could impact on the affordability of contributions. Affordability will also be affected by the removal of the allowance for 50/50 take-up (on average, this will increase primary rates by 0.3%) but it was noted at the last valuation that if the 5% take-up levels were not met it would have to be reduced/removed.

Paul Middleman noted that all the figures are approximate and need to be updated for the final outcome of demographic factors, actual membership data. In particular there are some positive liability experience items not currently allowed for e.g. the 2016 CPI pension increase award was zero for pensioners. This will help with affordability. It is also a starting point for consultation and ultimately the final position will take into account all aspects (including affordability for employers). The critical issue is to ensure the overall funding plan is robust but does not put an unnecessary burden on employers.

Paul Middleman expanded on the development of a covenant monitoring framework to assist in considering the financial strength of employers and the assessment of the reasonable affordability of contributions. The monitoring framework will help to identify employers posing the highest risk of unrecovered debts but also allow Fund Officers to monitor any changes over time. The key objective is to take a proportionate approach to setting up the framework so that it is as effective as possible but not unduly complicated. If an employer is identified as higher risk then further investigation and action can be taken on a bespoke basis.

It was also noted that the flightpath structure will be reviewed as part of the valuation taking into account market outlook. This could affect the underlying yield triggers in the Insight mandate and possibly the funding level triggers. The principle aims will remain the same which are to help achieve stability in employer contributions by providing more certain real returns versus CPI (which will affect liability and deficit values) but in the most cost effective way.

The timeline and next steps were discussed including the employer's consultation and the final outcome/FSS being signed off by Committee in February 2017.

Councillor Haydn Bateman queried how we could minimise the impact of an employer defaulting on its obligations. Mr. Middleman explained that full understanding of the risks is critical (through the monitoring framework) and to try to improve security such as obtain a guarantor or charge on assets. As an initial stage obtaining as much information as possible and where an employer has affordability issues, using that information to manage the risks appropriately. In some cases there may be little action that can be taken, but good information is vital to decision making and further due diligence should be done to demonstrate that all options have been explored. It was noted that relative to other Funds, the CPF is likely to have less employers potentially falling into a higher risk category but circumstances can change quickly.

RESOLVED:

That the Committee approve of the Funding Strategy Statement and delegate the refinement of the document to Fund Officers in readiness for the consultation with the participating employers.

21. INITIAL IMPACT OF EU REFERENDUM RESULT

The Fund Consultant, Kieran Harkin and Fund Actuary, Paul Middleman discussed the initial impact on the Funds' investments and risk management framework following the market volatility as a result of the EU Referendum.
It was noted:

- FTSE 100 stable but significant movement of capital to UK bonds
- Financial Services legislation may change (in due course)
- Pooling follows, some decisions required how
- Sterling has weakened against major global currencies
- Fund Asset value increased between end of May to end of June
- Possible changes required for uncertainty ahead (Flightpath de-risking)
- Knee jerk reactions not required
- Expect continuing volatility
- Opportunities can be found through volatility

Remembering there is still a lot to emerge on the long term implications of BREXIT, Mr Middleman confirmed funding had actually improved since the valuation date even if we adjusted the real discount rate to reflect the possibility of a marginal reduction in expected returns. This is predominately due to the positive effects of the LDI mandate and the fall in the value of sterling on certain overseas investments. However, further analysis is needed including testing of potential BREXIT scenarios to ensure we remain comfortable with the position.

Paul Middleman and the Clwyd Pension Fund Manager, confirmed that the flightpath and strategy will need to be discussed and reviewed sooner than initially expected in the Business Plan due to the changes in outlook.

The Clwyd Pension Fund Manager requested the Committee authorise delegation to take actions in a timely manner. Karen McWilliam suggested that an emergency meeting may be required. The Clwyd Pension Fund Manager drew attention to other major developments (US presidency) and asked what impact that might have. Mr Middleman suggested that the valuation outcomes will likely have been completed by then but if there was a major shift in the outlook it would be something to consider and inform employers about after the valuation.

Steve Hibbert asked if there was any documentation that he could be reviewing in advance in order to raise questions. Kieran Harkin said it was hoped that the initial modelling on investment strategy will be produced in August with the final results ready for September Committee meeting (following receipt of finalised liabilities data). Steve Hibbert requested to be kept up to date about future developments that are known beforehand and suggested email.

RESOLVED:

That the update and the potential implications be noted.

22. CLWYD PENSION FUND DRAFT ACCOUNTS 2015/16

Debbie Fielder, Pension Finance Manager presented the draft Annual Accounts for consideration by the Committee before approval by County Council.
Debbie Fielder reported the main changes in the accounts as:

- Classification of Fund expenses
- Increase in investment assets
- Decrease in cash balances
- New note to identify agency charges

Explanations were given to questions raised by Members relating to the bulk transfer included in the accounts and the changes in net asset values of some investments.

RESOLVED:

The Committee considered and noted the draft 2015/16 accounts.

23. ATTENDANCE BY MEMBERS OF THE PRESS AND PUBLIC

There were no members of the press or public in attendance.

(The meeting commenced at 10.00 am and ended at 2.45 pm)

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Chairman

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 27 September 2016
Report Subject	Pension Fund Annual Report, Accounts and External Audit 2015/16
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

LGPS Regulations require the Fund to publish an Annual Report before 1st December 2016. The regulations and CIPFA best practice guidelines advise on the content.

A draft unaudited Annual Report is attached as appendix 1. (This excludes the statutory statements which have already been agreed by Committee and the Best Practice documents).

The Fund accounts are attached as appendix 2 and have been audited by Wales Audit Office. Their report is attached as appendix 3 and will be presented to Committee by the external auditors.

The Fund accounts were submitted along with the Council accounts to Audit Committee and Council on 26th September 2016.

RECOMMENDATIONS	
1	That Members note and comment on the draft unaudited Annual Report and delegate finalisation to officers.
2	That Members note the management response to the external audit report.

REPORT DETAILS

1.00	**Annual Report, Accounts and External Audit**
1.01	**Annual Report** Appendix 1 provides the draft Annual Report for 2015/16 and includes: • Introduction from the Chair and Chief Executive • Details of the Fund's Governance Arrangements • Reports from the Fund's Actuary, Consultant, Independent Advisor

	and Pensions Administration Manager. • Specific comments on the Fund's Sustainability Policy. • Transparency of Investment Management Expenses. • The Fund's statutory documents which are listed in the contents page. The Annual Report will be reviewed by the external auditors and provide a statement for inclusion in the Report. The final Report will be published on the Clwyd Pension Fund web site in advance of the AJCM on 8th November 2016.
1.02	**External Audit** The ISA26 and letter of representation is attached as appendix 3. All adjustments recommended have been made and are listed in appendix 2 of the ISA260. There are two matters which have been brought to the Council's attention: • Quality of membership data. • Reconciliation of records. Both of these matters are being addressed as explained in appendix 3 of the letter of representation within the ISA260.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report

4.00	**RISK MANAGEMENT**
4.01	The Annual Report and external audit both review and identify whether there are any risks that are not being managed by the Fund. These include, strategic, operational and financial risks. The external audit report did not report any risks that the Fund is not already aware of and taking action to reduce.

5.00	**APPENDICES**
5.01	Appendix 1 – Draft Annual Report

	Appendix 2 – Clwyd Pension Fund Accounts 2015/16 Appendix 3 – External Audit ISA260 and letter of representation.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None **Contact Officer:** Debbie Fielder, Pension Finance Manager **Telephone:** 01352 702259 **E-mail:** debbie.a.fielder@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of

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Clwyd Pension Fund

Annual Report 2015 - 16

LAPF Investments
2015 Awards
WINNER

LAPF Investments
2016 Awards
FINALIST

CLWYD PENSION FUND – AWARDS

IPE Real Estate Awards – May 2011

Won – Best Pension Fund in UK/Ireland (Country Awards)
Won – Best Opportunistic Investment (Themed Awards – Europe-wide)
Won – Best Small Real Estate Investor in Europe (Gold Awards – Europe-wide)
Runner-up – Best European Real Estate Investor (Platinum Award – Europe-wide)

IPE Awards November 2011

Won – Best Use of Real Estate (Themed Awards – Europe-wide)
Runner-up – Best Use of Specialist investment Managers (Themed Awards – Europe-wide)
Runner-up – Best Use of Hedge Funds (Themed Awards – Europe-wide)

IPE Real Estate Awards – May 2012

Won – Best Portfolio Construction (Themed Awards – Europe-wide)
Won – Best Medium Real Estate Investor in Europe (Gold Awards – Europe-wide)
Runner-up – Best Pension Fund in UK/Ireland (Country Awards)
Runner-up – Best Indirect Investment Strategy (Themed Award – Europe-wide)
Runner-up – Best Opportunistic Investment (Themed Award – Europe-wide)

IPE Awards – November 2012

Won – Best Public Sector Fund in Europe
Won – Best use of Alternatives
Runner-up – Best Fund in Europe
Runner-up – Best use of Commodities
Runner-up – Best use of Emerging Markets
Runner-up – Best use of Hedge Funds
Runner-up – Best use of Real Estate
Runner-up – Best use of Specialist investment Managers

IPE Real Estate Awards – May 2013

Won – Best Institutional Investor in UK/Ireland

LAPF Investments 2015 Awards – September 2015

Won – Risk Management Project of the Year

LAPF Investments 2016 Awards – September 2016

Finalist - Governance

Contents

Introduction

Welcome to the Clwyd Pension Fund Annual Report for 2015/16.

2015/16 Overview

2015/16 was another year of major changes for the Clwyd Pension Fund (the Fund) and the Local Government Pension Scheme (LGPS) as a whole, and this overview gives a flavour of some of the more important developments.

The Clwyd Pension Fund Pension Board was established, and held its first meetings. This new Board consists of representatives from employers and scheme members in the Fund, and is chaired by the Fund's Independent Adviser. Its first formal report is included in this annual report which explains its purpose and what it has been focusing on during the year.

We carried out our first compliance check against the Pension Regulator's new Code of Practice for public service pension schemes. This covers a range of areas including knowledge and skills, communicating with scheme members, record keeping and managing risk. The review concluded that the Fund is being well governed and is largely compliant with the various areas of the Code.

We have been working with the other seven Welsh LGPS Pension Funds to introduce "asset pooling", in order to meet new guidance from Central Government. This simply means that the Clwyd Pension Fund will increasingly invest collaboratively, rather than making our own individual investment arrangements. The aim is to reduce costs, increase efficiencies and further improve governance over the Welsh LGPS Pension Funds' investments. This will be a major change in how we operate, which we should have implemented by April 2018. This change will have no impact on scheme members' pensions or other benefits, nor on the way that we pay their pensions.

The year has been a challenging year for investments and the markets, and so it remains critically important that we continue to look for opportunities when managing the Clwyd Pension Fund assets and liabilities. We carried out a health check on our risk management strategy (a flight-path assessment) during the year, and as a result intend to introduce some changes during 2016/17 to ensure the strategy remains fit for purpose. Along with our investment consultant, we introduced new ways of working to identify opportunities so that we can benefit from tactical opportunities as they arise. We also appointed an operator to more efficiently manage our futures and hedge fund allocations, as well as working with the other Welsh LGPS Pension Funds to appoint a new passive asset provider, which will generate significant fee savings across all the funds.

In March, we formalised and launched the Fund's Administration and Communications strategies, which you will find in this report. Our strategies are aspirational and will take around two years to fully implement, but the objectives continue to be focused on providing a high quality customer focused service to our stakeholders, with clear concise communications using the most appropriate means of delivery.

A lot of preparatory work was undertaken during the year including:

- a review of internal procedures and the measurement of performance
- significant progress with updating a backlog of records for deferred members that had arisen

We were delighted to be one of only seven LGPS Funds in the UK to meet the legal timescale for issuing Annual Benefit Statements and to win the 2015 LAPF Investment Award for Risk Management Project of the Year which recognised the success of our risk management strategy (flight path). We were one of the first LGPS Funds to introduce such a strategy and it has benefited us by around £100m since its introduction in April 2014.

In addition, the Fund was also shortlisted as a Finalist for the Governance award in the 2016 LAPF Investment Awards

Overall we can look back on 2015/16 in a positive light, as we continued to meet most of the Fund's objectives within a very challenging environment, and made good progress at introducing a number of improvements to benefit the Fund and its stakeholders in the future. Hopefully, this annual report illustrates the progress that has been and is being made in managing the various complex risks across the Fund.

The future

Looking to the future, we know there are still ongoing challenges for us to overcome. Our business plan for the next three years has four key themes:

- completing the March 2016 actuarial valuation and reviewing our future funding and investment strategies
- continuing the preparatory work for the introduction of asset pooling by April 2018
- implementing new ways of working to improve our administration and communications, including on-line functionality for scheme members and employers
- pre-empting, where possible, the potential impact of Brexit and putting in place any necessary safeguards, particularly in relation to our asset allocation

This annual report

We hope you find this annual report useful. Our aim is to be as representative and transparent as practically possible. In it you will find much more detail relating to the points we have highlighted above, as well as all of our main strategy and policy statements. It also includes information on how we manage the Fund, including its governance and operational aspects. Our three key advisers also include their own reports to provide us with greater external assurance on how we are running the Fund. More information about the Fund can be found on our pension fund web-site clwydpensionfund.org.uk. We welcome any comments or questions on the content of this report.

Our intention is to seek continuous improvement in line with the Fund's Mission Statement as shown below. On that note, we invite any stakeholder to contact us with any comments or suggestions for improvement on any aspect on the management of the Fund.

Finally, we would like to thank all those involved with the management and administration of the Fund for their continuing hard work and dedication through what has been a challenging last decade.

Cllr Alan Diskin	**Colin Everett**
Chair of the Clwyd Pension Fund Committee	**Chief Executive**

August 2016

Mission Statement

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

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

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

Governance Structure & Overview of the Clwyd Pension Fund

Administering Authority: Flintshire County Council

In May 2014 the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. Additionally, the representation of stakeholders, with full voting rights, on the Committee was widened. In performing their role the Committee takes advice from an advisory panel of officers and professional advisors. The Committee has a scheme of delegation to officers to ensure efficient implementation and receives monitoring reports at each quarterly Committee on governance, funding, investment, administration and communication strategies and progress with the 3 year Business Plan. The minutes of each Committee are available on the Flintshire County Council website

http://cyfarfodyddpwyllgor.siryfflint.gov.uk/ieListMeetings.aspx?CId=445&Year=0&LLL=undefined.

The membership of both the new Committee and Advisory Panel are shown below.

The Public Service Pensions Act 2013, which has been incorporated into the Local Government Pension Scheme (LGPS) regulations, included the establishment of Local Pension Boards. The report establishing the Local Pension Board for the Clwyd Pension Fund, pursuant to a recommendation from the Flintshire Constitution Committee was approved by Flintshire County Council on the 3rd March 2015. This established the Local Pension Board in time to meet the imposed 1st April 2015 deadline. Regulations also required that the first meeting took place before the 1st August 2015; this was achieved and the membership is detailed below.

The role of the Board as defined in Regulation is to secure compliance with regulation and legislation and ensure effective and efficient governance. The minutes of Board meetings are included in the Committee agenda papers and Board members attend Committee, making an important contribution to debates and discussion. The first Board annual report is included within this Annual Report.

The protocol for the Local Board can be found on the Fund's web-site, www.clwydpensionfund.org.uk.

Clwyd Pensions Fund Committee

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

Advisory Panel

Panel Members	
Chief Executive (FCC)	Colin Everett
Corporate Finance Manager/ S151 Officer (FCC)	Gary Ferguson CPFA
Clwyd Pension Fund Manager (FCC)	Philip Latham
Investment Consultant (JLT Group)	Kieran Harkin
Fund Actuary (Mercer)	Paul Middleman FIA
Independent Advisor (Aon Hewitt)	Karen McWilliam FCIPP

Clwyd Pension Fund Local Board

Local Board Members		Voting Rights
Independent Chair	Karen McWilliam	X
Employer Representatives	Mark Owen	✓
	Steve Jackson	✓
Scheme Member Representatives	Gaynor Brooks	✓
	Jim Duffy	✓

Investment Managers

Investment Managers	Address
Aberdeen Asset Management Plc	Bow Bells House, 1 Bread Street, London
Insight Investment	160 Queen Victoria Street, London
Investec Asset Management	2 Gresham Street, London
Man FRM	Riverbank House, 2 Swan Lane, London
Pyrford International Ltd	95 Wigmore Street, London
Stone Harbor Investment Partners (UK), LLP	48 Dover Street, London
Wellington Management International Ltd	Cardinal Place, 80 Victoria Street, London

The Fund has a number of investments with managers investing in Property, Private Equity, Infrastructure, Timber & Agriculture which are listed in the Investment Policy & Performance section of this report.

Other

Service	Address
Custodian: Bank of New York Mellon	160 Queen Victoria Street, London
Actuary: Mercer Ltd	Old Hall Street, Liverpool
Consultant: JLT Employee Benefits	7 Charlotte Street, Manchester
Independent Advisor: AON Hewitt	122 Leadenhall Street, London
Performance Measurement: WM Company	525 Ferry Road, Edinburgh
External Auditors: Wales Audit Office	Unit 4, Evolution, Lakeside Business Village, St. David's Park, Ewloe
Bank: National Westminster Bank plc	48 High St., Mold
Legal Advisors: Varies depending on the issue and can include the Flintshire County Council in-house legal team as well as organisations listed on the Framework Agreement (see below).	

AVC Providers	
Prudential	Lancing, BN15 8GB
Equitable Life (*closed to new entrants*)	PO Box 177, Walton St., Aylesbury, Bucks., HP21 7YH

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

Organisation	Address
Squire Patton Boggs	7 Devonshire Square, London
Aon Hewitt	122 Leadenhall Street, London
Mercer Human Resource Consulting	Tower Place West, London
JLT Benefit Solutions	7 Charlotte Street, Manchester
Allenbridge	60 Goswell Road, London
bFinance	26-27 Oxendon Street, London

Clwyd Pension Fund Officers	Post	Contact details
Philip Latham	Clwyd Pension Fund Manager	(01352) 702264
Helen Burnham	Pensions Administration Manager	(01352) 702872
Debbie Fielder	Pensions Finance Manager	(01352) 702259
Alwyn Hughes	Pensions Finance Manager	(01352) 701811
Pensions Administration Team	pensions@flintshire.gov.uk	(01352) 702761
Pensions Finance Team	pensionsinvestments@flintshire.gov.uk	(01352) 702812

	Cllr A Diskin	Cllr H Bateman	Cllr R Hampson	Cllr B Dunn	Cllr M Wright	Cllr H. Jones	Cllr S Wilson	A Rutherford	S Hibbert
Strategy Day (Business Plans, Risk, Administration Strategy)		✓	✓	✓		✓	✓	✓	✓
Annual Employer Meeting (4hrs)		✓				✓	✓		
Pooling Briefing (2hrs)	✓	✓	✓				✓	✓	✓
Pensions Regulator Modules									
Conflicts of Interest							✓	✓	✓
Conferences									
LGC Investment Summit (1.5 days) Sept 2015	✓	✓							
LAPFF Annual Conference (1.5 days) Dec 2015									✓
LGC Seminar (1.5 days) March 2016	✓	✓			✓		✓		
Fees & Charges (2hrs)	✓	✓	✓	✓		✓	✓	✓	✓
Private Equity & Opportunistic (1hr)	✓	✓	✓	✓		✓	✓	✓	✓
Property, Infrastructure, Timber & Agriculture (1hr)	✓	✓	✓	✓		✓	✓	✓	✓
Pensions Regulator Code of Practice (2hrs)	✓	✓	✓	✓		✓	✓	✓	✓
Key Performance Indicators	✓	✓	✓			✓	✓		✓

Committee Training and Activity 2015/16

Clwyd Pension Fund Training Policy 2015/16

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

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

In order to monitor the knowledge and skills and identify whether we are meeting the objectives of this policy, we will compare and report on attendance at training based on the following:

a) Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
b) Hot Topic Training – attendance by at least 80% of the required Pension Fund Committee members and senior officers at planned hot topic training sessions. This target may be focused at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.
c) General Awareness – each Pension Fund Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
d) Induction training – ensuring areas of identified individual training are completed within six months.

The previous table details all the training provided to Members of the Committee to satisfy the requirements of the Training Policy. This includes committees attended and relevant training sessions, conferences and seminars. All four new Local Board Members have also received and completed relevant training in line with the Policy, details of which are included in the Pension Board annual report. The Fund has a Training Plan which is provided to both Committee and Local Board Members and details all the training to be covered during the year.

In line with the Training Policy the follow measures relate to 2015/16 in relation to all Pension Committee, Local Board and senior officers (a total of 19 persons):

a) Individual Training Needs – all but one have completed the required training on all key elements in the last three years. ,
b) Hot Topic Training - Of the 8 additional training sessions offered, the attendance was as follow:
   - 1 session 89%
   - 4 sessions 84%
   - 1 session 79%
   - 1 session 74%
   - 1 session 72%
c) General Awareness – Out of the total of 19 members (Committee and Board) and officers, 10 of them completed at least one general awareness day in accordance with the policy.
d) Induction training – The induction training element applied only to the new Local Board members during 2015/16. All Local Board members undertook the induction training during the required six months.

Overview of Pension Fund Risks

The Clwyd Pension Fund (CPF) has embedded risk management into the governance of the Fund. The Risk Policy and the Risk Register are enclosed in the appendix of this Annual Report.

These risks are reviewed each quarter at the Advisory Panel and reported within the agenda at each Committee and Board.

There are risks whose impact or likelihood of materialisation are currently higher than our target level of risk. These are explained in more detail within the Risk Register but a summary of the higher risks follows:

Governance

Risk

- There are a number of external factors which may impact on the Fund meeting its objectives and legal responsibilities.

Action

- These are monitored by the Advisory Panel and the Fund responds to consultation on changes.

Funding and Investment

Risk

- The current low interest rate environment and expectation of low economic growth and investment returns may in turn result in higher cost to employers which may become unaffordable.

Action

- These risks will be considered during the actuarial valuation. Management of Investment and Funding risks are expanded in the Funding Strategy Statement and Statement of Investment Practice (SIP) which are appended to this Annual Report; both these documents are being reviewed in 2016/17.
- The Fund takes proper advice from its Actuary and Investment Consultants. The Actuary determines the return required to meet both past and future liabilities. The Investment Consultant recommends a strategic asset allocation to meet long term returns at acceptable levels of risk.
- Both the Actuary and the Investment Consultant work together on a risk management strategy which advises the Fund on when to de-risk the investment strategy. This is known as a funding flightpath which is explained in the Actuary's report. The funding strategy and SIP are approved by the Committee.
- The Investment Consultant reports each quarter to both the Advisory Panel and Committee on the Fund's investment return and asset performance as well as on the Fund's investment managers' performance compared with their target return. The Actuary reports each quarter to Committee on the funding position and flightpath.
- The Investment Consultant also advises on tactical investment opportunities which are implemented through a best ideas portfolio. The Committee have delegated implementation to the Clwyd Pension Fund Manager (CPFM).
- The Fund has a number of investments in property, private equity and infrastructure funds. These are monitored by the Private Equity and Real Assets Group. The Committee has delegated new investment decisions to the CPFM, Section 151 Officer or Chief Executive Officer after taking proper investment advice from the Investment Consultant.

Administration and Communication

Risk

- The Fund is unable to meet its legal and performance expectations.

Action

- The Fund has implemented and Administration and Communications Strategy from April 2016 which will measure the performance of the Funds Administration Service and the employers who provide the member data to the Fund. Methods of improving the transfer of data between employers and the Fund are included in the current business plan.

CIPFA also asks LGPS Funds to report on certain specific areas explained below:

Managing Third Party Risks

Risk

- There are a number of risks the Fund must manage as a result of working with third parties, such as the employers that participate in the Fund, and our external suppliers and fund managers.
- Employer risk falls into two distinct areas:
    - Employers not carrying out their administrative responsibilities.
    - Employers not paying their contributions. Late payment of contributions could, if the contributions paid late were significantly large, directly put a strain on the Fund. However, more importantly, this may also be an indication of underlying problems, such as an employer that is going through financial difficulties. Should this lead to employers ceasing to participate in the Fund due to financial difficulties, this may result in unpaid liabilities which can then have implications on other employers in the Fund.

Action

- Monitoring receipt of contributions and taking action to quickly pursue arrears. Late payments are captured as part of our monitoring of breaches in the law and our administration strategy so we quickly identify any trends which may indicate underlying problems. Late payments for 2015/16 are shown in the Administration section of the Annual Report.
- Considering the strength of covenant of our employers as part of the triennial valuation exercise, ensuring funding plans are appropriately set, which in turn dictate the amount of contributions due and when. Most employers in the Fund have a strong covenant, however, improvement in the procedures for monitoring employer risk is included in the 2016/17 Business Plan.
- Our external suppliers are wide ranging and include fund managers, custodian, consultants and information system suppliers. We carry out ongoing monitoring of all our suppliers appropriate to the type of service they provide, such as ensuring that all their fees are in line with the agreed contract, performance measuring against agreed objectives or benchmarks, regular review of their contracts, generally through tender processes, and review of fund manager annual reports. Our custodian and fund managers provide us with internal control reports which we regularly review.

Independent Adviser

Introduction

This is my second annual report in my role as Independent Adviser to the Clwyd Pension Fund (the Fund), focusing on the year 2015/16.

My role

I was appointed in early 2014 as Independent Adviser to the Fund, and the intention was that I would become a 'critical friend' to the Fund. My remit was to advise the Fund and report annually to stakeholders on whether the administering authority is managing all risks associated with governance, investments, funding, administration and communication, although it should be noted that I am not required to be, nor indeed am, an expert in all of these areas. In particular, the Fund already has an appointed actuary to advise on funding matters and an appointed investment consultant to advise on investment matters, and I therefore use my working knowledge in these areas (and close working relationship with the appointed advisers) to specifically advise on the governance of these areas rather than on these areas themselves.

This is my second annual report, and it sets out my views on the management and administration of the Fund and, in particular, how it this has evolved during 2015/16 (April to March), but also touches on some developments that have taken place after March 2016. I also highlight some of the ongoing challenges Flintshire County Council will face in the future, in its role as Administering Authority to the Fund, both in the short term and in the longer term.

Overview

Building on the significant changes last year, there have continued to be further significant challenges to the management and operations of the Fund since April 2015. As before, some have been driven by national changes to the LGPS (and public service schemes in general), whereas others, particularly relating to planned improvements to and evolution of the management of the Fund, have been driven by Flintshire County Council. Once again, my view is that a significant amount has been achieved in an extremely short period of time, which continues to be of great credit to all involved.

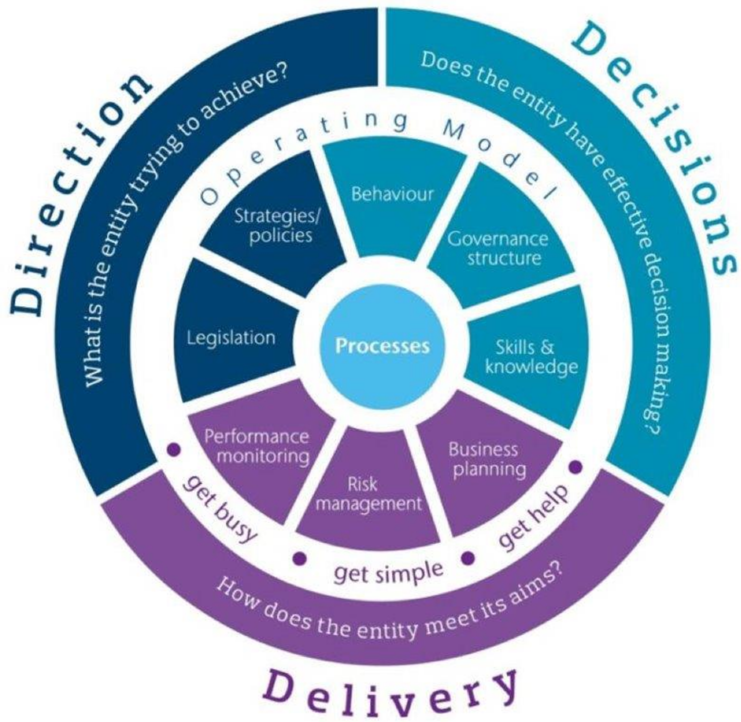
Effective Governance

There are some key benefits from having effective governance in place, including:

- Robust risk management that can assist in avoiding issues arising or at least reducing their impact
- Ensuring resources and time are appropriately focussed
- Timely decision making and implementation of change
- A clear view of how the Fund is being operated for the Pension Fund Committee (or equivalent).

The approach I take in advising Flintshire County Council in its role as Administering Authority to the Fund is to consider its approach to governance against the Aon Hewitt governance framework. The Aon Hewitt governance framework incorporates our beliefs about what it takes to achieve good governance, and considers the following key areas:

- Direction – having clear strategies and policies that also meet legislative requirements are fundamental
- Delivery – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management ensure effective and efficient delivery
- Decisions – having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is critical.



In relation to each of these elements, I consider the key responsibilities for the Fund, in particular:

- the overall **governance** (aka management and decision making) of the Fund
- having an appropriate approach to **funding** the liabilities
- the safeguarding and **investment** of assets
- the **administration** of the scheme members' benefits and
- **communications** with the Fund's stakeholders

My thoughts on each of these areas are set out in the next section.

Observations

In this section I consider the progress made in the key areas of focus for the Fund as well as highlighting my thoughts for the future.

Governance

Key achievements:

- mainly compliant check against The Pension Regulator's Code of Practice
- successfully bedded in Pension Board with excellent engagement
- engagement with asset pooling matters.

In my report last year, I highlighted that the Council had made some fundamental changes and improvements to the governance of the Clwyd Pension Fund. I believe 2015/16 saw the benefits from the strong governance structure and key governance related policies put in place in 2014/15. During 2015/16, Flintshire County Council continued to deliver strong governance of the Clwyd Pension Fund, implementing further improvements including:

- A number of areas which were planned exercises from the Fund's business plan:
    - Although the Pension Board Protocol was established before 1 April 2015 (in line with the regulatory timescales), the act of populating and implementing the Clwyd Pension Board took place in 2015/16. I was heavily involved in the member application process, and then in interviewing potential candidates, and I was delighted with the calibre of candidates applying. As such, I had high expectations (which were met) that the appointed individuals would be extremely helpful in relation to all areas of governance, including initiatives such as increasing employer engagement and evolving the Fund's administration and communications strategies. In addition to the excellent member and employer representatives, I was privileged to be asked to Chair the Clwyd Pension Board (a role I continue to fulfil), and over the year there were 3 meetings with 100% attendance by all members and excellent engagement during Board meetings. The Clwyd Pension Board has now produced its first annual report setting out the areas it has been involved with over 2015/16.
    - The Fund continued its work on meeting the requirements of its Training Policy. A key element of this was induction training for all the Pension Board members. In addition, training was held for Pension Fund Committee and Pension Board members on key topics such as the Pension Regulator's Code of Practice, alternative investments and fees and charges relating to investments. I feel confident that the Committee and Board are receiving relevant training in a timely manner.
    - My colleagues and I, from Aon Hewitt, were commissioned to undertake an independent review of how the Clwyd Pension Fund compares with the requirements set out in the Pension Regulator's Code of Practice. As part of this we worked with all officers in carrying out a fundamental review of their practices against the Code. The review found that overall the Fund complied very well with the Code of Practice (compared to other LGPS Funds). There were a few (generally minor) non-compliant areas to be kept under investigation or where further work was required – such as the need to better monitor and meet legal communication timescales – which are currently being worked on. The results

of this compliance review were presented to the Pension Fund Committee, the Pension Board and the Advisory Panel, all of whom were happy with the results and the minor areas for improvement. Going forward, a review against the TPR Code will be carried out annually to monitor improvement in previously non-compliant areas, and also to ensure that any previously compliant areas do not become non-compliant.

- A new staffing structure was implemented within the pensions administration team which provided greater opportunities to review ways of working and staffing levels (this is covered in more detail in the administration section below)

- My general feeling is that the new governance structure is now very much bedded in, and is working as intended. There was a slight setback when two meetings needed to be cancelled as they would not have been quorate (due to unavoidable personal circumstances), but this has not reoccurred since. It was pleasing to see that the urgency delegations (which had previously been set up) worked smoothly to avoid any issues arising as a result of these cancellations. It is also good to see that over the year the level of engagement in relation to critical areas has remained high. This is well demonstrated in the area of Asset Pooling in the LGPS, where all parties have been working well to consider the key challenges and risk areas – it is clear to see that the Fund is benefiting from a wide range of expertise in deciding how best to manage this, as well as where and how to challenge decisions / issues where appropriate. Based on my experience and work elsewhere, this process is being undertaken extremely effectively.
- There was a significant senior officer change at the beginning of the year, when Colin Everett, Chief Executive took over Helen Stappleton's role as senior officer involved in pension fund matters. I was very sad to see Helen having to step back from this role due to illness and the Fund has very much benefited from her dedication in recent years. However, I was very pleased to see that Colin has readily embraced his new responsibilities, by taking ownership and leadership in the role and he has provided clear and useful insight during the year.
- As mentioned briefly above, there was significant work done this year regarding asset pooling in the LGPS. Despite this not being part of the Fund's original business plan (as it was driven by Government with very short timescales), Flintshire County Council recognised the need to be involved at an early stage and was adaptable enough to incorporate this in their work plan. The Fund very quickly identified the need to minimise the risk of an operating model being adopted which might impact on the Fund delivering its investment strategy. Fund Officers took the time to consider and research alternatives and, above all, pushed for a well-structured project from the beginning, and managed this project to the best of their ability, particularly given the challenges relating to working with seven other partner Funds. It was particularly pleasing to see the involvement of Clwyd Pension Fund officers (such as Debbie Fielder and Alwyn Hughes) on national asset pooling working groups.
- The Risk Register was reviewed based on feedback received from the Pension Board, and the general feel at Advisory Panel that it wasn't as effective as it could have been, mainly due to including too much detail. This demonstrates that the critical oversight role provided by these two bodies is working effectively. The process for agreeing the new Risk Register should result in greater involvement at all levels, which is important to ensure this now becomes embedded in day to day management.

- The officers of the Fund held a strategy meeting to develop the Fund's Business Plan, involving both Pension Fund Committee and Pension Board members – it was considered useful to involve Committee and Board members in discussing the key challenges (and the business as usual) before finalising the draft business plan. As expected, it was an extremely positive experience for all parties, as the members were very engaged with the process, and the input of different opinions helped officers to ensure the draft business plan would really focus on the key issues in a timely manner.
- The Fund's Breaches Procedure was agreed, and is currently being implemented, although there is still some work to do on how to identify some of the more detailed breaches (e.g. administration legal deadlines), and this work will continue into 2016/17. In common with a lot of areas of good governance, the Clwyd Pension Fund was again one of the first LGPS Funds to put a Breaches Procedure in place.

My general opinion is that the Clwyd Fund compares well to the Aon Hewitt Governance Framework. The Fund identifies and sets out good clear objectives in all areas, measures itself effectively against these objectives, and has a good attitude to Business Planning and to Risk Management. The Fund's governance structure now works well, as mentioned above, and the individuals charged with managing the Clwyd Fund are unanimously well engaged, committed to their roles and well trained. The Fund's Conflicts of Interest Policy is now also well bedded in and I consider that all potential conflicts are identified at an early stage and managed appropriately. Transparency has been key to this and I commend all those involved for their openness and willingness to embrace this.

Looking to the future:

- Although the Committee and Board members now have a relatively good level of pensions knowledge and understanding, there is a general acknowledgement that there is still a lot to learn, particularly in the ever changing LGPS marketplace, so we need to ensure that everyone remains focused on training as a priority, and that the Clwyd Pension Fund continues to provide special training on the job. This will be of particular importance with the potential for a number of new Pension Fund Committee members after the Welsh elections in 2017.
- As mentioned above, there has been a lot of progress regarding asset pooling, but there are still some issues to address as this is a hugely significant project, and the eight Welsh LGPS Funds need to ensure they agree on the operation and structure of their pool. The Clwyd Pension Fund has a very different investment strategy to many other Funds, so they need to be assured that both the Operator and the pooling arrangements themselves can deliver to the Fund's requirements. Equally, the Clwyd Pension Fund also needs assurance that the governance structure and the role of the Joint Governance Committee do not take away from local decision making (whilst on the other hand accepting the operator manager appointments without unnecessary challenge). The crucial barometer of success is whether or not the move to asset pooling will result in savings for all funds, and this must be kept under close consideration.

- The Fund needs to be mindful of the Scheme Advisory Board's role in the future. There is currently quite a lot of uncertainty over their work plan for the year, other than valuation related matters, but any governance (or other non-valuation) related areas that arise will need to be considered.
- I will also be observing how the Fund will prepare and respond to the impact of Brexit. Obviously, at time of writing, there is much uncertainty around what may happen and how this might affect LGPS Funds, but as things develop they will need to monitor the situation and act appropriately.
- With so much going on, and so much uncertainty, I continue to recognise the pressures on all those involved. I have a number of concerns about the pressure, particularly, on staff resources but also on the time in Pension Fund Committee meetings. It is fair to say that officers are already prioritising workloads and it will be necessary to continually review the risks should certain tasks be considered as a lower priority or not able to be completed at all.

Funding and Investments (including accounting and financial investment)

Key achievements:

- Review of in-house investments
- Implementation of managed account platform
- Good use of Tactical Asset Allocation Group.

I work closely with both the actuary and the investment consultant to the Fund, and each will produce his own report, so this area of my report focuses on how things are done, rather than the detail of what is done. Key areas in relation to investment and funding this year have included:

- A number of areas which were planned exercises from the Fund's business plan:
  - Regular projects such as the 2015 funding review and the flightpath health check – these are very positive as they highlight opportunities appropriately dependent on market movements. Also, the funding review and meeting the backlog have instigated a central steering group involving the three main employers in the Fund, which allows greater engagement with these employers in relation to funding and administration matters, which will hopefully make things more efficient during the actuarial valuation process.
  - The Fund undertook quite a radical review of its in-house investments – this was carried out quickly and efficiently, taking advice from external consultants who made clear recommendations which were then implemented.
  - The Fund benefitted from the good working relationships it has developed with other LGPS Funds (working with Cornwall in this instance) to establish a managed account platform. This demonstrates the collaborative nature of the LGPS in continuing to look for innovative solutions and to make use of an existing development rather than reinventing the wheel.
  - The Tactical Asset Allocation Group is now well bedded in, and there is evidence of it working well, with the robust terms of reference around the delegated responsibilities allowing them to ensure they are completed appropriately, in a timely manner and with a

robust audit trail. The Advisory Panel reviews this on an ongoing basis, and it should also be noted that the group is working well with PERAG (Private Equity Real Asset Group).

My general opinion is again that the Clwyd Fund compares well to the Aon Hewitt Governance Framework in this area. The Fund identifies and sets out good clear objectives, has improved their measurement of these by having the Investment Consultant incorporate the in-house investments into their main reporting structure, and has a good attitude to Business Planning and to Risk Management. The Fund's governance structure works well, with appropriate delegations allowing the Pension Fund Committee to spend their time focusing on strategy. The Fund makes good use of consultants as appropriate, but the knowledge and understanding of individuals within the Fund continues to be excellent, allowing the Fund to benefit from the best ideas from all sources.

Looking to the future:

- As mentioned previously, a significant focus next year will be on asset pooling and ensuring that the Fund's investment strategy can continue to be delivered.
- The 2016 valuation and review of funding strategy/investment strategy will be significant exercises throughout the next year. I will be particularly interested to see whether employers participating in the Fund feel engaged through this exercise, as there will be a number of changes from an employer perspective in relation to how this exercise is carried out.
- The Fund is due to undertake an AVC review (this has actually been deferred in recent years due to workloads, changes in the LGPS and reviewing of funds with the current provider). I am keen to see a review undertaken this year, and also to ensure that this is carried out on a regular basis in future.

Administration and Communications

Key achievements:

- Excellent progress made with reducing the historical backlog of administration tasks
- One of few administering authorities to issue annual benefit statements by the legal timescale.

I am pleased to report that, during 2015/16, Flintshire County Council continued to improve the administration and communications of the Clwyd Pension Fund, working hard across a large number of different areas, including:

- A number of areas which were planned exercises from the Fund's business plan:
    - Made considerable headway in dealing with historical backlogs, which was identified as a key piece of work for the year. In last year's report I set out that the Fund should plan for this to be resolved over a 24 month period, and the work that has been undertaken this year includes:
        - Identifying exactly what the current position was, and breaking this down into various work streams. As part of this, due to the volume of historical cases, it was decided that older backlog cases (pre March 13) would be outsourced to Mercer, a decision that I strongly supported.

  - Commencing this outsourced element with Mercer early in the year, ensuring they had the correct processes in and liaising with employers to gather the necessary data. The robustness of the process was ensured by the Fund's pension administration team spot checking some of Mercer's calculations. The timescale (just over a year) was tight in my opinion, and hence hugely challenging for all parties – it is important to recognise the integral role that some employers in the Fund have had to play and I am delighted at how they have engaged with and made the time for this exercise. The Pension Administration team receive monthly updates from Mercer to ensure they are aware of how this is progressing.
  - Dealing with a significant amount of the remaining backlog (such as transfers / aggregation) in-house by the Flintshire Pension Administration Team, which is now nearly complete.
  - Linking closely to the administration review (mentioned below), including the development and establishment of performance management measures. This exercise is now nearly complete, and already provides a much clearer picture of the amount of work required, how this is trending on a monthly basis, and how much of this work is outstanding, in order to hopefully prevent future backlogs arising.
  - Overall, I am delighted to note that the Flintshire Pension Administration Team has excelled this year in meeting this huge (and important) challenge of reducing the backlog.
- In order to effectively establish and implement the Administration and Communications strategies, the Fund held a workshop with various stakeholders, and then separately consulted with scheme employers. In noting this, I would particularly like to acknowledge the high aspirations and standards of the Pensions Administration team, and also commend them for starting to implement such radical changes within their team over such a short period of time.
- Extremely thorough Disaster Recovery testing was carried out, which provides reassurance that the Fund's systems and processes are robust enough to cope with all eventualities.
- Preparing for the introduction of i-connect, which is an online administrative module that allows information to be submitted by employers more directly and efficiently into the pension administration system from their own payroll systems. I believe this will be invaluable to the Fund and its employers. The first stage that the Fund has been working on is ensuring that the correct member records are held on the administration system before entering into testing and live roll out of the system. The intention is that i-connect will be available to all large employers of the Fund.
- The pension administration team has started to identify all historical cases that are eligible for trivial commutation, to communicate with them to determine whether they would like to commute their pensions for lump sums, and to update their processes for all future retirements. If members who are entitled to small pensions elect to give up the entirety of these pension and instead receive their benefit as single lump sum payments, this should reduce the administrative burden on the Fund of paying a large number of very small

pensions over a number of years as well as providing greater clarity from a funding perspective.

- Initial work took place on the GMP reconciliation exercise, including working to develop software with the software supplier.
- Ongoing administration exercises such as the year-end exercise, Annual Benefit Statements, Pension Increases, CARE revaluation were completed effectively during the first year of the new LGPS benefit structure. In addition, the Fund was one of only seven LGPS Funds nationwide to issue their Annual Benefit Statements within the legal timescale, for which the Pensions Administration team deserves huge credit.

- Outside of the exercises from the Business Plan, my colleagues and I from Aon Hewitt undertook an independent review of the efficiency and effectiveness of the pension team's administration processes. A number of the findings of this review linked to other initiatives that are often already underway, but other changes were also recommended (and instigated), including establishing dedicated teams for answering calls and putting in place processes for wider knowledge and skills requirements in the team.
- It was particularly pleasing to see the involvement of Flintshire County Council officers at a national level, such as Helen Burnham on IT system management and Flintshire County Council themselves as a founding authority on the national Third Party Administration framework.

My general opinion is again that the Clwyd Fund compares well to the Aon Hewitt Governance Framework in this area. The Fund identifies and sets out good clear objectives, (with some of the measuring still in the process of being developed) and has a good attitude to Business Planning and to Risk Management. The knowledge and understanding of individuals within the Fund continues to be excellent, and the Pension Fund Committee's engagement on administration is improving (with the Pension Board being very engaged in this area too).

Looking to the future:

- The existing backlog needs to be cleared and monitoring finally implemented, and I will be interested to see how the administration team monitors workloads going forward to ensure that no further backlogs occur (or at least are very quickly dealt with) in future.
- The GMP reconciliation exercise will be hugely time consuming, and I completely agree that outsourcing this project is the best way to ensure that this is completed accurately and within the very tight timescales.

  I look forward to seeing progress in the implementation of the new administration strategy, which will include introducing i-connect (intended to benefit scheme employers as well as the Administering Authority) and member self-service (intended to benefit scheme members as well as the Administering Authority). Both of these developments will be critical in bringing the administration service up to the levels aspired to in the administration strategy.

Final Thoughts

I once again want to say a huge thank you to the Pension Fund Committee, Pension Board, officers and other stakeholders of the Fund for continuing to make me extremely welcome, and for being so open and receptive to my many suggestions. In particular;

- the officers' hard work and dedication remains inspiring, particularly in a period where there is so much uncertainty, and
- Pension Fund Committee and Pension Board members have dedicated many hours to Committee / Board business and attending additional training events.

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About Aon

Aon plc (NYSE:AON) is a leading global provider of risk management, insurance and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 66,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative and effective risk and people solutions and through industry-leading global resources and technical expertise. Aon has been named repeatedly as the world's best broker, best insurance intermediary, best reinsurance intermediary, best captives manager, and best employee benefits consulting firm by multiple industry sources. Visit aon.com for more information on Aon and aon.com/manchesterunited to learn about Aon's global partnership with Manchester United.

Clwyd Pension Fund Board

Annual Report 2015/16

Introduction

This is the first annual report of the Clwyd Pension Fund Board based on the financial year from 1 April 2015 to 31 March 2016.

Establishment of the Clwyd Pension Fund Board

The Public Service Pensions Act (PSPA) 2013 introduced a number of changes to public service pension schemes, including a number of key changes impacting on the governance of public service pension schemes. One of the key changes was the requirement for each Administering Authority in the LGPS to create a local Pension Board.

Each LGPS Administering Authority was required to establish their local Pension Board no later than 1 April 2015, and the Clwyd Pension Fund Board was established by Flintshire County Council on 3 March 2015.

In order to fill the positions on the Pension Board, Flintshire County Council (as administering authority) undertook an extensive recruitment process, involving interviews with all potential candidates. Following these interviews, we were appointed to the following positions:

- Two Employer Representatives (Mark Owen and Steve Jackson)
- Two Scheme Member Representatives, one of whom is nominated by the joint trade unions (Jim Duffy), and one who is a member of the Clwyd Pension Fund (Gaynor Brooks)

We will undertake these roles for a period of between three and five years, although we may be reappointed for future terms if we are selected again through the recruitment process.

Flintshire County Council decided that the Chair of the Pension Board should be the Independent Adviser for the Clwyd Pension Fund, subject to the Pension Board members agreeing, which we did. Accordingly, Karen McWilliam, the Independent Adviser chairs all the Pension Board meetings. The Chair is a non-voting role.

The Role of the Pension Board

Legislation states that the role of the Pension Board is to assist the Administering Authority with securing compliance with regulations and with requirements imposed by the Pensions Regulator, as well as assisting in ensuring effective and efficient governance and administration of the Scheme. This has generally been interpreted as the Pension Board having an oversight role but not a decision making role. For the Clwyd Pension Fund, we have very much embraced this role as being about partnership. We work closely with the Pension Fund Committee and officers of the Fund in the hope that the questions we ask, and the challenge we sometimes provide, will assist in ensuring that the Fund is managed in the best interests of its scheme members and employers.

Meetings, training and attendance

During 2015/16 we held three Pension Board meetings (in July 2015, October 2015 and March 2016) which were all attended by all representatives (and also by Pension Fund Officers who support the Pension Board).

As members of the Pension Board, we have all committed to following the requirements of the Clwyd Pension Fund's Training Policy. We have undertaken a range of training during the year, including three days of induction training arranged by Pension Fund officers covering the recommended CIPFA training competencies and including such as areas as Governance, Funding and Investments.

In addition, we are invited to attend the Pension Fund Committee meetings (the decision making committee for the Pension Fund) and their training events.

Our full record of attendance at meetings, training and events up to 31 March 2016 is shown below:

Event	Mark Owen	Steve Jackson	Gaynor Brooks	Jim Duffy
Pension Boards				
July 2015	✓	✓	✓	✓
October 2015	✓	✓	✓	✓
March 2015	✓	✓	✓	✓
Committees				
November 2015	✓	✓	✓	
March 2016	✓	✓	✓	✓
CIPFA Framework				
Governance	✓	✓	✓	✓
Funding & Actuarial	✓	✓	✓	✓
Investments	✓	✓	✓	✓
Accounting	✓	✓	✓	
Additional & Hot Topics				
Budget Freedoms	✓	✓	✓	✓
Fees & Charges	✓	✓	✓	✓
Private Equity	✓	✓	✓	✓
Real Assets	✓	✓	✓	✓
Pension Regulator Code of Practice	✓	✓	✓	✓
Key Performance Indicators	✓	✓	✓	
Strategy Day (Business Plans, Risk, Administration)	✓	✓	✓	✓
Annual Employer Meeting	✓	✓	✓	
Pooling	✓	✓		
Conferences				
LGC Seminar		✓	✓	

What has the Pension Board done during 2015/16?

The Pension Board held its first meeting in July 2015, so (as expected) a significant portion of the first part of year was focussed on our training and considering how we would operate. This included us adopting the Clwyd Pension Fund Board Protocol (developed and agreed by Flintshire County Council), adoption of the Fund's Conflicts of Interest Policy, the Training Policy and the Breaches Procedure, and consideration of the Pension Board's future work plan and budget. Each meeting also considers standards areas, such as the latest Pension Fund Committee papers.

In addition to these regular items:

- We have been involved with the development of the Administration and Communications strategies, leading to them being established for the Fund. This included taking part in workshops with the officers and Pension Fund Committee to understand and discuss their aspirations in these areas, and one of us taking part in scheme member communications focus groups. We believe that scheme members and employers will welcome how the Fund will evolve in these areas in the next few years.
- We very much appreciate the challenges for employers who participate in the Fund in budgeting for employer pension costs, and so we were able to work with the officers in considering how best to engage with employers during the triennial valuation this year.
- One of our key responsibilities is looking at how well the Fund adheres to The Pension Regulator's requirements. We spent some time considering an independent review of how the Clwyd Pension Fund compares with the requirements set out in the Pension Regulator’s Code of Practice. The review found that overall the Fund complied very well with the Code of Practice (compared to other LGPS Funds), and found a few areas to be kept under investigation or where further work was required. These areas will continue to be on our future agendas and an update to this review will be carried out annually.
- The officers of the Fund hosted a strategy and business planning day in February 2016 for us and the Pension Fund Committee members to feed into what the key priorities for the Fund should be from 2016/17 to 2018/19. The workshop also gave us a much better understanding of what is involved in the day to day running of the Fund
- We have also been involved, along with the Pension Fund Committee, in various discussions regarding the proposed asset pooling in the LGPS, and in particular the Clwyd Pension Fund’s participation in the Welsh Asset Pool.
- The Head of Internal Audit presented at one of our Pension Board meetings, and as a result we were able to better understand their work for the Fund and we were able to discuss and input to their three year rolling work plan.
- Our Chair, on our behalf, also presented at the Annual Joint Consultative Meeting in November. This is an annual meeting for employers and member representatives providing an overview of many topical issues, including investment, funding and administration matters.

What will the Pension Board do in the future (in particular in 2016/17)?

Now that the Pension Board is fully established, in forthcoming years there will be much more focus on actively driving the agenda and highlighting areas for discussion. Although the exact work areas and timescales will necessarily remain flexible (in keeping with the recent pace of change in the LGPS), the following are already on our work plan for the forthcoming year:

- The issue of Scheme GMP reconciliation whereby, as part of the review of State Pensions, the Government is ceasing to hold GMP information for scheme members on their systems.

Accordingly all pension scheme providers who have been contracted out of the state scheme need to ensure their GMP records are accurate by reconciling them with those held by HMRC by 2018. This is a significant task for the administration team and preliminary work undertaken as part of a pilot scheme has shown that a significant number of records do not match (which is consistent with the findings for other LGPS schemes). It is critically important that this work is undertaken before the HMRC system is closed, as inconsistent records after that point will cause problems.

- Risk Management including revisions to the Fund's Risk Register and reporting processes.
- Ensuring the suitability and appropriateness of the Fund's disaster recovery processes and systems.
- The roll out and implementation of the administration and communication strategies including the development of appropriate Key Performance Indicators (KPIs), looking at the progress being made towards meeting those KPIs and new ways of working (such as i-connect and member self-service).
- Ongoing consideration of the progress on asset pooling in the LGPS.
- Inputting to the 2016 valuation in relation to how it is progressing and ongoing employer engagement.
- Consideration of how the Fund manages the potential and actual impact of Brexit.
- Areas of focus for The Pensions Regulator, following the review of the Clwyd Pension Fund's compliance with the Code of Practice. One of the key areas is recording and reporting breaches of the law. We also expect to see an annual update of the full compliance check.

Other observations and general comments

We are pleased with the work we have completed in the first year of the Pension Board's existence. We have an excellent working relationship with the Pension Fund Committee and the Fund's officers, and are grateful for the way they have all embraced our involvement.

Overall, our impression is that the Clwyd Pension Fund is a well-managed Fund, with robust governance through their Pension Fund Committee supported by an excellent team of officers and advisers. There clearly are a number of ongoing challenges, not least the Wales Asset Pool proposals and the ongoing work implementing the administration and communications improvements. We look forward to another successful year working with the Fund on behalf of the scheme members and employers.

Gaynor Brooks, Member Representative

Jim Duffy, Member Representative

Steve Jackson, Employer Representative

Mark Owen, Employer Representative

Clwyd Pension Fund Board

Financial Performance

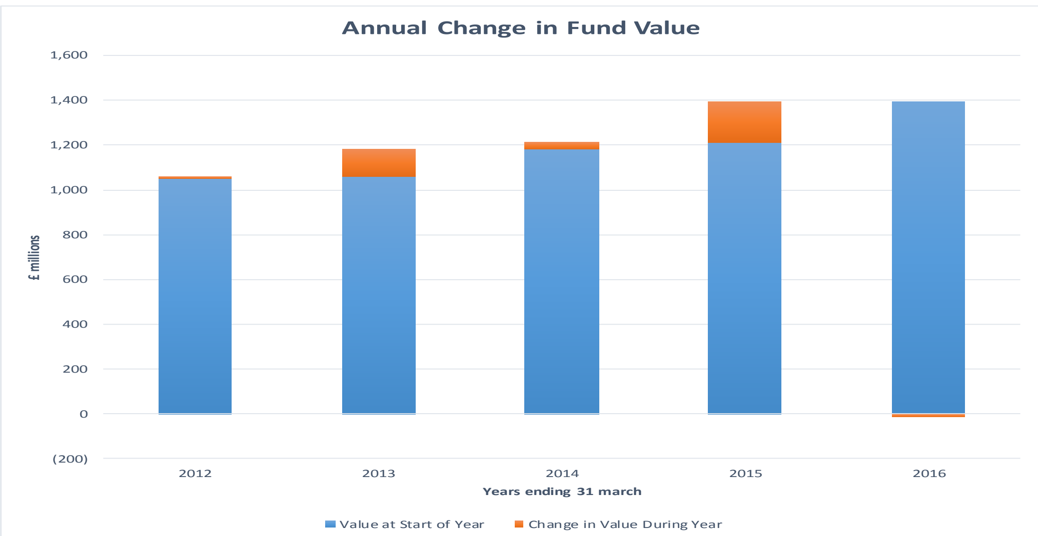
The following provides a brief overview of the key movements within the Fund over a five year period. More detail can be found in Pensions Administration Update, and Fund Accounts.

Table 1.

Fund Account *(All amounts £000's, year end 31 March)*	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**
Value of Fund at start of year	**1,051,815**	**1,060,823**	**1,181,232**	**1,213,567**	**1,395,408**
Increase in fund value during year	**9,008**	**120,409**	**32,335**	**181,841**	**(14,733)**
Value of fund at end of year	**1,060,823**	**1,181,232**	**1,213,567**	**1,395,408**	**1,380,675**
The increase in fund value is made up of the following:					
Member and Employer related					
· Contributions and pension strain	66,593	68,078	68,869	76,596	75,192
· Transfers in or (out)	(21,708)	3,139	563	249	(4,263)
· Benefits payable	(53,789)	(56,977)	(61,137)	(66,689)	(69,198)
	(8,904)	14,240	8,295	10,156	1,731
Other Expenses					
· Administrative and other expenses	(1,244)	(1,047)	(1,030)	(1,002)	(1,390)
· Oversight & Governance	n/a	n/a	(749)	(1,128)	(1,202)
· Investment Management Fees	n/a	n/a	(5,588)	(16,159)	(15,029)
Investments (after income and fees#)					
· Change +/(-)	19,156	107,216	31,407	189,974	1,157
	9,008	**120,409**	**32,335**	**181,841**	**(14,733)**

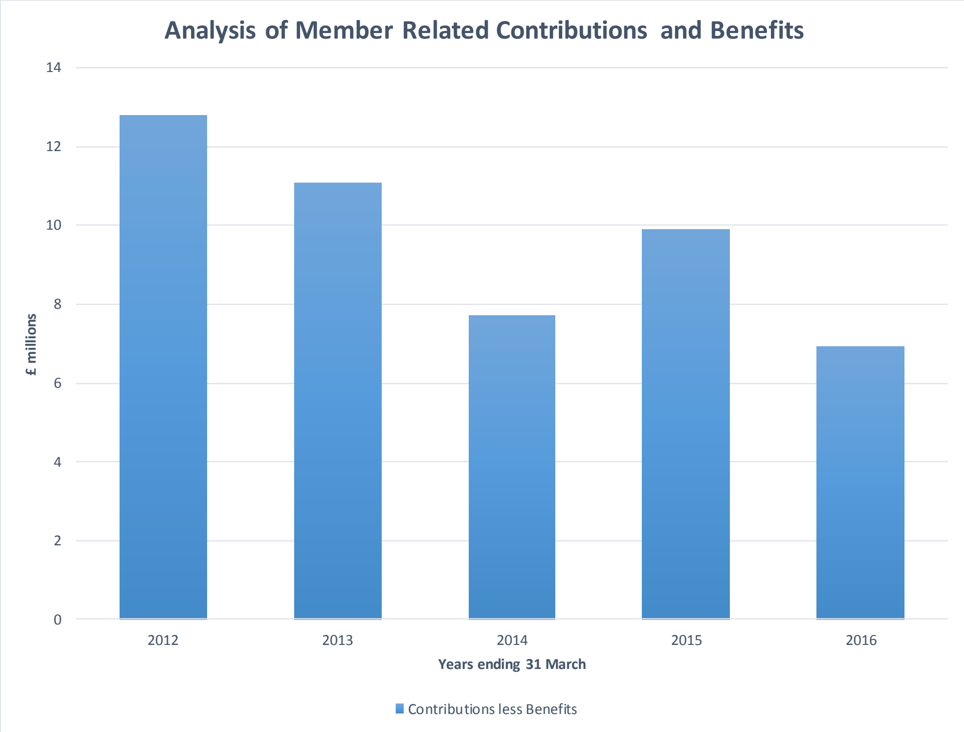
Table 1 illustrates the annual increase in the Fund value over the five years ending 31st March 2016. The change in the fund value is further analysed between member and employer related income (contributions and pension strain) or expenditure (benefits payable), return or loss on investments and other expenditure split against oversight and governance, administration costs and also against investment management fees. These are detailed further, for years ending 31st March 2015 and 2016, in the fund accounts. Transfers in or out of the fund can vary, as shown in Table 1, significantly between years and are outside the control of the Fund.

Chart 1.



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

Chart 2.



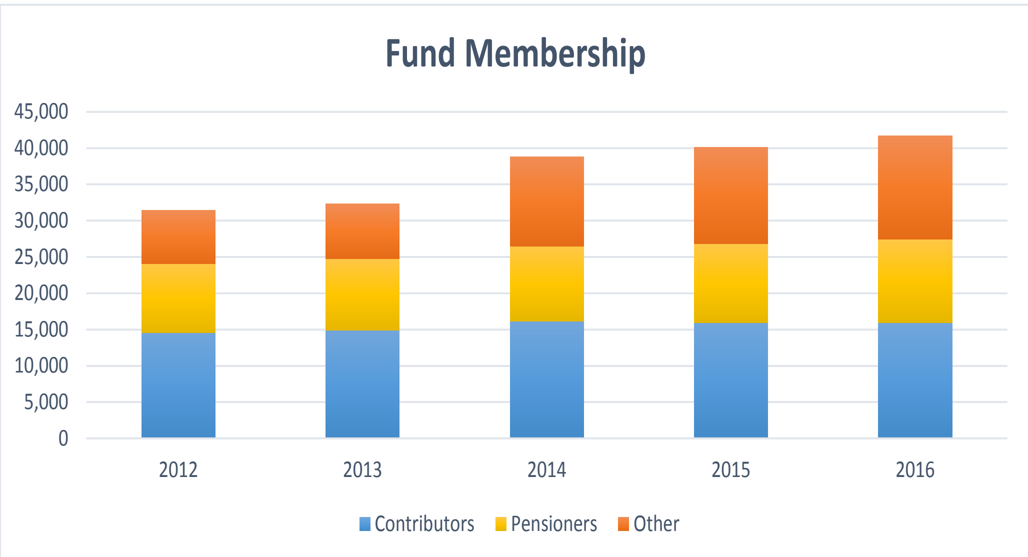
This compares the difference between contributions received and benefits paid (Table 1 above), not taking account of transfers, over the same five year period. From Chart 2 it is the trend of the excess in contributions over benefits paid has steadily reduced from 2011/12, the exception being in 2014/15. This is not unexpected and reflects the growing maturity of the Fund offset in 2014/15 by an increase in employer contributions, following the 2013 actuarial valuation, and the impact of auto enrolment on membership numbers and thus employee contributions. There remains, however, a number of significant variables for the future including the impact of workforce reductions across the large employers as well as the ongoing impact of auto enrolment.

Table 2.

Membership	2012	2013	2014	2015	2016
Number of Contributors	14,519	14,920	16,133	15,941	15,989
Number of Pensioners	9,553	9,874	10,367	10,863	11,478
Number with Preserved Benefits	7,386	7,539	12,314	13,304	14,198
Total	**31,458**	**32,333**	**38,814**	**40,108**	**41,665**

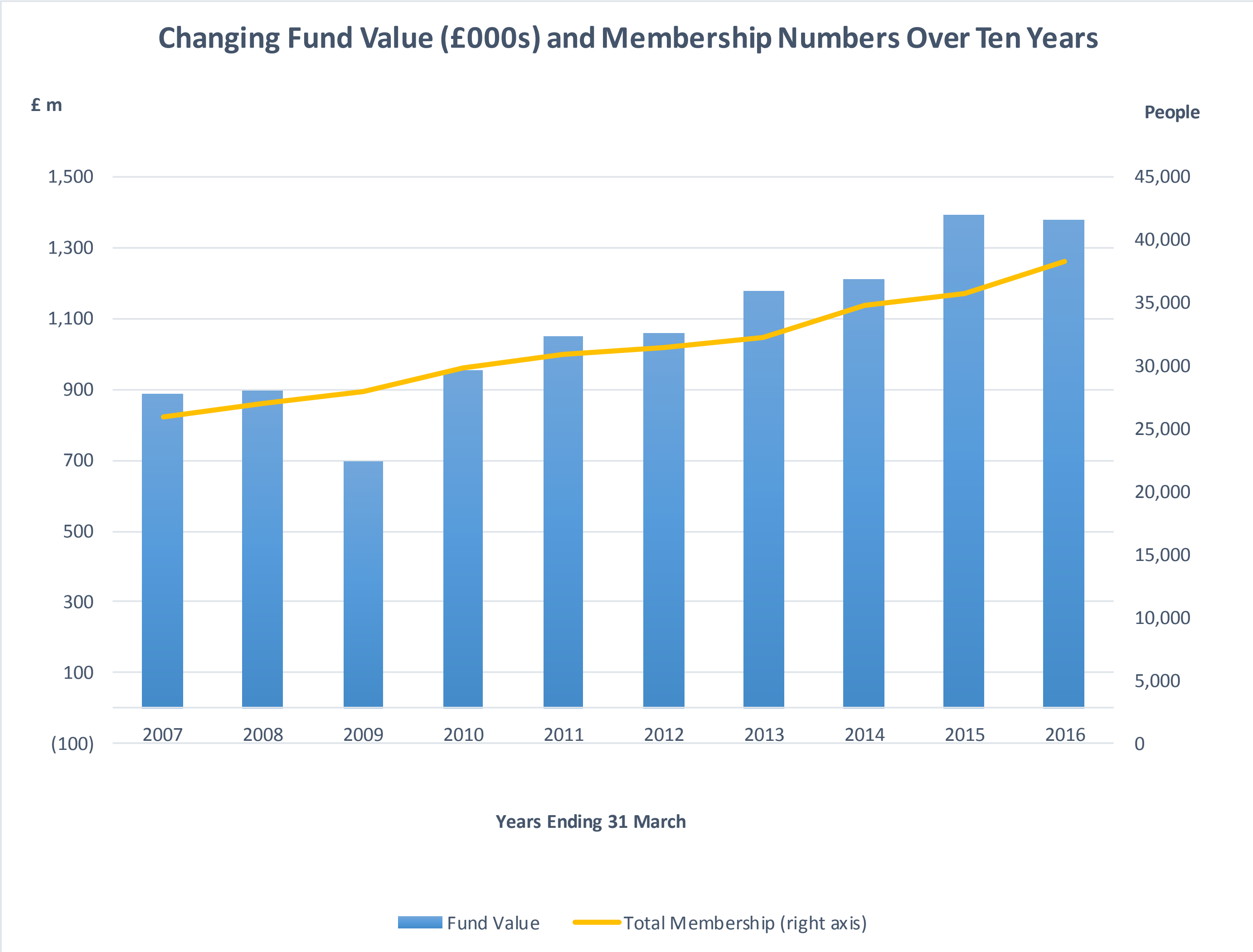
Table 2 above details the membership of the Fund over a five year period ending 31st March 2016. The membership is split between active contributors, those in receipt of a pension and those whose entitlement is preserved; these numbers do not include those who are undecided members.

Chart 3.



This shows the membership data in Table 2 graphically. Overall the trend in total in membership is upwards over the five years ending 31 March 2016. However, it should be noted that the overall impact of auto-enrolment, which will increase membership, and the contraction in most employers' budgets which will reduce membership, cannot yet be quantified.

Chart 4.



This plots the Fund value over ten years to 31 March 2016. Over this period the Fund has increased from £889m to £1,381m (55%). The yellow line shows total membership over the same period (using right axis) and illustrates the growth in membership from around 24,100 to 38,300; an increase of just over 59%. Most discussions around pension funds focus, understandably, on their value, however, the value is only one part of the picture with the other part being the pension funds' liabilities. The liabilities of the pension fund are calculated by the fund actuary and represents the future liabilities of the fund at a particular time. As shown above (Table 1 and Charts 1 and 4) whilst the Fund has increased in value over the past ten years, however, its liabilities have also increased to an estimated (at 31 March 2016) £1,828m.

Cash Flow

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

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

The following table shows a summarised final cash flow for 2015/16. This is purely on a cash basis and does not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals.

2015/16	Estimate £000	Actual £000	Variance £000
Opening In House Cash		**(43,735)**	
Payments			
Pensions	53,600	52,932	(668)
Lump Suns & Death Grants	18,000	14,906	(3,094)
Transfers Out	2,800	5,889	3,089
Expenses (including In House)	3,200	4,881	1,681
Support Services	250	167	(83)
Total Payments	**77,850**	**78,775**	**925**
Income			
Employer Contributions	(31,765)	(30,506)	1,259
Employee Contributions	(15,000)	(14,535)	465
Employer Deficit Payments	(27,230)	(27,872)	(642)
Transfers In	(4,000)	(1,791)	2,209
Pension Strain	(2,350)	(3,204)	854
Income	(140)	(74)	66
Total Income	**(80,485)**	**(77,982)**	**(2,503)**
Cash Flow net of Investment Income	**(2,635)**	**793**	**3,428**
Investment Income	**(2,850)**	**(2,497)**	**353**
Total Net of In house Investments	**(5,485)**	**(1,704)**	**3,781**
In House Drawdowns	44,376	34,021	(10,355)
In House Distributions	(61,606)	(64,836)	(3,230)
Net Drawdowns/Distributions	**(17,230)**	**(30,815)**	**(13,585)**
Net External Manager Cash	**39,400**	**62,614**	**23,214**
Total Net Cash Flow	**16,685**	**30,095**	**13,410**
Closing In House Cash	**(27,050)**	**(13,640)**	

3 Year Cash Flow Forecast

The following table shows the cash flow forecasts for the next three years to March 2019. These are purely on a cash basis and do not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals. An estimate of the asset valuation has been included at the end of the table and has been based on a targeted investment strategy which looks to produce an overall return of 7.1% per annum. Estimates of Manager pooled investment fees are included in the budget report which follows the cash flow report.

	2016/17 £000	2017/18 £000	2018/19 £000
Opening Cash	(13,640)	(14,198)	(13,984)
Payments			
Pensions	57,300	59,600	62,000
Lump Suns & Death Grants	20,000	20,000	20,000
Transfers Out	2,800	2,800	2,800
Expenses (including In House)	4,500	3,260	3,260
Support Services	250	250	250
Total Payments	**84,850**	**89,910**	**88,310**
Income			
Employer Contributions	(33,250)	(33,900)	(34,550)
Employee Contributions	(15,200)	(15,400)	(15,600)
Employer Deficit Payments	(28,500)	(33,200)	(35,200)
Transfers In	(4,000)	(4,000)	(4,000)
Pension Strain	(1,200)	(1,200)	(1,200)
Income	(170)	(170)	(170)
Total Income	**(82,320)**	**(87,870)**	**(90,720)**
Cash Flow net of Investment Income	**2,530**	**(1,960)**	**(2,410)**
Investment Income	**(3,000)**	**(3,000)**	**(3,000)**
Total of In-House Investments	**(470)**	**(4,960)**	**(5,410)**
In-House Draw downs	40,955	53,008	47,407
In-House Distributions	(71,043)	(77,834)	(68,970)
Net Drawdowns/Distributions	**(30,088)**	**(24,826)**	**(21,563)**
Net External Cash Manager	**30,000**	**30,000**	**30,000**
Total Cash Flow	**(558)**	**214**	**3,027**
Closing Cash	**(14,198)**	**(13,984)**	**(10,957)**
Estimated Asset Valuations	**1,478,325**	**1,583,286**	**1,695,699**

Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2015/16 compared to 2014/15 revised. Following a change by CIPFA of the guidelines for management costs it was necessary to remove underlying manager costs from the 2014/15 actuals so that they are directly comparable with 2015/16. The increase of £0.372m in outsourcing with Administration is due to the work undertaken during the year on historic backlogs.

	2015/16 £000	2014/15 £000	2014/15 £000 Revised	Net change £000
Governance & Oversight Expenses				
Employee Costs (Direct)	225	218	218	7
Support & Service Costs (Internal Recharges)	12	13	13	(1)
Premises	8	8	8	0
IT (Support & Services)	11	12	12	(1)
Other Supplies & Services	52	49	49	3
Audit Fees	39	37	37	2
Actuarial Fees	224	205	205	19
Consultant Fees	371	403	403	(32)
Advisor Fees	225	142	142	83
Legal Fees	35	21	21	14
Total Governance Expenses	**1,202**	**1,108**	**1,108**	**94**
Investment Management Expenses				
Fund Manager Fees	14,971	16,127	15,836	(865)
Custody Fees	28	32	32	(4)
Performance Monitoring Fees	30	20	20	10
Total Investment Management Fees	**15,029**	**16,179**	**15,888**	**(859)**
Administration Expenses				
Employee Costs (Direct)	603	592	592	11
Support & Service Costs (Internal Recharges)	46	53	53	(7)
Outsourcing	404	32	32	372
Premises	33	33	33	0
IT (Support & Services)	243	218	218	25
Other supplies & services	61	75	75	(14)
Miscellaneous Income	0	(1)	(1)	1
Total Administrative Expenses	**1,390**	**1,002**	**1,002**	**388**
Total Fees	**17,621**	**18,289**	**17,998**	**(377)**

The following table shows actual costs for 2015/16 compared to the budgeted costs along with the budget for 2016/17. The budget reduction for fund manager fees for 2016/17 is reflective of the ongoing work to reduce overall fees as well as reflecting the removal of underlying costs following a review of the guidelines by CIPFA.

	2015/16 £000 Actual	2015/16 £000 Budget	2015/16 £000 Variance	2016/17 £000 Budget
Governance & Oversight Expenses				

Employee Costs (Direct)	225	226	(1)	229
Support & Service Costs (Internal Recharges)	12	19	(7)	19
Premises	8	17	(9)	17
IT (Support & Services)	11	10	1	10
Other Supplies & Services	52	56	(4)	56
Audit Fees	39	36	3	40
Actuarial Fees	224	192	32	304
Consultant Fees	371	351	20	389
Advisor Fees	225	156	69	188
Legal Fees	35	30	5	30
Total Governance Expenses	**1,202**	**1,093**	**109**	**1,282**
Investment Management Expenses				
Fund Manager Fees	14,971	14,490	481	11,028
Custody Fees	32	17	15	34
Performance Monitoring Fees	30	25	5	25
Total Investment Management Fees	**15,029**	**14,549**	**480**	**11,087**
Administration Expenses				
Employee Costs (Direct)	603	662	(59)	711
Support & Service Costs (Internal Recharges)	46	82	(36)	90
Outsourcing	404	800	(396)	1,240
Premises	33	75	(42)	75
IT (Support & Services)	243	250	(7)	250
Other supplies & services	61	70	(9)	70
Member Self Service	0	0	0	107
Miscellaneous Income	0	0	0	0
Total Administrative Expenses	**1,390**	**1,939**	**(549)**	**2,543**
Total Fees	**17,621**	**17,581**	**40**	**14,912**

Investment & Funding

Long Term Strategy

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

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

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

Summary of 2015/16

Market Commentary

One of the main drivers of investment performance of any pension fund is the direction of the financial markets.

Over the year 2015/16 the global economy has seen slower growth, increased volatility in financial markets and falling commodity prices. Equity markets suffered heavy losses throughout August 2015 due to concerns about the Chinese economic slowdown which led to the devaluation of the Chinese yuan and regulatory intervention. In particular those countries deemed to have higher exposure to China were badly affected. Markets recovered in November 2015 however the beginning of 2016 saw further falls and high levels of volatility in the markets, with investors switching out of "risky" assets into so called "safe haven" Bond markets amidst this period of uncertainty. Since mid-February 2016, the markets have recovered significantly, however there has been further volatility in 2016/17 in the build up to, and the result of, the EU Referendum. UK Equities posted a return of -3.9% as UK Equity markets were hit by falling Commodity prices – as basic materials and energy companies comprise a sizeable share of the market – along with the global factors that led to the wider Global Equity market falls. On average Global Developed Equities returned +0.3%, with the USA being the stronger performer at +4.2% and Asia Pacific the worst -7.8% as Asian economies also saw negative stock market movements parallel to those in the Chinese markets. Emerging Markets -8.8% and Frontier Markets -9.3% were the worst performing markets. These returns will have impacted the Equity element of the Fund however the diversification within the total portfolio will have helped to offset some of these Equity losses.

Government Fixed Income securities provided positive returns as investors undertook higher allocations in this asset class in search of capital preservation with UK Gilts (>15 Yrs.) returning +4.0%. This is a problem for many pension funds as this reflects lower Gilt yields, as the measurement of their liabilities are related in part to the yields. The Gilt yield only marginally fell over the year by -0.1% although this does not reflect the volatility of the movement of the yield as yields have significantly fallen in this calendar year to March. In 2016/17 yields have fallen sharply following the Post Brexit decision. However, in the Actuarial Valuation that will be undertaken as at 31 March 2016, there will be an adjustment to methodology to assess the value of the liabilities so it is directly linked to real returns versus CPI inflation that the asset strategy can deliver taking into account the flightpath. This means that the liabilities will move away from a linear linkage to changes in gilt yields by referencing real returns over CPI inflation, which will reduce the impact on the funding level by these yield falls.

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Price inflation increased slightly over the year with the CPI increasing by +0.5% and earnings inflation rose by +2.4%. This is important for pension schemes with inflation linked liabilities such as the LGPS, however as noted above this will also impact on how the CPF liabilities will be valued in the forthcoming Actuarial Valuation.

Within Commodities, oil prices (Brent Crude) fell by -31% in the last twelve months driven by global growth concerns, a supply glut, and a lack of consensus among OPEC and non-OPEC producers regarding a production freeze or cuts. Overall the return of Commodities was -26.3% for the year. There were mixed returns in other growth asset classes such as Property, which rose strongly +11.7%, and Hedge Funds which fell -0.7%. High Yield produced a positive return +2.5% whilst UK Long Dated Corporate Bonds were slightly negative -0.2%.

Clwyd Pension Fund Investment Performance 2015/16

The Fund returned -0.1% in 2015/16 which is behind the long term annual benchmark of circa +7.0% and long term funding assumptions quoted in the Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS). However, this is only one year in isolation of an 18 year funding recovery plan. The return of

-0.1% compared with a composite benchmark (of the underlying manager benchmarks) of +1.4% and composite outperformance target of +1.9%.

Only the Fund's In-House portfolio produced a positive overall return of +12.6%. Within this portfolio Infrastructure +21.4%, Private Equity +18.0% and Property +11.2% all produced excellent returns whilst Timber and Agriculture also produced a positive return +3.6%. However these were partially offset within the overall return by the Opportunistic assets that declined by -30.1% in the year.

The Equity portfolio that includes Global, Emerging and Frontier Equity exposures returned -6.5% with Frontier and Emerging Markets being the worst performing portfolios on an absolute return basis. However within this portfolio the two Emerging Markets funds with Wellington outperformed their individual benchmarks. The Multi Asset Credit portfolio produced a negative return of -1.4%.

The Diversified Growth Portfolio, which forms part of the Tactical Allocation Portfolio, returned -2.2%. Both the Diversified Growth managers underperformed their benchmarks however Pyrford produced a positive absolute return of +1.7% whilst Investec returned -6.1%.

The Liability Driven Investment portfolio (a key component of the Flightpath/De-Risking Framework) which consists of regional Global Equity, Gilt and inflation exposures returned -4.1% in 2015/16.

During the year the implementation of a number of the strategic decisions from the 2014 investment strategy review were finalised which included some restructuring of the major strategic asset classes and the underlying funds within them. This included the addition of the Managed Account Platform with ManFRM and the Best Ideas Portfolio. These two mandates do not have an annual return and at the outset initially incorporated some of the legacy Hedge Fund holdings and exposure to an Opportunistic Commodities Fund, managed by Wellington. This was funded via the redemption proceeds from the Fund's previous holdings in the "Core" Wellington Commodities Fund.

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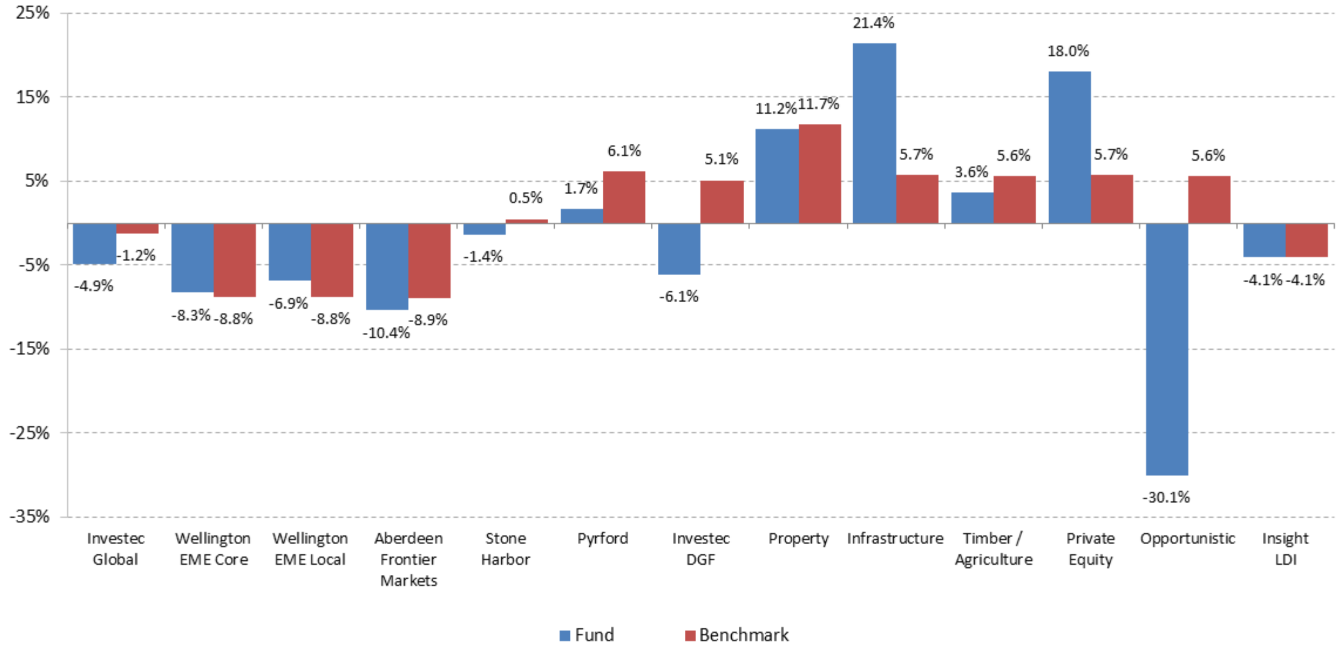
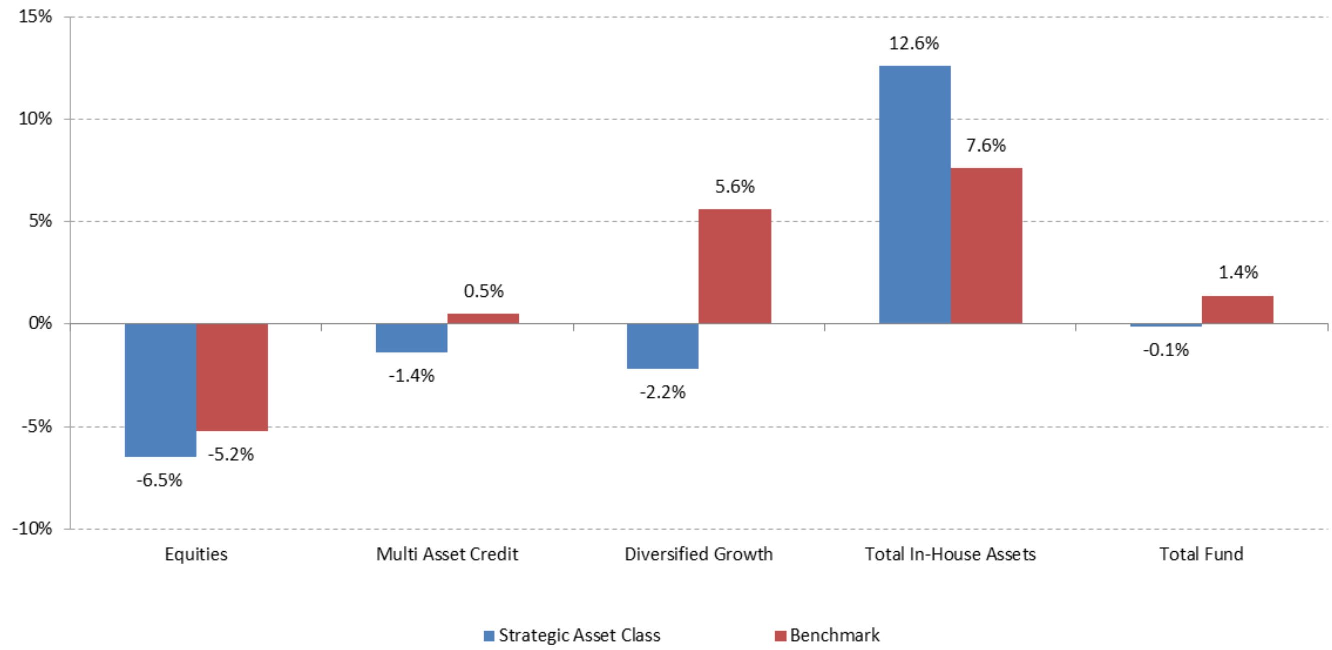
The following charts below summarise the 12 month performance against the benchmark for each of the Fund's asset classes and managers together with the total Fund. It should be noted we have only included those funds/asset classes that have a full 12 month return.



The chart below summarises the key strategic asset classes versus their benchmark.



Source: JLT Employee Benefits

Summary of Investment Performance

The market conditions experienced in 2015/16 made this a particularly challenging year for the Fund. However, it is important to bear in mind that the Fund is investing for the long term and has a diversified portfolio which aims to achieve a targeted balance between return and risk. This is not to say that we are not cognisant of shorter term market conditions – the creation and implementation of the Fund's Best Ideas Portfolio (within the Tactical Allocation Portfolio) is evidence of this.

The Fund has also benefited strongly in the period post 31 March 2016 as the diversification and risk management characteristics inherent in the Fund's investment strategy have allowed the Fund to grow despite the volatile market conditions.

The section below details the rationale in respect of the Fund's investment strategy and highlights key developments that have taken place across 2015/16.

Investment Strategy

The Fund's investment strategy is more diversified than most LGPS Funds and incorporates a Flightpath/De-Risking Framework, which differentiates the Fund from many other LGPS Funds. The aim of the Fund's strategy is to reduce the volatility of returns, in line with the objective of stabilising employer contribution rates. Although history suggests that in the long term Equities should out-perform other asset classes, these returns can be very volatile and the asset class can under-perform for many years. On average, LGPS Funds allocate 60% to Equities which is higher than the Clwyd Pension Fund exposure.

The Fund has a strategic allocation of 17% to Active Global Equities and 19% exposure to Passive Developed Equities (through Equity Total Return Swaps within the LDI mandate) and other varying exposures through the Tactical Portfolio. Hence, in years where Equities perform well the investment performance of the Clwyd Fund may lag most of its peers in the LGPS. However, the Fund has already established material protection of its interest rate risk and inflation risk through the design and implementation of the Flightpath/De-Risking Framework. As a result of the hedging that has taken place until 31 March 2016 it is estimated that the impact has been to improve the funding position of the Fund by c.£85m.

JLT, as the Fund's Investment Consultant, undertook a fundamental review of the investment strategy in 2014 and the recommendations were accepted by Committee at their November 2014 meeting. During 2015/16 the implementation of these recommendations were finalised.

The reorganisation of the Fund's previous Global Tactical Asset Allocation Portfolio was completed and, as part of this, the Fund's previous allocation to Hedge Funds was restructured. The ManFRM Managed Account Platform (MAP) was implemented with effect from 1 September 2015 and includes Managed Futures and Hedge Funds. In addition the legacy Hedge Fund holdings in Duet, Liongate and Pioneer were incorporated onto the MAP pending their full redemption, given the illiquid nature of some of the underlying positions in these Funds. The proceeds from the redemption of Bluecrest and SSARIS were used to part fund the allocation to the ManFRM MAP.

As highlighted earlier, a Tactical Allocation Portfolio was established which includes a Diversified Growth Portfolio comprising two DGF managers (Investec and Pyrford) and a Best Ideas Portfolio. The Best Ideas Portfolio was implemented at the end of May 2015 which initially included Wellington Commodities (via an Opportunistic Fund) and a portion of the SSARIS assets, however, both positions were subsequently exited. The Best Ideas Portfolio is a short term (12 month horizon) tactical allocation based upon JLT's suggested "best ideas". Aside from the decisions being made on a tactical (short term) basis, the basic premise of the decisions within this portfolio is that any asset allocation implementation should be liquid (to enable speed of action should it be required) and cost efficient.

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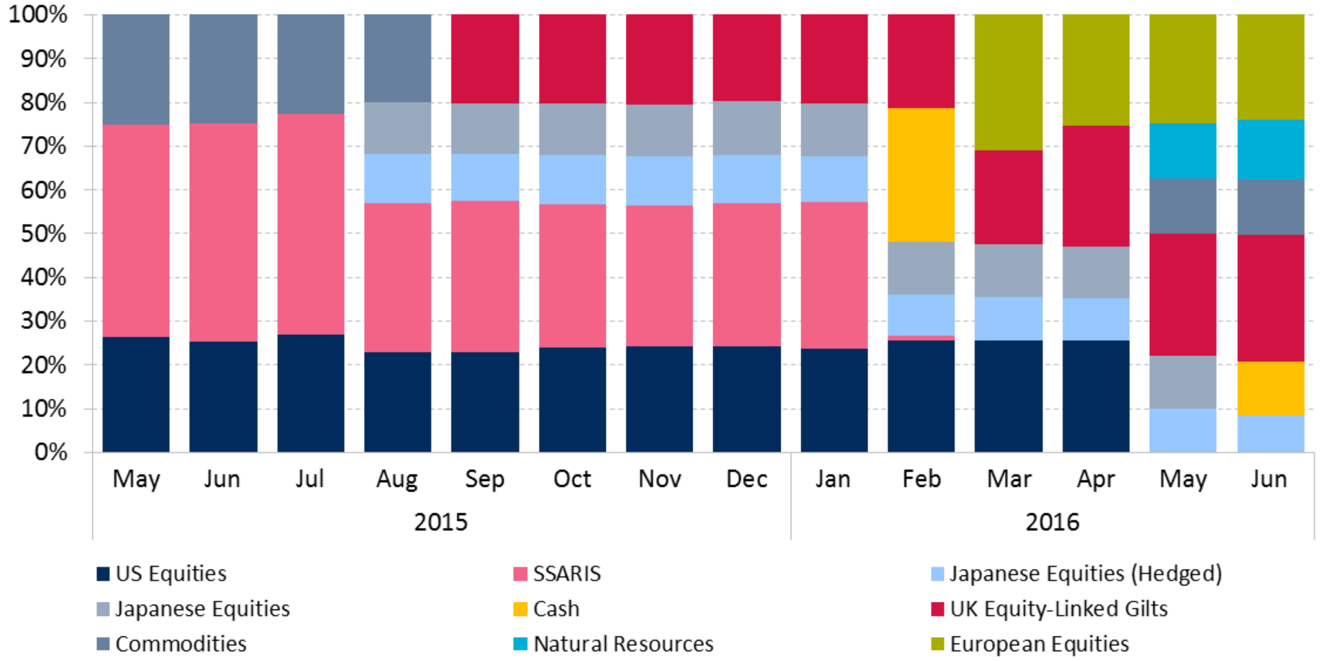
Throughout the year under review a number of positions have been taken within the underlying composition of this portfolio as demonstrated in the chart below, which also includes some of the allocation changes that have been implemented in early 2016/17. There is a monthly meeting of the Tactical Asset Allocation Group with JLT to monitor and review the portfolio. A robust process has been put in place with a transparent audit trail (including minutes of all meetings) documenting any changes and decisions together with their rationale.



The chart demonstrates the diversified nature of the holdings within the Best Ideas Portfolio which includes regional Equities, Commodities and UK Equity Linked Gilts. It also shows how the underlying holdings have changed following decisions that have been taken by the Tactical Asset Allocation Group since its inception.

The Fund's current strategic asset allocation, strategic and conditional ranges (established following the 2014 review), are shown below:

Strategic Asset Class	Strategic Allocation	Strategic Range (%)	Conditional Range (%)
Global Equity	8.0%	5.0 – 10.0	0 – 30
Emerging Markets Equity	6.5%	5.0 – 7.5	0 – 15
Frontier Markets Equity	2.5%	1.0 – 4.0	0 – 5
Multi-Asset Credit	15.0%	12.5 – 17.5	
Government Bonds			0 – 30
Corporate Bonds			0 – 30
Overseas Government Bonds			0 – 30
Emerging Market Debt			0 – 30
High Yield Debt			0 – 30
Managed Account Platform	9.0%	7.0 – 11.0	
Hedge Funds	*3.0%*		0 – 15
Managed Futures	*6.0%*		0 – 10
Tactical Allocation Portfolio	19.0%	15.0 – 25.0	10 – 30
Diversified Growth	*10.0%*		5 – 15
Best Ideas Portfolio	*9.0%*		5 – 15
Private Markets / Opportunistic	10.0%	8.0 – 12.0	8 – 12
Property	7.0%	5.0 – 10.0	5 – 15
Infrastructure*	4.0%	2.0 – 7.0	2 – 10
Liability Hedging	19.0%	10.0 – 30.0	10 – 30
Cash	0.0%	0.0 – 5.0	0 – 30

* Infrastructure includes exposure to Agriculture and Timber

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The following table shows the strategic ranges compared to the actual asset allocations as at 31 March 2016 and 31 March 2015.

Manager	Mandate	Strategic Allocation 15/16	Allocation 31/03/15	Allocation 31/03/16
	Equities			
Investec Asset Management	Global Equity	8.0%	7.4%	7.1%
Duet Asset Management	Global High Alpha	0.0%	3.6%	0.0%
Wellington Management International Ltd	Emerging Markets Equity	6.5%	6.1%	5.6%
Aberdeen Asset Management	Frontier Markets Equity	2.5%	0.7%	1.9%
	Multi-Asset Credit			
Stone Harbor Investment Partners	Multi-Asset Credit	15.0%	12.4%	12.3%
	Managed Account Platform			
ManFRM	Managed Futures & Hedge Funds	9.0%	0.0%	9.1%
ManFRM	*Hedge Funds (Legacy)**		3.5%	1.0%
	Tactical Allocation Portfolio			
Pyrford International	*Diversified Growth*	*5.0%*	4.3%	4.4%
Investec Asset Management	*Diversified Growth*	*5.0%*	4.3%	4.1%
Consultant	*Best Ideas Portfolio*	*9.0%*	1.9%	7.9%
BlackRock	Global TAA	0.0%	3.6%	0.0%
BlueCrest	Macro Fund of Funds	0.0%	2.5%	0.0%
	In-House Assets			
Various	Private Markets / Opportunistic	10.0%	10.9%	10.9%
Various	Property	7.0%	7.4%	7.9%
Various	Infrastructure	2.0%	2.4%	2.0%
Various	Timber/Agriculture	2.0%	1.9%	1.9%
	Liability Hedging			
Insight	Liability Driven Investments	19.0%	23.7%	22.8%
	Cash		3.4%	1.1%

* Hedge Funds (Legacy) includes the Liongate, Pioneer and SSARIS Funds that were transferred to the ManFRM platform on 31 December 2015.

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Conclusion and Outlook

In conjunction with the Actuarial Valuation as at 31 March 2016 the investment strategy is being revisited in 2016/17, which will also integrate any revisions to the Flightpath/De-risking Framework. A key component of this is the change to the approach for the 31 March 2016 Actuarial Valuation which integrates the funding and investment strategy in a very transparent way.

Whilst the strategy review is still ongoing and no recommendations have yet been put forward to Committee it is anticipated that there will only be "light touch" changes to the existing strategic weightings. The aim is to reduce the risk within the portfolio whilst being able to generate a return sufficient to meet the actuarial assumptions on funding through a diversification of asset classes. One of the key considerations when reviewing the strategy will be how this can be delivered within the asset pooling framework.

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Summary of the Longer Term

The market value of the Fund has increased from approximately £821m in 2006 to approximately £1,381m in 2016. This is detailed in the Management and Financial Performance section of this report.

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

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa	Corporate Funds (%) pa
1	-0.1	+1.4	+0.2	+1.3
3	+5.0	+5.7	+6.4	+6.9
5	+5.5	+5.9	+7.1	+8.1
10	+4.3	+5.4	+5.6	+6.1
20	+6.4	+6.4	+6.8	+6.8

Source: JLT Employee Benefits, WM

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

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

The following table documents the changes in investment strategy since 2001. As can be seen the asset allocation is very different from that of the average local government pension fund. The Fund has been particularly active and very early in its commitments to alternative assets through a broad range of specialist managers. The current weightings are being reviewed in 2016/17 as part of the investment strategy review.

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Investments	2001 (%)	2004 (%)	2007 (%)	2011 (%)	2015 (%)	LGPS Average
Equities						
Global Unconstrained	-	-	5.0	5.0	8.0	
Global High Alpha/ Absolute	-	-	-	5.0	-	
UK Active (Traditional)	35.0	29.0	15.0	-	-	
UK Active (Portable Alpha)	10.0	10.0	12.0	-	-	
US Active	7.0	8.0	5.0	-	-	
Europe (ex UK) Active	11.0	9.0	6.0	-	-	
Japan Active	4.0	4.0	4.0	-	-	
Far East (ex UK) Active	2.5	3.0	4.0	7.0	-	
Emerging Markets Active	2.5	3.0	4.0	7.0	6.5	
Frontier Markets Active	-	-	-	-	2.5	
Developed Passive	-	-	-	19.0	-	
	72.0	**66.0**	**55.0**	**43.0**	**17.0**	**60.0**
Fixed Interest						
Traditional Bonds	10.0	9.5	-	-	-	
High Yield/ Emerging	1.5	2.0	-	-	-	
Unconstrained	-	-	13.0	15.0	15.0	
Cash/ Other	2.5	0.5	-	-	-	
	14.0	**12.0**	**13.0**	**15.0**	**15.0**	**19.0**
Liability Driven Investment	-	-	-	-	**19.0**	
Alternative Investments						
Property	5.0	7.0	6.5	7.0	7.0	
Infrastructure	0.5	5.0	1.5	2.0	2.0	
Timber/ Alternatives	-	-	1.5	2.0	2.0	
Commodities	-	-	2.0	4.0	-	
Private Equity & Opportunistic	4.5	4.5	6.5	10.0	10.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	-	
Hedge Fund Managed Account Platform	-	-	-	-	9.0	
Currency Fund	-	4.0	4.0	-	-	
Tactical Asset Allocation (TAA)	-	2.0	5.0	12.0	-	
Tactical Allocation (Diversified Growth)	-	-	-	-	10.0	
Tactical Allocation (Best Ideas)	-	-	-	-	9.0	
	14.0	**22.0**	**32.0**	**42.0**	**49.0**	**21.0**

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

In House Portfolio

Property	Open Ended Holdings	Schroders
		Hermes
		LAMIT
		Legal and General
		BlackRock
	Closed Ended Holdings	Aberdeen Property Select (Asia Pacific – 2 funds)
		BlackRock US Residential Opportunity Fund
		Bridges Property
		Darwin Leisure Property Fund
		InfraRed Active Property (2 funds)
		Igloo Regeneration Fund
		Morgan Stanley Global Real Estate (2 funds)
		Paloma Real Estate
		Partners Group Global Real Estate (2 funds)
		Franklin Templeton (2 funds –European and Asia Pacific)
		Schroders – Columbus UK Real Estate (2 funds)
		Threadneedle
Timber		RMK Timberland (3 funds)
		Stafford International Timberland (3 funds)
Agriculture		Insight Global Farmland
		GMO
Infrastructure		Arcus European Infrastructure
		InfraRed (3 funds including Environmental)
		Innisfree
		Morgan Stanley – Global (2 funds)
		Impax New Energy Fund

Private Equity

Direct	Access
	Apax (4 funds)
	August Equity (2 funds)
	Bridges Ventures
	Candover (2 funds)
	Capital Dynamics (2 funds)
	Carlyle (2 funds)
	Charterhouse Capital (3 funds)
	ECI Ventures (3 funds)
	Environmental Technologies Fund (2 funds)
	Ludgate Environmental Fund
	Granville Baird (3 funds)
	Parallel Ventures (3 funds)
	Partners Group Direct
Fund of Funds	Access Capital (3 funds)
	Capital Dynamics (7 funds)
	Crossroads (2 funds)
	Harbour Vest (6 funds including Cleantech Fund)
	Hermes Environmental Innovation
	Partners Group (10 funds)
	Standard Life
	Unigestion
Opportunistic	Carlyle
	Capital Dynamics
	Dyal II
	Foresight Regional Investment
	Marine Capital Eclipse Shipping
	Marquee Brands

Sustainability Policy

Aim and Definition

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

The Clwyd Pension Fund Policy

The Clwyd Pension Fund has always included a section in the Statement of Investment Principles (SIP) on environmental, social and ethical considerations and corporate governance. However, in light of the publication of the United Nations Principles on Responsible Investment (UNPRI) and the Financial Reporting Council's new Stewardship Code the Fund produced a Sustainability Policy and a Stewardship Code compliance statement as part of the SIP; this can be found within the regulatory documents section of this Annual Report.

The format of the Policy follows that of the UNPRI but, as recognised in the Policy, given the pooled nature of the investments, it would be difficult to become a formal signatory of the UNPRI. However, within the legal framework, constraints and considerations, the 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.

Compared with the previous sections in the SIP on this area, this Policy makes a clear commitment that the Fund will be an active supporter of UN principles. The Policy is specific in the actions the Fund will take in the 7 principle areas:

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

Implementation of the Policy

The Sustainability Policy included within the SIP identifies in detail, the approach the Fund will adopt within each of the areas specified above and the Stewardship Code identifies the Fund's compliance.

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

The Fund is also a member of two bodies, the Local Authority Pension Fund Forum (LAPFF) and the National Association of Pension Funds (NAPF). The LAPFF has 51 LGPS members with combined assets of over £170bn. In line with the Fund's policy LAPFF believe that by actively encouraging companies to comply with best practice shareholder value is improved over the medium and long term. The LAPFF work programme is on-going on projects on overseas employment standards, company workforce practices, and climate change and greenhouse gas emissions. Further details can be found on the LAPFF web site www.lapfforum.org.

The Fund is invested in pooled vehicles, therefore does not own individual shares. However, the Fund's investment managers report on how they voted the shares within the vehicle. In particular if corporate governance concerns are raised by LAPFF or NAPF, these are reported to the fund managers and an explanation is received from the managers on how they voted and the engagement undertaken with the managers of the company. A summary of the voting activities of the managers for 2015/16 is shown in the following table.

Manager	Annual/ Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/ Withheld
Aberdeen	53	442	383	28	31	0
Investec	113	1,113	1,010	33	31	46
Pyrford	63	922	856	44	1	21
Wellington	269	3,048	2,294	245	30	479

As can be seen below, as part of the Fund's Property & Private Equity allocation, the Fund invests in environmental and sustainable projects, including Agriculture, Timber, Regeneration, and Environmental Technology Funds.

On-going, the Fund will continue to review the approach taken and welcomes any comments Member Bodies have on the policy, its implementation, and any ideas that might be adopted by LAPFF for future projects.

Year	Investment	Commitment
2006	Igloo Regeneration Fund	£2m
2006	Ludgate Environmental Fund	£1m
2007	Stafford Timberland IV	$8m
2007	RMK Timberland	$8m
2008	Environmental Technologies Fund	£3.7m
2008	Ludgate Environmental Fund (additional)	£1m
2008	Stafford Timberland V	€2.6m
2008	RMK Timberland Resources Fund	€2.4m
2008	HSBC Environmental Infrastructure	€5m
2008	Harbour Vest Cleantech Fund	$7.5m
2009	Impax New Energy	€5m
2010	Hermes Environmental Innovation Fund I	£5m
2010	Ludgate Environmental Fund (additional)	£2m
2011	Stafford Timberland VI	€3m
2011	RMK Timberland	€2.4m
2012	Capital Dynamics US Solar Fund	$8m
2012	Environmental Technology Fund II	£5m
2013	Insight Global Farmland	$8m
2013	GMO Farmland Optimisation Fund	$8m
2013	Ludgate Environmental Fund II	£6m
2013	Threadneedle Low Carbon Workplace Fund	£5m
2013	Bridges Ventures Fund III	£5m
2013	Harbour Vest Cleantech III	$7.5m
2014	Bridges Property Alternatives Fund II	£5m
2015	Threadneedle Low Carbon Workplace Fund	£3m (additional)

AN UPDATE FROM THE ACTUARY

I am delighted to provide an update from an actuarial perspective on the activities of the Clwyd Pension Fund (CPF) during 2015/16. As the Fund's Actuary, I provide advice to the Fund and its employers in relation to managing and monitoring the many financial and demographic risks they face. I also have a specific role in guiding the overall direction of the Fund via my seat on the CPF Advisory Panel. This forum provides an opportunity for all of the Fund's professional advisors to collaborate, in conjunction with the Fund Officers, to help the CPF achieve its long term objectives. I feel that as a group we have made excellent progress over the year.

RISK MANAGEMENT – FLIGHTPATH STRATEGY

A critical aspect of managing risk relates to the flightpath strategy which is central to providing stability of funding and employer contribution rates in the long term. This strategy was put in place to support the overall objective to be fully funded (a solvency level of 100%) in the next 10 to 12 years.

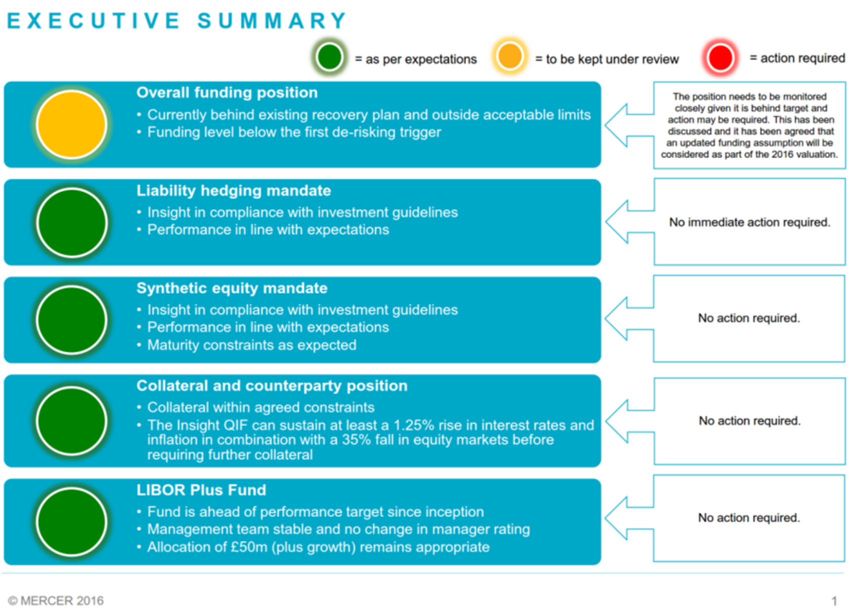
Over 2015/16, the level of risk hedging within the flightpath in did not change (remaining at approximately 20% for interest rates and 40% for inflation rates) as the market yields and the funding level remained below the relevant trigger points.

For many pension schemes 2015/16 was a challenging year with reducing market yields affecting investment return expectations and therefore pension fund solvency levels.

For the CPF, the funding plan was behind the target set as part of the 2013 valuation with a solvency level at 62% when measured using the existing approach. However, the CPF is in a relatively unique position as the flightpath strategy has provided protection given the level of risk hedging in place.

Despite the challenging market, the pension fund deficit (which impacts on employer contributions) was actually £85million lower (equating to a funding level 4% higher) than it would otherwise have been, had the current strategy not been implemented.

Whilst the monitoring the funding position is central to my role, it is also important that we ensure other operational aspects of the mandate run by Insight are working correctly as this is critical to the success of the flightpath strategy. We do this by monitoring on a monthly basis using a red/amber/green ("RAG") rating system and the summary at March 2016 is shown here. It can be seen that all aspects, except the funding plan (as discussed earlier), were in line with expectations.



LOOKING FORWARD

The Fund's next triennial actuarial valuation has an effective date of 31 March 2016 and will give us an opportunity to review the financial health of the Fund and refresh the objectives. I am currently working with Fund Officers to complete this and its outcome will be covered in next year's annual report. The assessment will take into account the experience of the Fund since the previous valuation including demographic factors such as changes in life expectancy and changes in the membership profile. It will also be first valuation that is subject to scrutiny under Section 13 of the Public Service Pensions Act.

Given the market environment we find ourselves in, it has given me the opportunity to reflect on how we approach the valuation and also how we should monitor the position moving forward. My intention is to adopt an approach which integrates the funding and investment strategies more closely. The approach will focus on the linkage between overall investment return expectations versus Consumer Prices Inflation (CPI). All benefits in payment are linked to CPI and so this ultimately drives my liability assessment and therefore the long-term cost to employers.

In tandem with the valuation we will also be reviewing the "flightpath" strategy and refreshing the monitoring framework in place. This will ensure we can take advantage of market opportunities to manage risk in a cost effective way, helping us to ultimately achieve our long-term objectives of full funding and greater certainty in the future for employer contributions.

BREXIT AND BEYOND

Of course, the political and economic landscape has changed significantly since the end of 2015/16 following the outcome of the EU Referendum. This has resulted in a period of volatility on investment and currency markets. In response to this, further Quantitative Easing was adopted by the Bank of England, and it also cut the base rate to 0.25% and we cannot rule out further cuts. If this persists then it could impact investment returns in the long-term and so pushing up funding costs. This is something that we will be considering as part of the valuation noting that the flightpath strategy has provided even further protection to the funding position since the vote.

My view, in the face of this uncertainty, is there should be no “knee-jerk” reactions and rather a more considered approach should be taken to ensure that both the investment and funding approaches are sufficiently robust to withstand such challenges going forward.

It is my belief that the strong governance structure within which the Fund operates, we are well placed to navigate these turbulent times.

P Middleman

Paul Middleman FIA

Pensions Administration Update 2015/16

Introduction

The Fund's day to day administration service is provided by the Pension Administration Section which consists of a total of 22 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager. It is split between an Operational Team and a Technical Team, and is separate from the Finance Team.

The Operational Team of 13.8 FTEs delivers a pensions service for over 41,000 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 8.2 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 11,000 pensioners and dependents.

Challenges

Task Management review

In order to record more accurate and relevant workflow data the task management system continues to be reviewed and updated with the introduction of task auto assignment.

Backlog Management

- Backlog now outsourced to Mercers (our actuaries) and is now in the final stages
- Clwyd Pension Fund are on hand to answer any of Mercer's queries

The End of Contracting Out

The ability of Defined Benefit (DB) schemes to contract-out of the State Second Pension ended on 6 April 2016, following the introduction of the single tier state pension. For employers with DB schemes which remain open to future accrual, this increased National Insurance (NI) costs for employers and members.

GMP reconciliation

The ending of contracting-out brought the need to reconcile Guaranteed Minimum Pensions (GMPs) accrued between 1978 and 1997 with the National Insurance Contributions Office (NICO). This is a time-consuming process of comparing scheme GMP records with NICO's GMP records and resolving any discrepancies, a process which can take years and can lead to additional GMP liabilities if the scheme cannot prove that NICO's records are incorrect.

Reconciliation deadlines

- HMRC will no longer respond to GMP queries from December 2018
- All queries must be resolved prior to this date or accept any liability
- Active membership details for active reconciliation released in 2017
- Deadline for Active membership reconciliation also December 2018

Clwyd Pension Fund are currently reviewing the resources required to complete this project.

Day to day projects

- Run Pensions Increase x3 (test/provisional/actual)
- Run CARE revaluation
- Year-end returns uploaded on Altair
- Paying £4.5m every month to current pensioners
- Backlog of transfers and aggregation

- Disaster recovery
- Reporting Lifetime Allowance (LTA) and Annual Allowance (AA) – Support for high earners
- Bilingual library
- Reducing manual calculations (errors on Heywood's list that require manual intervention)
- Simplified way of notifying LTA%

Communications

During the 2015/16 financial year, the Clwyd Pension Fund has published and distributed the following communications:-

- Distributed issue 11 of Clwyd Catch Up – a newsletter for our pensioner members which is issued along with their pensions increase notification.
- Circulated issue 20 of Penpal – a newsletter that is sent to our active members informing them of changes to pension legislation.
- Distributed benefit statements to both active and deferred Local Government Pension Scheme members.
- Included issue 5 of Pension Extra newsletter with the Active Annual Benefits statements.
- Between April 2015 and March 2016 the following have taken place:
    - 23 days of drop-in surgeries for scheme members at their workplace
    - 7 pre-retirement seminars

The Website is invaluable in giving both member and Fund Employers access to pension forms, reducing paperwork and postage costs. This is also a useful tool to communicate LGPS matters to our members, pensioners, employers, and also anyone interested in our Governance and Investments. The website continues to be maintained and updated when required, however a full review and update will be undertaken during the coming months.

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

Developing the Service

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

- Reviewing its service level agreements with employers on an annual basis.
- Maintaining an effective business continuity plan
- Adhering to the recently formulated Administration Strategy
- Attending manager meetings to discuss LGPS administration and also current regulation issues
- Attending LGPS training courses to ensure staff skills and LGPS knowledge are up-to-date
- Introducing software, provided by a third party, to assist employers in addressing their Auto Enrolment obligations, in respect of record keeping and reporting on employee data. In addition it is a filter for the flow of information from a Scheme Employer to the Administering Authority
- Developing Member Self Service software, enabling members to view their individual details online

In 2015/16 progress continued to be made with the new operational model for the Fund. Each Team Leader looks after set scheme employers, giving a direct point of contact and reinforcing the Fund/Employer relationship. There is on-going work with our larger employers on data quality and correcting a backlog of historic records in line with the Pension Regulator's new Code of Practice.

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

Cases completed 2015/16:

Case Type	Cases
New Starters	1,525
Address changes	1,528
Defers	522
Retirements (all types)	672
Estimates (all types)	571
Deaths (deferred, active and pensioners)	320
Transfers In	68
Transfers Out	33

Staff Turnover 2015/16

Description	Number
Total Staff as at 31/03/2016	22
Staff leaving up to 31/03/2016	1
Staff joining up to 31/03/2016	1

Ratio of Pensions Staff to LGPS Members 2015/16:

Although there are 22 full time equivalent members of staff, only 13.8 full time equivalent staff deal with administration. The remaining 8.2 staff deal with I.T., pension payroll and communications.

As at 31/03/2016, there were 41,665 members of the Clwyd Pension Fund. This means that there are 1,894 members per Pension's staff member.

Period from – to	Contributors	Deferred Members	Pensioners	Dependant Pensioners
01/04/2011 – 31/03/2012	14,939	7,008	7,662	1,443
01/04/2012 – 31/03/2013	14,920	7,539	8,386	1,488
01/04/2013 – 31/03/2014	16,133	8,307	8,805	1,562
01/04/2014 – 31/03/2015	15,941	9,026	9,272	1,591
01/04/2015 – 31/03/2016	15,989	10,271	9,862	1,616

Member Trends: 5 Years

Pensioners who were awarded enhanced retirement benefits:

Period from – to	No. of Enhanced Benefits
01/04/2011 – 31/03/2012	22 Members (tier 1 & 2 ill health only)
01/04/2012 – 31/03/2013	15 Members (tier 1 & 2 ill health only)
01/04/2013 – 31/03/2014	26 Members (tier 1 & 2 ill health only)
01/04/2014 – 31/03/2015	11 Members (tier 1 only)
01/04/2015 – 31/03/2016	18 Members (tier 1 only)

Internal Dispute Resolution Procedure

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

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

Employer Decisions

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

Administering Authority Decisions

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

2015/16	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	6	2		4
Stage 1 - Against Administering Authority	2		1	1
Stage 2 - Against Employers	1	1		
Stage 2 - Against Administering				

The ongoing appeals were subsequently upheld.

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

Appeal Contact details:	Mrs Helen Burnham Pensions Administration Manager Clwyd Pension Fund, County Hall, Mold, CH7 6NA
Stage one decision maker:	Mr Yunus Gajra West Yorkshire Pension Fund, P O Box 67, Bradford, BD1 1UP
Stage two decision maker:	Mr Gareth Owen Flintshire County Council, Legal Department, County Hall, Mold, CH7 6NA

National Fraud Initiative (NFI)

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

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

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

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

Analysis of Pension Overpayments and Write Offs

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

	2015/16 £	2014/15 £	2013/14 £	2012/13 £	2011/12 £
Amounts under £100	6,062	4,228	5,975	3,443	4,954
Number of cases	146	108	129	97	99
Overpayments Recovered	28,126	21,612	19,518	39,625	24,214
Number of cases	77	40	57	51	34
Overpayments Written Off	1,284	5,647	402	0	6,146
Number of cases	5	10	2	0	5

Participating Employers of the Fund at 31 March 2016

The Fund had 28 bodies who contributed to the Fund during 2015/16, 20 scheduled and 8 admitted. Contributions are paid over to the Fund by the 19th of the following month to the month that the contributions relate to. An analysis of contributions received during 2015/16 is shown below.

Scheduled Bodies	Employer Contribution (£)	Employee Contribution (£)
Flintshire County Council	20,193,130.26	5,021,190.11
Wrexham County Borough Council	18,306,769.62	4,131,305.95
Denbighshire County Council	13,961,277.94	3,564,269.35
Glyndwr University	1,673,122.77	500,412.46
Coleg Cambria	1,381,922.63	659,502.32
North Wales Fire Service	1,134,203.67	287,684.35
Rhyl Town Council	75,607.83	7,316.90
North Wales Valuation Tribunal	46,459.94	9,965.60
Hawarden Town Council	33,361.81	9,666.46
Prestatyn Town Council	22,663.06	9,299.94
Caia Park Town Council	21,691.09	5,525.59
Coedpoeth Town Council	18,753.68	3,376.18
Buckley Town Council	17,277.48	4,577.40
Connah's Quay Town Council	13,374.28	5,679.31
Mold Town Council	12,267.08	3,980.40
Rhos Town Council	11,990.24	3,478.93
Shotton Town Council	6,120.64	1,697.88
Argoed Town Council	4,386.44	1,112.04
Offa Town Council	2,979.24	1,329.20
Llanasa Town Council	221.00	0.00

Admitted Bodies	Employer Contribution (£)	Employee Contribution (£)
Careers Wales	322,929.67	88,009.29
Civica UK	245,293.42	84,856.97
Wrexham Commercial Services	142,789.98	44,465.18
Cartref y Dyffryn Ceiriog	55,837.65	3,303.10
Bodelwyddan Castle Trust	40,822.34	14,104.25
Denbigh Youth Group	7,995.32	1,672.07
Compass Group UK	6,427.15	2,008.96
Denbighshire Voluntary Services	5,617.52	787.56

There have been two additional bodies admitted to the Fund during 2015/16, Denbigh Youth Group and Civica UK. No bonds or any other secured funding arrangements have been facilitated.

The results of the March 2013 Actuarial Valuation led to new employer contributions and funding plans which were discussed and agreed with individual employers. These contributions came into effect on 1st April 2014.

The Pensions Regulator allows the Fund the option to levy interest on overdue contributions during the financial year. During the year the Fund monitored timeliness of contributions and liaised with employers to overcome any problems they may be encountering. The analysis below shows the number of late contributions made to the Fund, along with the amounts and occasions concerned. The Fund did not exercise its option to levy interest against any of the employers during the year. Two employers pay well in advance of the required limit for eleven months and pay one month late after summer recess. The other two employers concerned underwent changes to personnel which resulted in some delays. The payments totalled £19,890.17 (0.03% of the total contributions)

Employer	Late Occasions	Contributions (£)
A	8	11,047.41
B	2	6,704.98
C	1	1,671.24
D	1	466.54

Administrative Responsibilities:

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

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

Other Information

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

Analysis of Employers of the Fund

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

	Active	Ceased	Total
Scheduled body	20	8	28
Admitted body	8	6	14
Total	28	14	42

Analysis of Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2016.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	104,121	98,705	202,826
Alternatives	113,551	196,792	366,258	676,601
Bonds & LDI	315,530	0	170,331	485,861
Property (Direct)	0	0	0	0
Cash	15,034	0	0	15,034
Total	444,115	300,913	635,294	1,380,322

The alternatives portfolio comprises pooled in investments in the following asset classes:

Hedge Fund Managed Account, Diversified Growth Funds, Property, Private Equity & Opportunistic, Infrastructure and Timber.

Analysis of Investment Income

The table below provides an analysis of the Fund's investment income accrued as at 31 March 2016.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	0		0
Alternatives	4,517	1,288	0	5,805
Bonds & LDI	0	0	0	0
Property (Direct)	0	0	0	0
Cash	58	0	0	58
Total	4,575	1,288	0	5,863

Analysis of Fund Manager Expenses (including underlying fees)

The fees which are disclosed in the statement of accounts within the Annual Report have been disclosed in accordance with the CIPFA guidance which states that fees and expenses should only be included where the Fund has a direct relationship with the investment manager. These fees include the annual management charge as well as additional costs such as operational, administrative and legal expenses. In addition any costs for performance and transaction fees are also disclosed. These are disclosed in Note 3 in the Fund's accounts.

Fees relating to underlying managers are not required to be disclosed in the accounting regulations, however the Fund believes we should provide our stakeholders with all fees relating to our investments.

The Fund has exposures to underlying managers through investments in alternative mandates including Hedge Funds, the "Best Ideas" Tactical Asset Portfolio and Private Equity.

The table below shows the fees and expenses which would have been disclosed if underlying fees and their performance fees were included. Fees for 2015 were restated to include reclassified or additional costs which were provided after the 2014/15 accounts were finalised.

The table also shows an average of the basis points charged for each category of fee for the valuation of core assets, non-core assets and total fund.

Fund Management Fees	Avg bps	2016 £000	Avg bps	2015 (Restated) £000	2015 £000
CORE (79% of Fund)	**73**	**7,680**	**90**	**9,222**	**8,801**
Total expenses including AMC	53	5,578	65	6,672	6,152
Underlying Fees (includes performance)	17	1,778	10	1,015	833
Performance Fees	2	219	4	439	720
Transaction Fees	1	105	11	1,096	1,096
NON CORE (21% of Fund)	**338**	**10,492**	**262**	**7,326**	**8,362**
Total expenses including AMC	198	6,132	161	5,161	4,078
Underlying Fees (includes performance)	46	1,423	23	733	1,058
Performance Fees	82	2,577	64	2,037	1,759
Transaction Fees	12	380	13	431	431
TOTAL	133	18,172	131	17,584	16,127
Total Fees Excluding Underlying	110	14,971	118	15,836	
Net Assets (Core)		1,054,945		1,024,111	
Net Assets (Non-Core)		310,343		319,663	
Total Net Assets (excluding cash)		1,365,288		1,344,774	

Assets within the “Core” disclosure include: Active Equities, Unconstrained Fixed Income, Liability Driven Investment, Hedge Fund Managed Account Platform, Diversified Growth Funds and the Tactical Asset Portfolio. These account for 79% of the Fund assets but only 42.3% of the total fees. Assets within the “Non-Core” disclosure include: Private Equity (Direct and Fund of Funds), Property (Open and Closed ended), Infrastructure, Timber and Agriculture. Whilst these account for 21% of the Fund assets the proportion of fees amounts to 57.7%. These figures include the underlying fees. (In comparison, excluding underlying fees, the proportion of fees for core assets is 39.4% and non-core, 60.6%)

A review of strategy was undertaken by the Fund Consultant in 2014/15 which resulted in changes which transitioned during 2015/16. These changes should result in savings across the Core Assets. The part year benefits from this review resulted in a decrease of 17 bps across the core asset portfolio.

The increase in non-core fees reflects more transparency from the fund managers rather than an increase in true manager fees.

It should also be noted that performance is shown net of manager fees and whilst the fees of the non – core assets are considerably higher than the core assets, similarly net returns are expected to be higher in the long term.

The net return for the Fund for the 12 months to March 2016 was -0.1% of which the returns were attributed as non-core assets, +12.6% and core assets -3.45%.

For the 3 year period, the Fund returned +5.0% of which core attributed+3.69% whilst non-core attributed +9.2%.

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 set annually by the Clwyd Pension Fund Committee, consisting of eight elected Members and one employee representative, each with equal voting rights, access to training and to information. The Fund's investment management arrangements were implemented by twelve investment managers during 2015/16.

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 that 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 Regulations 2013, as amended, and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2016. Employee contributions are added to employer contributions which are set based on triennial actuarial funding valuations. The benefits of the scheme are also prescribed nationally by the 2013 Regulations (as amended). The last valuation was at 31st March 2013, the findings of which became effective on 1st April 2014. The valuation showed that the funding level decreased from the previous valuation (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 from April 2014. 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 LGPS (Management and Investment of Funds) Regulations 2009 (as amended) contains rules governing the management of the Fund, Investment Managers, Investments and use of Fund money and restrictions on investments.

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 2016 and 2015 is shown below:

	2016 No.	2015 No.
Active Members	15,989	15,941
Pensioners & Survivors		
Ex employees	9,862	9,272
Survivors	1,616	1,591
Other		
Preserved benefits/ Undecided	13,176	12,433
Frozen Refund	1,022	871
	41,665	40,108

The scheduled bodies which contributed to the Fund during 2015/16 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, Bodelwyddan Castle Trust, Civica UK, Denbigh Youth Group, Wrexham Commercial Services.

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.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position at year end as at 31st March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 16 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	2016 £000	2016 £000	2016 £000	2015 £000	2015 £000	2015 £000
Contributions and Benefits							
Contributions receivable :							
From employers (Normal)	1	(30,488)			(29,434)		
From employers (Deficit)	1	(27,277)			(28,590)		
From employees or members	1	(14,471)			(14,929)		
			(72,236)			(72,953)	
Transfers in		(1,691)			(2,202)		
Other income		(3,077)			(3,726)		
			(4,768)			(5,928)	
				(77,004)			(78,881)
Benefits payable :							
Pensions	1	52,922			50,338		
Lump sums (retirement)	1	14,029			14,544		
Lump sums (death grants)	1	2,247			1,807		
			69,198			66,689	
Payments to and on account of leavers :							
Refunds of contributions		121			83		
Transfers out (individual)		1,936			1,788		
Transfers out (bulk)	2	3,889			0		
Other		129			165		
Expenses borne by the scheme	3	17,621			18,289		
			23,696			20,325	
				92,894			87,014
NET (ADDITIONS) WITHDRAWALS				15,890			8,133
Returns on Investments							
Investment income	5		(5,863)			(5,345)	
Change in market value of investments (Realised and Unrealised) [(Increase)/Decrease]	5		4,706			(184,629)	
NET RETURNS ON INVESTMENT				(1,157)			(189,974)
NET DECREASE/(INCREASE) IN THE FUND				14,733			(181,841)
OPENING NET ASSETS OF THE SCHEME				1,395,408			1,213,567
CLOSING NET ASSETS OF THE SCHEME				1,380,675			1,395,408

CLWYD PENSION FUND ACCOUNTS

	Note	2016 £000		2015 £000	
Net Assets Statement					
Investment Assets :	**5/6**				
Fixed Interest Securities		170,331		172,749	
Managed overseas equity funds		202,826		247,289	
Managed multi strategy funds		227,037		205,260	
Property funds		109,233		103,522	
Infrastructure funds		27,351		34,128	
Timberland / Agricultural funds		25,937		26,207	
Commodity funds		0		24,962	
Private equity funds		139,582		142,808	
Hedge Fund		139,221		48,750	
Liability Driven Investment		315,530		329,101	
Opportunistic Funds		8,240		9,998	
			1,365,288		1,344,774
Cash	**8**	15,034		47,591	
			15,034		47,591
Current Assets :					
Due within 1 year	**9**	5,349		6,236	
			5,349		6,236
Current liabilities					
Due within 1 year	**9**	(4,996)		(3,193)	
			(4,996)		(3,193)
NET ASSETS AT 31st MARCH			1,380,675		1,395,408

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 2015/16 amounted to £57.765m (£58.024m in 2014/15) from employers and £14.471 m (£14.929m in 2014/15) from employees.

The employers total comprised an amount of £30.488m (£29.434m in 2014/15) relating to the common contribution rate average of 13.8% paid by all employers and £27.277m (£28.590m in 2014/15) 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:-

	2016		2015	
	Benefits Payable	Contributions Receivable	Benefits Payable	Contributions Receivable
Scheduled Bodies	£000	£000	£000	£000
Flintshire County Council	23,903	25,215	24,610	24,648
Wrexham County Borough Council	21,199	22,438	20,241	21,789
Denbighshire County Council	16,632	17,525	14,895	17,549
Fund apportionment with:				
Gwynedd and Powys County Councils	2,317	0	2,353	0
Educational Organisations	3,191	4,215	2,982	6,737
Town and Community Councils	124	298	131	286
Others - scheduled bodies	888	1,478	605	1,359
Others - admitted bodies	944	1,067	872	585
	69,198	72,236	66,689	72,953

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. BULK TRANSFER

The bulk transfer amount of £3.889m referred to in the accounts relates to monies paid to Gwynedd Pension Fund in relation to Education staff who were transferred from Fintshire County Council, Denbighshire County Council and Wrexham Borough County Council.

3. EXPENSES BOURNE BY THE FUND

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 pension administration and investment management is shown in the following table. The main increase in oversight and governance expenses relates to new appointments of an external consultant and an independent advisor, both of whom have contributed to a major review of the Fund's investment strategy and changes to the governance structure of the Fund. The consultancy fees also reflect the ongoing monitoring of the Long Term Management of Funding Risk mandate.

	2016	2015
	£000	£000
Oversight & Governance		
Employee Costs	225	218
Support Services	31	33
Supplies and Services	54	49
Consultancy & Actuarial	818	750
Audit	39	37
Legal	35	21
	1,202	1,108
Investment Management Fees		
Net Fund Management Fees	14,971	16,127
Custody Fees	28	32
Performance Monitoring Fees	30	20
	15,029	16,179
Administration Costs		
Employee Costs	603	592
Support Services	146	156
Outsourcing	404	32
Supplies & Services	237	222
	1,390	1,002
Total Fees	17,621	18,289

Investment management fees are broadly based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The Fund is invested in pooled vehicles of which the majority of fees are charged within the Funds. The 2014/15 CIPFA guidance required pension funds to include all investment manager fees including those which are deducted at source to fund of fund investments. The 2014/15 Investment Management Expenses figure of £16.127m, reported in the 2014/15 accounts, therefore included £1.891m of underlying fees. In addition to the underlying fees the guidance also required Funds to include transaction costs (which were previously included in a narrative note only) therefore £1.527m of transaction costs were also included within the £16.127m.

The CIPFA guidance has been revised in 2015/16 and has clarified the position with regards to underlying fees, invoking the accounting principle of control. The guidance clarifies that Funds should only include fees where they have a direct relationship with the investment manager, meaning that underlying fees should not be included within the Management Expenses total. This information remains disclosable within the Fund's Annual Report.

The Fund Management Fees shown overleaf show the fees for 2015/16, 2014/15 as well as the equivalent for 2014/15 if restated to take account of the 2015/16 guidelines. Total expenses include Annual Management Charges from Fund Managers and also any additional costs such as operational, administrative and legal costs. The fees for 2014/15 have also been adjusted to include reclassified or additional costs which were provided after the 2014/15 accounts were finalised.

	2016	2015	If restated 2015
	£000	£000	£000
Fund Management Fees			
Core			
Total Expenses including AMC	5,578	6,152	6,672
Underlying Fees	0	833	0
Performance Fees	219	720	439
Transaction Fees	105	1,096	1,096
Non-Core			
Total Expenses including AMC	6,132	4,078	5,161
Underlying Fees	0	1,058	0
Performance Fees	2,557	1,759	2,037
Transaction Fees	380	431	431
	14,971	16,127	15,836

Non-Core refers to Property, Infrastructure, Private Equity, Opportunistic and Timber and Agriculture investments.

Total fees as a percentage of the net asset value of the fund was 1.09% for 2015/16 (1.16% 2014/15).

4. 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 and JLT Consultants. Their reports for the financial year 2015/16 showed that the Fund achieved an overall return of -0.1% from its investments (+14.0% in 2014/15). This compares with the Fund's benchmark return of +1.4% for the year.

5. 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 2015/16 investment transactions and the net profit on sales of £4.840m (£57.213m in 2014/15) together with investment income of £5.863m (£5.345m in 2014/15) are set out below. The unrealised loss for 2015/16, because of the change in the market value of investments, amounted to (£9.546)m (£127.416m increase in 2014/15). Therefore, the decrease in market value of investments (realised and unrealised) is (£4.706)m (£184.629m increase in 2014/15).

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Market Value 2014/15 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2015/16 £000	Investment Income £000
Fixed Interest Securities	172,749	0	0	0	(2,418)	170,331	0
Liability Driven Investment	329,101	0	0	0	(13,571)	315,530	0
Overseas Equities Active	247,289	19,909	(50,115)	995	(15,252)	202,826	0
Multi Strategy	205,260	179,620	(148,422)	4,103	(13,524)	227,037	0
Property	103,522	7,192	(10,544)	1,663	7,400	109,233	2,741
Infrastructure	34,128	78	(10,509)	12	3,642	27,351	1,125
Timber & Agriculture	26,207	782	(2,306)	0	1,254	25,937	94
Commodities	24,962	0	(25,703)	(12,246)	12,987	0	0
Private Equity	142,808	21,935	(40,980)	9,669	6,150	139,582	1,644
Opportunistic	9,998	4,036	(496)	93	(5,391)	8,240	201
Hedge Fund	48,750	199,280	(109,346)	692	(155)	139,221	0
	1,344,774	432,832	(398,421)	4,981	(18,878)	1,365,288	5,805
Cash	47,591	0	0	0	0	15,034	0
Fees within Pooled Vehicles	0	0	0	0	9,332	0	0
Interest	0	0	0	0	0	0	58
Currency	0	0	0	(141)	0	0	0
	47,591	0	0	(141)	9,332	15,034	58
Total 2015/16	1,392,365	432,832	(398,421)	4,840	(9,546)	1,380,322	5,863
2014/15	1,212,810	142,377	(149,070)	57,213	127,416	1,392,365	5,345

	Market Value 2013/14 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2014/15 £000	Investment Income £000
Fixed Interest Securities	174,002	0	0	0	(1,253)	172,749	0
Liability Driven Investment	227,459	0	0	0	101,642	329,101	0
Overseas Equities Active	281,343	15,824	(87,442)	36,439	1,125	247,289	0
Multi Strategy	115,487	85,133	0	0	4,640	205,260	0
Property	97,780	12,170	(20,303)	1,948	11,927	103,522	1,948
Infrastructure	29,636	3,368	(4,385)	163	5,346	34,128	901
Timber & Agriculture	22,382	4,055	(160)	0	(70)	26,207	101
Commodities	32,084	0	0	0	(7,122)	24,962	0
Private Equity	139,799	19,620	(31,226)	3,812	10,803	142,808	2,010
Opportunistic	12,517	2,207	(4,961)	638	(403)	9,998	231
Hedge Fund of Funds	48,393	0	(593)	169	781	48,750	0
	1,180,882	142,377	(149,070)	43,169	127,416	1,344,774	5,191
Cash	31,928	0	0	0	0	47,591	0
Fees within Pooled Vehicles	0	0	0	14,032	0	0	0
Interest	0	0	0	0	0	0	154
Currency	0	0	0	12	0	0	0
	31,928	0	0	14,044	0	47,591	154
Total 2014/15	1,212,810	142,377	(149,070)	57,213	127,416	1,392,365	5,345
2013/14	1,179,061	501,018	(505,043)	107,501	(78,815)	1,212,810	2,721

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

The book cost of the investments as at 31st March 2016 is £1,123.290m (£1,083.899m in 2014/15). The market value of investments as at 31st March 2016 is £1,365.288m (£1,344.774m in 2014/15); this can be analysed as follows:

By Continent

The UK holdings as at 31st March 2016 account for 31% of total investments at market value:

	2016 £000	2015 £000
UK	429,081	431,010
Europe	103,471	114,087
North America	93,321	100,667
Emerging/ Frontier markets	104,121	93,653
Global Investments	635,294	605,357
	1,365,288	1,344,774

By Fund Manager

	2016 £000	%	2015 £000	%
BlackRock	0	0	50,330	4
Wellington	77,877	6	109,235	8
Aberdeen	26,244	2	9,380	1
Insight	315,530	23	329,101	24
Pioneer	0	0	1,324	0
Liongate	0	0	21,977	2
SSARIS	0	0	25,449	2
Duet	0	0	50,299	4
BlueCrest	0	0	34,409	3
Investec	155,632	11	163,885	12
Stone Harbor	170,331	12	172,749	13
Pyrford	60,992	5	59,973	4
Man FRM	139,221	10	0	0
Consultant "Best Ideas"	109,118	8	0	0
Property	109,233	8	103,522	8
Infrastructure	27,351	2	34,128	2
Timber / Agriculture	25,937	2	26,207	2
Private Equity	139,582	10	142,808	10
Opportunistic	8,240	1	9,998	1
	1,365,288	100	1,344,774	100

By Listed /Managed

	2016 Listed Managed £000	2016 Listed £000	2016 Unlisted £000	2015 Listed Managed £000	2015 Listed £000	2015 Unlisted £000
Fixed Interest Securities	0	0	170,331	0	0	172,749
Overseas Equities	202,826	0	0	196,990	0	50,299
Multi Strategy	227,037	0	0	205,260	0	0
Property	38,988	0	70,245	36,018	0	67,504
Infrastructure	0	11,417	15,934	0	6,712	27,416
Timber / Agriculture	0	0	25,937	0	0	26,207
Commodities	0	0	0	0	0	24,962
Private Equity	0	1,998	137,584	0	1,969	140,839
Hedge Fund	0	0	139,221	21,977	0	26,773
Opportunistic	0	0	8,240	0	0	9,998
Liability Driven Investment	315,530	0	0	329,101	0	0
	784,381	13,415	567,492	789,346	8,681	546,747
			1,365,288			1,344,774

	2016 Listed Managed £000	2016 Listed £000	2016 Unlisted £000	2015 Listed Managed £000	2015 Listed £000	2015 Unlisted £000
Fixed Interest Securities	0	0	170,331	0	0	172,749
Overseas Equities	202,826	0	0	196,990	0	50,299
Multi Strategy	227,037	0	0	205,260	0	0
Property	38,988	0	70,245	36,018	0	67,504
Infrastructure	0	11,417	15,934	0	6,712	27,416
Timber / Agriculture	0	0	25,937	0	0	26,207
Commodities	0	0	0	0	0	24,962
Private Equity	0	1,998	137,584	0	1,969	140,839
Hedge Fund	0	0	139,221	21,977	0	26,773
Opportunistic	0	0	8,240	0	0	9,998
Liability Driven Investment	315,530	0	0	329,101	0	0
	784,381	13,415	567,492	789,346	8,681	546,747
			1,365,288			1,344,774

7. 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.

Fair Value – Valuation Bases

Investments are shown in the accounts at fair value as at 31st March 2016 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 2016.
- 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 2016. 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.

- 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.
- Diversified Growth and Multi Strategy 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 2016 and 31st March 2015 based upon this hierarchy.

	Market Value 2015/16 £000	Level 1 £000	Level 2 £000	Level 3 £000
Fixed Interest Securities	170,331	0	170,331	0
Liability Driven Investment	315,530	0	0	315,530
Overseas Equities Active	202,826	60,073	142,753	0
Multi Strategy	227,037	170,110	56,927	0
Property (1)	109,233	0	38,988	70,245
Infrastructure (1)	27,351	11,417	0	15,934
Timber & Agriculture (1)	25,937	0	0	25,937
Private Equity (2)	139,582	1,998	0	137,584
Hedge Fund	139,221	3,889	127,319	8,013
Opportunistic Funds (2)	8,240	0	0	8,240
	1,365,288	247,487	536,318	581,483
Cash	15,034	15,034	0	0
Total 2015/16	1,380,322	262,521	536,318	581,483

(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, and 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; (£296.928m) compared to £307.982m in 2014/15. 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 2014/15 £000	Level 1 £000	Level 2 £000	Level 3 £000
Fixed Interest Securities	172,749	0	172,749	0
Liability Driven Investment	329,101	329,101	0	0
Overseas Equities Active	247,289	237,671	9,618	0
Multi Strategy	205,260	126,556	78,704	0
Property (1)	103,522	0	36,018	67,504
Infrastructure (1)	34,128	6,712	0	27,416
Timber & Agriculture (1)	26,207	0	0	26,207
Commodities	24,962	0	24,962	0
Private Equity (2)	142,808	1,969	0	140,839
Hedge Fund of Funds	48,750	0	45,833	2,917
Opportunistic Funds (2)	9,998	0	0	9,998
	1,344,774	702,009	367,884	274,881
Cash	47,591	47,591	0	0
Total 2014/15	1,392,365	749,600	367,884	274,881

8. 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 2014 at which the Fund's Consultants, JLT Group determined that the resulting asset mix coupled with the requirements for certain fund managers to outperform their market indices should produce long-term returns of 7.2% with a volatility of around 11%. A key element in this review process was 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 – bespoke funds via a managed account platform

The Fund invests in a Long Term Management of Risk mandate. The strategy provides a framework to enable the Fund to effectively reduce risk when market conditions become more favourable (i.e. bonds become cheaper). The framework includes both market yield based triggers and funding level triggers. In particular, the manager makes use of Liability Driven Investment (LDI) techniques to increase the level of hedging within the Fund. This is achieved through the physical purchase of gilts along with repurchase agreements (repo). These allow the fund to gain "unfunded" exposure to gilts. The manager also replicates the Fund's developed passive equity allocation using Equity Total Return Swaps (TRS).

Roll risk

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

Manager Risk

The Fund is also well diversified by manager with no single manager managing more than 23% 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.

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 2016 were £15.034m (£47.591m at 31st March 2015). This was held as follows:

	Rating	2016 £000	2015 £000
Money Market Funds			
BlackRock	AAA	0	482
Bank of New York Mellon	AAA	1,395	3,374
Bank Deposit Accounts			
National Westminster Bank PLC	BBB+	13,619	43,715
Bank Current Accounts			
National Westminster Bank PLC	BBB+	20	20
		15,034	47,591

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 2016, the Fund's exposure to non-investment grade paper was £62.171million or 36.5% of the fixed interest portfolio (37.0% at 31st March 2015).
- On private equity and infrastructure the Fund's investments are almost entirely in the equity of the companies concerned.

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 50% 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 2016 by liquidity profile.

	Market Value 2015/16 £000	1 Month £000	2 - 3 Months £000	3 - 6 Months £000	6 - 12 Months £000	Closed - ended £000	Locked £000
Fixed Interest Securities	170,331	170,331	0	0	0	0	0
Liability Driven Investment	315,530	315,530	0	0	0	0	0
Overseas Equities Active	202,826	200,989	1,837	0	0	0	0
Multi Strategy	227,037	224,191	2,846	0	0	0	0
Property	109,233	0	38,988	0	0	70,245	0
Infrastructure	27,351	11,417	0	0	0	15,934	0
Timber & Agriculture	25,937	0	0	0	0	25,937	0
Private Equity	139,582	1,998	0	0	0	137,584	0
Hedge Fund	139,221	111,391	21,816	0	0	0	6,014
Opportunistic Funds	8,240	0	0	0	0	8,240	0
	1,365,288	1,035,847	65,487	0	0	257,940	6,014

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 2-3 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 2016. 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 76% 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 2016 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 expected risk is based on 10 year historic returns and volatility.

	Manager	Market Value 2015/16 £000	Benchmark	Target (Net)	Risk (<) %
Fixed Interest Securities	Stone Harbor	170,331	1 Month LIBOR	+1.0%	6.0
Liability Driven Investment	Insight	315,530	Liability / FTSE	Match	21.0
Foreign equities–active	Investec	98,705	MSCI AC World NDR	+2.5%	14.0
	Aberdeen	26,244	MSCI Frontier Markets	+1.5%	20.0
	Wellington	77,877	MSCI EM Free	+1.5%	21.0
Multi strategy funds	Custodian "Best Ideas"	109,118	UK CPI	+3.0%	9.0
	Investec	56,927	UK CPI	+4.6%	9.0
	Pyrford	60,992	RPI	+4.5%	9.0
Hedge Fund	Man FRM	139,221	3 Month LIBOR	+3.5%	6.0
Property funds	Various	109,233	IPD Balanced PUTs	Exceed	5.0
Infrastructure funds	Various	27,351	3 Month LIBOR	+5.0%	10.0
Timber /Agricultural funds	Various	25,937	3 Month LIBOR	+5.0%	10.0
Private equity funds	Various	139,582	3 Month LIBOR	+5.0%	28.0
Opportunistic funds	Various	8,240	3 Month LIBOR	+5.0%	28.0
		1,365,288			

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 7.2% with a volatility of around 11%.

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 2016 £000	Managers No.	Funds No.	Properties / Companies Estimated No.
Real Assets	162,521	23	39	>280
Private Equity / Opportunistic	147,822	23	64	>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 2015/16 reporting period:

Asset Type	Potential Market Movements (+ / -)
Global Equity inc UK	7.31%
Oveseas Equity	10.35%
Fixed Interest Securities	4.03%
Liability Driven Investing	13.12%
Pooled Multi Strategy	5.67%
Alternatives	2.51%
Property	2.49%

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 2015/16	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	15,034	0.01	15,036	15,032
Investment portfolio assets:-				
Global Equity inc UK	98,705	7.31	105,920	91,490
Overseas Equity	104,121	10.35	114,898	93,344
Fixed Interest Securities	170,331	4.03	177,195	163,467
Liability Driven Investing	315,530	13.12	356,928	274,132
Pooled Multi Strategy	227,037	5.67	239,910	214,164
Alternatives	340,331	2.51	348,873	331,789
Property	109,233	2.49	111,953	106,513
	1,380,322		1,470,713	1,289,931

Asset Type	Market Value 2014/15	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	47,591	0.01	47,596	47,586
Investment portfolio assets:-				
Global Equity inc UK	153,636	6.00	162,854	144,418
Overseas Equity	93,653	9.82	102,850	84,456
Fixed Interest Securities	172,749	4.24	180,074	165,424
Liability Driven Investing	329,101	12.82	371,292	286,910
Alternatives	492,113	2.90	506,384	477,842
Property	103,522	3.31	106,949	100,095
	1,392,365		1,477,999	1,306,731

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 rates may rise by 25 basis points (bps) over the next year. 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	
	2015/16	+25BPS	-25BPS
	£000	£000	£000
Cash and cash equivalents	1,395	3	(3)
Cash balances	13,639	34	(34)
	15,034	37	(37)

Asset Type	Carrying Value	Change in year in net assets available to pay benefits	
	2014/15	+75BPS	-75BPS
	£000	£000	£000
Cash and cash equivalents	3,856	29	(29)
Cash balances	43,735	328	(328)
	47,591	357	(357)

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 2016 and as at the previous year end:

Currency Exposure - Asset Type	Market Value 2015/16 £000	Market Value 2014/15 £000
Fixed Interest Securities	170,331	172,749
Overseas Equities Active	202,826	247,289
Multi Strategy	227,037	205,260
Commodities	0	24,962
Hedge Funds	139,221	48,750
Property	32,056	37,867
Infrastructure	12,441	19,449
Timber / Agriculture	25,937	26,207
Opportunitistic	8,240	9,998
Private Equity	118,118	121,233
	936,207	913,764

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 2016, it was considered that the likely volatility associated with foreign exchange rate movements to be 5.85%. For the period to 31st March 2015, this was calculated to be 5.44%.

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 2015/16	Percentage Change %	Value on Increase £000	Value on Decrease £000
Fixed Interest Securities	170,331	5.85	180,288	160,374
Overseas Equity - Active	202,826	5.85	214,682	190,970
Multi Strategy	227,037	5.85	240,309	213,765
Hedge Fund	139,221	5.85	147,359	131,083
Timber & Agriculture	25,937	5.85	27,453	24,421
Infrastructure	12,441	5.85	13,168	11,714
Property	32,056	5.85	33,930	30,182
Opportunistic	8,240	5.85	8,722	7,758
Private Equity	118,118	5.85	125,022	111,214
	936,207		990,933	881,481

	2014/15	%	£000	£000
Fixed Interest Securities	172,749	5.44	182,152	163,346
Overseas Equity - Active	247,289	5.44	260,749	233,829
Multi Strategy	205,260	5.44	216,432	194,088
Hedge Funds of Funds	48,750	5.44	51,403	46,097
Commodities	24,962	5.44	26,321	23,603
Timber & Agriculture	26,207	5.44	27,633	24,781
Infrastructure	19,449	5.44	20,507	18,391
Property	37,867	5.44	39,928	35,806
Opportunistic	9,998	5.44	10,542	9,454
Private Equity	121,233	5.44	127,830	114,636
	913,764		963,497	864,031

9. RECEIVABLES/PAYABLES

	2016		2015	
	£000	£000	£000	£000
Current Assets :				
Contributions due - Employees	1,109		1,171	
Contributions due - Employers	2,394		3,005	
Added years	30		41	
H.M. Revenue and Customs	13		25	
Pension strain	1,635		1,762	
Administering authority	0		0	
Miscellaneous	168		232	
		5,349		6,236
Less Current Liabilities :				
Contributions	(6)		(7)	
Lump sums	(3,324)		(2,246)	
Death grants	(755)		(144)	
Administering authority	(284)		(265)	
Added years	(195)		(41)	
H.M. Revenue and Customs	(5)		(9)	
Miscellaneous	(427)		(481)	
		(4,996)		(3,193)
Net Current Assets		353		3,043

Analysis of receivables	**2016**	**2015**
	£000	**£000**
Central Government Bodies	13	25
Other Local Authorities	4,868	4,931
Other Entities and Individuals	468	1,280
	5,349	6,236

Analysis of payables	**2016**	**2015**
	£000	**£000**
Central Government Bodies	(5)	(9)
Other Local Authorities	(468)	(271)
Other Entities and Individuals	(4,523)	(2,913)
	(4,996)	(3,193)

10. MATERIAL TRANSACTIONS

The Fund undertakes a review of fund management arrangements every three or four years. A full review was undertaken during 2014/15 and the following details the changes which were completed during 2015/16. Some subscriptions and redemptions were staggered through 2015/16, details are shown below.

2015/16 Manager	**Mandate**	**Allocation**	**Redemption/ Subscription Initial**	**Final**
Redemptions				
BlackRock	Global Tactical Asset Allocation	6%	N/A	May-15
Bluecrest	Global Tactical Asset Allocation	3%	N/A	Oct-15
Wellington	Commodities	4%	N/A	May-15
SSARIS	Hedge Fund of Funds	2.5%	Nov-15	Feb-16
Liongate	Hedge Fund of Funds	2.5%	Nov-15	Mar-16
Duet	Global High Alpha Equities	5%	Aug-15	Mar-16
Subscriptions				
Aberdeen	Frontier Market Equities	2.5%	Apr-15	May-15
Man FRM	Hedge Fund Managed Account Platform	9%	Aug-15	Mar-16
Consultant	"Best Ideas" Portfolio	9%	May-15	Feb-16

The “Best Ideas” Portfolio has been established, in partnership with the Fund’s Investment Consultant (JLT) to enable the Fund to capitalise on tactical opportunities in the market. The allocation allows the Fund to speedily gain a more focused exposure to particular markets, based on a 6 to 12 month view.

11. POST BALANCE SHEET EVENT

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2016. 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.

12. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

In accordance with Regulations of 4(2)b of The Pension Scheme (Management and Investment of Funds) Regulations 2009, 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	£	781,659
Units purchased	No.	162,599
Units sold	No.	175,108
Market value as at 31st March 2016	£	4,609,979
Market value as at 31st March 2015	£	4,718,878

13. RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councilors are entitled to join the Pension Scheme. As at 31st March 2015, two Members of the Clwyd Pension Fund Committee have taken this option. The four Co-opted Members of the Pension Fund Committee receive fees in relation to their specific responsibilities as members of the Committee in the form of an attendance allowance that is in line with that adopted by Flintshire County Council.

Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of The Accounts and Audit Regulations (England) Regulations 2011 and Regulation 7A of The Accounts and Audit Regulations (Wales) Regulations 2014) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Clwyd Pension Fund. The disclosures required by Regulation 7(2)-(4) of The Account and Audit Regulations (Wales) can be found in the main accounts of Flintshire County Council.

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 £1.296m (£1.270m in 2014/15). 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 oversight and governance, and administration expenses (see note 2). At the year end, a net balance of £0.284m 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 2015 (£0.265m in 2014/15).

14. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2016, the Fund has contractual commitments of £681.2m (£574.0m in 2014/15) in private equity and property funds, of which £473.6m (£439.6m in 2014/15) has been deployed, leaving an outstanding commitment of £207.6m (£134.5m in 2014/15).

15. AGENCY ACCOUNTING

The Clwyd Pension Fund pays discretionary awards to the former employees of former and current Unitary Authorities, Town and Community Councils and Educational Organisations. The amounts are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

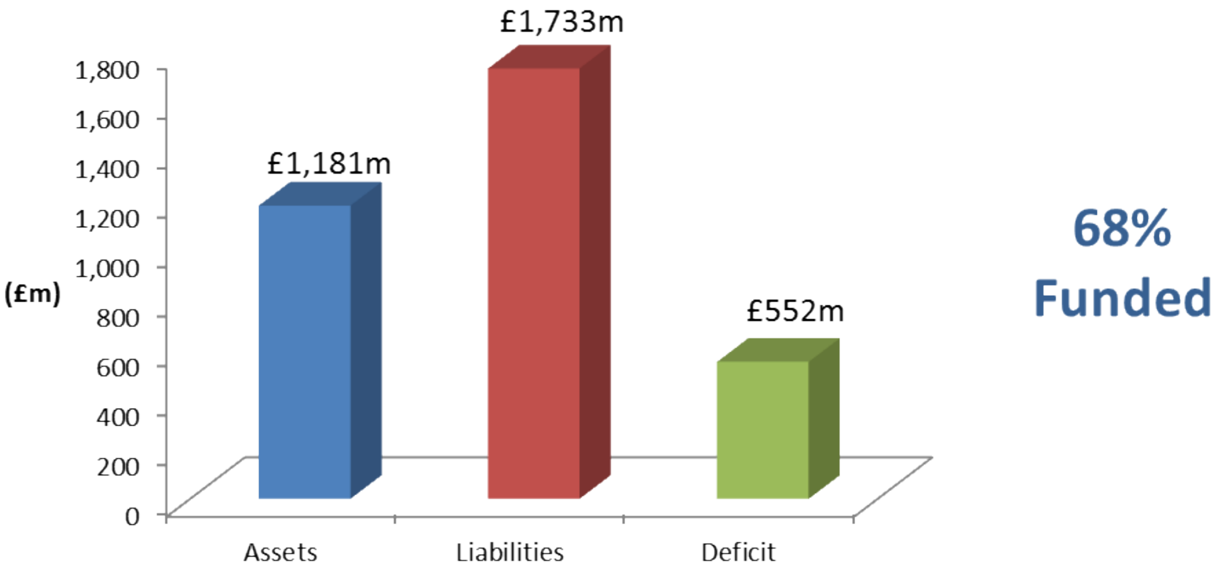
2016 £000	Payments on behalf of	2015 £000
2,315	Wrexham County Borough Council	2363
3,298	Flintshire County Council	3350
1,877	Denbighshire County Council	1916
571	Conwy County Borough Council	591
48	Coleg Cambria	47
40	Glyndwr	38
23	Powys County Council	23
10	North Wales Fires Service	11
8	DVLA	9
7	Local Government Management Board	7
4	Welsh Water Authority	4
4	Magistrates Court	4
1	Llanasa Community Council	1
1	Cefn Mawr Community Council	1
8,207		8,365

16. ACTUARIAL VALUATION & VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSE OF IAS 26 (Provided by the Fund's 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 allowed for the new LGPS benefit structure which became 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.

16. 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 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.3% per annum	3.6% per annum
Rate of pay increases	3.5% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% 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 rose, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end than at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £2,181 million. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by *c*£93 million. Adding interest over the year increases the liabilities by *c*£72 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further *c*£4 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £2,164 million.

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

June 2016

Archwilydd Cyffredinol Cymru
Auditor General for Wales

WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Audit of Financial Statements Report

Clwyd Pension Fund

Audit year: 2015-16

Issued: September 2016

Document reference: 508A2016

Status of report

This document has been prepared as part of work performed in accordance with statutory functions.

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

Contents

The Auditor General intends to issue an unqualified audit report on the Clwyd Pension Fund's financial statements, however, there are some issues to report to you prior to their approval.

Summary report

Introduction

1. The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the Clwyd Pension Fund (the Pension Fund) at 31 March 2016 and its income and expenditure for the year then ended.

2. We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the financial statements being misled.

3. The gross assets controlled by the Pension Fund amount to £1.381 billion. The quantitative level at which we judge such misstatements to be material for the Pension Fund is £13.8 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.

4. International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action to be taken, should there be any required.

5. This report sets out for consideration the matters arising from the audit of the financial statements of the Pension Fund for 2015-16 which require reporting under ISA 260. A separate report has been issued covering Flintshire County Council (the Council).

Status of the audit

6. We received the draft financial statements for the year ended 31 March 2016 on 30 June 2016 and have now substantially completed our audit work.

7. We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. We have already discussed these issues with Pension Fund officers.

Proposed audit report

8. It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in Appendix 1.

9. The proposed audit opinion on the Pension Fund is included within the audit report on Council's main financial statements as set out in Appendix 2 of the Audit of Financial Statements report for Flintshire County Council.

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

11. There were a number of misstatements which have been corrected by management but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in Appendix 2. There were also a number of other minor presentational amendments made to the financial statements during the audit process.

Other significant issues arising from the audit

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

We have one concern about the qualitative aspects of your accounting practices and financial reporting as there are some unexplained differences between the financial ledger and the pensions administration system

13. Monthly reconciliations of transactions relating to lump sums and death benefit pension payments between the financial ledger and the pensions administration system are completed by the Pension Fund. As in previous years, our review of the reconciliations identified a number of differences that had not been explained or corrected.

14. It is essential that the records in both systems are reconciled on a regular basis and any differences corrected in the relevant system to ensure that transactions are both accurate and complete.

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

15. International Accounting Standard 19 (Employee Benefits) requires employer bodies to disclose in their accounts the assets, liabilities and transactions, together with certain information regarding underlying assumptions, in respect of retirement benefits.

16. The actuary prepares both a triennial funding valuation and an annual valuation of the pension fund liabilities, on an IAS19 basis, which provides both revenue and balance sheet disclosures for inclusion in the financial statements. This is prepared using a range of data, provided by the administering authority, and actuarial assumptions.

17. It is critical therefore that the administering authority's membership records are up to date and accurately record data for active, deferred and pensioner records. Both the employer body (via their payroll team) and the administering authority need to work together to ensure that membership records are kept up to date. This not only has implications for the IAS19 disclosures in the employer body financial statements, but also for the individuals concerned.

18. Whilst the administering authority process changes notified to them by the employer bodies throughout the year, the employer body also submits an annual contributions return. This allows for the data to be reconciled and often identifies changes, eg starters, leavers or additional roles, for which the administering authority has not been notified.

19. We identified that membership records held in the pensions administration system were not up to date. Whilst it is the responsibility of the employer bodies to notify the administering authority of changes in the status of members e.g. starters, we identified instances where membership records from the three main employer bodies, namely Denbighshire County Council, Flintshire County Council, and Wrexham County Borough Council, were not always kept up to date and therefore accurate.

20. Other than the actuarial present value of promised retirement benefits being disclosed in Note 16, this issue does not directly impact on the financial statements of the pension fund. It is essential that the Council, in its role as the administering authority, continues to working with employer bodies to ensure that the membership data is kept up to date. We have also reported this matter to the employer bodies.

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

21. There are no other matters to report to you. In particular:

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

Recommendations arising from our 2015-16 financial audit work

22. The key recommendations arising from our financial audit work are set out in Appendix 3. Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

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

Appendix 1

Final Letter of Representation

Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of the Clwyd Pension Fund (the Pension Fund) for the year ended 31 March 2016 for the purpose of expressing an opinion on their truth and fairness.

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

Management representations

Responsibilities

We have fulfilled our responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

Information provided

We have provided you with:

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

- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects the Pension Fund and involves:
  – management;
  – employees who have significant roles in internal control; or
  – others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- We have informed you of any concerns raised or comments made by regulators about the pension fund, its fund managers and any assets/liabilities.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

Financial statement representations

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

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

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

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

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

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

Representations by Flintshire County Council

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

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by the members of Flintshire County Council on 26 September 2016.

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

Date ……………………………..

Gary Ferguson
Corporate Finance Manager
(Chief Finance Officer)

Date ……………………………..

Councillor Peter Curtis
Chair to the Council

Appendix 2

Summary of corrections made to the draft financial statements which should be drawn to the attention of Flintshire County Council

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

Nature of correction	Reason for correction	Impact
The analysis of the **membership of the fund at 31st March 2016** was amended for the following • 'Active Members' from 16,282 to 15,989. • 'Pensions and survivors': – 'Ex employees' from 9,815 to 9,862. – 'Survivors' from 1,601 to 1,616. • 'Other': – 'Preserved benefits/ Undecided' from 13,052 to 13,176 – 'Frozen Refund' from 955 to 1,022.	The analysis was revised to the most up to date information provided by the pension administration team in July 2016 following the preparation of the draft financial statements	The change to the analysis had no other impact on the Council's financial statements. **Presentational disclosure only.**
The table containing the analysis **market value of investments 2015-16** in Note 4 was amended for the following: • 'Property' from £109,422,000 to £109,233,000. • 'Infrastructure' from £27,436,000 to £27,351,000. • 'Timber & Agriculture' from £25,832,000 to £25,937,000. • 'Private Equity' from £139,117,000 to £139,582,000. • 'Opportunistic' from £8,384,000 to £8,240,000.	To ensure market value of investment disclosed in Note 4 reflected the most up to date valuations.	The amendments increased the market value of investments by £152,000. Appropriate amendments were included in corresponding notes and value of Investment Assets disclosed in the 'Net Asset Statement'.
Note 6 'Fair value of investments – Hierarchy – Overseas Equities Active' table was amended: • 'Level 1' from £86,317,000 to £60,073,000. • 'Level 2' from £116,509,000 to £142,753,000	The Investment with Aberdeen Frontier was reclassified from 'Level 1' to 'Level 2 'to agree with the classification provided by the Investment Manager.	Appropriate corresponding adjustments were included in the total columns of the analysis. The change had no other impact on the Council's financial statements.

Nature of correction	Reason for correction	Impact
Note 9 ‘Receivables/Payables - Current Liabilities’ was amended for the following: • ‘Lump sums’ from £(2,717,000) to £(3,324,000). • ‘Death grants’ from £(418,000) to (£755,000)	Note 9 was amended to agree to Pension Fund records, due to delays in processing lump sum payments after the year-end.	Corresponding amendments were made to the ‘Analysis of Creditors’ in Note 9 and ‘Current liabilities – due within one year’ in the ‘Net Asset Statement’.

Appendix 3

Recommendations arising from our 2015-16 financial audit work

We set out our two recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report.

Matter arising 1 – Maintaining up to date membership records	
Findings	Membership records held in the pension's administration system are not up to date for the three main employer bodies, namely Denbighshire County Council, Flintshire County Council, and Wrexham County Borough Council.
Priority	High
Recommendation	The Council should continue working with employer bodies to ensure that membership records are brought up to date and subsequently maintained.
Benefits of implementing the recommendation	To ensure that membership records are accurate and complete.
Accepted in full by management	Yes
Management response	The 3 year Business Plan for the pension fund includes working with the unitary authorities to implement an on line computer module that will allow information to be submitted by employers more directly and efficiently into the pension administration system. This will be implemented on a phased basis with each unitary authority (as well as with some other employing bodies) through 2016-17 and 2017-18. In addition the completion of some outstanding backlog relating to deferred members and implementation of the Fund's Administration Strategy will vastly improve data quality and highlight any on-going problems. Progress is monitored by the Pension Fund Committee and Board. There is a Steering Group of senior finance officers from the unitary authorities who also discuss these operational issues. The Fund's actuary will discuss any impact of data quality on the results of the Actuarial Valuation with employers and the Committee
Implementation date	Work in progress with planned completion across all employer bodies in 2017-18.

Matter arising 2 – Reconcilitaion of lumps sums and death benefit pension payments	
Findings	Monthly reconciliations of the transactions relating to lump sums and death benefit pension payments between the financial ledger and the pensions administration system are performed. As in previous years, our review of the reconciliations identified a number of differences that had not been explained or corrected.
Priority	High
Recommendation	The Pension Fund to fully reconcile the monthly reconciliation of transactions relating to lump sums and death benefit payments, ensuring any differences are corrected.
Benefits of implementing the recommendation	To ensure that transactions are both accurate and complete.
Accepted in full by management	Yes
Management response	An efficient method of reconciling the pension system and the accounting ledger has proved problematic. Work is on-going to correct outstanding differences and reconciliation procedures. Greater resource and management oversight on progress will be applied.
Implementation date	31 March 2017

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 27 September 2016
Report Subject	Governance Update
Report Author	Pensions Finance Manager

EXECUTIVE SUMMARY

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

(a) Business Plan 2016/17 update (Appendix 1) for governance including recommendations in relation to two areas relating to procurement of advisers.

(b) Current Developments and News, providing an update on National Scheme Advisory Board matters the draft Pension Board minutes.

(c) Governance related policy/strategy implementation and monitoring including details of future events that Committee Members should consider (Appendix 3) and the Breaches Register (Appendix 6).

(d) Delegated responsibilities (Appendix 2) – A response to a DCLG consultation on changes concerning Fair Deal to LGPS regulation is included at Appendix 2.

(e) Calendar of future events (Appendix 3)

It also provides the governance risk register (Appendix 4), with some of the key areas of concern being associated with asset pooling and staff workloads.

RECOMMENDATIONS	
1	That the Committee approve: • that no further Clwyd Pension Fund Framework be established and that the National LGPS Frameworks be used in future where possible (paragraph 1.03).

	• the option to extend the contract period for a further two years to March 2019 for the Independent Advisor and Investment Consultant contracts with ongoing review (paragraph 1.04).
2	That the Committee consider the remainder of the update and provide any comments.

REPORT DETAILS

1.00	**GOVERNANCE RELATED MATTERS**
1.01	**Business Plan 2016/17 Update** Appendix 1 provides a summary of progress against the governance section of the Business Plan up mid-September, which is the majority of the period to the end of quarter 2 the 30 September 2016. All items are as originally planned, with separate sections below the following items: • G1 Review of CPF Adviser Procurement Framework • G3 Review/Tender Investment Consultancy and Independent Adviser Contracts
1.02	Appendix 1 also includes progress against the projected cash flows and budgeted operating costs for 2016/17. The Committee is asked to note the following: • Early indications do not highlight any areas of concern either within the projected cash flows or in operating costs.
1.03	*G1 Review of CPF Adviser Procurement Framework* In 2008, Clwyd Pension Fund put in place a framework which would allow them to quickly appoint consultants to assist the Fund. The services covered by the framework are: • Law & Contract • Taxation • General Investment Strategy • Alternatives • Investment Training • Manager Selection • Administration Issues • Environmental, Social and Governance / Sustainability • Asset Liability Modelling Exercise • Miscellaneous The providers available to bid for work through the framework are: • Squire Sanders • Aon Hewitt • Sacker • Mercer

- JLT Group
- Allenbridge
- Finance

Since its introduction, the framework has been used to appoint a number of advisers to assist in the running of the Fund including JLT as Investment Consultants and Aon Hewitt (Karen McWilliam) as Independent Adviser.

The term of the framework has now come to an end and the Fund needs to consider whether it wishes to bring the framework to a conclusion or run a further framework. Since the Clwyd Framework was launched, there have been a number of other frameworks relating to LGPS services. The key ones are run by the National LGPS Frameworks (managed by Norfolk County Council) and currently cover the following services:

- Actuarial, Benefits and Governance Consultancy Services
- Investment Consultancy Services
- Global Custody Services
- Legal Services

They are also in the midst of creating frameworks for Stewardship, Administration and Passive Investments.

As we are a founding authority, in relation to the administration services, we are able to use these frameworks with no specific joining fee.

The officers of the Fund have carried out an analysis against the services available by the National LGPS Frameworks compared to the Clwyd Framework and it would appear the majority of the services are covered by the National LGPS Frameworks. The services which may not be explicitly covered appear to be in relation to some elements of taxation (e.g. advice on VAT matters from a tax specialist) and more specialist guidance on ESG matters.

Using the National LGPS Frameworks in the future, rather than a Clwyd specific Framework would result in efficiencies for officers. The Fund could also still run individual procurement exercises for any services not covered by the National LGPS Frameworks.

The Committee is asked to approve that no further Clwyd Pension Fund Framework be established and that the National LGPS Frameworks be used in future where possible.

1.04 *G3 Review/Tender Investment Consultancy and Independent Adviser Contracts*

The Independent Advisor and Investment Consultant were appointed on 3 year contracts from April 2014 with the option to extend for a further 2 years. Following a performance review of both contracts the officer recommendation is to use the option to extend to March 2019. During this period the performance of both will be regularly monitored.

The Committee is asked to approve the option to extend the contract period for a further two years to March 2019.

1.05	The Committee is asked to note the contents of the business plan update and approve the recommendations in relation to G1 and G3 above.
1.06	**Current Developments and News** *National Scheme Advisory Board Update* **–** The latest meeting was held on the 1st August; all papers are available on their website. The work plan for 2016/17 includes deficit management (non-local authority employers covenant best practice guide and exit options), cost management 2016, investment cost transparency and continued work on options from separation. The total SAB budget, including support costs is £384,375 which will be recovered by a levy of around 20p per active member. For the Fund this equates to around £3,200. The SAB's terms of reference have not been reviewed since its inception as a statutory body. The SAB considered a draft revised terms of reference based on those of the shadow board taking into account regulatory changes and revised appointment processes for submission to the Minister. The two sub-committees of the SAB have now also been established; Cost Management, Benefit Design and Administration Committee, and Investment, Governance and Engagement Committee. They include a range of representatives from Treasurers, LGPS administering authorities, CIPFA, scheme members and actuarial consultancies (including Aon Hewitt and Mercers). The SAB is developing a voluntary code of transparency for LGPS asset managers. Investment fee transparency and consistency is a target for a revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts. Transparency of investment costs is also included in the Government's criteria for pooling investments. A draft template, for completion by traditional asset managers, and the associated draft code of practice have been circulated for comment. Additionally, a meeting has been arranged for key stakeholder representatives at which the Fund will be represented by a Pension Finance Manager (Debbie Fielder). The Fund has circulated these drafts to four of our fund managers (Insight, Capital Dynamics, Partners Group and InfraRed) for comment. The Chairman of the SAB has written to Marcus Jones MP on 10 August regarding investment pooling, highlighting the need for assurances from Government on the Pools' proposals, and that Government should accept the variety of approaches being considered to meet the criteria. On the same day, the Chairman wrote to the Rt Hon Sajid Javid MP (Secretary of State for Communities and Local Government) requesting a meeting to discuss their concerns over the suitability of available infrastructure projects for investment and the potential risks inherent in the asset class. As at the point of writing this report (8th September), no response had been received from Rt Hon Sajid Javid MP and Marcus Jones MP had responded acknowledging the need for a quick turnaround but highlighting April 2018 was still the deadline to be met by the Pools. The SAB Chairman is continuing to pursue these matters.

1.07	*Local Pension Board Update* – As previously agreed the minutes of the Board will be circulated to the Committee once finalised. The minutes of the Board meeting held on July 6 are attached as Appendix 7 for noting and comment. The key discussions during the latest meeting included an update on the CIPFA Local Pension Board Conference, a discussion and update on key performance indicators being developed by the Administration Team, an update on scheme / GMP reconciliation, the Fund risk register and the 2016 Valuation in particular the engagement with employers.
	Policy and Strategy Implementation and Monitoring
1.08	*Training Policy* – The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to • have training on the key elements identified in the CIPFA Knowledge and Skills Framework • attend training sessions relevant to forthcoming business • attend at least one day a year of general awareness training or events.
1.09	Appendix 5 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Some Committee Members do have outstanding modules to complete. Catch up training will be arranged during 2016/17.
1.10	Appendix 5 also includes training and various external events attended by Committee Members during 2016/17 as well as The Pension Regulator modules undertaken. Appendix 3 includes details of all future training planned including forthcoming events considered suitable for general awareness training. Attendees for the Local Authority Pension Fund Forum conference (December) have already been confirmed.
1.11	*Recording and Reporting Breaches Procedure* – The Fund's procedure requires that the Clwyd Pension Fund Manager maintains a record of all breaches of the law identified in relation to the management of the Fund and this information will be reported to the Pension Fund Committee at each meeting. Appendix 6 includes summary information in relation to the breaches identified to date. Information has been anonymised where necessary for data protection or commercial confidentiality.
1.12	One additional Breach (Reference 03) has been recorded since the 24th May Committee and is detailed at Appendix 6. In terms of the Breaches recorded and ongoing: Reference 01: work is progressing with system reports to identify those deferred benefits affected Reference 02: some legal advice has been received but further correspondence is required. Reference 03: the first meeting between officers and advisors will be held on the 5th October.

1.13	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 2 updates the Committee on the area of delegation used since the last meeting. The response to the consultation is attached as Appendix 7.
1.14	**Calendar of Future Events** Appendix 3 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates.

2.00	**RESOURCE IMPLICATIONS**
2.01	Although there are no new areas of resource implications highlighted, the ongoing concern in relation to staff resources is highlighted as part of the risk management section below.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report.

4.00	**RISK MANAGEMENT**
4.01	Appendix 4 provides the dashboard showing the current risks relating to the Fund as a whole as well as the current risk register in relation to governance matters.
4.02	Since the last update, there has been no change in relation to the actions for managing these risks. The risks of most concern remain as follows: • The Fund's objectives/legal responsibilities are not met or are compromised – external factors (risk reference 5) – Although the potential impact of Local Government Reorganisation (LGR) has now gone away there remains to be ongoing concerns in relation to external influence, with asset pooling being the key area of concern at the moment. We continue to manage this to the best of our ability particularly through proactive planning and working closely with our advisers. A separate agenda item considers this further but it is acknowledged that working as part of a larger group in the Wales Pool is likely to result in areas of compromise for all parties, including Clwyd Pension Fund. . • Services not being delivered to meet legal and policy objectives (risk reference 6) – This risk focusses on the fact that there may be insufficient staff numbers, whether as a result of recruitment/retention issues, peaks in workload (e.g. due to asset pooling) and the age profile of staff. This is material at this point in time due to the increased work from asset pooling on the finance side, and due to ongoing work in removing

	backlogs and introducing the new administration strategy on the administration side. The teams are currently managing this to the best of their ability, prioritising work where possible and making use of advisers and outsourcing. However, it is recognised that there is significant pressure on officers. The Committee is invited to discuss these and the other governance risks and provide views on any further actions that could be taken to manage these risks.

5.00	**APPENDICES**
5.01	Appendix 1 - 2016/17 Business plan update Appendix 2 - Delegated responsibilities and response Appendix 3 - Calendar of events Appendix 4 - Risk heat map and register update Appendix 5 - Training undertaken Appendix 6 - Record of breaches of the law Appendix 7 - Pension Board minutes

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Business Plan 2016/17 to 2018/19 – 22 March 2016. A link to the Committee Agenda follows: http://cyfarfodyddpwyllgor.siryfflint.gov.uk/ieListDocuments.aspx?CId=445&MId=3586&Ver=4&LLL=undefined **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund

	(d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **SIP – Statement of Investment Principles** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund (g) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (h) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF. (i) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (j) **DCLG – Department of Communities and Local Government** – the government department responsible for the LGPS legislation. (k) **CIPFA – Chartered Institute of Public Finance and Accountancy** – the institute which develops professional guidance on finance and accountancy matters to which CPF should comply. (l) **GMP – Guaranteed Minimum Pension** – a minimum element of pension that the CPF must pay in relation to scheme members, which relates to the fact the LGPS was contracted out of the state second pension system.

APPENDIX 1

Business Plan 2016/17 to 2018/19 – Q1 Update
Governance

Budget
All the costs associated with the management of the Fund are a charge to the Fund and not to the Council. Final out-turn figures for 2015/16, together with projected 2016/17 figures, are shown below:

Cashflow

	2014/15 £000s	2015/16 £000s	2016/17 £000s			
	Actual	**Actual**	**Budget**	**Actual**	**Projected for full year**	**Final under/ over**
Opening Cash	(30,520)	(43,735)	(13,640)	(13,640)		
Payments						
Pensions	50,415	52,932	57,300	12,919	57,300	0
Lump Sums & Death Grants	17,317	14,906	20,000	5,207	20,000	0
Transfers Out	2,036	5,889	2,800	332	2,800	0
Expenses (including In House)	2,691	4,881	4,500	938	4,500	0
Support Services	219	167	250	0	159	(91)
Total Payments	72,678	78,775	84,850	19,396	84,759	-91
Income						
Employer Contributions	(29,608)	(30,506)	(33,250)	(13,684)	(33,250)	0
Employee Contributions	(14,532)	(14,535)	(15,200)	(3,457)	(15,200)	0
Employer Deficit Payments	(28,079)	(27,872)	(28,500)	(27,074)	(28,500)	0
Transfers In	(2,347)	(1,791)	(4,000)	(273)	(4,000)	0
Pension Strain	(3,030)	(3,204)	(1,200)	0	(1,200)	0
Income	(223)	(74)	(170)	(38)	(170)	0
Total Income	(77,819)	(77,982)	(82,320)	(44,526)	(82,320)	0
Cashflow Net of Investment Income	(5,141)	793	2,530	(25,130)	2,439	(91)
Investment Income	(2,847)	(2,497)	(3,000)	(628)	(3,000)	0
Total Net of In House Investments	(7,988)	(1,704)	(470)	(25,758)	(561)	(91)
In House Investments						
Draw downs	40,212	34,021	40,955	9,722	40,955	0
Distributions	(59,824)	(64,836)	(71,043)	(15,580)	(71,043)	0
Net Expenditure /(Income)	(19,612)	(30,815)	(30,088)	(5,858)	(30,088)	0
Total Net Cash Flow	(27,600)	(32,519)	(30,558)	(31,616)	(30,649)	(91)
Rebalancing Portfolio	14,385	62,614	30,000		30,000	0
Total Cash Flow	(13,215)	30,095	(558)	(31,616)	(649)	
Closing Cash	(43,735)	(13,640)	(14,198)	(45,256)	(14,289)	

Operating Costs

	2014/15	2015/16	2016/17			
	Actual £000s	Actual £000s	Budget £000s	Actual £000s	Projected for full year £000s	Projected under/ over £000s
Governance Expenses						
Employee Costs (Direct)	218	225	229	59	229	0
Support & Services Costs (Internal Recharges)	13	12	19	0	19	0
Premises	8	8	17	0	17	0
IT (Support & Services)	12	11	10	23	10	0
Other Supplies & Services)	49	54	56	20	56	0
Audit Fees	37	39	40	(13)	40	0
Actuarial Fees	205	222	304	38	304	0
Consultant Fees	403	371	389	26	389	0
Advisor Fees	142	225	188	24	188	0
Legal Fees	21	35	30	0	30	0
Total Governance Expenses	1,108	1,202	1,282	177	1,282	0
Investment Management Expenses						
Fund Manager Fees*	16,127	14,971	11,028	185	11,028	0
Custody Fees	32	28	34	2	34	0
Performance Monitoring Fees	20	30	25	0	25	0
Total Investment Management Expenses	16,179	15,029	11,087	187	11,087	0
Administration Expenses						
Employee Costs (Direct)	592	603	711	156	711	0
Support & Services Costs (Internal Recharges)	53	46	90	0	90	0
Outsourcing	32	404	1,240	54	1,240	0
Premises	33	33	75	0	75	0
IT (Support & Services)	218	243	250	145	250	0
Member Self Service	0	61	107	0	107	0
Other Supplies & Services)	75	0	70	22	70	0
Miscellaneous Income	(1)	0	0	0	0	0
Total Administration Expenses	1,002	1,390	2,543	377	2,543	0
Total Costs	**18,289**	**17,621**	**14,912**	**741**	**14,912**	**0**

***CIPFA have changed the elements that need to be included in Fund manager fees resulting in a reduction. Underlying fees are no longer required to be disclosed in the accounts.**

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Governance Tasks

Ref	Key Action –Task	2016/17 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
G1	Review CPF Adviser Procurement Framework		x	x	x		
G2	Review constitution and delegations in relation to asset pooling		x	x	x		
G3	Review/Tender Investment Consultancy and Independent Adviser Contracts		x	x	x		

G1 – Review CPF Adviser Procurement Framework

What is it?

Clwyd Pension Fund's adviser procurement framework agreement ceases in 2016/7 and we will need to consider whether there is a need to renew it or take part in the national procurement framework. This needs to be completed prior to G3.

Timescales and Stages

Carry out review: 2016/17 Q2
Put in place new CPF procurement framework 2016/17 Q2-4

Resource and Budget Implications

To be confirmed.

G2 - Review constitution and delegations in relation to asset pooling

What is it?

It will be necessary to review the Council's delegations (within the Council's Constitution and the PFC's Scheme of Delegation) in relation to pension matters in relation to any changes being implemented as a result of asset pooling (see Funding and Investment section). In particularly, the Administering Authority will need to determine what decisions will need to be made and by whom.

Timescales and Stages

Review and recommend updates to delegations: 2016/17 Q1/2

Resource and Budget Implications

To be led by Pension Fund Manager, liaising with Monitoring Officer and taking advice from Investment Consultant and Independent Adviser. There will be external adviser costs associated with this exercise but they are not expected to be significant.

G3 – Review/Tender Investment Consultancy and Independent Adviser Contracts

What is it?

The Fund's investment consultancy and independent Adviser contracts reach their initial break point on 31 March 2017 albeit they can be extended for up to 2 years. A decision should be made as to whether these are retendered or extended. The implications of the Government changes to investment regulations, including, pooling will need to be considered.

Timescales and Stages

Carry out review/decide whether to tender or extend existing contracts 2016/17 Q2
Pension Fund Committee agree way forward (27th September 2016) 2016/17 Q2/3
Potential tender if contracts are not extended 2016/17 Q4

Resource and Budget Implications

To be led by Pension Fund Manager within existing budget.

DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.13	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.

Action Taken

LGPS (Amendment) Regulations 2016 [Fair Deal for staff pensions in LGPS who are compulsorily transferred to another service provider] – the DCLG issued a consultation on proposed changes to the LGPS Regulations 2013 (SI/2356), and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI/525). The response to this consultation was not shared with Committee due to time constraints. The response is included overleaf.

Flintshire County Council Response to Consultation Administering Authority of the Clwyd Pension Fund

High level comments

We understand from our advisors that New Fair Deal has been reasonably successful in its aim of achieving a more effective and attractive marketplace for those contractors providing services to central government and other bodies who participate in the unfunded public service schemes.

Participating in the LGPS via admitted body status is, of course, already available to contractors who wish to choose that route, although the terms offered are generally very different from those under New Fair Deal by the unfunded public service schemes.

Making it compulsory for contractors to participate in the LGPS, *without addressing the financial risks of admission*, may have a negative impact on the competitiveness of the market for local government services.

We take the opportunity to describe some of the significant financial risks and other factors which can deter contractors from bidding. These are factors which can also create inefficiencies in the pricing of local authority contracts. The proposed method of implementing Fair Deal reform for the LGPS will not address these issues. Specifically:

- **There is no reduction in pensions risk for a contractor** on becoming an admitted body, as the contractor retains financial risk while participating in the LGPS – quite different to the terms contractors are familiar with when dealing with the unfunded public service schemes where, for example, there are limited deficit risks attached to participation. Whilst these financial risks can sometimes be mitigated (e.g. via risk sharing arrangements or "pass through" approaches to determining the pension costs), this often takes separate negotiation in each case and has to be achieved via the commercial contract rather than the admission agreement.

- **Requirement for a bond, indemnity or guarantee:** The financial security of each contractor will be assessed prior to admission; and Funds have varying criteria for that assessment. This can mean that the circumstances in which a bond, indemnity or guarantee must be provided can vary widely across Funds, as can the amount required. For contractors, there is also the risk that the amount of bond required increases during the term of the contract.

- **Exit Debts.** Contractors are rightly wary of the amount of exit debt that can accrue over the life of a contract.

From our perspective as a Fund, clarity of policy practice and operation will be critical for success. At a practical level (and ultimately to achieve greater efficiency of public services for taxpayers) once the regulations have been finalised we support a requirement that all Funds should align their policies accordingly. We would like to see best practice guidance issued, from the appropriate source, such that those policies are developed / refreshed and that applications are consistent.

Detailed Comments on the Chapter 2 Proposals

1. **Retenders**: Under paragraph 15 in the consultation, where the incumbent contractor provides a broadly comparable scheme, we note it is intended that bidders for an existing contract will not be required to provide previously compulsorily transferred local authority staff with access to the LGPS. We have concerns about this. Requiring access to the scheme would be simpler, fairer and consistent. All bidders would be submitting tender responses on a consistent basis, and outsourced employees would be treated equally; such a policy would be consistent with New Fair Deal for central government staff.

2. **Welsh Direction:** Paragraph 3 says that the Best Value Direction will be repealed in due course. The Consultation document indicates that the proposed changes to the LGPS regulations will have effect in Wales also. It would be useful to have confirmation in the government response that it is their expectation that the Welsh Ministers will also revoke the Welsh Authorities Staff Transfers (Pensions) Direction 2012 in due course.

3. **Protection for current members of Broadly Comparable schemes**: After the Best Value Direction is repealed (Paragraph 3), we presume that a mechanism will be put in place that obliges contractors with broadly comparable pension schemes to continue to provide this scheme for employees who were originally compulsorily transferred from local government and who continue to work on local government services or functions. Once the Directions are removed, if these employees are not protected transferee members, how will these employees receive pension protection? **Is it the policy intention that an employee transferred to a contractor who provides a broadly comparable scheme be afforded pension protection on subsequent transfers?** If not, this would appear at odds with Fair Deal principles. In addition, it contrasts oddly with the alternative situation, where compulsorily transferred individuals will retain protection if the incumbent contractor is an admitted body.

4. **Accrued Benefits (Paragraph 16):** We recognise that bulk transfers on the re-tender of central government contracts under New Fair Deal have hampered some deals, and left some members' pension arrangements in limbo. Given this experience, we agree that there should be no requirement for bulk transfers of accrued rights on second generation contracts.

5. **Widening the scope of Pension Protection.** We note the much wider scope of the protected transferee definition compared to the existing Best Value Directions definition of who must be offered protection. For example, it appears that the eligible staff of almost all admission bodies will be treated as protected transferees on a compulsory transfer, even where the employee is not working on a function or service that was originally transferred from local government. **We request clarity on the policy intention here.** Our interpretation is that the proposals would extend these provisions to all those working for admitted bodies and alternative delivery models (including new recruits who may never have previously had direct public sector employment). This would be a major policy change, requiring private sector bodies like charities and transport companies, who participate in LGPS for historical reasons, to protect local government pension provision if services are outsourced.

    i. If this is the policy intention, then in the interests of efficiency, given the construction of the proposals, we would request that the responsibility for tracking Protected Employees should rest with the Protected Transferee Employer. In such circumstances that the member no longer satisfies the wholly or mainly employed criteria, the Protected Transferee Employer must inform the Administering Authority accordingly.

ii. It would also be useful to have clarification of what "wholly or mainly employed on the delivery of the service or function transferred" in draft regulation 4 in proposed Regulation 3(1C) of the Local Government Regulations 2013 means in practice. For example, there is a clear understanding that "wholly and mainly engaged" means 50% of the employee's time in the context of both the Principal Civil Service Pension Scheme and NHS Pension Scheme. A standardised definition for the LGPS would be welcome here, as our understanding is that practice varies across the Funds.

6. **Role of Administering Authorities.** The proposals place a much greater onus on the Administering Authorities when facilitating transfers than is currently the case. At times of significant change in the LGPS we request that these additional requirements are revisited and scaled back. An example includes the necessity for the Fund to pass a "determination" to allow an independent service provider to enter an admission agreement, and the associated publication of the list of admission agreements entered into (under draft regulation 30), and also note our comments under 5(i) above.

7. **Lender of last resort coverage.** We believe there is a drafting oversight where the extant Regulation 64(3)(a) has not been updated to extend the "lender of last resort" coverage to protected transferee employers (in addition to the current admission bodies).

Other Comments on the Chapter 3 – Changes to 2013 Regulations

Repayment of Surplus
The consultation proposes that any surplus owed to the contractor on exit is to be paid back to that contractor by the LGPS Fund within a month of exit (or a later date if agreed with the contractor):

- This has been perceived by contractors as a longstanding anomaly and is therefore welcome, as it will address their concerns regarding surplus contributions becoming inaccessible, and encourage greater willingness to pay contributions to Funds to address deficits. One month seems a short period to allow however, and we would suggest a longer period of three months is permitted for payment.

- The individual funding basis and termination policy for each Fund will have a direct impact on how this operates. Therefore all LGPS Funds should be required to set transparent policies, perhaps within the existing Funding Strategy Statement, that prescribe the appropriate termination bases for calculating the exit surplus or deficit. More certainty for contractors should result in more efficient pricing.

- From the Funds' perspective there should be a mechanism to disapply the payment of an exit credit where the circumstances warrant it. For example, in cases where the exiting body would not have been liable for any deficit then the Fund should not be expected to pay an exit credit (e.g. if the commercial contract had been drawn up so that pension contributions are determined on a "pass through" basis).

- From our Fund perspective and contracting authorities, we would not expect an exit credit normally to be payable in relation to an admission agreement entered into before the new Regulations take effect. In such cases the commercial arrangements will have been drawn up on the basis of the existing regulatory provisions, and Funds and contracting authorities would not expect the new regulations to disturb existing contractual commercial terms.

Transfers

1. **Paragraph 16 & 17**
   We would make the additional point that the inclusion of a bulk transfer-in power, on terms to be agreed by the respective schemes' actuaries, would be helpful from an operational perspective. This is certainly the case in light of the New Fair Deal proposals, and the existence of many broadly comparable arrangements.

2. **Paragraph 18**
   Individual transfers in respect of prior service to the contractor's section can lead to funding shortfalls. These can be potentially material relative to the basis on which the scheme is funded. This is a risk over which a contractor has no control. We suggest that the ability for members to transfer in benefits from the schemes of previous employers is subject to employer consent (or the benefits awarded in respect of the transfer are calculated by reference to the current funding basis). We note that transfer transfer-in facilities are now very rare in the private sector.

Admission Agreements
Sometimes LGPS participation documentation is not always completed in time for the commencement of the contract; where this happens, we welcome the proposed changes that will clarify that administering authorities can agree that an admission agreement has retrospective effect.

Membership before 1 April 2014 – (Paragraph 23)
Actuarial neutrality is not necessarily achieved simply by the reduction of benefits due to early payment as this requires benefits to be divided into tranches and reduced differently (for example, due to differing retirement ages and local funding actuarial assumptions). Provided a clear consideration of the actuarial neutrality has been carried out by GAD, we would be supportive of the proposals to remove consent for the category of member described in accordance with the government policy “Freedom and Choice in Pensions”. However, it may restrict sponsors’ ability to effectively manage retirement if they have less control. Any such implementation should be in a manner that does not increase cost or require additional funding from sponsors. Therefore the amendment to Regulation 3 of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 should explicitly require that the reduction factors are

APPENDIX 3

CLWYD PENSION FUND - CALENDAR OF EVENTS APRIL 2016 ONWARDS

Month	Date	Day	Committee	Training	Pension Board	Advisory Panel	Other	Location
2016								
April	22 Apr	Friday		ESG Training				Cardiff
May	11 May	Wednesday		Actuarial Valuation (AM)				County Hall
	16-18 May	Mon - Wed		NAPF Local Authority Conference				Gloucestershire
	24 May	Tuesday	AM	tbc				County Hall
June	23-24 June	Thur-Fri		LGA Trustee Conference				Manchester
July	05 Jul	Tuesday	Special Cttee					County Hall
	06 Jul	Wednesday			PM			County Hall
September	27 Sep	Tuesday	AM	tbc				County Hall
	8-9 Sep	Thur-Fri		LGC Investment Summit				Newport
October	13 Oct	Thursday			PM			County Hall
	20 Oct	Thursday					Employer Meeting (pm)	
November	08 Nov	Tuesday	AM	tbc			AJCM (pm)	County Hall
December	7-9 Dec	Wed - Fri		LAPFF Conference				Bournemouth
2017								
Feb-2017	16 Feb	Tuesday	AM	tbc				County Hall
March	02 Mar	Thursday			PM			County Hall
	21 Mar	Tuesday	AM (Special)	tbc				County Hall
June	13 Jun	Tuesday	**PM**	tbc				County Hall
	28 Jun	Wednesday			PM			County Hall

NOTE: Committee dates to be confirmed at FCC AGM

NOTE: Training will normally take place immediately before each Committee

All Fund Risk Heat Map and Summary of Governance Risks

Governance Risks

Impact / Likelihood	Unlikely	Very Low	Low	Significant	Very High	Extremely High
Negligible		4 3				
Marginal		7	1	2		
Critical				6	5	
Catastrophic						

Funding & Investment Risks (includes accounting and audit)

Impact / Likelihood	Extremely High	Very High	Significant	Low	Very Low	Unlikely
Negligible					7	
Marginal				5	8	
Critical		6	1 2 3	4		
Catastrophic						

Administration & Communication Risks

Impact / Likelihood	Unlikely	Very Low	Low	Significant	Very High	Extremely High
Catastrophic						
Critical			3	5		2
Marginal			4	1		
Negligible	6					

Key

1 — Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

1 — The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

19 September 2016

Clwyd Pension Fund - Control Risk Register

Governance Risks

Objectives extracted from Draft Administration Strategy (02/2016) and Draft Communications Strategy (02/16):

G1 Act in the best interests of the Fund's members and employers
G2 Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
G3 Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
G4 Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
G5 Understand and monitor risk
G6 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
G7 Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success
T1 Ensure that the Clwyd Pension Fund is appropriately managed and that its services are delivered by people who have the requisite knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing Local Government Pension Scheme and wider pensions landscape.
T2 Those persons responsible for governing the Clwyd Pension Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.
B1 Ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report.
B2 Assist in providing an early warning of possible malpractice and reduce risk.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
1	Losses or other determintal impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognishing that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low		1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to each PFC 3 - Advisory panel meets at least quarterly discussing changing environment etc 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Marginal	Low		☺	None	CPFM	31/03/2017	14/04/2016	Marginal	Low		
2	Inappropriate or no decisions are made	Governance (particularly at PFC) is poor including due to: - short appointments - poor knowledge and advice - poor engagement /preparation / commitment - poor oversight	G1 / G2 / G3 / G4 / G5 / G6 / G7	Marginal	Significant		1 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Annual check against TPR Code 4 - Training Policy, Plan and monitoring in place for PC and PB members 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. 7 - Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed.	Negligible	Low		😐 Current impact 1 too high Current likelihood 1 too high	1 - Complete Training Needs Analysis/consider engagement 2 - Speak to Democtratic Services before FCC elections to assist with continuity/retaining knowledge	CPFM	30/09/2016	14/04/2016	Marginal	Significant		
3	Our legal fiduciary responsibilities are not met	Decisions, particularly at PFC level, are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers	G1 / G2 / G4 / G6 / T2	Negligible	Very Low		1 - Conflicts of Interest policy focussed on fiduciary responsibility regularly discussed and reviewed 2 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 3 - All stakeholders to which fiduciary responsibility applies represented at PFC and PB 4 - Training Policy, Plan and monitoring in place for PC and PB members including section on responsibilities 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Clear strategies and policies in place with Fund objectives which are aligned with fiduciary responsibility	Negligible	Very Low		☺	None	CPFM	31/03/2017	14/04/2016	Negligible	Very Low		
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low		1- Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored	Negligible	Unlikely		😐 Current likelihood 1 too high	1- Ensure work relating to annual monitoring is completed	Pension Finance Managers	30/06/2016	14/04/2016	Negligible	Very Low		
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such scheme change and asset pooling	G1 / G4 / G6 / G7	Critical	Very High		1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Involvement of CEO / links to WLGA and WG 3 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 4 - Key areas of potential change identified as part of business plan (ensuring ongoing monitoring)	Marginal	Low		😐 Current impact 1 too high Current likelihood 2 too high	1 - Regular ongoing monitoring by AP to consider if any action is necessary	CPFM	08/12/2016	08/09/2016	Critical	Very High		
6	Services are not being delivered to meet legal and policy objectives	Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	G3 / G6 / G7 / T1	Critical	Significant		1 - 2016/17 business plan identifies key officer risk 2 - Review of admin structure in 2015/16 3 - Quarterly update reports consider resourcing matters 4 - Advisory Panel provide back up when required 5 - Additional resources, such as outsourcing, considered as part of business plan	Negligible	Very Low		☹ Current impact 2 too high Current likelihood 2 too high	1 - Review key officer risk (on Business Plan)	CPFM	30/09/2016	14/04/2016	Critical	Significant		
7	Legal requirements and/or guidance are not complied with	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches)	G3 / G6 / T1 / T2 / B1 / B2	Marginal	Very Low		1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliance areas (relevant individuals provided with a copy and training provided) 4 - Training policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures 7 - Strategies and policies often included statements or measures around legal requirements/guidance 8 - Wide range of advisers and AP in place 9 - Independent adviser in place including annual report which will highlight concerns	Negligible	Very Low		😐 Current impact 1 too high	1 - Ongoing work to ensure breaches are identified and the procedure used appropriately 2 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure	CPFM	30/09/2016	14/04/2016	Marginal	Very Low		

	Cllr A Diskin	Cllr H Bateman	Cllr R Hampson	Cllr B Dunn	Cllr M Wright	Cllr H. Jones	Cllr S Wilson	A Rutherford	S Hibbert
Committees (3hrs)									
Special Committee April 2016	✓	✓		✓		✓	✓	✓	✓
May 2016	✓	✓	✓	✓			✓	✓	✓
Special Committee July 2016	✓	✓	✓	✓	✓		✓	✓	✓
November 2016									
March 2017									
CIPFA Framework Requirements 2014/15 – 2016/17									
Governance (1 day)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Funding & Actuarial (1 day)		✓	✓	✓	✓	✓	✓	✓	✓
Investments (1 day)		✓	✓	✓	✓	✓	✓	✓	✓
Accounting (Included with Investments)		✓	✓		✓	✓	✓		✓
Additional Training & Hot Topics									
Alternative Delivery Models (date to be confirmed)									
Actuarial Valuations	✓	✓				✓	✓	✓	✓
Annual Employer Meeting (4hrs)									
Pensions Regulator Modules									
Conflicts of Interest				✓			✓	✓	✓
Managing Risk & Internal Controls									

	Cllr A Diskin	Cllr H Bateman	Cllr R Hampson	Cllr B Dunn	Cllr M Wright	Cllr H. Jones	Cllr S Wilson	A Rutherford	S Hibbert
Maintaining Accurate Member Data									
Maintaining Contributions									
Providing Information to Members & Others									
Resolving Disputes									
Reporting Breaches									
Conferences									
ESG Training Cardiff (1.5 days) April 2016	-	-	-	-	-	-	-	-	-
PALSA 16-18 May 2016	-	-	-	-	-	-	-	-	-
LGA Trustee Conf. Manchester (1.5 days) June 2016	-	-	-	-	-	-	-	-	-
LGC Investment Summit (1.5 days) Sept 2016	✓			✓					
LAPFF Annual Conference (1.5 days) Dec 2016									
LGC Seminar (1.5 days) March 2017									

CURRENT BREACHES OF THE LAW

Reference	01	**Date recorded**	11/3/2016	**Date breach resolved**	Ongoing
Category	Administration	**Owner**	H Burnham	**Reported to TPR**	To be decided
Description and cause of breach	Notification of deferred benefit entitlement for those who have left the scheme not sent within the legally prescribed timescale. Whilst it is acknowledged that there are a number of these breaches there is no detail yet available regarding numbers affected.				
Possible effect and wider implications	The impact of the breach will vary dependant on the individuals concerned but as a minimum will mean they do are not fully aware of the benefits they will eventually become entitled to.				
Reaction to breach	Still trying to identify cases. Backlog project put in place including using external resource (Mercers) to assist with rectifying the situation as soon as possible. Methods of internal working reviewed to focus on older cases including greater focus on identifying cases and monitoring.				
Outcome of report and/ or investigations	Ongoing				
Outstanding actions	Information being collated to quantify deferred benefit notifications over 2 months late together with reasons why there is a delay and what steps are being taken to prevent a recurrence of the breach.				

Reference	02	**Date recorded**	11/3/2016	**Date breach resolved**	08/8/16
Category	Administration	**Owner**	H Burnham	**Reported to TPR**	No
Description and cause of breach	There is a potential Admitted Body which is due to become one of our employers with effect from January 2016. Since having dialogue with the company in question it transpired that 2 members TUPE transferred over to this company in December 2014 and therefore the body should have arranged access to the LGPS from that date. We were not made aware of this. Instead the company got the individuals to sign and enter into their Auto Enrolment Scheme, and subsequently are now wanting them to join the LGPS.				
Possible effect and wider implications	Unclear until legal advice received but it is possible these members will miss out on approximately 1 year's LGPS benefits.				
Reaction to breach	We took legal advice on how next to proceed.				
Outcome of report and/ or investigations	Legal advice has now confirmed that there is no actual breach of the law.				
Outstanding actions	None				

<table>
<tr><td>Reference</td><td>03</td><td>Date recorded</td><td>19/9/2016</td><td>Date breach resolved</td><td>Ongoing</td></tr>
<tr><td>Category</td><td>Administration</td><td>Owner</td><td>H Burnham</td><td>Reported to TPR</td><td>To be decided</td></tr>
<tr><td colspan="2">Description and cause of breach</td><td colspan="4">There are a number of cases where we are not notifying the amount of retirement benefits within the legal timescales (1 month from date of retirement if on or after Normal Pension Age or 2 months if before NPA).</td></tr>
<tr><td colspan="2">Possible effect and wider implications</td><td colspan="4">The impact of the breach will vary dependant on the individuals concerned but as a minimum will mean a delay in payment and uncertainty for scheme members. Delays in payments will incur interest cost to the Fund.</td></tr>
<tr><td colspan="2">Reaction to breach</td><td colspan="4">Still trying to determine reasons for, and extent of, delays. Officers and Advisors to review performance results and identify method of improvement where appropriate.</td></tr>
<tr><td colspan="2">Outcome of report and/ or investigations</td><td colspan="4">Ongoing</td></tr>
<tr><td colspan="2">Outstanding actions</td><td colspan="4">Meeting of officers and advisors being held on the 5th October 2016 to determine reasons and extent of issue, and further action to be taken.</td></tr>
</table>

FLINTSHIRE COUNTY COUNCIL (As Lead Authority for the Clwyd Pension Fund)

CLWYD PENSION FUND BOARD

Minutes of the meeting of the Clwyd Pension Fund Board of Flintshire County Council (as Lead Authority for the Clwyd Pension Fund), held at County Hall, Mold, on Wednesday, 6 July 2016 at 2pm.

THE BOARD:

Present:

Chair: Mrs Karen McWilliam (Independent Member)

Member Representatives: Mrs Gaynor Brooks, Mr James Duffy

Employer Representatives: Mr Steve Jackson, Mr Mark Owen

IN ATTENDANCE

Mr Philip Latham (Clwyd Pension Fund Manager and Secretary to the Board)
Mr Alwyn Hughes (Pension Finance Manager)
Mrs Helen Burnham (Pensions Administration Manager)
Mrs Karen Williams (Principal Pensions Officer - Technical)

Actions

1. APOLOGIES

There were no apologies.

2. DECLARATIONS OF INTEREST

The Chair declared that she was an employee of Aon which both sells specific Local Board liability insurance (agenda item 17) as well as likely to submit a bid to provide a platform for the Welsh LGPS pooling of investments (agenda item 10). These are both being managed and in neither case is the Chair personally responsible for any decisions for the Fund.

3. MINUTES AND MATTERS ARISING

The minutes of the meeting held on the 1 March 2016 had previously been confirmed as a correct record via e-mail.

There were no matters arising. Completed and/or outstanding actions were considered as part of agenda item 4 Action Tracker.

	Actions
4. ACTION TRACKER	
The Chair introduced this item explaining that the document was designed to track all action points identified by the Board, identify completed or outstanding actions and also ensure that none are overlooked.	
The contents of the Action Tracker were discussed and agreed as presented.	
<u>RESOLVED:</u>	
The Board noted the action tracker.	
5. LOCAL PENSION BOARD CONFERENCE	
Two Board members (Mr Owen and Mr Duffy), together with the Chair, attended the CIPFA LPB Conference of 20 June 2016. The overall feedback was very positive.	
Mr Owen stated that the Pensions Regulator had identified the key areas for the LPBs as being record keeping, internal controls and communications. Mrs Brooks added that the Board should consider including a review of all compliments and complaints as a standard agenda item as, in her experience, they can identify interesting themes. A discussion ensued regarding the benefits of this and Mrs Burnham clarified that there was a complaint record kept in the Administration Team office, additionally, Flintshire County Council does have its own recording system.	
Mr Owen's view is that the role of the Board is to challenge and support the Administering Authority; however, it was clear from the conference that there was a lack of clarity on the role of the Board at some other administering authorities. He also stated that he believed it was working well in Flintshire.	
Mr Duffy added that other main topics included investment trends, Brexit and breaches of legislation.	
Resolved - Action ***to add Compliments and Complaints as a standard agenda*** item for future meeting.	Board Secretary
6. KEY PERFORMANCE INDICATORS	
A presentation on the progress in developing the administration team's performance measures was given by Mrs Williams.	

Actions

Significant work had been undertaken to date with the effort focused on retirement cases initially so that a full understanding of and confidence in the output can be gained before expanding to other case types. It was noted, however, that Altair does not make retrospective changes e.g. if the April output looked wrong it was not possible to access Altair, correct the data, and re-run the KPIs.

The Board were shown slides of the output currently available and detail was given of future information that will be reported. Following the presentation the following points were raised.

Mr Owen commented that the production of the KPIs was clearly extremely useful information for the Board and Committee, but it is, more importantly, key management information. Mr Owen asked how they would bring all the indicators together to achieve the targeted 95% and when would all the information be available. Mr Owen also asked for clarification as to whether the targets were discrete or composite.

Mrs Burnham responded that they were waiting for the GAD factors regarding transfers which had delayed them significantly so they would not achieve the 95% target in that area; the ongoing work on addressing the backlog will also result in under achievement of the target. Mrs Burnham highlighted that, regardless of the target being achieved, the KPIs allow her to focus on those other areas where it is not being achieved and ensure appropriate plans are put in place for improvement. Mrs Burnham confirmed that targets were discrete.

Mrs Brooks asked how the results from the KPI reports would tie in with the satisfaction survey and whether they would be included.

Mrs Burnham responded that the aim is 95% of those surveyed should be satisfied, however, this is not linked to the other KPIs. The survey forms are to be sent to a targeted genre of members e.g. retirees in August.

Mr Latham, as CPFM, added that the KPI strategy is aspirational over at least a three year period. From his perspective this will provide management information on the performance of the team.

The Chair referred to the backlog information (casework to March 2013) and stated that the anticipated completion date is now November 2016 and not September 2016.

The Chair also asked, in relation to ongoing work management, how the team knew what was outstanding and the date when the case started.

Mrs Burnham explained that tasks are allocated automatically by the

Actions

system based on the earliest case date and allocated to the relevant officer. Where backlog tasks are being completed, the Team Leaders allocate these as appropriate to team members as it is important to ensure current work is also being undertaken.

Mr Owen expressed the view that the Team should concentrate on getting all areas onto the KPI reports rather than try to get individual areas up to 100%. This would identify areas where more focus was required and help all understand any underlying problems.

In response, Mrs Williams briefly updated the Board on how the KPIs would assist in identifying where delays exist, for example, whether it was with the administering authority, an employer or a scheme member.

Mr Jackson clarified that the Board would only require information at a high level.

The Chair commented that legal requirements in respect of timescales were not included on the KPI report. Mrs Burnham replied to confirm that they will be built into the reporting.

The Board asked that feedback was given to the team that they were really pleased with the progress made to date to which the CPFM added there was an absence of consistency of performance measurement within the LGPS. The CPFM commented that the Scheme Advisory Board national benchmarking did not appear to drill down into administration KPIs much and that they should be more interested in this area, in his view.

In relation to the element of the backlog that is being completed by Mercers, it was noted that this project is being relocated to Liverpool. Mrs Burnham stated that she had been assured that this move would not impact project timescales nor increase the work of the Clwyd pension administration team.

In relation to the pre 14 backlog, Mrs Burnham confirmed that this is still being managed internally and it should be complete by Q2 this year.

When asked when the full KPI reporting would be ready, Mrs Burnham confirmed it would be at the end of July – but she noted that it won't be fully populated until applicable cases arise due to them not picking up cases retrospectively.

Resolved – that the Pension Board would consider this at a later date when further reporting is available and it should be added to the future work plan.

	Actions
	Board Secretary

7. BULK TRANSFER

The Pension Board asked Mrs Burnham to explain the perceived delay in concluding this bulk transfer to Gwynedd Pension Fund. Mrs Burnham explained that the transfer date was during March 2013 with Education staff moving to Gwynedd County Council. The main delay was due to the discussions between the actuaries of the two Funds in agreeing the terms of the transfer. Discussions then took part between the two council treasurers regarding the deficit; it was agreed to transfer this.

It was stressed that there was no significant impact due to the delay.

Mrs Burnham added that there were no other bulk transfers in the pipeline and that bulk transfers applied to groups of ten people or more.

8. SCHEME/ GMP RECONCILIATION

The Pension Board asked for this item to be put on the agenda to better understand the work and potential costs included within the budget. Mrs Burnham started by providing an overview, explaining that, as part of the review of State Pensions, the Government is ceasing holding GMP information for scheme members on their systems. Accordingly, all pension scheme providers who have been contracted out of the state scheme will need to ensure that their GMP records are accurate. This means, that the schemes will need to reconcile their records with those held by HMRC by 2018.

This is a significant task and there are insufficient internal resources available to undertake what is a high risk task. The Fund has over 35,000 records of which, following preliminary work undertaken as part of a pilot scheme, some 20,000 do not fully match, 5,824 100% match, 18,000 orphan matches (HMRC have scheme members with GMP liability that we do not or vice versa). Mrs Burnham explained it is important that this work is undertaken before the HMRC system is closed as inconsistent records after that point will cause problems. The budget for the work is calculated on the basis of the estimated number of records and at an average rate per record. The National LGPS Framework will be used for the procurement.

The Chair advised Board members that this is a significant challenge for most LGPS administering authorities. She was aware that the budgeted amount was in line with the general costs being quoted

Actions

throughout the marketplace and, given her understanding of the work involved, she was supportive of this being outsourced as otherwise it would have a material impact on business as usual.

9. THE PENSION REGULATOR CODE OF PRACTICE COMPLIANCE CHECKLIST – UPDATE

The Chair identified this as one of the key areas of responsibility for the Board and that it will be a standard agenda item.

One of the key areas discussed, that had been highlighted by the compliance check, was recording and reporting breaches of the law. It was discussed how the Fund's procedure focusses on monitoring, reporting, investigating and remedying breaches with a view to minimising the likelihood of breaches recurring. Mrs Burnham clarified that these are discussed at team meetings and that the management information produced as part of the KPI reports would identify breaches of the law. Ad hoc breaches, outside those captured by the KPIs, are asked for at team meetings. It was also noted that there may be Breaches of Law occurring within the Finance team and that these must also be recorded in the register. The Board welcomed that these issues were being dealt with transparently.

10. POOLING OF INVESTMENTS

The Chair gave a brief update on the pooling discussions held at the CPF Committee of the 5th July.

There was a discussion amongst Board members where they recognised the risks of pooling investments.

The Board Secretary explained that the Fund will have to operate differently to how we have been used to especially for infrastructure, private equity and so forth. Infrastructure may be done nationally and private equity through the pool. He also reassured the Board that the Fund Actuary and our Investment Consultant were both qualified and experienced to give advice noting that the Clwyd Pension Fund investments are generally more complex than is typically the case.

Mr Duffy raised the issue of the size of the Welsh pool and whether it was sufficient to make savings. The Board Secretary responded saying he hoped that would the case but it would depend on the model adopted, for example, we could benefit from scale with some operators.

	Actions

11. RISK REGISTER

The Chair referred to the risk register heat maps provided and clarified that these are driven from the risk register but should allow for easier identification of those risks that require attention. The arrows identify movement whilst a white background signifies a new risk.

The detailed register makes use of emoticons (smiley faces) to visually compare the current risk level to the target level and how far apart these two levels are.

Following a comment by Mr Hibbert at the CPF Committee the covering report will comment on the higher risk areas when the register is presented to each Committee.

The Chair then asked the Board for their views of the proposed format. The Board indicated that they were happy with the revised risk register.

12. FLIGHTPATH

Mr Owen asked whether the Fund Actuary, Mercer, had provided the funding comparison information that been requested by the Chief Executive during the Flightpath agenda item. Mr Owen was referring to the minutes of the CPF Committee.

Resolved - ***The Board Secretary will follow this up with the Fund Actuary***. — Board Secretary

13. ANNUAL LOCAL PENSION BOARD REPORT

The Chair shared an outline of the proposed Pension Board Annual Report with the Board and explained that an annual report was required and that it needs to reflect the Board members' thoughts and views. However, the Chair was willing to draft the report for the Board's consideration if requested to do so.

Mr Owen responded that he was he was happy for the Chair to draft the report but that, for 2015/16, it should include a section regarding Internal Audit reports and that consideration should be given as to whether the proposed section, for 2016/17, regarding the UK exit from Europe (Brexit) should be removed

Mrs Brooks commented that, for 2015/16, a section should be included on the input from the focus groups to try and further improve communications. For 2016/17 this should be included in the report as well as the Pension Regulator focus.

Actions

The Chair stated that due to the length of time to the next Board meeting the annual report would be finalised via email or by telephone if necessary.

Following the discussion regarding communication to Fund members regarding any potential impact of Brexit and Pooling on the Fund the Chair commented that concerns regarding this were raised at the CPF Committee and a scheme member communication was being prepared. The Board were satisfied that this concern was being addressed.

Resolved – ***Chair to draft report*** taking into consideration the above comment and circulate to the Board for comments. — Chair

14. VALUATION 2016 - ENGAGEMENT WITH EMPLOYERS

Mrs Burnham updated the Board on the position to date. All year end documents and contributions had been received although not all are in the required format. Further work remains necessary regarding the reduction of errors and that the data has not yet been forwarded to the Fund Actuary; this should be actioned next week. Data quality is better than last year although it is still work in progress. As part of improving the data quality additional meetings are taking place with the employer with the greatest issues. In terms of overall quality a lot will depend on the Fund Actuary’s view of the data when they receive it and begin testing.

The Board Secretary updated the Board on the progress to date including ongoing engagement with employers, the setting up of the steering group and that meetings have taken place with two education bodies. Overall, the officers of the Fund are trying to engage as effectively as possible. Meetings with other employers are on the agenda and consideration of how best to undertake these meetings is ongoing. As part of the discussions the Board expressed that they were happy with the progress to date.

15. CONSIDERATION OF 24th MAY 2016 PENSION FUND COMMITTEE MEETING PAPERS

The Chair opened this item up to the Pension Board. Mr Owen stated that he had already raised his question. No other questions were raised.

Actions

16. INPUT INTO ADVISORY PANEL AND CPF COMMITTEE

No areas were raised for input into either the Advisory Panel or the CPF Committee.

17. PENSION BOARD INSURANCE

After highlighting her potential conflict of interest, the Chair briefed the Board on work undertaken by the insurance risk arm of Aon regarding the extent, if any, that existing local authority insurance would cover pension boards in general.

The conclusion was that current insurance by local authorities is unlikely to cover pension boards and that self-insurance for part of the risk, common in local authorities, would not be permissible in law.

Possible resolutions of this issue include contacting the Council's insurers to determine if they would extend their cover, at what cost, and with what exclusions. Also, Aon do have a suitable insurance product which could be considered; cost varies according to liability cover and is on a board basis not a person basis.

The Board Secretary agreed to pursue with the Council's insurance team with a view to trying to resolve this by September.

RESOLVED:

The Board resolved that they would like this to be continued to be pursued.

Board Secretary

18. FUTURE WORK PLAN

The Chair presented the future work plan and initiated discussion. Mrs Brooks suggested a new future item would be information assurance including data protection, whether staff had all received appropriate training and considering any breaches of data protection. ***The Chair agreed to update the work plan.***

Chair

The Chair also suggested that the Board could receive demonstrations of some of the future administration functionality, such as member self-service. The Board agreed and the ***Chair agreed to update the work plan.***

Chair

RESOLVED:

The Board resolved that the additional items are added to the work plan as detailed above.

	Actions
19. PENSION BOARD BUDGET MONITORING Mr Hughes gave a verbal update to the Board regarding the 2016/17 budget. No issues were raised and it was noted the cost of any insurance would come out of the budget. Mr Hughes explained that, for this year, sufficient funds existed to absorb the part year cost of the insurance but that the budget would need to include this item for 2017/18. **<u>RESOLVED:</u>** The Board accepted the budget monitoring report.	
20. FUTURE DATES The Board Members were reminded of the future Board meeting dates already agreed, namely 13/10/16, 02/03/17 and 28/06/17. The Chair asked the Board to advise her if there was an issue with any of these dates.	
21. ANY OTHER BUSINESS No further business was raised. It was agreed that the ***draft minutes would be circulated***.	Board Secretary

CLWYD PENSION FUND COMMITTEE

Date of Meeting	27 September 2016
Report Subject	LGPS Current Issues
Report Author	Pensions Administration Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide an update on the key issues affecting the LGPS as at September 2016 and makes recommendations for Members to review the update document as per Appendix 1 from Mercer covering many of the current ongoing issues, in particular:

- The 2016 actuarial valuation process is now underway with many whole fund and individual employer results now being communicated (see separate Pension Fund Committee Report).
- The GAD's "Dry Run" Section 13 valuations - also see separate comments in accompanying Report.
- Comments on the EU Referendum outcome from a "pensions perspective".
- An update on the Education Sector, eg area-based reviews and intervention strategy, in addition to a review of Insolvency arrangements.
- An update on New Fair Deal, and the Pensions and Lifetime Savings Association guidance for navigating entry to the Public Sector.
- HMRC online registration facility for individuals to access and register for the various Protections available.

RECOMMENDATIONS	
1	It is recommended that all PFC members note this report and make themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the CPF.

2	In particular, members are asked to note that the actuarial valuation is well underway with a formal update in a separate report.

REPORT DETAILS

1.00	**LGPS Current Issues**
1.01	The purpose of this report is to provide a general update to PFC Members on various current issues affecting the LGPS. Appendix 1 sets out a brief update on a number of significant specific issues, and also wider issues affecting the whole of the pensions industry.
1.02	Relating to the actuarial valuation, a number of meetings have taken place and preliminary results have been reported. Full details are contained in a separate report, but other related points to be aware of are: • A pensions perspective update on "Brexit". • An update on the Education Sector employers • HMRC online registration facilities for individuals potentially affected • An update to TPR's DC guidance - Funds should be aware of this given linkage to Public Sector code and the AVC arrangements in place. • The recent consultation on off-payroll working in the Public Sector. More of a focus for employers, but the Fund Administrators may be asked about this.

2.00	**RESOURCE IMPLICATIONS**
2.01	Some of the actions arising out of the issues identified will take significant input from Fund officers.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report but noting the developments in the Education sector, HMRC online service, and off-payroll working in the Public Sector.

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risks: G2 & G7.
4.02	Some key risks need to be considered. In particular the cost impact of the actuarial valuation and Brexit (see separate report) and also developments

	in the education sector. Matters arising will need to be dealt with under the overall Governance objectives. This report also is also intended to support the Knowledge & Understanding of the PFC and officers thereby reducing risk around decision making as per the Risk Register noted in 4.01.

5.00	**APPENDICES**
5.01	Appendix 1 – LGPS Current Issues - September 2016 edition

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Earlier editions of the LGPS Current Issues document, tabled at previous PFC meetings. **Contact Officer:** Helen Burnham, Pension Administration Manager **Telephone:** 01352 702872 **E-mail:** helen.burnham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **DCLG - Department for Communities and Local Government** - Central Government department responsible for the LGPS

	(g) **LGA - The Local Government Association** - a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. Performs various Secretariat and support roles for the LGPS. (h) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement. (i) **GMP** – **Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. (j) **CARE** – **Career Average Revalued Earnings –** With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement. (k) **Annual Allowance –** the annual allowance is a limit on the amount that individuals can contribute to their pension each year, while still receiving tax relief. (l) **Fair Deal** - guidance issued by the Government which applies to compulsory transfers of employment out of the public sector. Updated guidance was issued in October 2013, referred to as “New Fair Deal”, which amends some of the previous guidance.

SEPTEMBER, 2016

LGPS CURRENT ISSUES

NEWS IN BRIEF

2016 ACTUARIAL VALUATION (ENGLAND AND WALES)

Work on the 2016 actuarial valuations of LGPS Funds in England and Wales is now well underway. Indicative results will have already been made available during initial meetings with Fund Officers, and actual whole fund and major employer results are now being communicated to our clients.

We will keep you up-to-date on the latest progress of your own Fund's 2016 actuarial valuation. Any queries regarding timings of the various stages should be directed to your usual Mercer contacts.

SECTION 13 "DRY RUN" VALUATIONS

The Government Actuary's Department (GAD) was appointed by DCLG to report under section 13 of the Public Service Pensions Act 2013 about LGPS funding reviews and employer contribution rates to check that they meet the aims of Section 13.

IN THIS ISSUE

ACTIONS TO CONSIDER

- Engagement with Colleges
- Review Admission and Termination Policies
- Communicate with employers regarding HMRC's online Lifetime Allowance registration site

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In particular, Section 13 requires GAD to report on whether four main aims are achieved:

- **Compliance;** whether a fund's valuation is in accordance with the scheme's regulations;
- **Consistency**; whether a fund's valuation has been carried out in a way which is not inconsistent with any other fund valuations within the LGPS;
- **Solvency**; whether the rate of employer contributions is set at an appropriate level to ensure the solvency of each pension fund, and
- **Long term cost efficiency**; whether the rate of employer contributions is set at an appropriate level, so far as it relates to each pension fund.

We are very comfortable with the output from the analysis for Mercer-advised Funds, and in most cases all measurements are green. In the isolated instances that are not, we have no concerns as the underlying funding plans are sufficiently robust that on further investigation it would be confirmed as in line with expectations.

Notwithstanding the limitations within the analysis, using a standardised reporting basis is helpful for comparing funds. However, it is only a comparison tool and should not be used to drive decisions as the standardised assumptions do not reflect the investment or risk profile of any particular LGPS Fund. Going forward your actuary will assess how your own Fund stands against these measures as part of the valuation process.

BREXIT: A PENSIONS PERSPECTIVE

It is now approaching three months since the UK voted for "Brexit". Although the formal exit negotiations have still to begin, there has been a noticeable impact on economic markets as a result of the vote and administering authorities should consider the effect that this may have on their funds.

The UK's decision to leave the EU has resulted in significant volatility in equity and currency markets. Since the referendum, Sterling fell by over 10% against the dollar. Gilt yields immediately fell by over 50bps, and even more so since. Having increased in the run up to 23 June, equity markets immediately fell but then rallied, helped, perhaps, by the fall in Sterling. The table below gives an update to the end of last month.

Indicator	31-Dec-15	22-Jun-16	24-Jun-16	30-Jun-16	03-Aug-16	04-Aug-16	31-Aug-16
Nominal Gilt yield (10 year point)	2.04%	1.45%	1.23%	1.03%	0.92%	0.75%	0.66%
	(0bps)	*(-58bps)*	*(-81bps)*	*(-100bps)*	*(-112bps)*	*(-129bps)*	*(-138bps)*
FTSE350	3,494.5	3,489.4	3,399.0	3,573.9	3,659.5	3,717.0	3,753.3
	(0.00%)	*(-0.15%)*	*(-2.73%)*	*(2.27%)*	*(4.72%)*	*(6.37%)*	*(7.41%)*
FTSE All-World ex UK	270.8	274.0	286.2	299.8	310.4	316.2	319.6
	(0.00%)	*(1.20%)*	*(5.72%)*	*(10.74%)*	*(14.66%)*	*(16.80%)*	*(18.05%)*
AA Credit spread (15+ year)[1]	1.11%	1.04%	1.16%	1.14%	0.88%	0.83%	0.79%
	(0bps)	*(-8bps)*	*(+5bps)*	*(+3bps)*	*(-23bps)*	*(-28bps)*	*(-32bps)*
USD/GBP exchange rate	1.474	1.469	1.363	1.337	1.333	1.313	1.310
	(0.00%)	*(-0.35%)*	*(-7.55%)*	*(-9.30%)*	*(-9.57%)*	*(-10.92%)*	*(-11.13%)*

Press commentary has noted that the volatility in the market and fall in yields has had a direct impact on the funding positions of DB pension schemes and in particular that the immediate impact of the referendum will have caused a fall in funding levels for many UK pension schemes. Our approach to valuing liabilities is not directly tied to gilt yields, and although we anticipate some lowering of expected future investment returns, past investment performance relative to inflation has much more influence on your current funding position.

As noted earlier in this edition, the 2016 actuarial valuation is well underway. The impact on a particular LGPS Fund will depend on the assets held and scheme membership profile and your actuary will be discussing this with you as the valuation calculations are completed.

In that context we support the Pensions Regulator's recommendation that warns against knee-jerk reactions and focus should be on the longer term. TPR also notes that default investment arrangements for AVCs may in due course need to reviewed and, in particular, communicating with members approaching retirement should be considered.

INVESTMENT POOLING IN THE LGPS

The deadline for pooling submissions to the government has now long since passed. Whilst the pools have been continuing to develop their own plans, formal feedback has yet to materialise. It is our expectation that this along with draft Regulations will emerge before the end of the month.

Please contact Joanne Holden (joanne.holden@mercer.com / 0161 837 6514) if you require any further information.

UPDATE ON EDUCATION SECTOR EMPLOYERS

You may be aware of the area-based reviews of Further Education and Sixth Form Colleges taking place (the aim being to ensure that the right capacity to meet the needs of students and employers exist in each area, and are provided by institutions which are financially stable and able to deliver high quality provision). The Skills Funding Agency's Early Intervention Strategy is to engage with general further education (GFE) colleges where examination of their financial plans (or other ongoing indicators) suggests that they are at risk of failure.

Following on from this, there has been a recent consultation on its proposals to introduce procedures for further education and sixth-form colleges which become insolvent. Key messages within the consultation are:

- It will be clarified that the principles of the Insolvency Act 1986, which covers companies incorporated under the Companies Act, will also apply to colleges.
- A Special Administration Regime will be available to ensure that an insolvency practitioner would protect the interests of learners in an insolvent college.
- The proposals do not seem to affect the position of pension scheme liabilities. Any cessation debt would rank as an unsecured creditor.
- Academies fall outside the proposed new insolvency arrangements. Instead they are subject to the DfE financial monitoring and management arrangements.

Given all these, we are strongly recommending that Administering Authorities engage proactively with relevant employers, as we know many are. **A review of the Termination Policies should also be set in train**, ideally alongside the Funding Strategy Review, to ensure that Funds are well placed to address any issues as necessary.

NEW FAIR DEAL

As previously reported, a consultation was published by the Department for Communities and Local Government (DCLG) setting out draft changes to the LGPS regulations to introduce New Fair Deal for staff in the LGPS who are compulsorily transferred to another employer. It is proposed that the existing LGPS regulations will be amended to allow all such staff to remain in the LGPS. This is likely to lead to an increased number of employers in the LGPS and it is important that Funds and letting authorities have clear and robust admission policies established. The proposals do not extend to LGPS Scotland and we await the Government's response.

NEW PENSIONS AND LIFETIME SAVINGS ASSOCIATION LOCAL GOVERNMENT CONTRACTORS GUIDANCE

The Pensions and Lifetime Savings Association (PLSA) has published guidance aimed at helping employers understand what they need to know before joining the Local Government Pension Scheme (LGPS). The PLSA has published a guide to navigating entry for local government contractors and an introduction to the LGPS aimed at scheduled bodies.

HMRC LIFETIME ALLOWANCE PROTECTION – ONLINE MEMBER SERVICE

The online facility to register for Fixed Protection 2016 and Individual Protection 2016 is now open for individuals to access.

A summary of the various HMRC Lifetime Allowance protections, along with links to the online registration site and details of the information required to register can be found here. We suggest that Administering Authorities proactively raise this with employers to ensure that all potentially affected members are made aware of this facility.

To recap, the option to apply for Individual Protection 2014 (which is available for anyone whose total benefits as at 5 April 2014 had a HMRC value in excess of £1.5m) remains open until 5 April 2017. From now on, this protection must also be registered via the new online service (accessible through the above link). The issue of pension tax is potentially a significant one for individual members and, following some of the changes made by Government, does not exclusively affect the highest earners. We would be happy to provide educational training, or direct advice to members as required, so please speak to your usual Mercer consultant if this would be of use to you.

TPR DC CODE OF PRACTICE

The Pensions Regulator's new defined contribution code of practice and supporting guides came into force on 28 July, replacing the previous DC code and regulatory guidance originally published in 2013. The code focuses on the standards of conduct and practice that are expected to be met. The guides provide examples of best practice and suggested approaches that may be chosen, where appropriate for the circumstances of their scheme. Whilst primarily aimed at private sector schemes, managers of Public Sector Schemes should be aware of this given the linkage contained in the Public Sector Code and the use of AVC arrangements.

The DC code is divided into the following six sections, with each section supported by a guide:

- The Trustee Board
- Investment governance
- Scheme management skills
- Value for members
- Administration
- Communicating and reporting

The "quality features" that formed the backbone of the previous version have been dropped, although the underlying requirements are still very much part of the code.

NEW PENSION TRACING WEBSITE LAUNCHED

There is currently an estimated £400 million in unclaimed pension savings in the UK. To help people find their lost savings, a new Department for Work and Pensions website has been launched by the Pension Tracing Service. The service is free and the database includes over 320,000 pension schemes covering workplace pensions, personal pensions, and the Civil Service, NHS, teacher or armed forces pension arrangements. If not already done so, Administering Authorities may wish to alert members to this new service.

OFF-PAYROLL WORKING IN THE PUBLIC SECTOR

HMRC has carried out a consultation regarding off-payroll working in the public sector: reform of the intermediaries legislation. The Government is reviewing responses, but the proposals include changing the IR35 rules for workers who operate through an intermediary, such as their own limited company, in the public sector (including those that obtain work through third parties such as employment intermediaries etc). The government believes that public sector bodies have a duty to ensure the people working for them pay the right and full level of tax. Therefore, subject to some nuances, the proposal is from next April the responsibility for determining whether IR35 applies, and withholding tax if it does, will move from the worker's private service company to the public sector body (or the agency or other third party paying the worker's company).

DATES TO REMEMBER

DATE	ISSUE	SUMMARY
30 September 2016	Actuarial valuation	Deadline for membership data to have been submitted to GAD as part for the LGPS cost management analysis.
31 March 2017	Actuarial valuation	Deadline for the 2016 England and Wales actuarial valuation exercises to have been formally signed off by the fund actuary. Effective date of the Scottish LGPS actuarial valuations.
6 April 2017	Scottish Income tax	From this date, the Scottish Parliament will have the power to set all income tax rates and bands above the personal allowance for non-savings and non-dividend income for Scottish taxpayers.
7 May 2017	State Pension Age	Deadline for publication of the first report on the independent review of the State Pension age.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 27 September 2016
Report Subject	Administration and Communications Update
Report Author	Pensions Administration Manager

EXECUTIVE SUMMARY

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

(a) Business Plan 2016/17 update (Appendix 1) for administration and communication – two areas are being extended due to external factors.

(b) Current Developments and News including an update on the submission of valuation data.

(c) Administration and communications related policy/strategy implementation and monitoring - this includes the latest statistics on the number of tasks being dealt with by the administration team, which highlights a high volume of work continuing to be received.

It also provides the administration and communications risk register (Appendix 4), with some of the key areas of concern being associated with employer responsibilities and better use of information systems.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.

REPORT DETAILS

1.00	**ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS**
1.01	**Business Plan 2016/17 Update** Appendix 1 provides a summary of progress against the administration and communications section of the Business Plan up to mid-September, which is the majority of the period to the end of quarter 2, to 30 September 2016. Most items are as originally planned other than; • The Administration Strategy (A1) has one outstanding element which relates to the set-up of performance monitoring. This is slightly behind plan due to difficulties in developing the monitoring reports for the key performance indicators. These are expected to be available at the next Pension Fund Committee. • The 3rd Party Administrators Framework (A3) is making excellent progress but it is likely to be October before the contracts are awarded which is a slight extension to the original planned timescale. • The Backlog to 31 March 2013 (Mercers) (A4) has been slightly extended. This is explained later in this report. • GMP Reconciliation (A10) – At the last Pension Fund Committee, we highlighted that we are currently investigating how to outsource this project due to the major resource requirements. This is still ongoing with the plan to carry out a procurement exercise using the National LGPS Frameworks. It is hoped that this can still be completed within the required timescale. Further details will be provided at future Committees.
1.02	The Committee is asked to note the contents of the business plan update, including the extension to the “Backlog to 31 March 2013” and 3rd Party Administrators' Framework.
1.03	**Current Developments and News** A new Universal Data Extract was created for this year's valuation for use by all LGPS Fund and actuaries. This has now been implemented at Clwyd Pension Fund and valuation data has been provided to the actuary. There was a slight delay in providing the data. A process issue was identified and resolved by the Clwyd Pension Fund and, accordingly, processes have been amended for future years.
1.04	**Policy and Strategy Implementation and Monitoring** *Administration Strategy* – This has been implemented from 1 April 2016 and has been published on the Clwyd Pension Fund Website and includes a number of performance measures that are reported on below. To provide some context to the magnitude of the services provided by the Administration Section, the membership figures for the Fund in relation to the last six months are as follows:

LGPS						
Status	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
Active	16,228	16,210	16,181	16,107	15,837	15,786
Undecided Leaver	2,778	2,633	2,502	2,412	2,590	2,742
Leaver	9,811	9,856	9,880	9,933	9,948	9,984
Deferred	10,266	10,395	10,566	10,751	10,779	10,864
Pensioner	9,793	9,842	9,895	9,954	9,964	9,985
Spouse/Dependant	1,597	1,606	1,611	1,619	1,619	1,614
Death	6,677	6,709	6,741	6,766	6,792	6,816
Frozen	955	977	991	1,010	1,020	1,035
Opt out*	916	930	952	991	1,013	1,045
Total	**59,021**	**59,128**	**59,319**	**59,543**	**59,562**	**59,871**

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

The membership numbers in relation to the Councillors' scheme are as follows:

Councillors Scheme						
Status	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
Active	54	53	53	53	53	57
Undecided Leaver	3	3	1	1	1	1
Leaver	0	0	0	0	0	0
Deferred	5	6	7	7	7	7
Pensioner	22	22	23	23	22	22
Spouse/Dependant	4	4	4	4	4	5
Death	6	6	6	6	7	7
Frozen	0	0	0	0	0	0
Total	**94**	**94**	**94**	**94**	**94**	**99**

1.05 In relation to staffing and resource matters, a vacant post for a full time pension assistant is going through the recruitment process. The part time vacant post has now been filled.

1.06 The latest monitoring information (to 31 August 2016) in relation to administration is outlined below:

- Day to day tasks – Appendix 2 provides the analysis of the numbers of tasks received and completed on a monthly basis since April 2016 as well as how this is split in relation to our three unitary authorities and all other employers. As can be seen:

    - Current workloads – due to training on more technical procedures and training new recruits whilst covering annual leave, numbers of completed tasks have dropped. This is anticipated to improve over the coming months.
    - Progress with older cases – 2014/15 tasks are progressing with only 112 outstanding. Although these were anticipated to have been completed in Q1, unfortunately due to training etc. as

	mentioned above this has lapsed into Q2 but it is still on target in relation to the business plan. • Mercers backlog cases - included as Appendix 3 is a summary of the backlog work that is being carried out by Mercers in relation to pre 31 March 2013 cases. Note these are counted in a different way to the items included in Appendix 2 which shows tasks within a case, whereas Appendix 3 is the actual cases. The target for completion has now been delayed to Q3 2016 / 2017 due to training of a new team and some information system access issues. • It was anticipated to be able to provide a report on Key Performance Indicators for this Committee however more work is being undertaken on the design of the report.
1.07	Internal dispute resolution procedures – Below is a summary of the internal dispute resolution cases that have been received in the last 12 months. 2 received in the current year 2016/17 are based on the non-payment of ill health benefits and 2 are based on the date of payment of benefits with a further 2 relating to the refusal of Flexible retirement

	2016/17			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	6			6
Stage 1 - Against Administering Authority				
Stage 2 - Against Employers				
Stage 2 - Against Administering Authority				

	2015/16			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	6	3		3
Stage 1 - Against Administering Authority	2	1	1	
Stage 2 - Against Employers	1	1		
Stage 2 - Against Administering Authority				

1.08	*Communications strategy* - This has been implemented from 1 April 2016 and has been published on the Clwyd Pension Fund Website.
1.09	The Communication Officer has provided the following services since the last update (i.e. relating to the period from 01 May 2016 to 31 August 2016): • 1 full day of Pension Surgeries • 1 Pre-Retirement Course • Attended the Shared Services Communications Group
1.10	The following communications have been distributed during this period: • Deferred Annual Benefit Statement • Active Annual Benefit Statement • Pension extra newsletter • Deferred benefit newsletter

	There are about 400 of our deferred members who left service in 2015/16 who have not received their annual benefit statement. This is due to the DCLG in June 2016 announcing that the negative revaluation was to be applied as a proportion of the full revaluation depending on when the member left active service. This method was not communicated to software providers. At the UK Technical Group in June it was confirmed that the Pensions Regulator has been made aware of the situation at a national level. The software provider is in the process of updating systems to enable statements to be distributed. It is unclear how long this will take hence, the Fund will now inform to these members.
1.11	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to administration and communication matters. There are however a number of outsourcing exercises going on at different authorities which will potentially mean some new Employers within the Fund.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	Appendix 4 provides the dashboard and risk register in relation to administration and communications matters.
4.02	Since the last update, there has been no change in relation to the risk ratings or actions for managing these risks. There remain a number of risks with high ratings with the two of highest concern being: • Unable to meet our legal and performance expectations due to employer issues (risk reference 2) – We continue to have ongoing issues in gathering pension information from some employers in the Fund. We are working closely with employers and the implementation of i-connect over the next 24 months will be key to reducing this risk. We are aware that some employers are not able to appropriately resource their payroll teams to provide this information, due to budgetary constraints. Discussions are being held with the employer steering group about potential solutions but it is likely there will be no short-term solution. In the meantime, this results in additional work for the administration team (for example, more time spent on chasing

	outstanding information or sourcing it directly). • High administration costs and/or errors due to not using systems or processes appropriate (risk reference 5) – This risk will hopefully be a temporary issue, albeit reasonably long term. There are a number of areas in the current business plan that will directly benefit this risk, including the implementation of i-connect and member self-service as well as a number of internal process improvements. The Committee is invited to discuss these and the other administration and communications risks and provide views on any further actions that could be taken to manage these risks.

5.00	**APPENDICES**
5.01	Appendix 1 - 2016/17 Business plan update Appendix 2 - Analysis of tasks received and completed Appendix 3 – Progress with backlog by Mercers Appendix 4 – Dashboard and risk register

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Business Plan 2016/7 to 2018/19 – 22 March 2016. **Contact Officer:** Helen Burnham, Pensions Administration Manager **Telephone:** 01352 702872 **E-mail:** helen.burnham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration

	of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF. (g) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (h) **DCLG – Department of Communities and Local Government** – the government department responsible for the LGPS legislation.

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Business Plan 2016/17 to 2018/19 – Q1 Update
Administration and Communications

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Administration (including Communications) Tasks

Ref	Key Action –Task	2016/17 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
A1	Pension Administration and Communication Strategies - final implementation including the set-up of performance monitoring	x					
A2	Tax Changes (Potentially from Spring Budget)	x					
A3	3rd Party Administrators Framework	x	x	xM			
A4	Backlog to 31 March 2013 (Mercers)	x	x	xM			
A5	Backlog from 1 April 2014 (Internal)	x	x	x	x		

A6	Preparation of Member Data for Valuation	x	x	x			
A7	Document production and word integration	x	x	x	x		
A8	Electronic and Centralised internal procedures	x	x	x	x		
A9	Website Update	x	x	x	x	x	
A10	GMP Reconciliation	x	x	x	x	x	x
A11	Trivial Commutation		x	x	x		
A12	i-Connect		x	x	x	x	x

Administration and Communication Task Descriptions

A1 – Pension Administration and Communication Strategies - final implementation including the set-up of performance monitoring

What is it?

These strategies, outlining how we deliver our administration and communication services, are expected to be effective from 1 April 2016. They include the high level service standards we will provide, the standards we expect from employers and how we engage and communicate with our stakeholders. There will be some final work implementing the strategies and the associated performance monitoring.

Timescales and Stages

Implementation and Commencement of Strategies 2016/17 Q1

Resource and Budget Implications

All internal costs are being met from the existing budget

A2 – Tax Changes (potentially from the Spring Budget)

What is it?

HM Treasury has already legislated for several changes to how pensions are taxed, while others may be announced at the next Budget on 16 March. Already coming in the 2016/17 tax year is a reduction in the Lifetime Allowance from £1.25 million to £1 million, which will hit high earners and long-serving scheme members. Also, the Annual

Allowance taper for higher earners will potentially reduce maximum contributions eligible for tax relief to £10,000. However, this restriction will only hit those earning six-figure salaries and above. Further changes may include another review of pension taxation (expected in the Budget speech), the long-mooted abolition or reform of pension tax relief and measures to help investors facing pension exit penalties to access the pensions freedoms granted in April 2015.

Timescales and Stages

Communicate as necessary 2016/17 Q1

Resource and Budget Implications

All internal costs are being met from the existing budget.

A3 - 3rd Party Administrators Framework

What is it?

To work with other LGPS administering authorities in establishing a national Framework to enable the procurement of 3rd Party Administrators. Part of this will include the provision to procure assistance with project work, where internal resources are not sufficient to cope, or where they do not have the required knowledge and experience to undertake such work whilst continuing to do "business as usual"

Timescales and Stages

Appointment to Framework 2016/17 Q1/2

Resource and Budget Implications

To be led by the Pension Administration Manager. All internal costs will be met by the existing budget. There will be some initial set-up costs involved in this process, to be determined.

A4– Backlog to 31 March 2013 (Mercers)

What is it?

A backlog of tasks prior to 31 March 2013 amounting to 3,000 member cases was initially identified and was reduced by the pensions administration team to approximately 1,700. Plans were put in place to eliminate this accumulated backlog and the Fund's actuary was appointed to complete this project.

Timescales and Stages

Clear cases externally, eliminating backlog. 2016/17 Q1/2

Resource and Budget Implications

Mainly outsourced to the Fund's Actuary and managed internally by the Pensions Administration Manager. It does require some assistance from the operation team. Employers have also needed to dedicate appropriate time in providing information. There are significant external costs associated with this exercise but all alternative options have been considered.

A5 – Backlog from 1 April 2014 to 31 March 2015 (Internal)

What is it?

Following the introduction of the new scheme from 1 April 2014 and late receipt of regulations concerning how members' benefits would be aggregated, a backlog of cases built up, and is in the process of being worked on at the same time as doing the day to day administration.

Timescales and Stages

Clear cases internally for period to 31 March 2015	2016/17 Q1/2
Clear any further backlogs that have accumulated since	2016/17 Q3/4

Resource and Budget Implications

To be completed by the Operations Team. Internal costs are being met from the existing budget albeit this may utilise some of the overtime budget.

A6 – Preparation of Member Data for Valuation

What is it?

The triennial actuarial valuation as at 31 March 2016 requires the pensions administration team to provide data to the actuary. This generally involves additional year end cleansing and is particularly detailed for the 2016 actuarial valuation.

Timescales and Stages

Data for 31 March 2016 valuation:	2016/17 Q1/2
Potential final clarification on data	2016/17 Q3

Resource and Budget Implications

Carried out by the Technical Team in the main with assistance from the Communications Officer when communicating the valuation results. All internal costs are being met from the existing budget.

A7 Document Production and Word Integration

What is it?

There is a facility whereby we can utilise the pensions software (Altair) to create and maintain the standard layout of letters, summaries and other documents. This includes the ability to populate variable data from that held within the system. After the completion of a benefit calculation or a bulk calculation, or following a selection of members, the variable data is merged with the document text to produce the required generated documents for each member. Documents are listed in the document history and they can be printed immediately or at a later date. Setting up this facility is time consuming in the short term but produces ongoing efficiencies as well as reducing the risk of manual error.

Timescales and Stages

Obtain all current letters in use:	2016/17 Q1
Update system with all letters including testing	2016/17 Q2/3/4

Resource and Budget Implications

To be led by the Technical Team with assistance from the Operational Team. All internal costs are being met from the existing budget.

A8 – Electronic and Centralised internal procedures

What is it?

Developing an on-line procedures manual for use by the pensions administration staff. This will amalgamate, expand and update current procedure documents ensure consistency, easy access and efficient working as well as providing a useful training tool.

Timescales and Stages

Develop and collate	2016/17 Q1/2
Upload and maintain	2016/17 Q3/4

Resource and Budget Implications

To be carried out by the full pensions administration team. All internal costs to be met from the existing budget

A9 – Website Update

What is it?

An overhaul of the Pension Fund's website, considering the ease of navigation, the look and feel whilst ensuring that the relevant content is included and is correct. As part of this review, the Communications Officer will consider options in relation to how the existing website can be updated including utilising wording prepared at a national level. Although this is separate to the member self-service facility, there will be some overlap due to access being via the website.

Timescales and Stages

Update and revamp	2016/17 Q1/2/3/4
Link with member self-service (if appropriate)	2017/18

Resource and Budget Implications

This will be a significant amount of work to be undertaken in the main by the Communications Officer with some assistance from the Technical Team. All internal costs to be met from the existing budget.

A10 – Scheme/GMP Reconciliation

What is it?

The government's announcement that contracting out will cease and that HMRC will no longer by responsible for maintaining GMP and other contracting out member records. This means that the onus will be on individual funds to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC before they cease holding these records. Unfortunately this has shown significant discrepancies between the two sets of data. As a result a significant amount of work will be required to determine the correct benefits, ensure all systems are updated and to process a significant number of over/underpayment calculations. After the records are reconciled for former pensionable employees, the Fund will also verify national insurance information held for active members. All GMP's and national insurance information must be reconciled by December 2018, the date the HMRC will cease to provide their services. The timescales below are subject to change depending on the magnitude of the work.

Timescales and Stages

GMP data reconciliation and investigation	2016/17 to 2017/18
Benefit correction and system updates:	2016/17 to 2017/18
Reconciliation of national insurance information	2017/18

Resource and Budget Implications

This project is currently being led by the Technical Team with some assistance from the Operational Team. Some external assistance from Heywoods (our software provider) has been provided, this external assistance is at a minimal cost at present. However, it is anticipated that due to the significant additional resource required to complete this project, further external resource will be sought. This has been estimated as £840,000 and is included in the budget.

A11 – Trivial Commutation

What is it?

This is where a member who is entitled to a small pension can elect to give up the entirety of that pension and instead receive their benefit as a single lump sum payment. This should reduce the administrative burden on Funds paying a large number of very small pensions over a number of years as well as providing greater clarity from a funding perspective.

The government has recently increased the allowable limit for members to trivially commute their pension in relation to their single pension (£10,000 value) and total benefits (£30,000) and this has meant that more members are now eligible to choose this. The pension administration team will need to identify all historical cases that are eligible in the two categories and communicate with them to determine whether they would like to commute their pensions for lump sums. In addition, they will need to update their processes for all future retirements.

Timescales and Stages

Identify members eligible to commute under £10,000:	2016/17 Q2/3
Communicate with eligible members and pay lump sums:	2016/17 Q2/3
Identify members eligible to commute under £30,000:	2016/17 Q3/4
Communicate with eligible members and pay lump sums:	2016/17 Q3/4

Resource and Budget Implications

Led by the Technical Team with some assistance from the Operational Team. All internal costs to be met by existing budget.

A12 – iConnect

What is it?

On-line computer module that will allow information to be submitted by employers more directly and efficiently into the pension administration system. It involves employers uploading data directly into iConnect from their payroll systems. iConnect will be available to all large employers of the Fund. The first stage will be ensuring that the correct member records are held on the administration system before entering into testing and live roll out of the system. This will be done on a phased basis by employer.

Timescales and Stages

Denbighshire CC	2016/17 Q2/3
Coleg Cambria/North Wales Fire/Glyndwr	2016/17 Q3/4
Wrexham CBC and Flintshire CC	2017/18

Resource and Budget Implications

Time and resource for Employers required. All internal costs are being met from existing budget.

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Tasks 16/17

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
DCC Start Total	1083	1116	1035	1047	1000							
DCC Completed	1276	938	963	858	913							
DCC Added	1323	863	983	815	945							
DCC Remaining	1130	1041	1055	1004	1032							
*DCC 14/15	117	75	72	66	65							
*Apr-Dec	209	185	185	168	147							
FCC Start Total	2033	1995	1956	1848	1805							
FCC Completed	1294	1068	1263	1058	1147							
FCC Added	1266	1034	1153	1025	1368							
FCC Remaining	2005	1961	1846	1815	2026							
*FCC 14/15	69	55	32	30	27							
*FCC Apr-Dec 15	374	324	308	295	279							
WCBC Start Total	1631	1588	1646	1504	1527							
WCBC Completed	1489	1053	1087	896	830							
WCBC Added	1458	1127	956	924	880							
WCBC Remaining	1600	1662	1515	1532	1577							
*WCBC 14/15	36	13	13	12	12							
*WCBC Apr-Dec 15	196	178	168	162	152							
Other Start Total	708	651	643	609	654							
Other Completed	790	603	607	535	651							
Other Added	733	602	562	579	679							
Other Remaining	651	650	598	653	682							
*Other 14/15	42	14	12	12	8							
*Other Apr-Dec 15	72	68	61	55	52							
All Start Total	5455	5350	5280	5008	4986							
All Completed	4849	3662	3920	3347	3541							
All Added	4780	3626	3654	3343	3872							
All Remaining	5386	5314	5014	5004	5317							
*All 14/15	264	156	129	120	112							
*All Apr-Dec 15	851	755	722	680	630							
Plan	3759	3580	3938	3759	3938	3938	3759	3938	3043	3759	3580	4117
Month against Plan	4849	3662	3920	3347	3541							
Positive/Negative	1090	82	-18	-412	-397							
Cummulative against Plan	1090	1172	1154	742	345							

*These provide figures in relation to the older tasks that are still oustanding. These numbers are included in the number of "remaining" tasks shown just above.

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MERCER
MAKE TOMORROW, TODAY

CLWYD PENSION FUND
BACKLOG CLEARANCE PROJECT
PROGRESS UPDATE - AUGUST 2016

Set out below is an update on the progress made on the project to the end of August 2016.

		Cases completed			Cases remaining	
	Cases in scope	2015	2016*	*Total*	Number	%
DCC	278	223	48	*271*	7	3%
FCC	1076	509	273	*782*	294	27%
WCBC**	483	16	324	*340*	143	30%
WCBC (pre2003)	200	0	0	*0*	200	100%
Others	330	140	134	*274*	56	17%
Total in scope	2367	888	779	*1667*	700	30%

** calendar year to the end of August*

*** excluding pre-2003 Wrexham cases*

Mercer Limited
September 2016

MARSH & McLENNAN COMPANIES

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Administration and Communication Risks Heat Map and Summary

Impact	Administration & Communication Risks						
Negligible						6	
Marginal			1	4			
Critical	2		5	3			
Catastrophic							
	Extremely High	Very High	Significant	Low	Very Low	Unlikely	Likelihood

Key

1 — Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

1 — The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

19 September 2016

<u>Clwyd Pension Fund - Control Risk Register</u>

Administration & Communication Risks

Objectives extracted from Draft Administration Strategy (02/2016) and Draft Communications Strategy (02/16):

A1 Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
A2 Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
A3 Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
A4 Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
A5 Maintain accurate records and ensure data is protected and has authorised use only
C1 Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
C2 Communicate in a clear, concise manner
C3 Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
C4 Look for efficiencies in delivering communications through greater use of technology and partnership working
C5 Regularly evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
1	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	There are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	All	Marginal	Significant		1 - Training Policy, Plan and monitoring in place 2 - BP 2016/17 improvements assist with staff engagement 3 - Benefit consultants available to assist if required 4 - Ongoing task/SLA reporting to management/AP/PC/LPB to quickly identify issues 5 - Recent restructuring of team 6 - Data protection training, policies and processes in place 7 - System security and independent review/sign off requirements	Negligible	Low		😐 Current impact 1 too high Current likelihood 1 too high	1 - Consider risk from senior staff/similar age	Pensions Administration Manager	30/09/2016	14/04/2016	Marginal	Significant		
2	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues	Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Extremely High		1 - Administration strategy recently agreed 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Part of 2016/7 internal audit plans for all Councils	Negligible	Very Low		☹ Current impact 2 too high Current likelihood 4 too high	1 - Roll out admin strategy including I-connect	Pensions Administration Manager	30/04/2016	14/04/2016	Critical	Extremely High		
3	Unable to meet legal and performance expectations due to external factors	Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Low		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required	Marginal	Low		😐 Current impact 1 too high		Pensions Administration Manager	30/06/2016	14/04/2016	Critical	Low		
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1/ C2 / C3	Marginal	Low		1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed	Negligible	Very Low		😐 Current impact 1 too high Current likelihood 1 too high	1 -Continue with website development 2 -Roll out member self service	Pensions Administration Manager	30/09/2016	14/04/2016	Marginal	Low		
5	High administration costs and/or errors	Systems are not kept up to date or not utilised appropriately, or other processes inefficient	A2 / A4 / C4	Critical	Significant		1- Business plan has number of improvements (task management, doc prod etc) 2 - Recent efficiency review 3 - Pension Admin Manager on management group for admin software	Negligible	Very Low		☹ Current impact 2 too high Current likelihood 2 too high	1 -Various improvements in 2016/17 business plan (e.g. doc prod)	Pensions Administration Manager	30/06/2016	14/04/2016	Critical	Significant		
6	Service provision is interupted	System failure or unavailability	A1 / A4 / C2	Negligible	Unlikely		1 - Disaster recover plan in place and regularly checked	Negligible	Unlikely		☺		Pensions Administration Manager	31/03/2017	14/04/2016	Negligible	Unlikely		

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 27 September 2016
Report Subject	Investment and Funding Update
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

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

(a) The Business Plan 2016/17 update is attached as appendix 1. This updates for both quarters 1 & 2, to September 2016. Whilst all relevant tasks relating to the Actuarial Valuation and Asset Pooling are on track, the production of the Investment Strategy Statement has not as yet commenced.

(b) Current Developments and News – News and development continues to be dominated by the Pooling debate across the LGPS which has been covered in agenda item 5. It also details the results of the recent CEM Investment Performance Benchmarking exercise (Appendix 2) and the results of the Government Actuary Department (GAD) Section 13 Dry Run Report (Appendix 3)

(c) Funding & investment related policy/strategy implementation and monitoring – This section updates members on the progress of the Investment Strategy Statement and highlights the “light touch” review of the Fund’s Investment Strategy (covered in detail in agenda item 9).

(d) Delegated responsibilities (Appendix 4). This details the responsibilities which have been delegated to officers since the last Committee meeting. These include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

RECOMMENDATIONS	
1	That the Committee consider and note the update including the delegated responsibilities and provide any comments.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Business Plan Update** Appendix 1 provides a summary of progress against the investment and funding section of the Business Plan up to the end of quarter 1 to 30 June 2016. And also an update to September 2016. Both the items relating to the Actuarial Valuation and Asset Pooling are on track for quarter 1 but the production of the Investment Strategy Statement has not commenced as yet due to the delay in the DCLG issuing the new investment regulations and guidance.(See 1.07)
1.02	**Current Developments and News** **LGPS Pooling of Investments**. A verbal update on the current position on Pooled Investments within Wales has been provided as part of agenda 5 of this Committee.
1.03	**Working Together in Wales** Work has commenced on the procurement of a regulated third party operator to provide a series of collective vehicles for the Wales LGPS. The procurement exercise is being led by the Clwyd Fund. In advance of a full OJEU process, the decision was made to issue Prior Information Notice (PIN). This would enable the Welsh Funds to engage with potential providers before commencing the full OJEU procurement. The PIN was issued on 12th August 2016 and required potential providers to express an interest and provide responses to specific questions relating to the procurement no later than 7th September 2016. All providers satisfying the core requirements of the PIN have been invited to attend meetings with representatives of the Welsh Funds at “Engagement Days” being held in Cardiff on 22nd & 23rd September 2016.
1.04	**CEM benchmarking** All LGPS Funds submitted performance data to December 2014 and investment costs for the years ending March 2013, 2014 & 2015 to CEM in order to provide comparisons across the pension funds. The fee information was included in the Welsh Pooling submission to DCLG. Appendix 2 summarises the results for the CPF of the CEM Investment Benchmarking Report for defined benefit plans 2014/15. It shows that, whilst the Fund does not compare favourably in terms of cost, it achieved a very high ‘Net Value Add’ relative to the LGPS universe. Over the period under review the Fund had benefited from active management and demonstrated much lower volatility than the universe (ranking below the 10th percentile), reflecting the benefit of diversification within the strategy.

	The Fund Investment Consultant will present details of the findings at the Committee.
1.05	**GAD Section 13 Valuations** Section 13 of the Public Service Pensions Act 2013 (PSPA2013) requires the Government Actuary (GAD) to report on the valuations of the LGPS funds. It has published a report using the 2013 valuation outcomes on a "dry run" basis for actuaries and funds to understand how the GAD will report on Section 13 assessments in the future. The report from GAD is attached as appendix 3 and details the draft results for all 89 LGPS. It reports for each Fund, whether four main aims are achieved; • **Compliance**: whether the fund's valuation is in accordance with the scheme regulations, • **Consistency**: whether the fund's valuation has been carried out in a way which is not inconsistent with other fund valuations within the LGPS, • **Solvency**: whether the average rate of employer contributions is set at an appropriate level to ensure the solvency of the fund, and • **Long term cost efficiency**: whether the average rate of employer contributions is set at an appropriate level to ensure long-term cost-efficiency of the scheme, so far as relating to each fund. As expected, given the Fund's activity, the Clwyd Pension Fund is evaluated as a fund that has met all of these aims. For all measurements in relation to Solvency and Long Term Cost Efficiency the CPF was shown as green under the RAG rating system. The Fund Actuary will present details of the findings at the Committee.
1.06	**Policy and Strategy Implementation and Monitoring** In August 2016, the Fund's consultants, JLT, commenced a "light touch" review of the Fund's investment strategy. The initial results were shared with officers at a meeting on 12th August 2016. The results are covered in agenda item 9.
1.07	Investment Strategy Statement (ISS) – The Fund's Business Plan identifies the requirement to produce an Investments Strategy Statement which will replace the current Statement of Investment Principles (SIP). This was originally due to commence in quarter 2 but has been delayed awaiting the DCLG guidance on preparing the statements along with revised Investment Regulations. DCLG finally issued the ISS guidance on 16th September 2016. The updated Investment Regulations are still awaited. The guidance will now be looked at in detail by fund officers and our Consultant and a briefing session for Members will be arranged for the November Committee. The deadline for the production of the ISS is 1st April 2017.

	The implementation and monitoring of the Fund's current SIP continues to be undertaken through delegated responsibilities as outlined below.
1.08	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 4 updates the Committee on the areas of delegation used since the last meeting. To summarise: • There is sufficient liquidity to meet short term requirements • Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG). • The Fund's strategic allocation is mainly within the SIP ranges. The exception is Stone Harbour, Multi Asset Credit, who are marginally outside. No action has been taken at present due to the "light touch" Investment Review. • Within the "In House" portfolio, 3 further commitments have been made in the Real Asset portfolio totalling a sterling equivalent of £24 million. All these commitments follow the strategy agreed by the AP for these asset classes. • There are no significant matters to bring to the attention of the Committee as a result of the Fund Manager monitoring meetings.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report

4.00	RISK MANAGEMENT
4.01	Appendix 5 provides the dashboard and risk register showing the current risks relating to Investments and Funding matters.
4.02	None of the risks in Investments and Funding are substantially different to the target risks with most being just one step away from their targets. Risks F1, F2, F3 and F6 are the significant or very high likelihoods and all relate to matters considered as part of the Actuarial Valuation which are covered in agenda item 13. It is anticipated that the Actuarial Valuation and Flight Path review will assist in bringing these risks closer to their targets.

5.00	**APPENDICES**
5.01	Appendix 1 - 2016/17 Business plan update Appendix 2 - Summary of Fund results from CEM Benchmarking Appendix 3 – GAD, Section 13 Draft Report Appendix 4 – Delegated Responsibilities Appendix 5 – Risk dashboard and register – Investments and Funding

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Business Plan 2016/7 to 2018/19 – 22 March 2016. **Contact Officer:** Debbie Fielder, Pension Finance Manager **Telephone:** 01352 702259 **E-mail:** debbie.a.fielder@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant. (e) **AP – Advisory Panel** – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor. (f) **PERAG – Private Equity and Real Asset Group** – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund's Investment Consultant and monitored by AP.

	(g) **In House Investments –** Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG. (h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (i) **SIP – Statement of Investment Principles** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (k) **DCLG – Department of Communities and Local Government** – the government department responsible for the LGPS legislation. (l) **GAD – Government Actuary's Department -** The Government Actuary's Department is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury. (m) **Section 13 Actuarial Valuation -** Section 13 of the Public Service Pensions Act 2013 provides for a review of the LGPS valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where it is considered appropriate. The GAD will undertake this review based on the results of the 2016 actuarial valuations. (n) A full glossary of Investments terms can be accessed via the following link. http://www.fandc.com/uk/private-investors/tools/glossary/

Business Plan 2016/7 to 2018/9 – Q2 Update
Funding and Investments

Key Tasks

Key:

	Complete
	On target or ahead of schedule
	Commenced but behind schedule
	Not commenced
xN	Item added since original business plan
xM	Period moved since original business plan due to change of plan /circumstances
~~x~~	Original item where the period has been moved or task deleted since original business plan

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2016/17 Period				Later Years	
		Q1	Q2	Q3	Q4	2017/18	2018/19
F1a to j	Triennial Actuarial Valuation and associated tasks	x	x	x	x		
F2a to d	Asset Pooling	x	x	x	x	x	x
F3	Produce Investment Strategy Statement		x	x			

Funding and Investments (including accounting and audit) Task Descriptions

F1a – Triennial Actuarial Valuation

What is it?

It is the formal actuarial valuation of the Fund detailing the solvency position and other financial metrics. It is a legal requirement of the LGPS Regulations. It determines the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement.

Timescales and Stages

Effective date:	31 March 2016
Initial whole Fund results (expected):	Q1 2016/17
Individual Employer results (expected):	Q2&3 2016/17
Deadline for agreement of all contributions and sign-off:	31 March 2017

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and it will determine contribution requirements for all participating employers from 1 April 2017. It is a major exercise for the Fund and will take a lot of input from the Administration and Investment teams. Employers will be formally consulted on the funding strategy as part of the process. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1b – Review of Fund policy around employer risk management

What is it?

The Fund agreed a policy in 2013 relating to the admission of employers into the Fund and to how termination of participation is dealt with, the primary aim of the policy being to protect the Fund against incurring any unfunded liabilities as far as possible.

The policy has different requirements depending on the nature of the admitted employer but includes the use of pre-admission risk assessments, contingent security where deemed necessary, monitoring of the employer and termination funding. The detail and application of this policy should be regularly reviewed, especially in light of regulatory changes, to ensure it remains appropriate and is not exposing the Fund to funding risk. In addition as part of this review the Fund will look to implement a process to monitor covenant and funding risk for employers. The level of detail needed will depend on the specific employer type.

The Fund is subject to funding risks in respect of employers who cease to participate without the Fund being able to recover the full exit contributions due under the Regulations. This can be mitigated by increasing contributions and/or requesting a contingent bond or guarantee to be provided to protect against the possibility of an unrecoverable debt. A risk-monitoring framework would identify and monitor participating employers who may be more likely than average to pose such a risk. This would monitor funding positions and covenant strength on a proportionate basis to flag any potential issues at an early stage. The governance around the framework would include ensuring employers are aware they should inform the Fund of any significant changes in membership numbers or underlying demographics.

Timescales and Stages

Review existing policy:	Q2 2016/17
Implement changes:	Q3 2016/17

Resource and Budget Implications

Fund Actuary will liaise with the Fund to review policy and process, updating documentation appropriately as well as implementing the covenant monitoring where appropriate. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1c – Further refine operational structure applying for admissions and terminations

What is it?

The admission and termination policies are in force but the administration team may need assistance when dealing with queries from employers or implementing the policies. In particular, a review of the admission and termination policies, any checklists and information provided to employers will be required.

Timescales and Stages

Review of Fund policies to be performed during 2016/17 alongside the drafting of the Funding Strategy Statement:

▪ Initial review	Q2 2016/17
▪ Review commences 2016/17 Q2 and closes during	Q3 2016/17
▪ The policies will be formally signed off	Q4 2016/17

Ongoing assistance also provided as and when required.

Resource and Budget Implications

The Fund Actuary will carry out the review and will assist the administration team with any implementation requirements. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1d – Consider funding impact of 2016 end of contracting out

What is it?

With effect from April 2016 contracting-out ceases and employers and employees will be required to pay higher National Insurance contributions (respectively by 3.4% and 1.4% of earnings between the Lower Earnings Limit and the Upper Accrual Point). Employers will be considering how to mitigate the additional employment cost. The LGA is negotiating with HMT on a national basis in terms of rebating some of the costs, given the LGPS benefit structure cannot be changed to offset the cost for employers.

In addition, consideration also needs to be given to whether the LGPS will pay Post 88 GMP pension increases for members who reach their State Pension Age after 5 April 2016. This will be considered and costed as part of the 2016 valuation process as it could have funding implications.

Timescales and Stages

Legislation effective 6 April 2016

Consider potential impacts/costs further as part of the 2016 triennial valuation as part of affordability considerations for employers Q2 and Q3 2016/17.

Resource and Budget Implications

Budget implications for employers are potentially significant and will affect the affordability of normal pension Fund contributions. Employers are likely to also assess their own costs based on their total payroll, but may request information from the Fund. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1e – Test data quality in advance of the valuation

What is it?

The formal actuarial valuation requires data to be of a high quality. The Fund's data will be compared against a number of checks to ensure that there are no areas of concern or areas that would significantly affect the results of the valuation. Any issues that arise will be highlighted to the Fund so that it can be rectified.

Timescales and Stages

Perform checks on Fund data Q4 2015/16 and Q1 2016/17
(subject to software providers implementing the data extract facility).

Resource and Budget Implications

Exercise will be performed by the Fund Actuary in advance of 31 March 2016. The administration team will be required to provide the data extract and work with the Fund Actuary if there are any areas of improvement required with the data. Tests will also be performed to check that there are no problems with the data extract itself. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1f – Consider the potential impact of Alternative Delivery Models (ADMs) on Fund profile and maturity

What is it?

As part of the 2016 valuation, the Fund will need to consider what impact ADMs (including those in the pipeline) have had i.e. on the Council that they have transferred from and on the Fund as a whole. As a result of ADMs, there will be more employers in the Fund and more resources required in the running of it.

Timescales and Stages

To be performed Q2 and Q3 2016/17
(alongside the 2016 actuarial valuation. In particular an analysis of cash flow projections will be performed in different scenarios.)

Resource and Budget Implications

Exercise will be performed by Fund officers and the Fund Actuary. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1g – Review the Funding Strategy Statement

What is it?

The Fund is required to prepare a Funding Strategy Statement and this should be reviewed whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles. The FSS will need to be updated to reflect any changes to policy that emerge as part of the actuarial valuation and also the updated results and assumptions.

Timescales and Stages

To be performed during 2016/17 alongside the 2016 actuarial valuation:

- The initial drafting of the strategy will take place Q2 2016/17
- The consultation will commence during Q2 and with close during Q3
- The strategy will be formally signed off by the Committee Q4 2016/17

Resource and Budget Implications

Exercise will be performed by Fund officers and the Fund Actuary. Employers will be formally consulted as part of the process. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1h – Provide information required in relation to Section 13 of the Public Service Pensions Act 2013

What is it?

Section 13 of the Public Service Pensions Act 2013 provides for a review of the LGPS valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where it is considered appropriate. The Government Actuary's Department (GAD) will undertake this review based on Fund data received from each Scheme Actuary based on the results of the 2016 actuarial valuations. A report will be provided upon completion of the GAD analysis.

Timescales and Stages

The data request is expected to be received from GAD	Q4 of 2016/17

Resource and Budget Implications

Exercise will be performed by the Fund Actuary as part of the 2016 actuarial valuation. The results will be provided to the GAD. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1i – Review the Fund's KPI's and perform updated calculations

What is it?

The LGPS Scheme Advisory Board (SAB) is undertaking a mandatory exercise to benchmark the performance of all LGPS funds in England and Wales (linked to 2016 triennial valuations). A suite of self-assessment key indicators (KPIs) have been derived. Additional calculations will be required in order for the Fund to assess itself against these KPIs.

Timescales and Stages

To be performed	Q2 and Q3 of 2016/17

Resource and Budget Implications

Exercise will be performed by Fund officers and the Fund Actuary. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F1j – Cost Control

What is it?

Under the new framework, the costs of the LGPS must be periodically assessed to ensure that the reforms are affordable and sustainable. There will be two mechanisms used to do this:

- the employer cost cap process as operated by HM Treasury, and
- the future cost cap process as operated by the LGPS Scheme Advisory Board

Both processes could lead to changes to the scheme design or to the level of members' contributions if the costs of the LGPS are shown to have moved sufficiently from the target.

Timescales and Stages

Information expected to be provided to the GAD	Q3 2016/17

Resource and Budget Implications

Exercise will be performed by the Fund Actuary and sent on directly to the Government Actuary's Department in the required format. The Fund Actuary's costs in relation to this exercise are included in the 2016/17 budget.

F2a – Asset Pooling Responses

What is it?

This comprises the completed (detailed) submission to Government regarding the CPF's plans for Asset Pooling. The initial submission will have been submitted in Q4 2015/16 as this is required by 19 February 2016.

The CPF should also review, and have the ability to comment on, the submission document from the applicable Asset Pool to Government as and when this submission is drafted.

Timescales and Stages

Develop submission documents	Q1 and Q2 2016/17
Completed submission must be issued to Government by	15 July 2016

Resource and Budget Implications

These documents will be produced from a range of the current Fund advisers: JLT as Investment Adviser and Mercer as De-Risking Adviser. Advisor's estimated costs in relation to this exercise are included in the 2016/17 budget.

F2b - Decision regarding assets to be moved to All Wales Passive Collaboration and eventual transition

What is it?

The agreement to run an All Wales Passive search has been taken and Aon Hewitt has been appointed to run this project. Upon completion there will be a decision as to how much of the CPF asset portfolio will be moved into the equity and bond asset allocation positions established as a result of the exercise.

Timescales and Stages

Aon Hewitt exercise is to be undertaken	Q4 2015/16
Anticipated completion	Q1 2016/17
Transition of applicable CPF assets anticipated	Q2/Q3 2016/17

Resource and Budget Implications

This exercise will be conducted by Aon Hewitt and JLT as Investment Adviser as well as the Pension Fund Manager and Finance Manager(s). Advisor's estimated costs in relation to this exercise are included in the 2016/17 budget

F2c - Preliminary plans for implementation of transition of applicable assets to Pooling vehicle

What is it?

This relates to Asset Pooling and will be dependent on two key points:

i) The response by Government to the CPF Asset Pooling submission (and how much of the CPF asset portfolio can remain to be managed as is)

ii) The final decision in respect of the Asset Pooling vehicle and how quickly this is established

Timescales and Stages

This is expected to impact both on 2016/17 (Q4) and beyond (2017/18 and thereafter).

Resource and Budget Implications
This review will be jointly carried out by JLT as Investment Adviser, the Pension Fund Manager and Finance Manager(s). Advisor's estimated costs in relation to this exercise are included in the 2016/17 budget. There might be additional advisor costs depending on the final pooling arrangements.

F2d - Changes in procedures to accounting for assets included in Pool

What is it?
This relates to Asset Pooling and how the accounting policies/reporting for the CPF's assets that are held in the Pool will be outside of the current (Officer led) arrangements. There will be a requirement to discuss the treatment of accounting reporting/responsibilities with the Asset Pool, post establishment.

Timescales and Stages
This is expected to impact both on 2016/17 (Q4) and beyond (2017/18 and thereafter).

Resource and Budget Implications
Communication/discussions with the Asset Pool will be jointly carried out by the Pension Finance Managers.

F3 – Produce Investment Strategy Statement

What is it?
As part of the planned changes to the existing Investment Regulations, each LGPS Fund will be required, having taken proper advice, to produce an Investment Strategy Statement which covers a range of specified areas.

Timescales and Stages
ISS must be produced no later than six months after new regulations come into force (currently drafted as 1 October 2016).

Resource and Budget Implications
This document will be produced by JLT as Investment Adviser with the finalised content agreed with the Pension Fund Manager and Finance Manager(s). The Investment Adviser's estimated costs in relation to this exercise are included in the 2016/17 budget.

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CLWYD PENSION FUND
CEM BENCHMARKING BRIEFING PAPER

August 2016

CEM BENCHMARKING
SUMMARY OF RESULTS

This briefing paper has been prepared for the Advisory Panel meeting of 16th August 2016. It is a high level summary of the results for the Clwyd Pension Fund CEM Benchmarking analysis that was undertaken earlier in the year.

- The work undertaken by CEM is widely recognised across LGPS and they worked with most of the pools in collating the data for this survey.
- The CEM Benchmarking report covers the period 2014/15.
- Investment returns are for the calendar year ending December 2014 and investment costs collated are for the periods of the LGPS financial years ending March 2013, 2014 and 2015.
- The survey universe included a large number of overseas pension funds not just LGPS. Out of the 407 pension funds in the universe 194 are public funds but there is no breakdown of the country of these funds.
- The survey is a snap shot of one year in isolation but the information does highlight some important comparisons with the other participants in the survey.

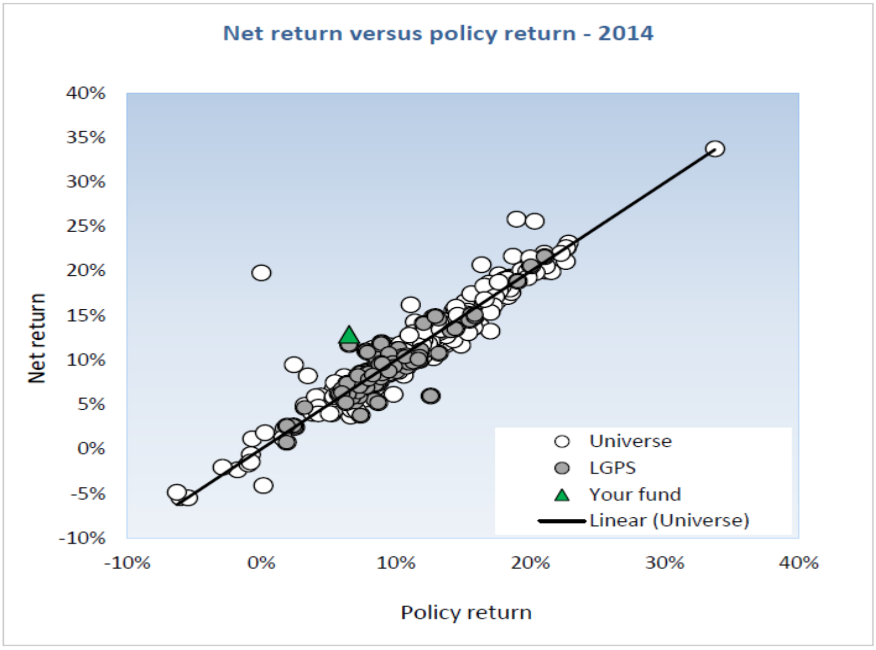
Summary of Clwyd Pension Fund Results

Performance

Year to 2014		Universe				
	Clwyd	**10th%**	**Quartile 1**	**Median**	**Quartile 3**	**90th%**
Net Total Fund Return	11.7%	5.6%	7.6%	10.9%	14.0%	17.8%
Policy Return	6.5%	6.0%	7.8%	11.0%	14.1%	17.6%
Net Value Add	5.2%	-1.4%	-0.8%	-0.1%	0.6%	1.4%

- Clwyd Pension Fund returned 11.7% versus the survey median of 10.9% however was below the upper quartile return of 14.0%.
- The Policy return is the return that would have been achieved by investing in the strategy passively.
- The Net Value Add is the difference between the Fund return and the Policy Return.
- Clwyd have a Net value Add of 5.2% which is greater than the 90th percentile i.e. top decile of 1.4%. The median net value add was -0.1%. Comparing the total fund returns with the policy returns indicates that the majority of participants in the survey are predominantly passively invested or not achieving returns in excess of the index.
- Active management has been beneficial to Clwyd Pension Fund.

Page 14 of the report, shown below for reference, plots the correlation between net returns and policy returns. It also highlights those LGPS from the wider universe. The majority of LGPS are scattered closely along the Linear (Universe) suggesting they are either passively investing or not receiving as great a benefit from active management than Clwyd. There are a number of LGPS funds that gained a net return greater than Clwyd however these appear to be outliers. The majority of LGPS fund returns form a cluster below the return achieved by Clwyd.



Source: 2016 CEM Benchmarking Inc

Risk

Year to 2014		Universe				
	Clwyd	**10th%**	**Quartile 1**	**Median**	**Quartile 3**	**90th%**
Volatility	6.4%	6.7%	7.9%	9.0%	10.3%	11.4%

- Asset risk is the expected volatility of the schemes investment strategy.
- The volatility figure of 6.4% is 2.6% below the median volatility and is below the 10th percentile. This is a positive result.
- From a risk perspective the Clwyd strategy has a much lower volatility than the sample which will be a direct benefit from diversification within the portfolio.

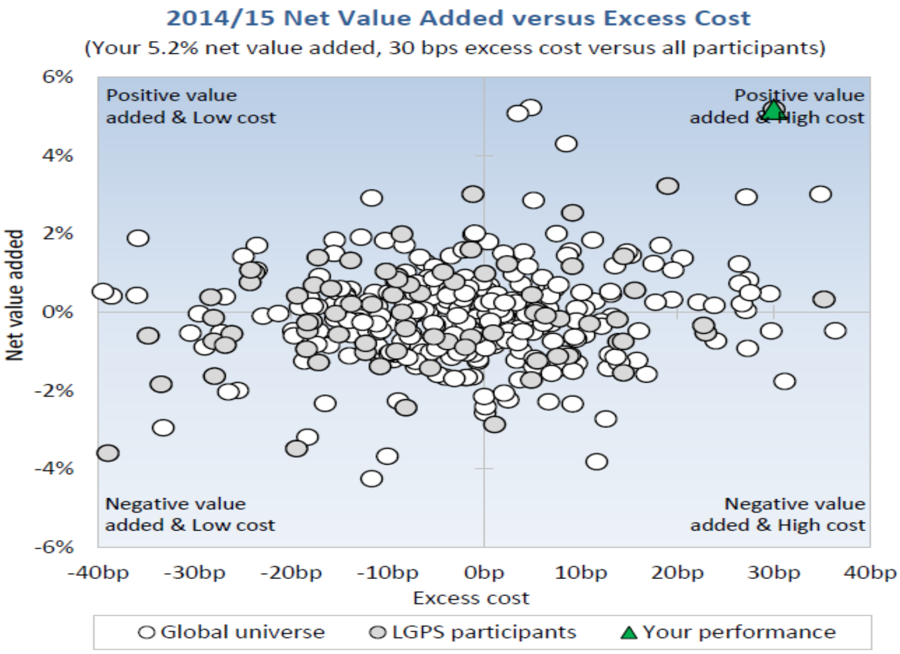
Investment Costs

2014/15		Universe				
	Clwyd	**10th%**	**Quartile 1**	**Median**	**Quartile 3**	**90th%**
Cost bps	116.1	26.9	36.0	49.2	70.9	99.0

- Clwyd's costs were significantly greater than the median of 49.2 and at the very high end of the sample universe.
- Costs increased from 110.3 bps in 2012/13 to 116.1 bps in 2014/15.
- Higher management fees arise from alternative strategies such as fund of fund hedge funds and active management fees.
- There have been a number of strategic changes made to the portfolio over the periods under review. Some of the costs would likely be in relation to advisory costs in terms of recommending strategic changes and their implementation.

Summary

- In terms of costs, relative to the sample universe, Clwyd do not compare favourably, but it is expected that pooling will have an impact in reducing fees.
- The absolute return relative to the whole universe was at or around median. However the return exceeds a significant number of the returns of the LGPS in the survey.
- Clwyd has benefited from active management.
- The Clwyd investment strategy has significantly lower volatility than the universe a direct benefit of diversification within it.
- Clwyd achieves a very high 'Net Value Add' relative to the LGPS universe and this should provide satisfaction as to what the asset strategy is actually delivering to the Fund relative to the peer group. This is illustrated in the chart on page 27 which is shown below for reference.
- From the information supplied we are unable to isolate the other 7 Welsh funds for direct comparison purposes.



Source: 2016 CEM Benchmarking Inc

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Government
Actuary's
Department

LGPS ENGLAND AND WALES

Section 13 Dry Run Report

Date: July 2016

Author: Ian Boonin FIA
John Bayliss FIA

Contents

1 Executive summary

In connection with the local fund valuations of the Local Government Pension Scheme (LGPS) from 2016, section 13 of the Public Service Pensions Act 2013 requires the Government Actuary to report on whether four main aims are achieved:

> compliance: whether the fund's valuation is in accordance with the scheme regulations

> consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS

> solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

> long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

We have carried out a "dry run" section 13 analysis based on the 2013 local valuations.

Compliance

We found no evidence of material non-compliance.

Consistency

We found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

Solvency

For the two closed passenger transport funds, we are not aware of any plan in place to ensure solvency. Had this not been a dry run exercise we would have engaged with the administering authorities to discuss the need for plans to be put in place.

A number of amber flags were raised under this heading for the open funds. We may have engaged with some of these administering authorities to discuss the reasons behind these flags. However, none were red-flagged.

Long term cost efficiency

For the following funds we would have engaged with the administering authority to investigate in more detail whether the aims of section 13 were met:

> Royal County of Berkshire Pension Fund

> Somerset County Council Pension Fund

We may also have engaged with some other administering authorities who had a significant combination of amber flags if section 13 had applied as at 31 March 2013.

Future analysis

Based on our on-going experience of reporting under section 13(4) (including this dry run) we may change or add considerations, criteria, tests or metrics to the analysis in the future.

1.1 The Government Actuary has been appointed by the Department of Communities and Local Government to report under section 13 of the Public Service Pensions Act 2013 in connection with the Local Government Pension Scheme ("LGPS" or "the Scheme") in England and Wales. Section 13 provides for a review of LGPS funding valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where scheme managers consider appropriate.

Aims of section 13

1.2 Section 13 will apply for the first time to the 2016 round of ninety-one separate fund valuations for the LGPS. Specifically, in relation to each fund within the LGPS, section 13 requires the Government Actuary to report on whether four main aims are achieved:

> compliance: whether the fund's valuation is in accordance with the scheme regulations

> consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS

> solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

> long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

Purpose of the dry run

1.3 The Department of Communities and Local Government ("DCLG") has asked the Government Actuary's Department ("GAD") to carry out a "dry run" based on the round of LGPS valuations completed as at 31 March 2013 to demonstrate how we may have approached our analysis had section 13 applied to those valuations. This dry run report is designed to help those administering authorities and their actuarial advisors to prepare for the 2016 round of valuations with some knowledge about how GAD might approach reporting under section 13 following the 2016 round of valuations.

1.4 Based on our on-going experience of reporting under section 13(4) (including this dry run) we may change or add considerations, criteria, tests or metrics to the analysis in the future.

1.5 In this dry run report we make no specific recommendations for remedial steps in relation to solvency and long term cost efficiency, as section 13 did not apply as at 31 March 2013. We do however highlight areas for some specific funds where the aims of section 13 are potentially not being met, and where we may have then sought further information and engagement before recommending remedial steps if section 13 had applied at 31 March 2013.

1.6 As part of the dry run analysis, we indicate in this report how the process following production of a draft report under section 13 might have progressed had section 13 applied in terms of engagement with administering authorities prior to finalisation of the report.

1.7 In some cases, the data initially provided or disclosed in the valuation report raised additional questions following our initial analysis and concerns raised were allayed following the provision of further information. This serves to highlight the importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms.

Compliance

1.8 We found no evidence of non-compliance with the scheme regulations.

Consistency

1.9 Under the heading of consistency, we have found inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

1.10 The primary areas GAD has analysed are:

> Common contribution rates

> Average actual contributions vs common contribution rate

> Assumptions

1.11 We have viewed consistency in two ways:

> Presentational. Those aspects of the valuations for which we consider there is no particular justification for differences in disclosure between different funds. This includes results disclosures (i.e. presenting the key results in a similar format) and agreeing a common understanding of terms such as the common contribution rate ("CCR"[1]) even if these are not explicitly defined in regulations.

> Evidential. Those aspects of the valuations that should be consistent except where supported by evidence or local circumstances (e.g. some demographic assumptions). On financial assumptions, we believe that local circumstances may merit different assumptions (e.g. current and future planned investment strategy, different financial circumstances) leading to different levels of prudence adopted. However, in some areas, it appears that the choice of assumptions is highly dependent on the "house view" of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

[1] CCR has been replaced by primary and secondary rates in regulation 62.

1.12 There is a wide range of reasonable assumptions for uncertain future events, such as the financial assumptions. For the avoidance of doubt, we have not concluded that any of the approaches, taken in isolation, are unreasonable. However the approaches are not consistent with each other, and it is not clearly explained in valuation reports whether the relevant assumptions, and hence differences in those assumptions between funds, are solely driven by local circumstances. Furthermore, there would also seem to be no common understanding of what constitutes "prudence" for the purposes of regulation 58 of the Local Government Pension Scheme Regulations 2013, and its reference to CIPFA guidance.

1.13 We are not expecting the immediate prescription of assumptions. Nevertheless readers of the reports might expect there to be consistency, and that transparent comparisons can be made between funds.

1.14 We are only able to conclude under section 13(4)(b) of the PSPS Act 2013 Act that 'the valuation has been carried out in a way which is not inconsistent with other valuations', if the valuations are carried out in consistent manner. Currently, in our opinion, the valuations are not carried out consistently.

1.15 We appreciate that there are significant challenges to achieving full consistency, particularly in the short term. In the longer term, we would however expect a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.

1.16 We are grateful to the SAB Cost Management and Contributions sub-committee and the SAB Secretariat for developing a standard basis and metrics to enable comparisons between funds and we recommend that the valuation results on the SAB standard basis and associated "dashboard" metrics are published in valuation reports to allow readers to make like for like comparisons.

1.17 We recommend that the four actuarial firms who advise administering authorities in carrying out funding valuations should seek to agree a standard way of presenting relevant disclosures in their valuation reports to better facilitate comparison.

Solvency

1.18 Under the heading of solvency, we found that a number of our assessment measures were triggered by the two Passenger Transport funds, West Midlands Integrated Transport Authority Pension Fund and South Yorkshire Passenger Transport Authority Pension Fund. These funds are both closed to new entrants. In particular we might have sought to better understand whether the relevant administering authorities had a plan in place to ensure that the fund continues to meet benefits due in an environment of no future employer contributions being available, if section 13 had applied as at 31 March 2013.

1.19 A number of amber flags were raised under solvency for the open funds. Had section 13 applied, we may have engaged with some of these administering authorities, particularly where there was significant combination of amber flags, to discuss reasons behind these flags. However, none were red-flagged. Please see table 5.2 for further detail.

1.20 We have also highlighted the ten funds with the lowest funding level on the Scheme Advisory Board's ("SAB") standardised basis. Had section 13 applied, we may have engaged with some of these funds to better understand how they intended to improve their funding position.

1.21 We believe it is important that administering authorities and other employers understand the potential cost, so that they can understand the affordability of potential future contribution requirements.

1.22 The local valuations and our calculations underlying this dry run report are based on specific sets of assumptions about the future. To help the understanding of the potential for volatility in contributions, we estimate that the aggregate impact on contributions under a financial crisis scenario, similar to the 2008 financial crisis, is an increase in contributions of between £1.7 and £4.9 billion per year (compared with the actual outturn from the 2013 valuations of £6.6 billion).

1.23 A more detailed description of the tests and triggers alluded to in the tables below can be found in the relevant sections of this report and are not repeated in this executive summary.

Table 1.1: Funds with a material combination of amber and/or red flags

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
SOUTH YORKSHIRE PTA[2]	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
WEST MIDLANDS ITA[1]	25.1 (2)	100%	NO	100%	+5%	+7%	N/A

Long term cost efficiency

1.24 For the following funds we would have engaged with the administering authority to investigate whether the aims of section 13 were met, had section 13 applied:

- Royal County of Berkshire Pension Fund
- Somerset County Council Pension Fund

[2] The ***Employer Default*** measure is shown as N/A because there are no statutory employers participating in these two closed funds.

Table 1.2: Funds with a material combination of amber and/or red flags

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No

1.25 A number of other funds have triggered flags. We do not consider that these funds are failing to meet the aims of section 13, but we may have encouraged these other funds to provide further information regarding the relevant measures. Please see table 6.2 for further details.

2 Introduction

This report summarises GAD's "dry run" review of the actuarial valuations of the Local Government Pension Scheme as at 31 March 2013 as if section 13 of the Public Service Pensions Act 2013 had been in force at that date with the Government Actuary as the appointed person under section 13.

We have looked at a range of metrics to identify exceptions. Remedial steps may have been recommended where there is a potentially material or potent combination of negative outcomes against those metrics which is not satisfactorily explained or justified. Failure against one metric may not by itself always lead to remedial action being recommended.

2.1 This report is addressed to the DCLG. GAD has prepared this paper to set out the results of our review of the 2013 funding valuations of LGPS as if section 13 of the Public Service Pensions Act 2013 ("section 13" of "the Act") as it pertains to LGPS had been in force as at 31 March 2013.

2.2 Section 13 will apply for the first time to the valuations as at 31 March 2016. This report therefore does not have authority under the Act. Instead it serves as a "dry run" to assist stakeholders in preparing for the 2016 round of LGPS funding valuations, and is hereafter referred to as the "dry run report". We expect our report following the 2016 valuations to comprise more in-depth analysis in some areas. In relation to exceptions (this term is described below), we refer to action we may have taken had section 13 applied as at 31 March 2013.

2.3 Subsection (4) of section 13, requires the Government Actuary to report on whether the four main aims are met:

> <u>Compliance</u>: whether the fund's valuation is in accordance with the scheme regulations

> <u>Consistency</u>: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within LGPS

> <u>Solvency</u>: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

> <u>Long term cost efficiency</u>: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

2.4 Section 13, subsection (6) states that if any of the aims of subsection (4) are not achieved,

a) the report may recommend remedial steps;

b) the scheme manager must—

(i) take such remedial steps as the scheme manager considers appropriate, and

(ii) publish details of those steps and the reasons for taking them;

c) the responsible authority may—

(i) require the scheme manager to report on progress in taking remedial steps;

(ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.

Purpose of this paper

2.5 The purpose of this paper is to provide stakeholders with information about:

> the tests and metrics we have used to assess whether the aims of compliance, consistency, solvency and long term cost efficiency have been achieved;

> an indication of how funds performed against the chosen metrics; and

> how we determined exceptions.

2.6 This report is designed to help those authorities prepare for valuations from 2016 onwards, when section 13 will be in force.

2.7 This paper will be of relevance to LGPS stakeholders including DCLG, the Chartered Institute of Public Finance & Accountancy (CIPFA), administering authorities and other employers, actuaries performing valuations for the funds within LGPS, SAB (or, where relevant, interim board) and HM Treasury (HMT).

Exceptions

2.8 Exceptions occur where funds appear to be materially out of line with other funds, or out of line with what we might have expected based on our judgement and our interpretation of solvency and long term cost efficiency.

2.9 We have had regard to the particular circumstances of some potential exceptions, following consultation with the fund actuary. This informal consultation has enabled us to explore in greater depth the issues identified and understand the fund's specific circumstances. We may conclude in the light of that engagement that administering authorities and employers are taking appropriate action and that the outcome is reasonable given the circumstances.

2.10 We have looked at a range of metrics to identify exceptions under solvency and long term cost efficiency. We have expressed these in the form of green, amber or red flags. In broad terms, a red flag or a combination of amber flags would tend to indicate a need for further investigation and/or engagement with the relevant administering authority and their actuary. The trigger points for these flags are based on a combination of absolute measures and measures relative to the bulk of the funds in scope.

2.11 More detail is provided in the solvency and long term cost efficiency chapters and appendices. It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

2.12 Local valuation outputs depend on both the administering authorities' Funding Strategy Statements and the actuary's work on the valuation. We have reported where valuation outcomes raised concerns in relation to the aims of section 13, but it is not our role to express an opinion as to whether that conclusion was driven by the actions of authorities or their actuary, or other stakeholders.

2.13 The Environment Agency Closed Pension Fund is different from other LGPS funds, in that the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs[3], thus guaranteeing the security of these benefits. In general, the fund has been excluded from the analyses that follow.

Remedial steps

2.14 Section 13 does not prescribe what remedial steps may be recommended, but for example they could include:

> that the administering authority consider and report on an issue (e.g. if a closed scheme has no plan in place);

> that the administering authority strengthens scheme governance, for example by making changes to a section 101 committee or pensions board;

> that a revised approach be taken at the next valuation; and

> that the current valuation be reopened and changes made to employer contributions in advance of the next valuation.

2.15 Remedial steps may be recommended if there is a potentially material combination of negative outcomes against those metrics which is not satisfactorily explained or justified. Failure against one metric may not by itself lead to remedial steps being recommended.

2.16 This report contains specific reference to those funds considered to be exceptions. Had section 13 been in force for the 2013 valuations, we would have expected to engage with the relevant administering authorities named in this report.

2.17 Our aim in producing this dry run report is to encourage, where appropriate, administering authorities to consider taking steps to change the approach taken to the 2016 valuation.

[3] http://www.lgpsboard.org/images/Valuations2013/EnvironmentAgencyClosedFund2013.pdf

Limitations

2.18 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submissions and publicly available financial information is likely to be significantly less detailed than that available to funds. Our risk assessment framework enables us to broadly assess scheme risks and decide on our engagement with schemes on an indicative basis.

2.19 Although much of the analysis, particularly the calculations we have undertaken, is approximate, we consider it to be sufficient for the purposes of identifying which funds could be subject to recommendation for remedial steps. While the measures used should not represent targets, these measures help us determine whether a more detailed review is required; for example, we may have highlighted where multiple measures are triggered amber for a given fund.

2.20 For some measures under solvency and long term cost efficiency, data were not available. We expect that data will be available for the section 13 work following the 2016 valuations.

2.21 We have not considered the impact of post valuation events except to the extent that these may have already been taken into account in the valuation disclosures.

Data on contributions paid

2.22 We were provided by the actuarial firms with data on average contributions expected to be paid into each fund. We also had access to data published by DCLG in their LGPS funds local authority data: 2014 to 2015[4] (referred to elsewhere in this report as SF3 statistics). Both sources covered only the 2014-15 financial year (being the first year in which rates recommended in the 2013 valuations were expected to apply).

2.23 There were significant differences between these two data sources. For some funds, this may be further complicated by the stepping process (in which employers gradually shift towards the contribution rate recommended by the actuary over a few years). This meant we had to decide which was likely to be more reliable. We opted to base our calculations on the SF3 statistics.

2.24 Our data request following the 2016 valuations will seek further information, including all three years' expected contributions from 2017/18 – 2019/20. The discrepancy highlighted above is a cause for concern, which we aim to eliminate by requesting clearer explanations of what the data contains from the actuarial firms.

Standardised basis

2.25 There are significant areas of inconsistency highlighted in chapter 4, which make meaningful comparison of valuation results set out in local valuations reports unnecessarily difficult.

[4] https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-local-authority-data-2014-to-2015

2.26 To address this, we have restated the results on two bases:

> The standard basis established by the SAB

> A market consistent basis derived by us

2.27 The market consistent basis is a best estimate as at 2013, based on our views of returns on each asset class across the Scheme. We expect this basis to change for 2016, based on conditions at the time and any other relevant factors.

2.28 The restatement to these standardised bases has been done approximately. For example, if results for different employers within a particular fund are produced on different bases, our restatement process would not be able to pick up that level of detail, and the restated results could be incorrect if a particular employer was material in relation to the overall assets and liabilities of that fund.

2.29 The data request for the 2016 exercise will explicitly ask for liabilities expressed on the SAB standard basis which should eliminate this potential error.

2.30 This use of standardisation does not imply the bases are suitable to be used for funding purposes:

> The SAB standard basis is not market consistent, and

> The market consistent basis is a best estimate (while regulations and CIPFA guidance call for prudence to be adopted). This best estimate is based on the average investment strategy for the overall scheme, and so will not be pertinent to any given fund's particular investment strategy. Further this does not take into account any anticipated changes in investment strategy that may be planned/in train.

Sensitivities

2.31 The local valuations and our calculations underlying this dry run report are based on specific sets of assumptions about the future. Some of our solvency measures are stress tests but these are not intended to indicate a worst case scenario. Following the 2016 valuations, we intend to illustrate a range of potential outcomes. In the solvency chapter of this report we have added an indication of the estimated aggregate impact on contributions under a financial crisis scenario, similar to the 2008 financial crisis.

Future review

2.32 Based on our on-going experience of reporting under section 13 (including this "dry run" report) we may add additional considerations, criteria, tests or metrics to the analysis. It is currently our intention that we will endeavour to consult (informally or formally), or forewarn, stakeholders in advance of adding such additional considerations/criteria.

2.33 We note that following the publication of the dry run report, there may be changes to regulations and approaches to local valuations in 2016 and beyond, which could lead to changes in the items analysed, under consistency for example, in future iterations of section 13.

Appendices

2.34 Appendices are contained in a separate document.

2.35 We reproduce section 13 of the Act in Appendix A. Other relevant regulations are reproduced in Appendix B. Appendix C contains a description of data provided. Appendix D contains descriptions of standardised assumptions used. Appendix E contains descriptions of measures for Solvency. Appendix F contains a table of measures under solvency by fund. Appendix G contains descriptions of measures for long term cost efficiency. Appendix H contains a table of measures for long term cost efficiency by fund.

Other important information

2.36 GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.

2.37 In performing this analysis, we are grateful for helpful discussions with and cooperation from

- CIPFA
- DCLG
- Fund actuaries
- HMT
- LGPS Scheme Advisory Board

2.38 We have conducted our analysis assuming that the *desirability* of stable contributions is subordinate to the *requirement* for solvency and long term cost efficiency under the relevant legislation.

2.39 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report, and neither does the appointment to report under section 13 give the Government Actuary any statutory power to enforce actions on scheme managers (or others).

2.40 The modelling underlying this report has been prepared in accordance with the Board for Actuarial Standards' Technical Actuarial Standard M: Modelling. The report complies with TAS M and TAS R: Reporting.

3 Compliance with scheme regulations

We have relied on statements of compliance with regulations by, and professional requirements on, the actuaries performing the valuations of LGPS funds. We have performed some spot checks of compliance, and investigated further where funds are identified as exceptions using the metrics set out in this chapter.

We found **no evidence of non-compliance** with the scheme regulations.

3.1 There are a number of regulations that administering authorities are required to comply with when producing their respective valuation reports, funding strategy statements ("FSS") and statements of investment principles ("SIP").

3.2 These regulations are:

> Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 for valuation reports;

> Regulation 35 of the same regulations for FSSs; and

> Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009 for SIPs.

3.3 These regulations include reference to CIPFA guidance on preparing and maintaining a FSS in the LGPS 2012.

3.4 From 1 April 2014, regulations 62 and 58 of the Local Government Pension Scheme Regulations 2013 will apply to valuation reports and FSSs respectively. We understand that CIPFA's FSS guidance is being updated prior to the completion of the 2016 valuations. However, for the purposes of this report compliance has been checked against the regulations in place as at 31 March 2013, as detailed above[5]. We are not lawyers and have performed these checks as a lay reader of the regulations. We do not expect changes in regulations to have a material effect to this approach.

Selecting funds based on predetermined criteria

3.5 In order to investigate the compliance of fund documentation with the regulations detailed above the following two approaches have been used:

1) Selecting funds based on predetermined criteria; and

2) A risk based approach.

[5] Copies of the regulations listed on this page can be found in Appendix B of this report.

3.6 When selecting funds based on predetermined criteria, we selected funds that were different types of authority (i.e. a London Borough, a Welsh Authority, a County Council and a Metropolitan Authority) and which used different actuarial advisors.

3.7 The four selected funds under these criteria were:

> The Royal Borough of Kensington and Chelsea Pension Fund (*Barnett-Waddingham*);

> Cardiff and Vale of Glamorgan Pension Fund (*Aon Hewitt*);

> Northamptonshire Pension Fund (*Hymans Robertson*); and

> South Yorkshire Pension Fund (*Mercer*).

3.8 All four funds had short paragraphs in each of the respective documents stating that they had complied with the relevant regulations.

Selecting funds using a risk based approach

3.9 Under the second, risk based approach, compliance was investigated where funds were flagged as being of concern based on comparison with other funds' solvency or long term cost efficiency.

3.10 The four open funds that were of interest to us are:

> Royal County of Berkshire Pension Fund;

> Somerset County Council Pension Fund;

> London Borough of Waltham Forest Pension Fund; and

> City of Westminster Pension Fund.

3.11 All four funds had short paragraphs in each of their respective documents stating that they had complied with the relevant regulations.

3.12 The two closed funds that were of interest to us are:

> South Yorkshire PTA Pension Fund; and

> West Midlands ITA Pension Fund.

3.13 Both these funds were flagged under our solvency measures. A check of the funds' respective valuation reports showed that both had stated that they had complied with the relevant regulations.

3.14 Therefore we would need to make further enquiries with the funds to determine how they meet the requirements of regulation 36(5) of the LGPS 2008 Administration regulations, in particular the requirement for employers to pay sufficient contributions, expressed as a percentage of pay of the active members, to ensure the solvency of the fund.

3.15 In our data request for the 2016 section 13 work we intend to seek additional information on how funds ensured compliance with the relevant regulations and request that this be consistently documented between actuarial advisors.

4 Consistency between valuations under the scheme regulations

We viewed consistency in two ways: presentational and evidential. Whilst none of the individual approaches taken are unreasonable, they are not consistent and some variations in assumptions seem to be based on only limited allowance for local circumstances.

We found inconsistencies in the following areas, and recommend the four actuarial firms agree an approach to ensuring each is more readily comparable following 2016 and subsequent valuations.

- The interpretation of the common contribution rate (CCR) disclosed in the valuations
- Average actual contributions vs CCR
- The assumption concerning the amount of commutation
- The assumption for expected pensioner mortality
- The derivation of discount rates used for the valuations
- The assumption used for real earnings growth

If a similar approach is retained for the 2016 valuations we expect to still conclude that the consistency aim of section 13 is not met. Therefore, as an initial step towards achieving consistency, we recommend that the four actuarial firms seek to agree a standard way of presenting the valuation results on the SAB standard basis and associated "dashboard" metrics and other relevant disclosures to permit comparison in their valuation reports. GAD is prepared, if required, to help facilitate these discussions.

4.1 Section 13(4)(b) states that actuarial valuations should be carried out in a way which is not inconsistent with other valuations completed under the scheme regulations. For the purposes of this section GAD has, in line with Explanatory note 88 of the Act, taken "other valuations" to mean valuations of other funds within LGPS as at 31 March 2013.

4.2 After consultation with stakeholders, we interpreted "not inconsistent" to mean that methodologies and assumptions used, in conjunction with adequate disclosure in the report, should allow comparison by a reader of the reports. We explain this further below. We found that there are inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make meaningful comparison of local valuation results unnecessarily difficult.

4.3 In this chapter we highlight inconsistencies that cannot, in our opinion, be justified by local considerations. The primary areas GAD has analysed are:

> Common contribution rates ("CCR")

> Average actual contributions vs CCR

> Assumptions

We also looked at smoothed asset values and post valuation asset returns as aspects adopted by one of the firms, but not the others.

4.4 In many cases we found there is a considerable amount of consistency in these areas between funds advised by the same firm of actuarial advisors, but inconsistency between funds advised by different actuarial advisors. In this chapter, where relevant, we refer to the relevant actuarial firms as a proxy to listing out the funds that those actuarial firms advise. The charts in this chapter clarify the actuarial firm advising each fund.

4.5 We consider that readers of LGPS valuation reports might expect there to be consistency, and that transparent comparisons can be made between funds.

4.6 We have viewed consistency in two ways:

> <u>Presentational.</u> Those aspects of the valuations for which we consider there is no particular justification for differences in disclosure between different funds. This includes results disclosures (i.e. presenting the key results in a similar format) and agreeing a common understanding of terms such as CCR[6], even if these are not explicitly defined in regulations.

> <u>Evidential.</u> Those aspects of the valuations that should be consistent except where supported by evidence or local circumstances (e.g. some demographic assumptions). On financial assumptions, we believe that local circumstances may merit different assumptions (e.g. current and future planned investment strategy, different financial circumstances) leading to different levels of prudence adopted. However, in some areas, it appears that the choice of assumptions is highly dependent on the "house view" of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

4.7 There is a wide range of reasonable assumptions for uncertain future events, such as the financial assumptions. For the avoidance of doubt, we have not concluded that any of the approaches, taken in isolation are unreasonable. However the approaches are not consistent with each other, and it is not clearly explained in valuation reports whether the relevant assumptions, and hence differences in those assumptions between funds, are solely driven by local circumstances. Furthermore, there would also seem to be no common understanding of what constitutes "prudence" for the purposes of regulation 58 (reproduced in Appendix B) of the scheme's regulations and its reference to CIPFA guidance.

[6] CCR has been replaced by primary and secondary rates in regulation 62.

4.8 In the case of LGPS, a scheme split into a number of different funds, inconsistencies in the approach to doing the valuation and the way in which assumptions are set, hinders transparency.

4.9 We have illustrated the effects of inconsistencies by restating the local valuation results on a standardised basis specified by the SAB (the SAB standard basis) and also on a market consistent, best estimate basis derived by us. In Chart 4.6 later in this chapter, we set out the relative rankings on 2013 local bases and the SAB standard basis for each fund. Publication of results on SAB's standardised basis will improve the ability of a reader to be able to make comparisons, but does not in itself address the inconsistencies on which section 13 requires us to comment.

4.10 We can only conclude under section 13(4)(b) of the PSPS Act 2013 Act that 'the valuation has been carried out in a way which is not inconsistent with other valuations', if the valuations are carried out in consistent manner. Currently, in our opinion, the valuations are not carried out consistently.

4.11 We acknowledge that there are significant challenges to achieving consistency, particularly in the short term under existing regulations. In the longer term, we would expect a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.

4.12 As an initial step towards achieving consistency, we recommend that the valuation results on the SAB standard basis and associated "dashboard" metrics are published in valuation reports to allow readers to make like for like comparisons.

Differences in interpretation of 'common contribution rate'

4.13 Regulation 36 of the LGPS (Administration) Regulations 2008[7] states that:

- An actuarial valuation must contain a rates and adjustments certificate;
- The rates and adjustments certificate must specify:
  - The common rate of employers' contributions; and
  - Any individual adjustments

Where the common rate of employers' contribution is defined as:

"the amount which, in the actuary's opinion, should be paid to the fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members."

4.14 The funds advised by Aon Hewitt and Mercer have interpreted this to mean that the CCR should be set as a fund's standard contribution rate ("SCR") in respect of future accrual. Under this approach any contributions required in respect of existing deficits are recorded as individual adjustments for each employer.

[7] Regulation 36 is reproduced in Appendix B.

4.15 Funds advised by Barnett Waddingham and Hymans Robertson have interpreted the legislation to mean that a fund's CCR should be equal to its SCR plus any contributions required in respect of deficit. Any individual adjustments therefore reflect only the differences between employers contributing to a given fund.

4.16 It is not possible to compare the CCR for all funds. There is a clear inconsistency in how the CCR is interpreted.

4.17 We recommend that the four actuarial firms seek to agree a standard way of presenting contribution rates and other relevant disclosures to permit comparison. We acknowledge that new regulations specify the terms primary and secondary contributions rates and that CCR will no longer be relevant. However, the general principle that the four actuarial firms should interpret these terms consistently, and by reference to contributions actually received, remains valid.

Average actual contributions vs common contribution rate

4.18 Regulation 36(6)(b) of the Local Government Pension Scheme (Administration) Regulations 2008[8] states that when calculating a fund's CCR the actuary must have regard to the desirability of maintaining as nearly constant a common rate as possible. We expected to see a relationship between the actual contributions paid over a given period and the CCR, but found we were not able to reconcile the two for most funds.

4.19 This "stability clause" is one of a number of reasons why employers are not necessarily required to pay the CCR derived in the fund's local valuation report, Other reasons include varying historical liabilities by employer and different contribution rates for scheduled bodies (due to variation in covenant quality). In some cases, if required contribution rates increase, actual contributions can taper towards the required contribution rate over a number of years.

4.20 Employers may also pay additional lump sum contributions as set out in the rates and adjustments certificate of their local valuation report. This is a common practice amongst many employers, reflecting their specific cash flow situation at a given point in time. These lump sums could, in addition to the employer's regular contributions, lead to total contributions exceeding the fund's CCR.

4.21 In practice, the approach to setting contributions varies according to actuarial firm.

4.22 In particular, Hymans Robertson state in their reports that:

The CCR "does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates". Hymans Robertson "undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund."

[8] See Appendix B

4.23 Funds advised by Mercer adopt a different discount rate assumption for future service, as set out in paragraph 4.50. This implies a different methodology for recommending rates, but the actual rates recommended to Mercer-advised funds are typically the same as the recommended rates.

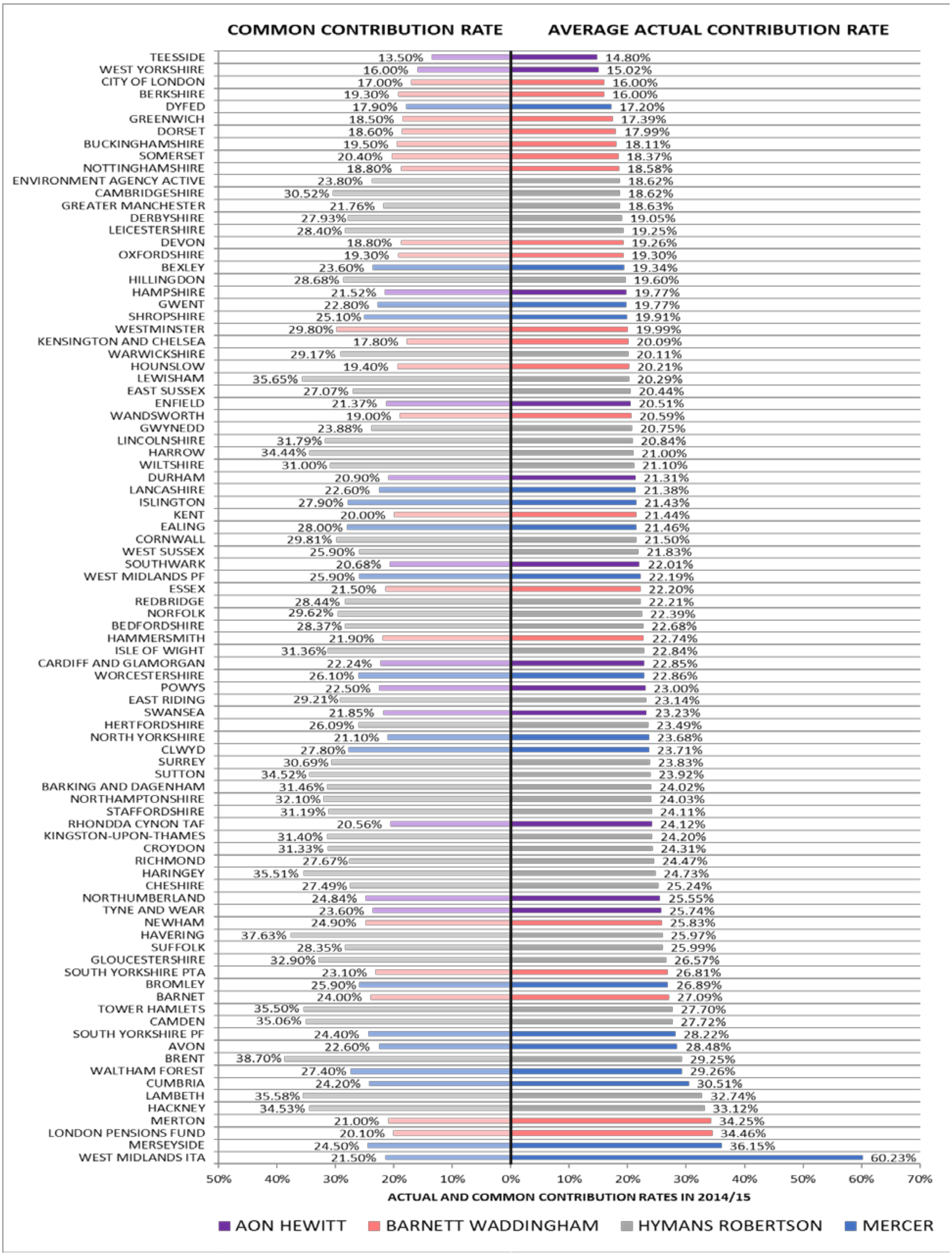
4.24 Funds advised by Aon Hewitt and Barnett Waddingham generally use a single discount rate for both past and future service liabilities.

4.25 The following chart shows the difference between actual 2014/15 employer contributions, derived from SF3 statistics[9], and the common contribution rate specified in the fund's local valuation report. For the purposes of the following chart, the CCR is taken to be the sum of the standard contribution rate and any additional contribution rate in respect of deficit. Whilst we understand that there is a stepping process through which contributions move towards the recommended rates, we found that the relationship between the CCR and contributions actually paid by employers was difficult to interpret, regardless of which firm the fund in question is advised by.

4.26 This inconsistency makes it unnecessarily difficult for a reader to be able to understand the results of the valuation and to be able to interpret and compare those results with other funds. We understand that the CCR will no longer be required as a disclosure under revised regulations from 2016. However, we believe it is imperative that the primary and secondary rates that are required under new regulations should relate directly to the contributions recommended to be paid by the actuary (over a suitable period), and consistently reported, to enable comparisons to be made.

[9] Actual contributions include lump sum contributions referred to in paragraph 4.19.

Chart 4.1: Average actual contributions vs. common contribution rates



Use of smoothed asset values

4.27 20 of the 21 funds advised by Barnett Waddingham used smoothed asset values to calculate funding ratios in their 2013 actuarial valuations, where the smoothing period was the six month period from 1 January 2013 to 30 June 2013. This is not consistent with other funds who have used the actual market value of assets as at the valuation date of 31 March 2013.

4.28 In all cases the smoothed asset value was lower than the market value of assets at 31 March 2013. However we do not consider this to introduce bias because in other circumstances the opposite could be true and as mentioned in paragraph 4.44, Barnett Waddingham also set their discount rate according to prevailing market conditions over the six months straddling the valuation date.

Use of post valuation asset returns to calculate future contribution rates

4.29 The 18 funds advised by Mercer took account of market conditions after the valuation date when calculating future contribution rates. All other funds used market conditions as at 31 March 2013. The reasoning for this approach given by Mercer is:

"Since 31 March 2013 there have been significant changes in the financial market position. In particular there has been an increase in gilt yields, which underpin the assessment of the past service liability values and therefore the long term funding target. As the new contribution rates are effective from 1 April 2014, if required, it is appropriate to allow for this improvement as part of the stabilisation of contribution requirements for individual employers."

4.30 This tends to lead to lower contribution rates than they would have otherwise been.

Pension commutation assumptions

4.31 Scheme regulations and HM Revenue and Customs (HMRC) rules allow members to commute a percentage of their pension, reducing the annual amount of pension they receive for a lump sum on retirement.

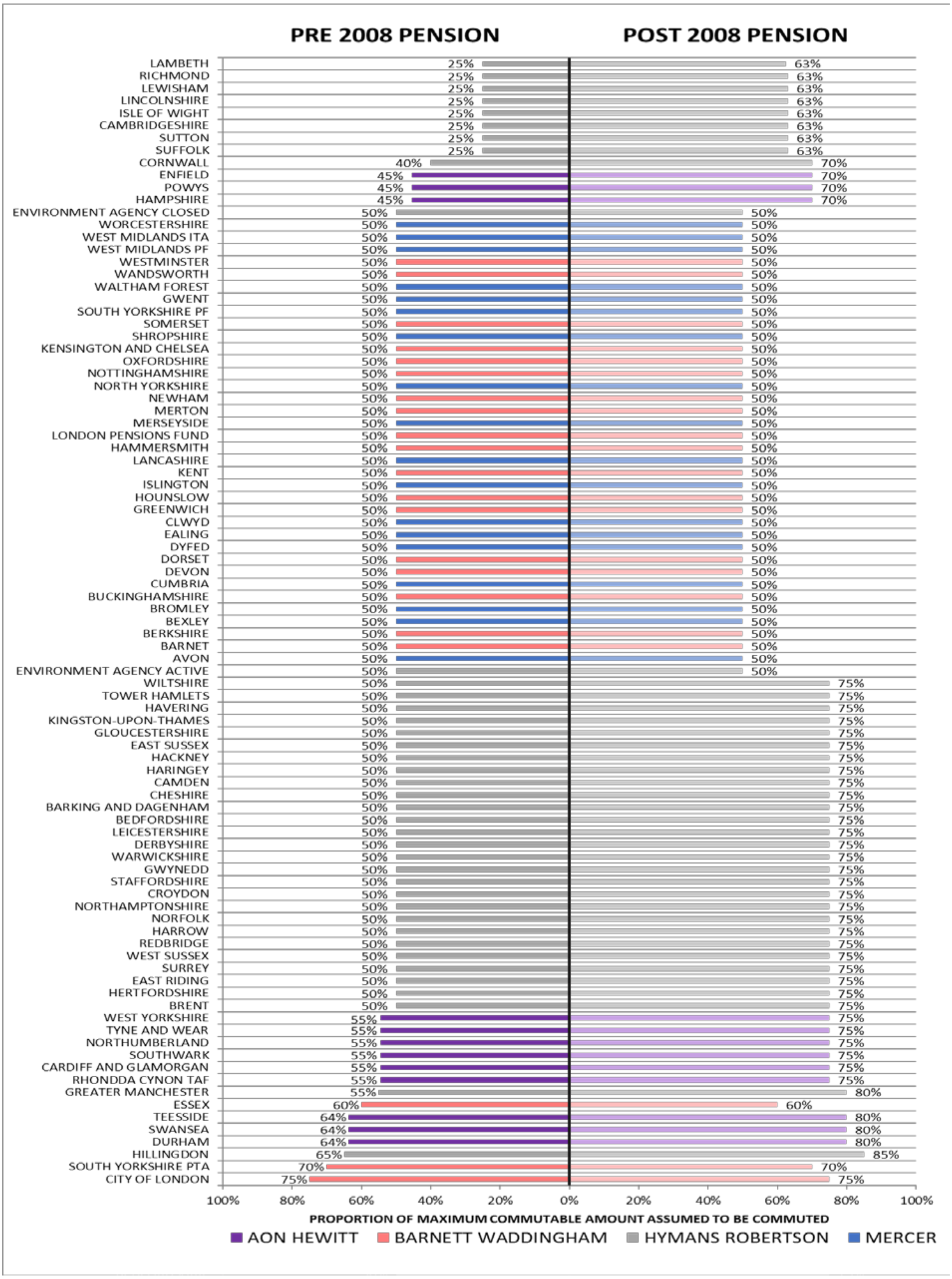
4.32 Regulations currently permit members to commute at a rate of £12 lump sum for each £1 reduction in pension, subject to HMRC limits on the maximum proportion of benefits that can be taken as a lump sum. As the discounted future life expectancy of a member is usually more than 12 years at retirement, commutation tends to be cheaper for the pension scheme. High assumed levels of commutation will therefore tend to reduce the assessed cost of liabilities already accrued and the assessed cost of future accrual.

4.33 LGPS benefits were restructured in 2008, with one of the changes being the removal of an automatic lump sum for any pension accrued post 2008. Many funds therefore have different assumptions for commutation of pre 2008 and post 2008 pensions and the assumptions are uniformly expressed as a proportion of the maximum allowable.

4.34 The following chart shows the differing assumptions between funds for the assumed proportion of maximum allowable pension commuted for both pre and post 2008 pension. For pre-2008 pension, the assumed proportion applies to the remaining maximum amount after the automatic lump sum has been taken.

4.35 Our interpretation of the chart is that there appears to be a common view amongst funds with the same actuarial advisor, but some inconsistency between actuarial advisors. Where this assumption is set based on local experience, this should be explained in the valuation report

Chart 4.2: Commutation assumptions for pre and post 2008 pension



Long term mortality improvements

4.36 Mortality rates are expected to improve in the future, resulting in longer life expectancies. As benefits are expected to be paid for longer, improving life expectancy results in higher liabilities in respect of existing accrued benefits and higher contributions to cover the cost of future accrual.

4.37 There may be evidence of regional variation in mortality rates that justify funds having different assumptions, but it is perhaps more difficult to justify different assumptions for the future improvements in those mortality rates.

4.38 GAD's analysis shows that each actuarial advisor appears to have a common 'house' view on the extent of future mortality improvements. The table below shows the assumed rates of annual improvement in male mortality rates by advisor. In all cases the assumed improvement for female mortality rates is the same as those shown below.

Table 4.1: Annual assumed rate of future mortality improvements

	LONG TERM RATE OF MORTALITY IMPROVEMENTS (MALE)				
ACTUARIAL ADVISOR	0.50%	1.00%	1.25%	1.50%	TOTAL
AON HEWITT	0	0	0	12	12
BARNETT WADDINGHAM	0	1	1	19	21
HYMANS ROBERTSON	1	0	39	0	40
MERCER	0	0	1	17	18

4.39 Hymans Robertson appears to differ from the other advisors with an assumed rate of mortality improvement of 1.25% for the majority of the funds they advise.

4.40 The "outliers" in the table above are mature/closed funds:

> South Yorkshire Passenger Transport Authority Pension Fund (*Barnett Waddingham, 1.00%*);

> City of London Corporation Pension Fund (*Barnett Waddingham, 1.25%*);

> Environment Agency Closed Fund (*Hymans Robertson, 0.50%*); and

> West Midlands Integrated Transport Authority Pension Fund (*Mercer, 1.25%*).

Derivation of discount rates

4.41 At each actuarial valuation a fund, on the advice of its actuary, sets the discount rate or rates that will be used to value its existing liabilities and calculate the contributions that should be paid in order for the fund to meet the cost of future accrual of benefits, and to remove any existing deficit from the scheme.

4.42 The four actuarial advisors approach the derivation of these discount rates differently. The table below summarises the approach taken by one "typical" fund advised by each firm, and is taken from that fund's valuation report and FSS.

Table 4.2 Discount rate methodology

ACTUARIAL ADVISOR	DISCOUNT RATE	METHODOLOGY	2013 VALUATION ASSUMPTION
CARDIFF AND VALE OF GLAMORGAN PENSION FUND *(AON HEWITT)*	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	ASSET BASED RATE	5.6%
ROYAL BOROUGH OF KENSINGTON AND CHELSEA PENSION FUND *(BARNETT WADDINGHAM)*	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	ASSET BASED RATE	5.9%
NORTHAMPTONSHIRE PENSION FUND *(HYMANS ROBERTSON)*	PAST SERVICE LIABILITIES AND FUTURE CONTRIBUTIONS	GILT YIELDS + 1.6%	4.6%
SOUTH YORKSHIRE PENSION FUND *(MERCER)*	PAST SERVICE LIABILITIES	GILT YIELDS + 1.4%	4.6%
	FUTURE CONTRIBUTIONS	CPI + 3%	5.6%

4.43 Further details on the approach used are set out below, taken from the fund's valuation report and funding strategy statement

Cardiff and Vale of Glamorgan Pension Fund

4.44 The fund's valuation report says:

"The funding strategy statement describes the risk based approach used to set the funding strategy and hence the discount rate. Under this risk based approach:

> *The discount rate for long term scheduled bodies assumes indefinite future investment in assets similar to the Fund's holdings at the valuation date (allowing for any known planned changes to the long term investment strategy).*

> *The Fund assets are considered to have a better than evens chance of delivering investment returns in excess of the scheduled body discount rate."*

Royal Borough of Kensington and Chelsea Pension Fund

4.45 The fund's funding strategy statement says:

"The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date."

4.46 The fund's valuation report says:

"The discount rate – this is based on the expected investment return from the Fund's assets."

Northamptonshire Pension Fund

4.47 The fund's funding strategy statement says:

"This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts").....Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more. For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation)."

4.48 The fund's valuation report says:

"Although there has been a downward shift in the expected returns on risky assets since the 2010 valuation, we believe the expected returns in excess of the returns on government bonds to be broadly unchanged since 2010. Therefore, we are satisfied that an AOA[10] of 1.6% p.a. is a prudent assumption for the purposes of this valuation. This results in a discount rate of 4.6% p.a."

<u>South Yorkshire Pension Fund</u>

4.49 The fund's funding strategy statement says:

"The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the Fund at the valuation, this equates to an overall asset out-performance allowance of 1.4% ahead of the LRP[11] p.a."

4.50 The fund's valuation report says:

"The discount rate adopted to set the Funding Target is derived by mapping projected cashflows arising from accrued benefits to a yield curve (which is based on market returns on UK Government gilt stocks and other instruments of varying durations), in order to derive a market consistent gilt yield for the profile and duration of the Scheme's accrued liabilities. To this an Asset Out-performance Assumption ("AOA") of 1.4% per annum is added to reflect the Fund's actual investment strategy.

"The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3% per annum."

[10] AOA = Asset Outperformance Assumption
[11] LRP = Least Risk Portfolio. "a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts"

4.51 This review does not seek to comment on the methodologies the four firms use to derive their discount rates. Further we accept that the discount rate is the main vehicle for adding prudence, as required by regulations. We are pointing out that the methods are different, resulting in different levels of prudence being incorporated into the valuation results, and that this in itself is not explicit, which makes the results of the 2013 valuations unnecessarily difficult to compare for the reader. We also note that the production of standardised results for the 2016 valuations will help in this regard.

Assumed asset out performance within discount rate

4.52 In practice, each actuarial firm has its own method of assessing the appropriate discount rate. However, based on information provided, we considered it appropriate to break this down into the following four components (although we acknowledge this construct does not reflect the way some firms assess their discount rate assumption).

> A risk free real rate of return ("RFR")

> Assumed Consumer Price Index ("CPI") inflation

> The excess of assumed Retail Price Index ("RPI") inflation over assumed Consumer Price Index inflation

> The assumed asset performance over and above the risk free rate (which is a balancing item to get to the discount rate used, and therefore the main determinant of the variation in discount rates, and ultimately the level of prudence adopted)

4.53 Chart 4.3 shows the assumed asset out performance over and above the risk free rate, where the asset outperformance assumption ("AOA") is calculated as the fund's nominal discount rate ("DR") net of:

> The RFR – the real 20 year Bank of England spot rate as at 31 March 2013

> Assumed CPI – as assumed by the fund in their 2013 actuarial valuation

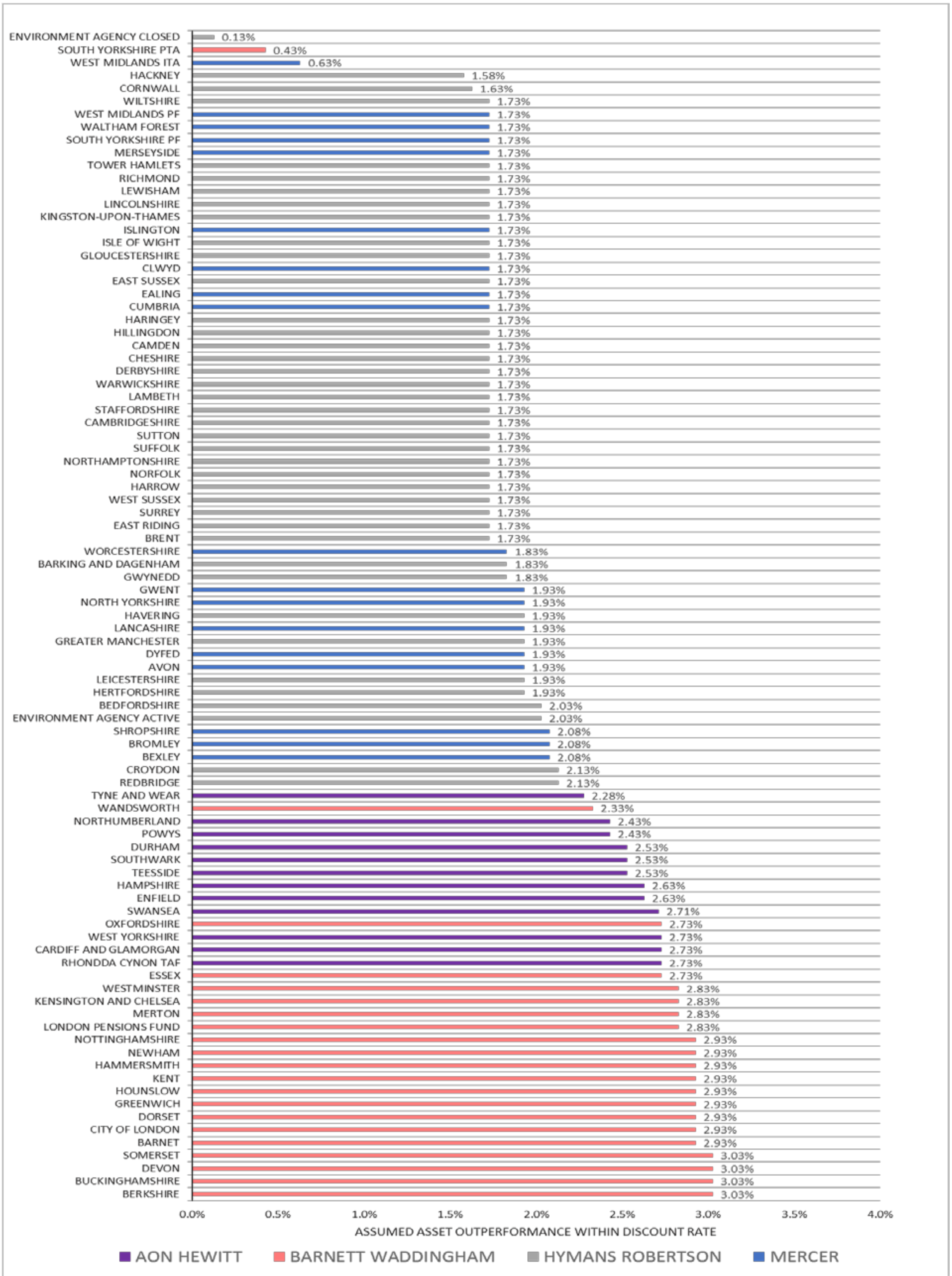
> The excess of assumed RPI inflation over assumed CPI inflation ("RPI–CPI") – as assumed by the fund in their 2013 actuarial valuation

i.e. $AOA = DR - RFR - CPI - (RPI - CPI)$.

4.54 The chart is ordered by maximum assumed AOA within the advisory firm, as represented by the colour scheme. It indicates that the different rates are more likely to be the result of differing future expectations between the four actuarial advisors than, for example, different investment strategies. A higher AOA tends to lead to a higher discount rate and a lower value placed on the liabilities, other things being equal.

4.55 As we have noted, Mercer use a different discount rate to assess future contribution rates.

Chart 4.3: Assumed asset outperformance within discount rate

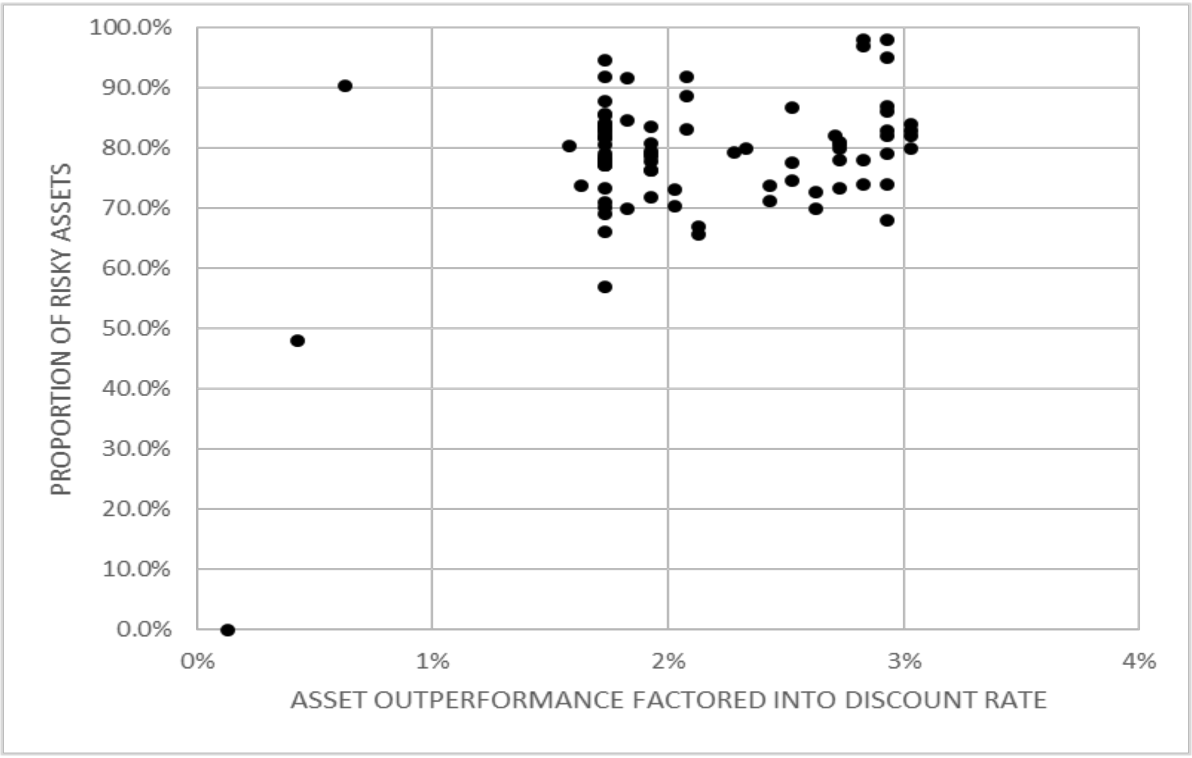


4.56 The large variation between funds in the implied level of asset outperformance over and above the risk free rate of return could be due to differing investment strategies between funds. For example, a fund invested solely in defensive assets, such as Government bonds, would expect a lower rate of return than a fund invested solely in return-seeking assets, such as equities. They would typically use a lower discount rate in their actuarial valuation to allow for this low-risk, low-return investment strategy.

4.57 The variation in asset outperformance could also be considered as a measure of the risk appetite adopted by the funds. We would encourage the actuarial firms to provide additional explicit discussion of this aspect in the 2016 and subsequent valuation reports to assist the reader in interpretting the fund's risk appetite.

4.58 The following chart shows that there is not a definite link between asset outperformance assumption and proportion of return seeking assets.

Chart 4.4: Asset Outperformance by proportion of return seeking assets



Real earnings growth

4.59 There is considerable inconsistency in the assumptions of future real earnings growth, where real earnings growth consists of:

> The excess of the assumed rate of earnings inflation over the assumed rate of CPI inflation

> Assumed promotional salary growth

4.60 A higher rate of real earnings growth (all other assumptions remaining constant) will lead to higher liabilities in an actuarial valuation as the majority of existing liabilities are linked to a member's final salary.

4.61 However, where contribution rates are quoted as a percentage of payroll (although this appears to be relatively rare) a higher rate of real earnings growth also means that future contributions, in money terms, will increase. A higher real earnings assumption may therefore have the effect of weighting contributions in respect of deficit further towards the future, when a fund's payroll is expected to be larger, rather than the present day.

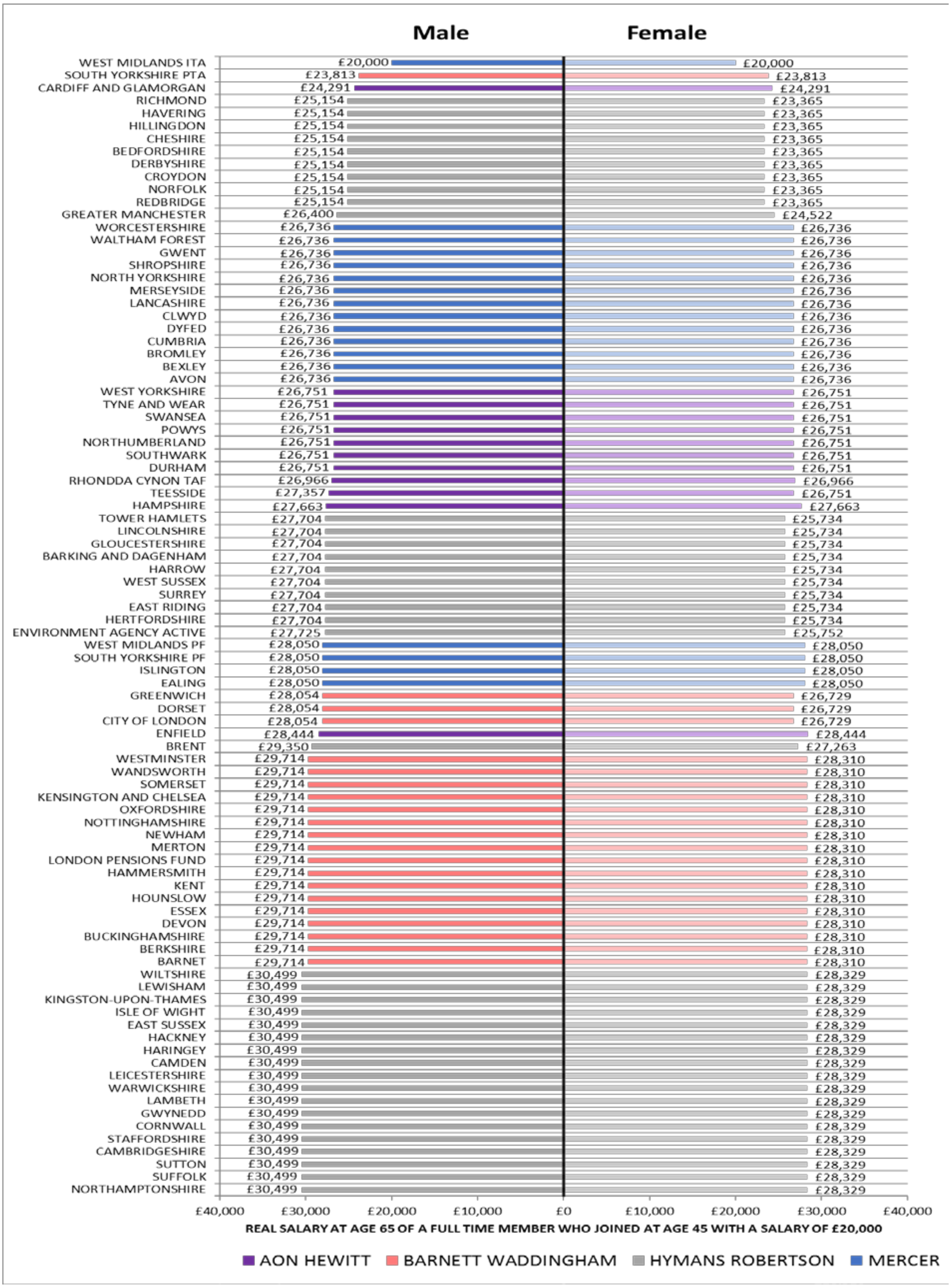
4.62 The following chart shows the assumed salary at age 65, in 2013 prices terms, for a member who joined the fund aged 45 on 31 March 2013 with a salary of £20,000 per annum. Mercer combine their general salary increase and promotion salary increase assumptions into a single figure. The funds they advise have been included in the analysis on that basis. The Environment Agency Closed Fund is excluded as it has few or no active members.

4.63 The majority of funds have assumed different levels of promotional salary growth for male and female members, except 9 of the 12 funds advised by Aon Hewitt for whom a unisex promotional salary growth assumption is used.

4.64 Funds advised by Hymans Robertson also generally have a separate promotional salary growth assumption for full-time and part-time members whereas funds advised by other firms have a single assumption for all active members.

4.65 We would expect some regional variation in this assumption. We also understand that it is an area in which the local authorities may have some input, particularly in short term variations. We would encourage the actuarial firms to add explicit commentary about both short term and long term impacts of these factors on the assumptions adopted.

Chart 4.5: Projected real salary at age 65 for a member aged 45 on £20,000 pa 2013 prices



Standardising the valuation results

4.66 Whilst we acknowledge that no presentation of results on a standardised basis was required as at 2013, the inconsistencies between funds identified above prevent meaningful comparison of local valuation results. As part of the next valuation cycle, as at 31 March 2016, it is expected that funds will produce results on a standardised set of assumptions as well as on their local assumptions, which is a positive step towards allowing the reader to be able to compare the results of valuations for different funds.

4.67 As this information is not available for the actuarial valuations as at 31 March 2013 GAD have adjusted the existing valuation results in order to approximately standardise them using a set of assumptions published by the SAB. This paper refers to this set of assumptions as the "SAB standard basis".

4.68 The SAB standard basis is reproduced in Appendix D.

4.69 Although the basis proposed by SAB for comparisons is not market consistent, it does allow a meaningful comparison to be made, as this is purely a relative ranking chart. Note that the SAB standard basis is not designed to be market consistent. The funding levels are therefore not intended to represent our opinion of how well funded a particular fund is, but rather to assist in identifying approximate ranking relativities.

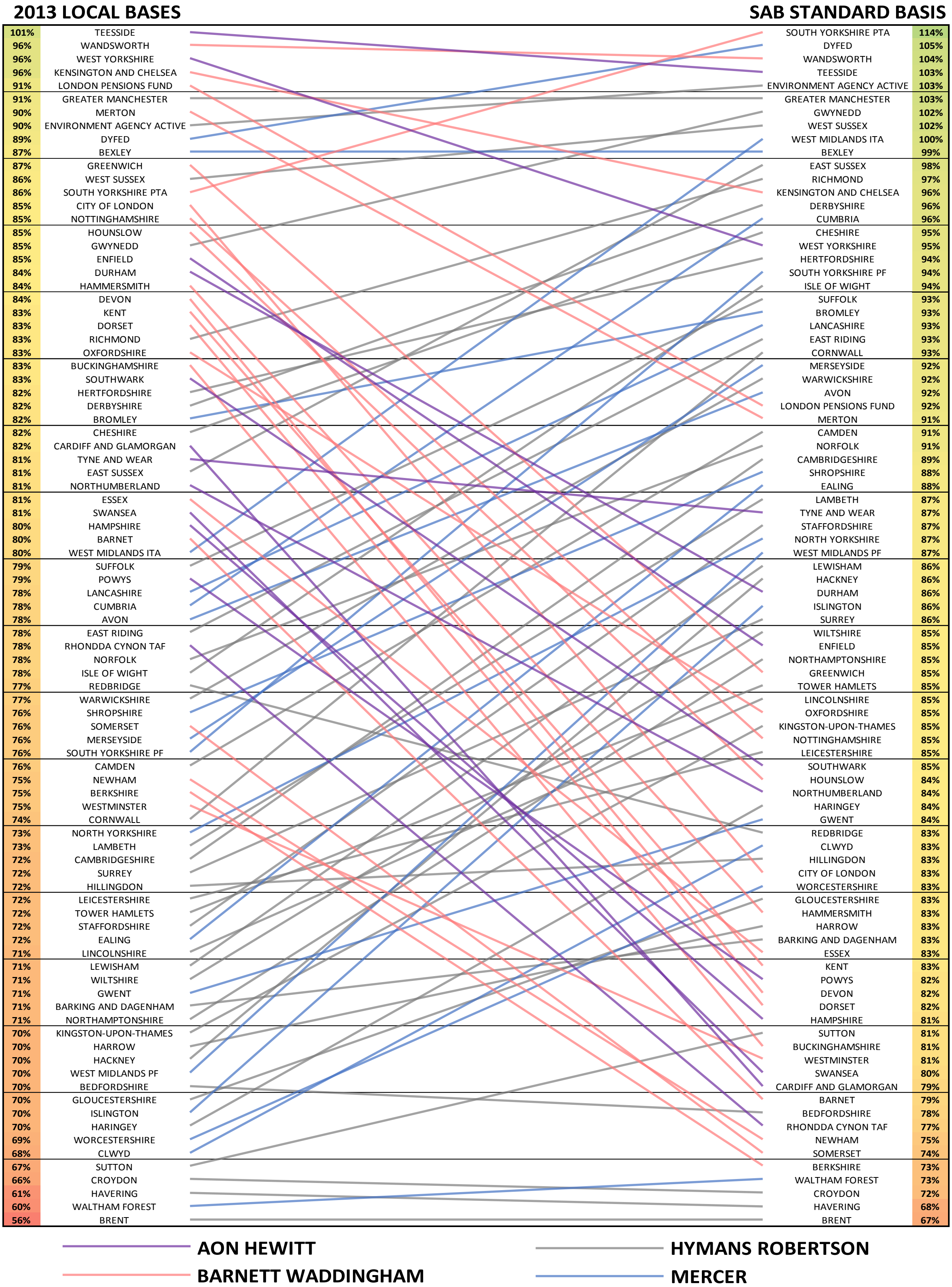
4.70 The following chart shows how the relative ranking of funds by funding ratio (assets/liabilities) has changed as a result of the standardisation process. Funds at the top of the list are those that have the highest funding levels and those at the bottom of the list have the lowest funding levels.

4.71 The chart shows a clear pattern, with funds advised by Aon Hewitt and Barnett Waddingham tending to be lower ranked following the standardisation process, and funds advised by Hymans Robertson and Mercer tending to be higher ranked. This may be interpreted as an indication of differing levels of prudence adopted.

4.72 The extent of the changes in ranking between the two bases indicate that any comparisons based on the local fund valuation results, which are inherently inconsistent, could lead to incorrect conclusions.

4.73 The Environment Agency Closed Pension Fund has been excluded from the table as explained in paragraph 4.62.

Chart 4.6: Standardising local valuation results



5 Solvency

The conclusions of this chapter are that:

> For the two closed Passenger Transport funds, we are not aware of any plan in place to ensure solvency. We would have engaged with the administering authorities to discuss the need for plans to be put in place had section 13 applied as at 31 March 2013.

> We have also highlighted the ten funds with the lowest funding level on the Scheme Advisory Board (SAB) standardised basis. Whilst being poorly funded is not necessarily sufficient, by itself, to warrant a recommendation for remedial action had section 13 been in force, we may nevertheless have engaged with a number of these funds to better understand how they intend to improve their funding position.

> We believe it is important that administering authorities and other employers understand the potential variability of contributions, so that they can understand the affordability of providing LGPS benefits to their employees.

5.1 Under section 13(4)(c) of the Act the Government Actuary (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund (in this case an LGPS pension fund) is set at an appropriate level to ensure the solvency of the pension fund.

5.2 The explanatory notes to the Act state that solvency means that the rate of employer contributions should be set at *"such a level as to ensure that the scheme's liabilities can be met as they arise"*. We do not regard that this means that a pension fund should be 100% funded at all times. Rather, and for the purposes of section 13, we consider that the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency of the pension fund if:

> the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds)

and either:

> employers collectively have the financial capacity to increase employer contributions, should future circumstances require, in order to continue to target a funding level of 100%

or

> there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed

5.3 In the context of the LGPS:

- Our understanding based on confirmation from DCLG is that, in contrast to employers in the private sector, there is no insolvency regime for local authorities
- Therefore, for the purposes of our analysis we will assume that local authority sponsors cannot default on their pension liabilities through failure
- For funds with local authority employers, members' benefits are therefore dependent on the assets of the scheme and future contributions from employers including local authorities

It is therefore important that administering authorities and other employers understand the potential cost, so that they can understand the affordability of potential future contribution requirements.

Volatility of contributions

5.4 The future rate of employer contributions to ensure the solvency of the fund can be highly volatile, and dependent on economic conditions at the time of valuation and asset returns over the periods between valuations.

5.5 In a financial crisis scenario, similar to the 2008 financial crisis, we estimate that aggregate contributions would have to increase by around £1.7 billion per year assuming that some of the existing prudence in assumptions is relaxed. If the same level of prudence was maintained we estimate that contributions would increase by £4.9 billion per year (compared with the actual outturn from the 2013 valuations of £6.6 billion). Over the three years from 1 April 2016 to 31 March 2019 we estimate additional contributions of approximately £13.5bn would be required.

Solvency considerations

5.6 In assessing whether the conditions in paragraph 5.2 are met, we will have regard to:

Risks already present:

- funding level on the SAB standard basis
- the extent to which the fund continues to be open to new members. If the fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions
- the ability of the fund to meet benefits due (without constraining investment policy)
- the ability of tax raising authorities to meet employer contributions

Emerging risks:

- the cost risks posed by changes in the value of the scheme liabilities (to the extent that these are not matched by changes to the scheme assets)

> the cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)

> the proportion of scheme employers without tax raising powers or without statutory backing

> how the risks above compare with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole

5.7 If the conditions in paragraph 5.2, taking into account the considerations above, are met then it is expected that the fund will be able to pay scheme benefits as they fall due.

Solvency measures

5.8 In the 2016 section 13 report GAD is likely to use ten[12] measures across the two categories to assess whether the above conditions are met. In this 2013 dry run report GAD has only used six of these ten measures as the data required for the other four measures were not available within the necessary time frame. However, we have included all ten measures in the descriptions that follow for information purposes.

5.9 In the following table we set out the considerations with regards to risks already present and emerging risks, and map these to the likely measures:

Table 5.1: Solvency measures

Consideration	Measure Used
Risks already present:	
The relative ability of the fund to meet its accrued liabilities	**SAB funding level:** A fund's funding level using the SAB standard basis, as set out in Appendix D
The extent to which the fund continues to be open to new members. If a fund is closed to new members or is highly mature, we will focus on the ability to meet additional cash contributions	**Open fund:** Whether the fund is open to new members
The proportion of scheme employers without tax raising powers or without statutory-backing	**Non-statutory members:** The proportion of members within the fund who are/were employed by an employer without tax raising powers or statutory backing

[12] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.

Consideration	Measure Used
The ability of tax raising authorities to meet employer contributions	**Contribution cover[10]:** Actual contributions paid to the fund as a proportion of local authority income
Emerging risks: The cost risks posed by changes in the value of the scheme liabilities (to the extent that these are not matched by changes to the scheme assets) compared with the pensionable payroll of scheme employer	**Liability shock:** The change in average employer contribution rates as a percentage of payroll after a 10% increase in liabilities
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	**Liability shock cover[13]:** The change in average employer contribution rates as a percentage of local authority income after a 10% increase in liabilities
The cost risks posed by changes to the value of scheme assets (to the extent that these are not matched by changes to the scheme liabilities)	**Asset shock:** The change in average employer contribution rates as a percentage of payroll after a 15% fall in value of return-seeking assets
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	**Asset shock cover[11]:** The change in average employer contribution rates as a percentage of local authority income after a 15% fall in value of return-seeking assets
The impact of non statutory employers defaulting on contributions	**Employer default:** The change in average employer contribution rates as a percentage of payroll if all employers without tax raising powers or statutory backing default on their existing deficits
How the risk above compares with the pensionable payroll of scheme employers, and the wider income of sponsoring employers as a whole	**Employer default cover[11]:** The change in average employer contribution rates as a percentage of local authority income if all employers without tax raising powers or statutory backing default on their existing deficits

[13] Data were not available for these measures. We expect information to be available following the 2016 valuations.

5.10 We have included reference to tax payer-backed employers being of stronger covenant value than other employers. Data for this purpose are captured from SF3 statistics which labels employers with one of four categories. For this purpose we have taken categories 1 and 2 to be tax payer-backed, while categories 3 and 4 are not tax payer-backed. It is likely that some category 3 employers have council guarantees, bonds or other external security. However, we consider that this does not alter the general principle that the residual liability falls back to the tax payer-backed employers.

5.11 Each fund's score under each measure is colour coded, where:

- **RED** indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure solvency;
- **AMBER** is used to highlight a possible risk to sponsoring employers; and
- **GREEN** indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency.

5.12 It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

5.13 Emerging risk measures require assumptions. We used market consistent assumptions for this purpose, details of which can be found in Appendix D. Details of the methods used to calculate scores under each measure and the criteria used to assign a colour code can be found in Appendix E.

5.14 In tables 5.2 (open funds) and 5.3 (closed funds) below we illustrate the results of the six solvency measures we have used for each of the individual funds in the LGPS where at least one measure of insolvency was amber or red. A fund with a large number of amber or red measures is one where the solvency of the fund may be at risk. Table F.1 in Appendix F sets out the results of each solvency measure for each fund in LGPS.

5.15 The rates shown in tables 5.2, 5.3 and F.1 are approximate, and are based on the information provided to GAD and/or publicly available. Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While they should not represent targets, these measures help us determine whether a more detailed review is required; for example, we would have concern where multiple measures are triggered amber for a given fund.

Table 5.2: Open funds with amber or red solvency measures

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
BEDFORDSHIRE	5.9 (76)	78%	YES	4%	+3%	+3%	+0%
BERKSHIRE	5.9 (78)	73%	YES	6%	+3%	+3%	+1%
BEXLEY	7.4 (14)	99%	YES	7%	+4%	+6%	-0%
BRENT	6.9 (28)	67%	YES	0%	+4%	+3%	+0%
BROMLEY	6.8 (33)	93%	YES	2%	+4%	+5%	+0%
CAMDEN	8.6 (7)	91%	YES	9%	+5%	+6%	+0%
CROYDON	6.7 (37)	72%	YES	5%	+4%	+3%	+1%
EAST SUSSEX	6.3 (52)	98%	YES	2%	+4%	+5%	-0%
GREATER MANCHESTER	7.2 (22)	103%	YES	22%	+4%	+5%	-1%
GREENWICH	7.2 (21)	85%	YES	6%	+4%	+5%	+0%
HACKNEY	7.4 (15)	86%	YES	0%	+4%	+5%	+0%
HAMMERSMITH	8.9 (6)	83%	YES	6%	+5%	+6%	+0%
HARINGEY[14]	7.8 (11)	84%	YES	N/A	+4%	+5%	N/A
HAVERING	6.8 (34)	68%	YES	1%	+4%	+3%	+0%
ISLE OF WIGHT	7.4 (16)	94%	YES	3%	+4%	+5%	+0%
KENSINGTON AND CHELSEA	7.7 (13)	96%	YES	5%	+4%	+6%	-0%
LAMBETH	8.9 (5)	87%	YES	5%	+5%	+5%	+0%
LEWISHAM	7.8 (10)	86%	YES	16%	+4%	+5%	+1%
LONDON PENSIONS FUND	9.6 (4)	92%	YES	0%	+6%	+4%	+0%
MERSEYSIDE	7.3 (17)	92%	YES	13%	+4%	+5%	+0%
NEWHAM[12]	7.3 (19)	75%	YES	N/A	+4%	+4%	N/A
NORTHUMBERLAND	8.2 (8)	84%	YES	6%	+5%	+5%	+0%
OXFORDSHIRE	5.9 (75)	85%	YES	36%	+3%	+4%	+2%
RHONDDA CYNON TAF	6.1 (68)	77%	YES	5%	+3%	+3%	+0%

[14] The information required for the ***Non-Statutory Employees*** and ***Employer Default*** measures was not available in the SF3 statistics.

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
RICHMOND	7.1 (24)	97%	YES	3%	+4%	+5%	-0%
SOMERSET	5.9 (80)	74%	YES	13%	+3%	+3%	+1%
TEESSIDE	6.8 (29)	103%	YES	13%	+4%	+5%	-0%
TOWER HAMLETS	8.1 (9)	85%	YES	0%	+5%	+5%	+0%
WALTHAM FOREST	7 (26)	73%	YES	5%	+4%	+4%	+1%
WANDSWORTH	7.7 (12)	104%	YES	1%	+4%	+6%	-0%
WEST SUSSEX	6 (72)	102%	YES	6%	+3%	+5%	-0%
WESTMINSTER	10.1 (3)	81%	YES	11%	+6%	+6%	+1%

Table 5.3: Closed funds with amber or red solvency measures

PENSION FUND	MATURITY (RANK)	SOLVENCY MEASURES					
		RISKS ALREADY PRESENT			EMERGING RISKS		
		SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
SOUTH YORKSHIRE PTA[15]	25.2 (1)	114%	NO	100%	+5%	+3%	N/A
WEST MIDLANDS ITA[13]	25.1 (2)	100%	NO	100%	+5%	+7%	N/A

Observations based on the solvency measures

Open Funds

5.16 All funds should be aware of their solvency position to ensure that the relevant plans are in place to be able to pay benefits when they fall due, and employers are able to accommodate potential future increases in contributions.

5.17 This is particularly important in the case of mature funds. They should ensure that sufficient plans are in place to be able to pay benefits when they fall due in the environment of no future employer contributions.

[15] The ***Employer Default*** measure is shown as N/A because there are no statutory employers participating in these two closed funds.

5.18 We may also have engaged with a number of funds showing amber flags under the SAB funding level measure to better understand how they intend to improve their funding position had section 13 applied as at 31 March 2013.

Adjustment to results for City of Westminster Pension Fund and London Borough of Waltham Forest Pension Fund

5.19 As noted in paragraph 2.9, the purpose of the flags is to identify authorities with whom we might engage and potentially seek additional information from. The importance of clear disclosure in the valuation reports and accurate provision of data from the local authorities and the actuarial firms is highlighted by two examples from our analysis.

5.20 For the City of Westminster Pension Fund, we sought more information from the fund's actuary, clarifying the different actuarial basis that had been applied to some admission bodies, whereas our standard assessment methodology had relied on the same actuarial assumptions being applied for all participating employers in the fund except where this was clear from the valuation report. Based on this additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised only two amber flags.

5.21 For the Borough of Waltham Forest Pension Fund, following engagement with the fund's actuary, we were advised that a material proportion of members had seemingly been incorrectly classified in SF3 data returns. Upon receipt of data reflecting a revised classification of those members, we were able to conclude that Waltham Forest raised only one amber flag.

5.22 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.

Closed Funds

5.23 The Environment Agency Closed Pension Fund has not been shown in the table above and is excluded from the analyses that follow as the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs as set out in the Compliance chapter.

5.24 Table 5.3 shows that both West Midlands Integrated Transport Authority Pension Fund and South Yorkshire Passenger Transport Authority Pension Fund raised a number of red/amber flags.

5.25 Our further investigation indicates that West Midlands Integrated Transport Authority Pension Fund has taken out a buy-in policy with an insurer to reduce its exposure to asset/liability shocks. Furthermore we understand that a guarantee has been obtained from the parent company of the employer. Both of these provide some additional assistance with solvency risk, but do not fully eliminate that risk.

5.26 The 2013 local valuation reports for both funds show that employers are paying additional lump sum contributions in order to meet their liabilities. However, the two transport authority funds are wholly dependent on the performance of a limited company.

5.27 As they are closed to new members, their payrolls are also decreasing, which may reduce the scope to be able to meet variations in contributions. This means that they are at risk of requiring outside funding in the future, which in turn may be uncertain.

5.28 Had section 13 been in force at the time, we would have raised concerns about the two transport authority funds. We would expect to have engaged with them to discuss their plans. Remedial action may have been recommended, depending on the outcome of that engagement. That remedial action may have included putting in place a plan to pay benefits when they fall due in the environment of no future employer contributions, and may have included a requirement to seek a guarantor (should there not already be one).

6 Long term cost efficiency

For the following two funds we would have engaged with the administering authority to investigate whether the aims of section 13 were met had section 13 applied as at 31 March 2013:

- Royal County of Berkshire Pension Fund
- Somerset County Council Pension Fund

A number of other funds have triggered flags. We do not consider that these funds are not meeting the aims of section 13 yet, but we would have encouraged these funds to provide further information regarding the relevant measures.

Neither of the closed Passenger Transport authority pension funds triggered long term cost efficiency flags.

We had some concerns regarding the actual contributions data underlying the contribution shortfall measure. A number of red flags were triggered that we have ignored due to these data concerns. We would have sought additional clarification

6.1 Under section 13(4)(c) of the Act, the Government Actuary (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund (in this case an LGPS pension fund) are set at an appropriate level to ensure the long-term cost efficiency of the scheme, so far as relating to the pension fund.

6.2 The accompanying explanatory notes to the Act state that: "Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time."

6.3 We conclude that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

6.4 In assessing whether the requirement for long term cost efficiency is met, we had regard to a number of absolute and relative considerations and constructed ten[16] measures to assess these considerations. Data were not available to populate all measures, although we expect data to be available for the section 13 work following the 2016 valuations.

[16] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.

6.5 A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned the fund on a standalone basis. In the following table we set out the relative and absolute considerations, and map these to the ten measures.

Table 6.1: Long term cost efficiency measures

Consideration	Measure Used
Relative considerations:	
The pace at which the deficit is expected to be paid off	**Deficit Repaid:** The proportion of deficit paid off in the first year, where the deficit is calculated on a standardised market consistent basis (SAB key indicator 2(i))
The implied deficit recovery period	**Deficit Period:** Implied deficit recovery period calculated on a standardised market consistent basis (SAB key indicator 3)
The investment return required to achieve full funding	**Required Return:** The required investment return rates to achieve full funding in 20 years' time on a standardised market consistent basis (SAB key indicator 4(i))
The pace at which the deficit is expected to be paid off	**Repayment Shortfall:** The difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off the deficit in 20 years, where the deficit is calculated on a standardised market consistent basis
The pace at which the deficit is expected to be paid off	**Repayment Pace[17]:** The amount of deficit paid off over each future valuation period, as a proportion of the original deficit, and the number of years required to pay off 50% of the value of original deficit, where the deficit calculations are carried out on a standardised market consistent basis
Absolute Considerations:	
The extent to which the required investment return above is less than the estimated future return being targeted by a fund's investment strategy	**Return Scope:** The required investment return rates as calculated in required return (i.e. SAB key indicator 4(i)), compared with the fund's expected best estimate future returns assuming current asset mix maintained (SAB key indicator 4(ii))

[17] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.

Consideration	Measure Used
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	**Deficit Extension:** The change in each fund's reported deficit recovery period from the 2010 valuation to the 2013 valuation
If there is a deficit, the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on the deficit over the current inter-valuation period	**Interest Cover:** A check on whether the annual deficit recovery contributions paid by the fund are sufficient to cover the annual interest payable on that deficit, where the deficit is calculated on a standardised market consistent basis
The extent to which any deficit recovery plan can be reconciled with, and can be demonstrated to be a continuation of, the previous deficit recovery plan, after allowing for actual fund experience	**Deficit Reconciliation:**[18] Confirmation that the deficit period can be demonstrated to be a continuation of the previous deficit recovery plan, after allowing for actual fund experience
If there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future	**Surplus retention**[16]**:** Confirmation that contributions from funds not in deficit are not likely to lead to a deficit arising in the future.

6.6 Four of these measures were selected from the KPIs defined by the SAB[19].

6.7 The selected SAB measures have been augmented with six additional measures which we believe are appropriate in helping to assess whether the aims of section 13 are met.

6.8 Three of the measures (deficit extension, deficit reconciliation and surplus retention) were assessed based on the local funds' actuarial bases (i.e. no standardised basis was required), or are proposed to be assessed on these bases as part of the section 13 work following the 2016 valuations. However, because of the inconsistencies in approach highlighted in chapter 4, it was not possible to assess the other measures using the local valuations.

[18] Data were not available to populate all measures. We expect these data to be available for the section 13 work following the 2016 valuations.
[19] http://committees.westminster.gov.uk/documents/s15058/11%20-%20Appendix%201%20-%20KPI%20Guidance.pdf

6.9 For the remaining measures (deficit repaid, deficit period, required return, repayment shortfall, repayment pace, return scope and interest cover) we assessed the metrics on a standardised market-consistent basis (as set out in Appendix D), or we propose to do so as part of the section 13 work following the 2016 valuations. Although some could have been assessed on the SAB prescribed basis described in Appendix D, the non-market-related SAB basis is not appropriate for some of the comparisons between the funds, and so for consistency, we have adjusted this basis to make it market consistent.

6.10 Each fund's score under each measure is colour coded, where:

- **RED** indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure long-term cost efficiency of contributions;
- **AMBER** indicates a possible risk to the long-term cost efficiency of contributions; and
- **GREEN** indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure long-term cost efficiency of contributions.

6.11 It should be noted that these flags are intended to highlight areas for further investigation, but green does not indicate a clean bill of health and also that the fact we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

6.12 The Environment Agency Closed Fund was excluded from the analyses that follow, as the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs as set out in the Compliance chapter.

6.13 The analyses and calculations carried out under these long-term cost efficiency measures are approximate. They rely on the accuracy of the data provided by the respective local fund actuaries and the data published by DCLG in their SF3 statistics[20].

6.14 Although the calculations are approximate, we consider they are sufficient for the purposes of identifying which funds are a cause for concern. While the measures should not represent targets, these measures help us determine whether a more detailed review is required; for example, we would have concern where multiple measures are triggered amber for a given fund.

6.15 In the table that follows we illustrate the results of each long term cost efficiency measure for each of the individual funds in the LGPS where at least one measure of insolvency was amber or red.

[20] https://www.gov.uk/government/statistical-data-sets/local-government-pension-scheme-funds-local-authority-data-2014-to-2015

6.16 The data that have been used to calculate the measures employed in this dry run report are set out in Appendix C while the methodology is set out in Appendix G. The complete table of funds and their long-term cost efficiency measures can be found in Appendix H.

Table 6.2: Open funds with amber or red long term cost efficiency measures

PENSION FUND	MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
		RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
		DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
BERKSHIRE	5.9 (78)	4%	34	6%	-2%	-0.5%	-3	No
BROMLEY	6.8 (33)	>50%	2	3%	13%	3.1%	3	Yes
ENVIRONMENT AGENCY ACTIVE[21]	5.8 (85)	IN SURPLUS	IN SURPLUS	N/A	N/A	N/A	3	N/A
GWENT	5.9 (79)	13%	8	5%	5%	1.5%	5	Yes
SOMERSET	5.9 (80)	5%	24	6%	-1%	0.0%	0	No
STAFFORDSHIRE	6.2 (59)	23%	5	4%	9%	2.4%	5	Yes
WORCESTERSHIRE	6.3 (57)	14%	7	4%	7%	2.0%	2	Yes

Observations based on the long-term cost efficiency measures

Open Funds

6.17 Table 6.2 shows those funds that would have given rise to concerns about the long-term cost efficiency of their contributions if the requirements of section 13 were in place as at 31 March 2013.

6.18 We will seek a confirmation that these data items are accurate for the section 13 review after the 2016 valuations. We expect that these data will allow us to calculate the average over a three year period, rather than just one year's contributions, to account for any phasing in of contribution rate changes.

6.19 Funds that give rise to concern are:

> Royal County of Berkshire Pension Fund

> Somerset County Council Pension Fund

[21] Some measures are identified as N/A because the fund is in surplus on the market consistent basis.

6.20 No flags were raised under the surplus retention measure, so we have excluded this measure from table 6.2. At present, all the funds that were in surplus on the standardised market consistent basis were paying sufficient contributions into their funds, which resulted in an increase in the value of the surplus on the standardised market consistent basis.

Adjustment to results for City of Westminster Pension Fund

6.21 As noted in paragraphs 5.19 – 5.22 based on additional information, we recalculated our measures and have reported on this revised basis. The result was that Westminster raised no flags under long term cost efficiency.

6.22 Following the 2016 valuation we will request more explicit information and our expectation is that this, together with having highlighted the need for clear and full disclosure and the production of liabilities on the SAB standard basis, will help to improve the overall quality of information provided.

Closed Funds

6.23 No flags have been raised in respect of closed funds under long term cost efficiency, hence we have not shown a table in respect of closed funds.

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Appendix 4

DELEGATED RESPONSIBILITIES

<table>
<tr><th></th><th>Delegation to Officer(s)</th><th>Delegated Officer(s)</th><th>Communication and Monitoring of Use of Delegation</th></tr>
<tr><td>1.081</td><td>Rebalancing and cash management</td><td>PFM (having regard to ongoing advice of the IC and PAP)</td><td>High level monitoring at PFC with more detailed monitoring by PAP</td></tr>
<tr><td colspan="4">Action taken –
The Asset allocation for the Fund is monitored against the strategic ranges within the SIP on a monthly basis. These are reported at the monthly Tactical Asset Allocation Group (TAAG) meetings. This quarter the Fund’s strategic allocation is mainly within the SIP ranges. The exception being Stone Harbour who are marginally outside. It has been agreed that any rebalancing will be deferred until any changes as a result of the “light touch” Investment Review are agreed.

Cash flows are monitored and reconciled quarterly to report to Committee but cash balances are monitored on a regular basis to ensure the availability of cash to meet payments of pensioner benefits and calls on drawdowns for In House investments. The cash balance as at 31st August 2016 was £41.2m (£45.3m at 30th June 2016). The cash flow will be monitored to ensure there is sufficient monies to pay benefits and capital calls for the In House investments and any surplus will be invested.</td></tr>
<tr><td>1.082</td><td>Short term tactical decisions relating to the 'best ideas' portfolio</td><td>PFM (having regard to ongoing advice of the IC and PAP)</td><td>High level monitoring at PFC with more detailed monitoring by PAP</td></tr>
</table>

<table>
<tr><th></th><th>Delegation to Officer(s)</th><th>Delegated Officer(s)</th><th>Communication and Monitoring of Use of Delegation</th></tr>
<tr><td colspan="4">Action taken –
Meetings of the (TAAG) involving Fund officers and JLT Consultants take place on a monthly basis. Standard agenda items for the meetings cover the short term (12 months) market outlook and discussions to determine which asset classes should be included in the 9% of the Fund’s assets which is based on JLT’s suggested “best ideas”. Detailed minutes of the TAAG identifying the rationale behind any decisions agreed are circulated to the Advisory Panel.

The following areas have been identified since the last Committee:

• Disinvest from Japanese Equities (Unhedged)
• Disinvest from European Equities
• Invest in US Equities (Hedged)
• Additional investment in Commodities

The transition of these assets has been completed and the current allocation within the portfolio is as follows:

• Commodities (3%)
• Japanese Equities (1%)
• Equity Linked Bonds (3%)
• US Equities (2%)

As at the end of July, the Best Ideas portfolio has both out performed its target and added value to the investment return at total fund level</td></tr>
<tr><td>1.083</td><td>Investment into new mandates / emerging opportunities</td><td>PFM and either the CFM or COPR (having regard to ongoing advice of the IC)</td><td>High level monitoring at PFC with more detailed monitoring by PAP</td></tr>
</table>

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation

Action taken –
As previously reported, following the approval of the strategic review in 2014, the Fund has been progressing with a review of the In-House portfolio of Private Equity and Real Asset holdings. The review is now complete and has now been reviewed and agreed by the Fund's consultant, JLT and presented to the Advisory Panel (AP).

Within the investment areas which fulfil the criteria which was agreed in the review, the Fund has undertaken due diligence on one Infrastructure and two Property investments and agreed the following commitments since the last Committee:

- €11 million to Impax Infrastructure III (European Environmental Infrastructure targeting 10% Net IRR)
- £8 million to Bridges Property Fund III (UK Sustainable Property Fund targeting 15% Net IRR)
- £8 million to InfraRed Active Property IV (European Property Fund targeting 13 – 15%

All three commitments are follow on investments with existing Real Asset managers. Officers are continuing to look at any opportunities which fulfil the agreed strategy for In House investments.

1.084	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

Action taken –
The in – house team monitor the Fund's managers on a regular basis. A record of the managers monitored is shown in the following table. Further ongoing monitoring and details on the managers are reported by JLT, the Fund's Investment Consultant, in agenda item 12 of the committee papers. There are no strategic issues to report.

Manager	**Mandate**	**Strategic Weight %**	**Sept 2015**	**Dec 2015**	**Mar 2016**	**Jun 2016**
Insight	LDI	19	✓		✓	
Stone Harbor	Multi Asset Credit	15		✓	✓	✓
Investec	Global Equity (8) & DGF (5)	13		✓	✓	✓
MAN FRM	Managed Account Platform	9	✓		✓	
Wellington	Emerging Market Equity	6.5		✓	✓	
Pyrford	DGF	5		✓	✓	
Aberdeen	Frontier Market Equity	2.5		✓	✓	

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Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary

Impact	Funding & Investment Risks (includes accounting and audit)						
Negligible					7		
Marginal				5	8		
Critical		6	1 2 3	4			
Catastrophic							
	Extremely High	Very High	Significant	Low	Very Low	Unlikely	Likelihood

Key

1 — Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

1 — The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

19 September 2016

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement (5/2015) and Statement of Investment Principles (6/2015):

F1 Achieve and maintain assets equal to 100% of liabilities within reasonable risk parameters
F2 Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
F6 Ensure net cash outgoings can be met as/when required
F7 Minimise unrecoverable debt on employer termination.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Further Action?	Risk Manager	Next review date	Last Updated	Previous Impact	Previous Likelihood	Previous Risk Status	Risk removed (date)
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Significant		1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process	Critical	Very Low		Current likelihood 2 too high	1 - This risk will be considered and quantified in more detail as part of the 2016 Actuarial Valuation including building a framework to monitor employer risk	CPFM	30/9/16 2016	14/04/2016	Critical	Significant		
2	Funding level reduces, increasing deficit	Movements in assets and/or liabilities (as described in 3,4,5) in combination	F1 / F2 / F3 / F4 / F5 / F7	Critical	Significant		See points within points 3,4 and 5	Marginal	Low		Current impact 1 too high Current likelihood 1 too high	See points within points 3,4 and 5	CPFM	30/09/2016	14/04/2016	Critical	Significant		
3	Investment targets are not achieved therefore reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	F1 / F2 / F3 / F4 / F7	Critical	Significant		1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring of funding position versus flightpath targets 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of Investment opportunities available.	Critical	Low		Current likelihood 1 too high	1 - The impact of the assumptions will be considered and quantified in more detail as part of the 2016 Actuarial Valuation 2 - Review of flight path strategy following valuation 3 - Review of investment strategy following valuation	Pension Finance Managers	30/09/2016	14/04/2016	Critical	Significant		
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Low		1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee.	Marginal	Very Low		Current impact 1 too high Current likelihood 1 too high	1 - This risk will be considered and quantified in more detail as part of the 2016 Actuarial Valuation 2 - Review of flight path strategy following valuation	Pension Finance Managers	30/09/2016	14/04/2016	Critical	Low		
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Low		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low		Current likelihood 1 too high	1 - Assumptions and experience will be considered as part of the 2016 valuation.	Pension Finance Managers	30/09/2016	14/04/2016	Marginal	Low		
6	Investment and/or funding objectives and/or strategies are no longer fit for purpose	Legislation changes such as LGPS regulations (e.g. asset pooling), tax treatments, results of the EU referendum, MIFIDII and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Critical	Very High		1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS	Marginal	Low		Current impact 1 too high Current likelihood 2 too high	1 - Fund has no control over this except through responses to consultations etc. There are tax changes proposed by Government which could adversely affect membership.	CPFM	30/09/2016	14/04/2016	Critical	Very High		
7	Insufficient assets to pay benefits	Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs	F1 / F6	Negligible	Very Low		1 - Cashflow monitoring to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding liquid assets 4 - Monitor cashflow requirements 5 - Treasury management policy is documented	Negligible	Very Low			1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place).	Pension Finance Managers	30/09/2016	14/04/2016	Negligible	Very Low		
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Very Low		1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely		Current likelihood 1 too high	1 - Employer risk management framework to be developed	Pension Finance Managers	31/12/2016	14/04/2016	Marginal	Very Low		

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 27 September 2016
Report Subject	Economic and Market Update
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide Committee Members with an economic and market update for the quarter.

This report covers the period ending 30 June 2016.

The economic and market environment during the second quarter was dominated by the Brexit vote in late June, which resulted in widespread political and investment ramifications. The immediate market impacts following Brexit included:

- Increased volatility in equity markets
- A further drop in bond yields
- Sterling's highest intra day fall since 1985

However, despite the uncertainty in markets, positive returns were seen across all Growth assets over the quarter.

RECOMMENDATIONS	
1	To note and discuss the Economic and Market Update 30 June 2016.
2	To note how the information in the report effectively "sets the scene" for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund's asset portfolio.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Economic and Market Update 30 June 2016** The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee. The report contains the following sections: • **Market Background** – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies. • **Economic Statistics** – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing • **Market Commentary** – section provides detailed commentary on the economic and market performance of major global regions and financial markets (including alternative assets).

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

4.00	RISK MANAGEMENT
4.01	None.

5.00	APPENDICES
5.01	Appendix 1 – Economic and Market Update Period Ending 30 June 2016

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update Period Ending 31 March 2016. **Contact Officer:** Debbie Fielder, Pension Fund Manager **Telephone:** 01352 702259 **E-mail:** Debbie.A.Fielder@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf

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CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE
PERIOD ENDING 30 JUNE 2016

TABLE OF CONTENTS

1 MARKET BACKGROUND
PERIOD ENDING 30 JUNE 2016

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	4.7	2.2	5.9
Global Developed Equities	8.8	15.1	12.2
USA	10.3	21.4	16.2
Europe	4.4	6.3	7.3
Japan	8.8	7.8	8.0
Asia Pacific (ex Japan)	8.5	6.8	6.6
Emerging Markets	8.4	3.9	3.0
Frontier Markets	8.2	3.9	5.8
Property	1.3	9.2	14.2
Hedge Funds	9.7	15.0	7.4
Commodities	21.1	-13.0	-16.4
High Yield	12.3	20.2	8.2
Emerging Market Debt	5.0	9.8	7.2
Senior Secured Loans	-0.6	2.6	4.6
Cash	0.1	0.5	0.5

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	11.8	24.1	15.0
Index-Linked Gilts (>5 yrs)	11.1	17.0	12.2
Corporate Bonds (>15 yrs AA)	9.8	17.6	12.2
Non-Gilts (>15 yrs)	8.3	15.4	11.2

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-7.0	-15.0	-4.1
Against Euro	-4.6	-14.8	1.0
Against Yen	-15.1	-28.7	-3.1

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.8	1.6	1.8
Price Inflation – CPI	0.5	0.5	0.8
Earnings Inflation*	0.9	2.0	1.8

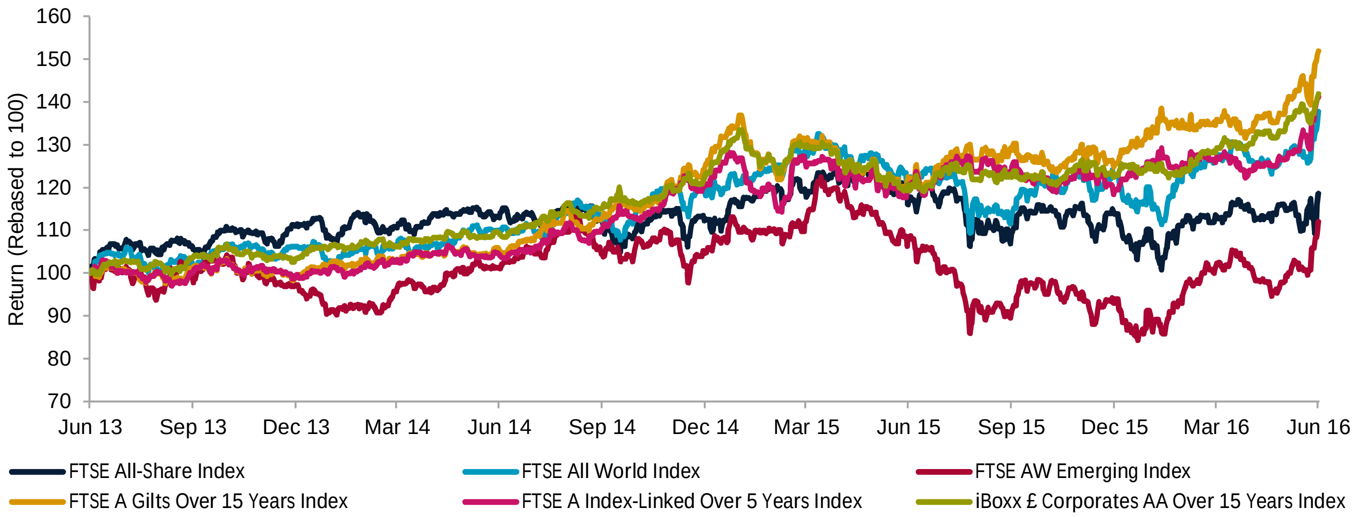
Yields as at 30 June 2016	% p.a.
UK Equities	3.66
UK Gilts (>15 yrs)	1.61
Real Yield (>5 yrs ILG)	-1.39
Corporate Bonds (>15 yrs AA)	2.75
Non-Gilts (>15 yrs)	3.19

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.11	0.20	0.13
UK Gilts (>15 yrs)	-0.56	-1.02	-1.82
Real Yield (>5 yrs ILG)	-0.41	-0.63	-1.36
Corporate Bonds (>15 yrs AA)	-0.60	-0.93	-1.77
Non-Gilts (>15 yrs)	-0.52	-0.78	-1.49

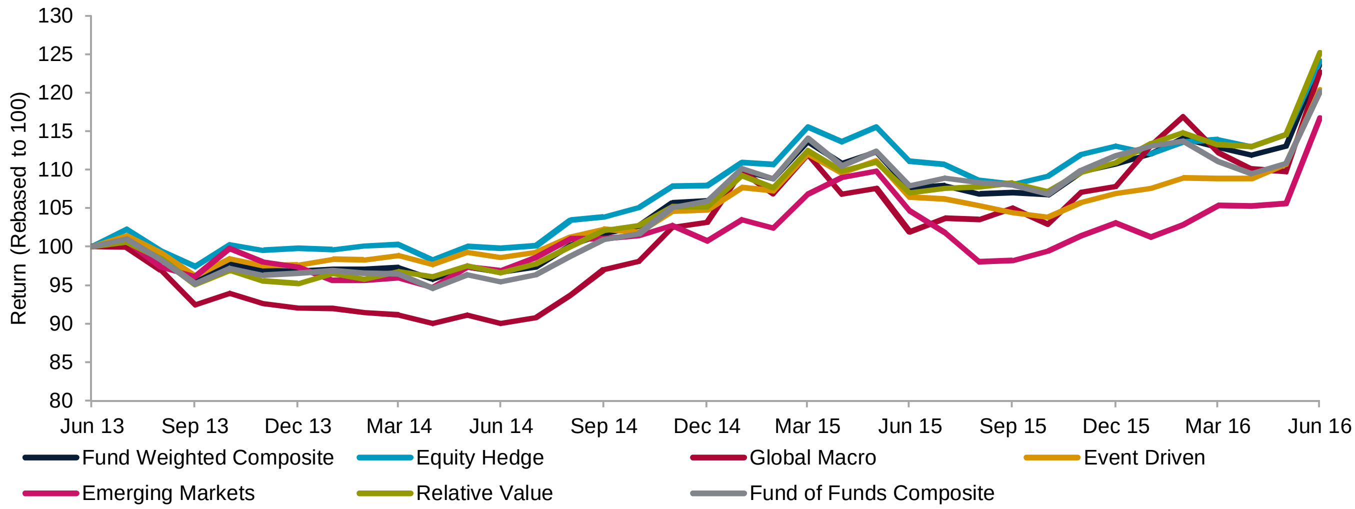
Source: Thomson Reuters and Bloomberg
Note: * subject to 1 month lag

MARKET SUMMARY CHARTS

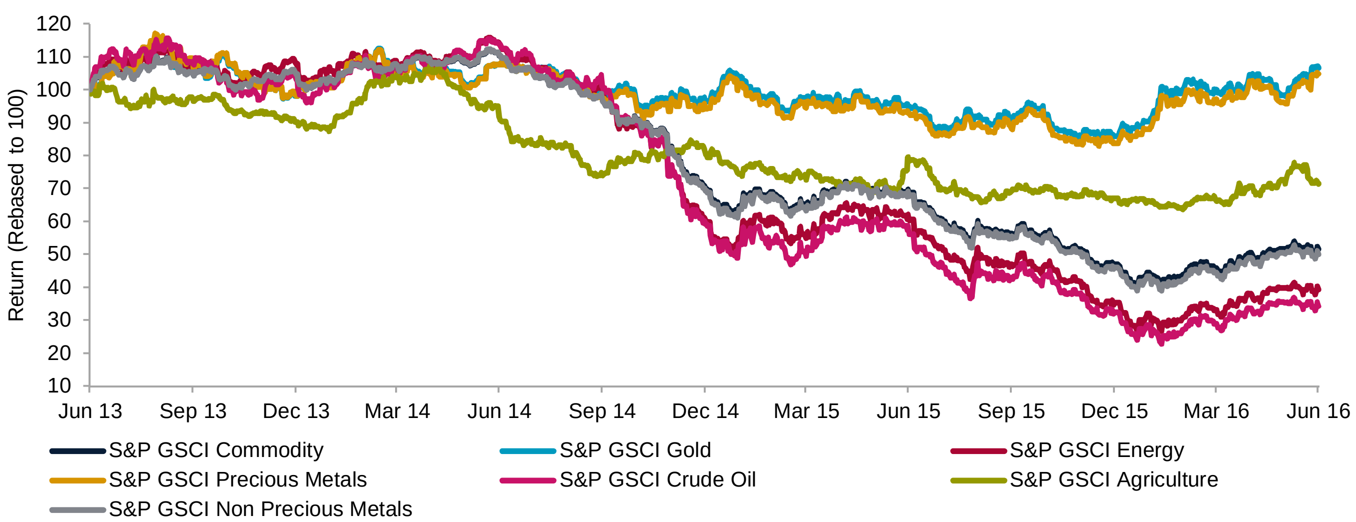
Market performance – 3 years to 30 June 2016



Hedge Funds: Sub-strategies performance – 3 years to 30 June 2016

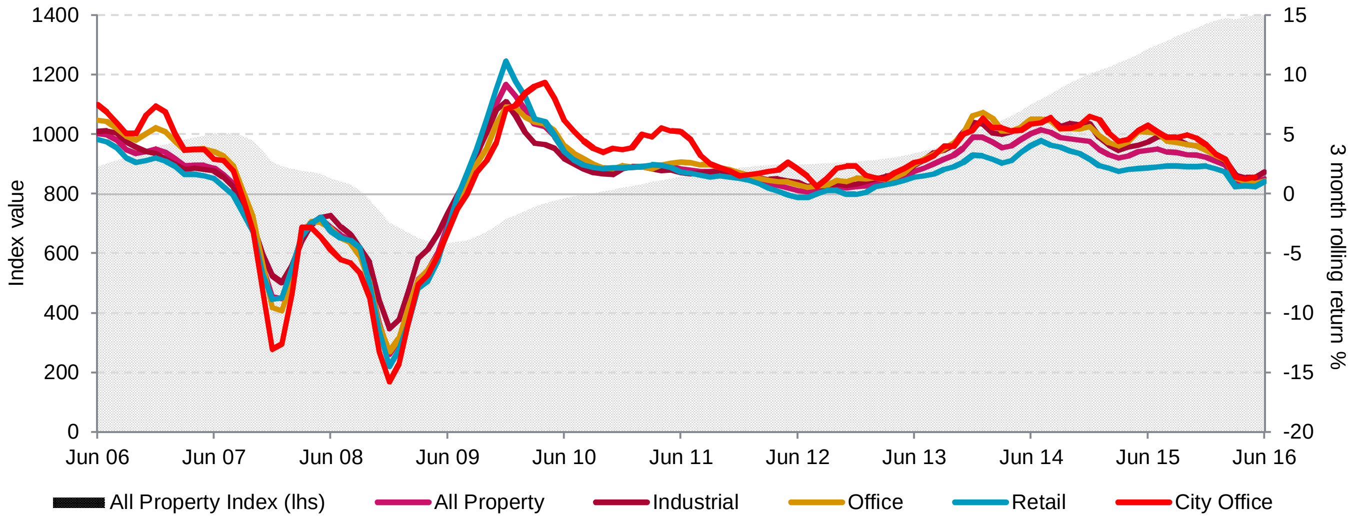


Commodity sector performance – 3 years to 30 June 2016

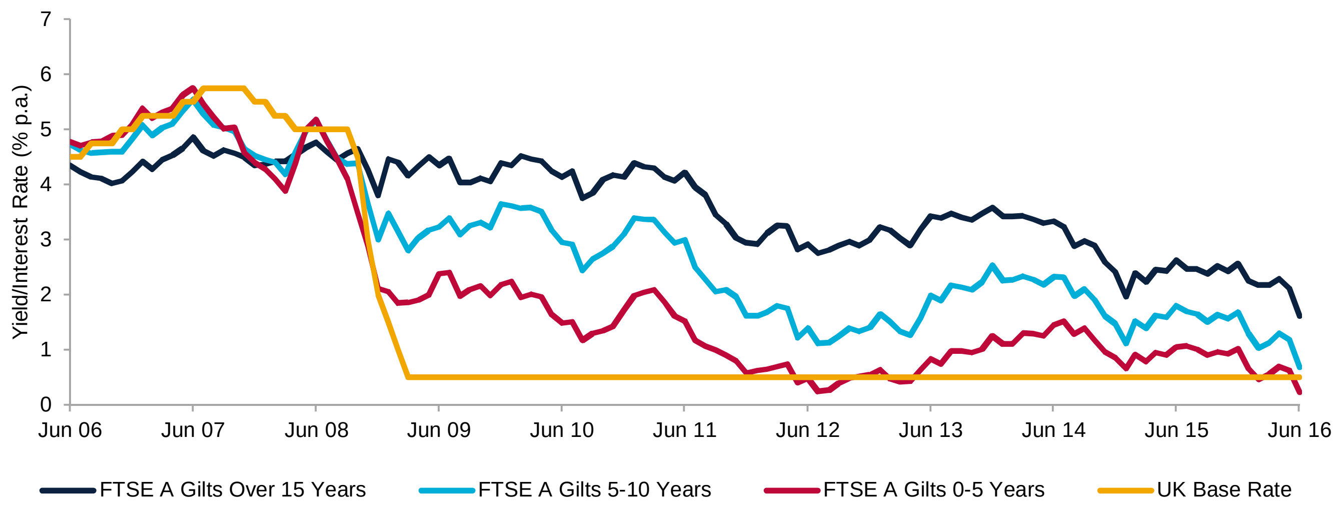


Source: Thomson Reuters

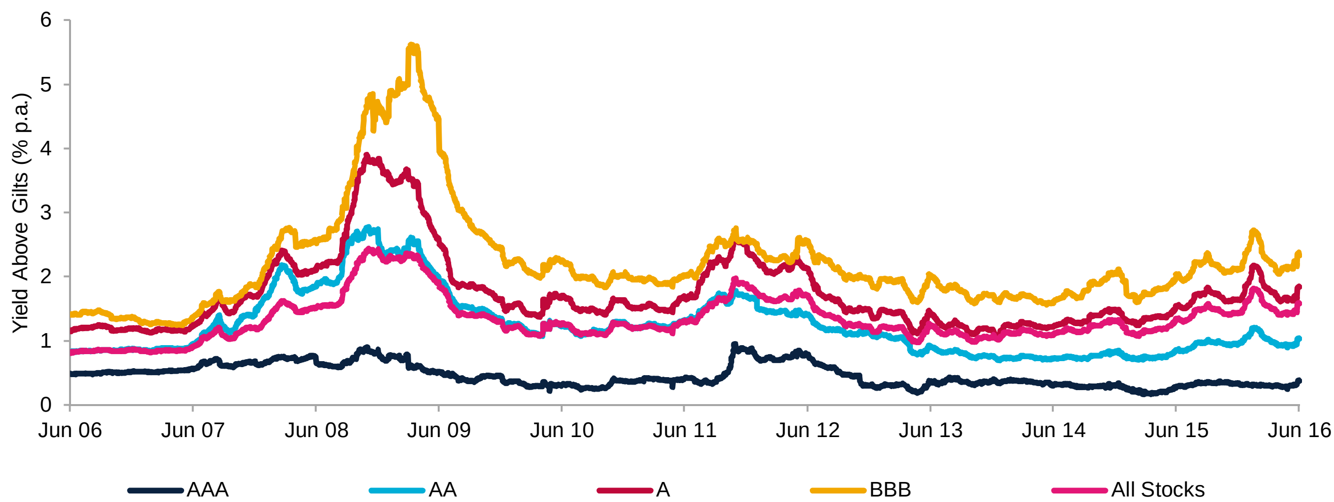
Property sector performance – 10 years to 30 June 2016



UK government bond yields – 10 years to 30 June 2016



Corporate bond spreads above government bonds – 10 years to 30 June 2016



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	30 June 2016			31 March 2016			30 June 2015		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	2.0%	3.0%	2.1%	1.8%	3.1%	2.0%	2.9%	2.4%	2.9%
Annual Inflation Rate[3]	0.5%	0.1%	1.0%	0.5%	0.0%	0.9%	0.0%	0.2%	0.1%
Unemployment Rate[4]	4.9%	10.3%	4.9%	5.1%	10.5%	4.9%	5.6%	11.2%	5.4%
Manufacturing PMI[5]	52.1	52.8	51.3	50.9	51.6	51.5	51.2	52.5	53.6

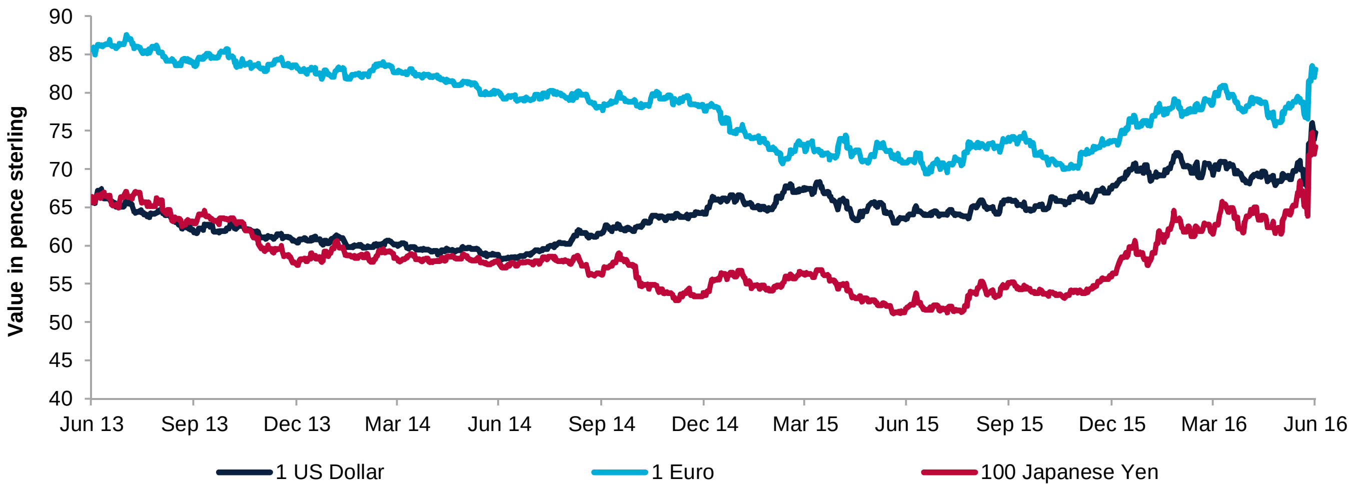
Change over periods ending:	3 months			12 months		
30 June 2016	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	0.2%	-0.1%	0.1%	-0.9%	0.6%	-0.8%
Annual Inflation Rate[3]	0.0%	0.1%	0.2%	0.5%	-0.1%	0.9%
Unemployment Rate[4]	-0.2%	-0.2%	0.0%	-0.7%	-0.9%	-0.5%
Manufacturing PMI[5]	1.2	1.2	-0.2	0.9	0.3	-2.3

Notes: 1. Euro Area 19 Countries. 2. GDP is lagged by 1 quarter. 3. CPI inflation measure. 4. Euro unemployment is lagged by 1 quarter, UK unemployment is lagged by 1 month. 5. Headline Purchasing Managers Index.

EXCHANGE RATES

Economic Statistics as at:	Value in Sterling (Pence)			Change in Sterling	
	30 Jun 16	31 Mar 16	30 Jun 15	3 months	12 months
1 US Dollar is worth	74.81p	69.57p	63.58p	-7.0%	-15.0%
1 Euro is worth	83.10p	79.29p	70.85p	-4.6%	-14.8%
100 Japanese Yen is worth	72.92p	61.90p	51.96p	-15.1%	-28.7%

Exchange rate movements – 3 years to 30 June 2016



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

3 MARKET COMMENTARY

INTRODUCTION

There is one single event that took place a week before the end of the first half of 2016 elapsed, one which will bring uncertainty over a prolonged period and will likely dominate investment markets for weeks, months and potentially years to come, but lets hope not. This event, which is now seared into the minds of everyone in the UK is now commonly known to us all as Brexit.

On the 23rd June 2016 the British public voted to leave the European Union, the consequences of which have already had, and will continue to have, widespread political and investment ramifications.

The result surprised markets which had seemed to price in a remain vote, the bookmakers were indeed nigh on certain that the UK would vote for remain with Brexit being priced at 12/1 - how wrong they were.

The Pound (Sterling) fell immediately by 10% against the US Dollar, the currency's highest intra day fall since 1985. UK Equity markets initially fell sharply and, by 9am, Prime Minister David Cameron had announced his resignation. Mr Cameron announced that the new Conservative leader would not be in place until the autumn and crucially he did not invoke Article 50 of the Lisbon treaty which would trigger a two year formal leaving process of the EU.

This then led to jostling for position and the expected internal fighting within the Conservative party to ultimately become Prime Minister until 2020, barring an early General Election call. Boris Johnson surprisingly announced that he will not stand but his fellow leave campaigner Michael Gove would. There remains a real and understandable lack of willingness to press the button on Article 50. Perhaps 'Rule Britannia, Britannia waives the rules' will be serenaded at the last night of the proms in September this year.

The political fallout was not limited to the Conservative party, the majority of the shadow cabinet resigned after Shadow Foreign Secretary, Hilary Benn, was sacked by Jeremy Corbyn after he questioned the Labour leader's leadership.

From an investment standpoint, for UK investors, Sterling's fall was very important in determining how portfolios ended the year, something we will discuss in following sections of this review.

Some interesting decisions lay ahead, from an investment and political perspective, many of which will affect and impact the state of both the union of the EU and potentially the very union of the United Kingdom itself.

Uncertainty is definitely present in abundance and markets do not traditionally like uncertainty, however equity markets did rebound to end the half year upwards of the post Brexit decision lows.

UNITED KINGDOM

- Benjamin Disraeli once said 'Action may not always bring happiness; but there is no happiness without action'.
- The people of Britain have spoken and voted by a majority of 51.9% to 48.1% to leave the EU, with the turnout high at 72.2%. Although the vote is not legally binding it is, no doubt, a call for action. Something which has definitely not occurred as yet and the UK has entered a state of limbo. The UK's exit has to be negotiated with the remaining 27 members of the EU and ultimately has to be approved by all of them. In order to start this official process the UK must tell the EU that it is withdrawing under Article 50 of the Lisbon Treaty of 2009. Something David Cameron chose to defer to his successor in his resignation speech. Only once this declaration has been made does the formal negotiation clock start ticking and full exit should be achieved within two years.

- Given the political fallout explained in the introduction, there is widespread uncertainty as to the decisions that will be taken and when. An immediate reaction to shore up UK assets came from the Governor of the Bank of England, Mark Carney, who explained that the bank had ‘extensive contingency plans’ to handle Britain’s decision to leave the EU. Mr Carney immediately confirmed that he had made £250bn available to calm markets. He then went further to hint that interest rate cuts are potentially on the horizon together with a further round of quantitive easing.
- The reaction in the UK equity market was immediately harsh however the falls were not indiscriminate. There was a real distinction between those companies that are domestically focussed from those that operate largely overseas or rely heavily on exports. Many companies that fall into the latter category are large multinationals that are big enough to be in the FTSE 100, companies such as BP, AstraZeneca, Rio Tinto and GlaxoSmithKline. These companies would benefit from a weaker pound and were largely untouched by the Brexit fallout. For those domestically focussed companies, such as RBS, Taylor Wimpey and Lloyds, they were hit hard and fast. The same can be said for the much more domestically focussed FTSE 250 which is the next tranche of companies underneath the FTSE 100. This resulted in the FTSE 250 posting a significantly negative return in June of -5.1% versus the FTSE100 return of 4.7%.
- Sterling weakness is not all positive; there are real concerns about the knock on effects to UK inflation. A weaker Sterling leads to a potential for imported inflation, overseas goods become more expensive when they are exported and the UK could see prices rise. This, together with oil price rises, could lead to inflation creeping higher, giving the Bank of England a huge quandary with regards to interest rates. Should they cut rates to support economic growth or raise rates to stave off inflation? A UK recession remains a concern as businesses delay or even cancel plans to invest into the UK in the light of Brexit led uncertainty.

EUROPE EX UK

- Europe had a relatively tough year returning negative returns in Euro terms over the past twelve months, but positive in Sterling terms, following the post Brexit fall.
- The area struggled in the aftermath of the EU referendum result and suffered deeper falls than the UK market in the initial panic. The irony of Brexit is that the UK, having retained its own currency, can partially relieve pressure through a cheaper currency, something the Euro area could not use to soften the blow.
- Europe does however have other countries to concern itself with and there is a possibility that Brexit precipitates a return to crisis in the Eurozone periphery. Italy, Greece and Portugal have challenged economies and electorates that are similarly disillusioned. Questions will therefore be asked as to whether the European Union can stay intact and survive in a post Brexit world.
- The European banks remain in a position where they would struggle should the region turn to recession, particularly in the aforementioned periphery. Central bankers may also step in with additional stimulus measures through further negative interest rates and potentially more quantitive easing but these powers are yielding less and less.
- It is unlikely that the European economy will escape completely unscathed however markets have dropped significantly.

NORTH AMERICA

- Brexit has a global reach and impacts can be seen from market reactions across the globe. US equity markets fell alongside others in the aftermath of the EU referendum vote but, like their UK counterparts, rose to end June stronger.
- Fears over Brexit have led to calls for US interest rate rises, previously predicted to occur once and perhaps twice later this year, to be pushed out into 2017 and potentially 2018.
- There is a concern that US equity markets had risen too strongly in 2015 and that Q1 2016 earnings season would be poor. That did not occur and indeed many companies beat their respective market forecasts. How

much of this was masked by the strength of the US Dollar remains to be seen however this strength in the first quarter of 2016 earnings led to few downgrades in the second quarter.

- Consumer sentiment remains strong in the United States however department stores struggled, reflecting the continuing move to online shopping. Energy stocks have grown in strength from a very low level on the back of the price of oil once again passing, and staying over, $50 per barrel (Brent).
- May's job data was shown to be weakening, however the average hourly wage grew. Janet Yellen indicated that there were four areas of uncertainty prevailing in today's market scenario, these being inflation, productivity, slower overseas demand and overseas risk. Inflation remains under the Federal Reserve's target and GDP growth, for the first quarter of 2016, was revised upwards to 0.8% from 0.5%.
- The US equity market, following its post Brexit rise, had led to the market being extremely keenly valued on a price-to-earnings basis and the fall in Sterling against the Dollar has undoubtedly helped our clients' investments in this area.
- With an election due on November 8th this year, political ramifications will also be high on the agenda in the US. Aside from any major turn of events, Donald Trump and Hilary Clinton will fight to be the next President of the United States, the result of which will have definite economic and investment implications.

JAPAN

- Whichever way the Japanese authorities turn, their policies appear to have only one effect, a rise in the value of the Yen. Unfortunately this is the exact opposite of what they are looking to achieve.
- Japan relies heavily on exporting and hence a strong Yen is not at all in its interests. This does however help foreign investors that receive a currency uplift on their investments. The Yen spiked upwards quickly on the back of the Brexit vote. The country was already reeling from weak demand from both home and abroad, particularly from emerging markets where demand is weak and providing a significant headwind.
- Retail sales are still falling and combined with sluggish growth in wages, this puts added pressure on Japanese Prime Minister Shinzo Abe to roll out more stimulus.
- Abe has also urged the Bank of Japan to ensure they provide ample funds to the market to prevent any credit squeeze and for Finance Minister Taro Aso to keep a very close eye on currency moves and to respond flexibly to market developments in coordination with the G7 economies.
- The Yen has undoubtedly seen a rush of money as it is seen as a safe haven in a period of uncertainty. Japan has responded by saying that unilateral Yen selling intervention could not be ruled out to counter excess speculation.
- Concerns remain that the firepower available to the Bank of Japan is running dry as it plans once again to potentially expand its already massive monetary stimulus in an attempt to re-boot the economy.

ASIA PACIFIC EX JAPAN / EMERGING MARKETS

- 'China's GDP growth has slowed with a first quarter figure of 6.7%, the slowest since the start of 2009. This may appear negative but there are signs that the economy is finally stabilising.
- Stimulus has once again been utilised in the country to ensure that the world's second largest economy didn't slow further. This level of growth would, of course, be very welcome in other global economies but this is all relative in terms of valuations.
- The country has done well so far in converting the economy from export dependent to a domestic consumer and service led powerhouse. The road is still long though and this transformation will take time.
- As mentioned in the last review, and it is worth restating, the Renminbi is now measured against a basket, rather than just the US dollar, but is still significantly overvalued. There is a real risk of a formal, major, devaluation which would export deflation to the rest of the global economy. This would almost certainly lead to further falls in commodity prices and a possible repeat of the currency wars in Asia last experienced in the late 1990s.

- Asia and Emerging markets had a negative year in real terms but again sterling came to the rescue for the UK investor.
- Non-Asian markets continued to struggle with a strong Dollar and falling commodity prices. These two headwinds combined made index investing extremely dangerous, where commodity exposure is high.
- Chinese officials have cut interest rates repeatedly over the last two years and spent significant amounts of money on infrastructure projects. This doesn't help to cut the reliance on investment but it does help keep employment up in an ever increasing demand economy. China's exports have nonetheless grown in recent months and factory purchasing managers surveys have rebounded strongly.
- The IMF has recently cited China as one of the few global bright spots thanks to its resilient consumer spending and thriving service industries.

FIXED INCOME

- The fixed income market has experienced a strong six months and an even stronger full year. Volatility however persists across the wide spectrum of the fixed income asset class. Despite the US interest rate rise in December 2015, market events have led to thoughts that interest rates in the developed world will be lower for longer. Emerging Market debt and 'high yield' bonds (generally known as 'junk'), which had a poor end to 2015, rallied strongly in the last six months.
- Brexit risks have led investment grade debt to their lowest yields in history, especially US Treasuries, UK Gilts and German Bunds, which are now trading at such low yields that they are firmly seen as 'safe havens' despite a potentially inflationary backdrop. As mentioned in previous reviews, global tensions still persist, particularly in the Middle East, however on the plus side the dangers of interest rate rises seem to have abated given concerns over global economic growth.
- Valuations and liquidity both remain a challenge in all markets. Concerns still remain over the high yield market where a large amount of bonds issued by US energy companies are at risk of default, particularly given the current oil price, which puts additional pressure on the asset class.

ALTERNATIVES

- Hedge Funds (in sterling terms) returned 9.7% over the quarter, which was primarily due to a strengthening of the dollar against Sterling as hedge funds returned 2.0% in US Dollar terms. Emerging markets were the strongest strategies, returning 10.8%, whilst Equity Hedge returned 9.0% and were the worst performing strategies during this period. Over 3 years however, Relative value were the leading strategies with a return of 7.8% p.a. Emerging markets strategies had the worst returns over 12 months, returning 11.5%, whilst Global macro was the strongest during this period, returning 20.4%. Hedge fund strategies with exposure to global equities produced strong gains at the end of the quarter as equities reversed steep losses from the first half of the quarter.
- UK commercial property returned 1.3% over the quarter, down from 3.7% recorded in the same period last year. The positive return over the quarter was mainly due to the rental income generated by the properties. Industrials and city offices were the leading sectors over the quarter returning 1.8% and 1.4% respectively. Meanwhile, the retail sector continued to lag behind returning 1% over the same period. Yields expanded marginally over the quarter, as capital growth remained largely flat in June.
- Commodity markets continued their upward trajectory sustaining the rebound from their low point in January as market sentiment began to improve. Energy was the leading sector as prices pushed the index up by 19%. The GSCI crude oil index increased by 18.9% over the quarter due to strong demand and supply disruptions in Nigeria, Canada, Iraq, Kuwait and Libya. The Agriculture sector increased over three consecutive months, as prices were supported by flood related crop losses in South America, a shortfall in production and strong demand from China. Precious metals prices rose 8% on the back of strong investment demand, a weaker dollar, weak economic data from the US and the Brexit result leading to investors seeking safe haven assets. Silver led the way, up 13%, Platinum rose 10% and Gold increased by 7%.

CONCLUSION

It remains far too early to fully understand how the EU referendum decision will affect investments with any certainty. There are far too many unknowns out there and markets have appeared to have weathered the storm relatively well in the very short term. Things are undoubtedly moving quickly and there appears to be more political and economic consequences that are yet to unfold.

Sterling's fall has had massive implications on portfolios and their constituent parts. Being globally exposed has helped to protect portfolio valuations.

Inflation is a real concern and the decision by the Bank of England and other central banks will be watched closely. A Technical recession, (two quarters with negative GDP growth) could become a reality particularly if investment in the UK is held back for a prolonged period of time.

It will also be interesting to see if global demand for oil will be retained and the current price of $50 per barrel maintained.

4 INDICES USED IN THIS REPORT

Asset	Index
Growth Assets	
UK	FTSE All-Share Index
Global Developed	MSCI World Index
USA	FTSE USA Index
Europe	FTSE AW Europe (ex UK) Index
Japan	FTSE Japan Index
Asia Pacific (ex Japan)	FTSE AW Asia Pacific (ex Japan) Index
Emerging Markets	MSCI Emerging Markets Index
Frontier Markets	MSCI Frontier Markets Index
Property	UK IPD Monthly Property Index
Hedge Funds	HFRI Fund Weighted Composite Index
Commodities	S&P GSCI TR Index
High Yield	Bank of America Merrill Lynch Global High Yield Index
Emerging Markets Debt	JPM EMBI Global Diversified Composite Index
Senior Secured Loans	Credit Suisse Western European Leveraged Loan Index
Cash	IBA GBP LIBOR 1 Week Index
Bond Assets	
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index
Index-Linked Gilts ((>5 yrs)	FTSE A Index-Linked Over 5 Years Index
Corporate Bonds (>15 yrs AA)	IBoxx £ Corporate Over 15 Years AA Index
Non-Gilts (15yrs)	IBoxx £ Non-Gilts Over 15 Years Index
Yields	
UK Equities	FTSE All-Share Index (Dividend Yield)
UK Gilts (>15 yrs)	FTSE A Gilts Over 15 Years Index (Gross Redemption Yield)
Real Yield (>5 yrs ILG)	FTSE A Index-Linked Over 5 Year Index 5% Inflation (Gross Redemption Yield)
Corporate Bonds (>15 yrs AA)	IBoxx £ Corporate Over 15 Years AA Index (Gross Redemption Yield)
Non-Gilts (>15 yrs)	IBoxx £ Non-Gilts Over 15 Years Index (Gross Redemption Yield)
Inflation	
Price Inflation – RPI	All Items Retail Price Index (NADJ)
Price Inflation – CPI	All Items Consumer Price Index (Estimated NADJ)
Earnings Inflation	Average Weekly Index (Whole Economy excluding Bonuses)
Exchange Rates	
USD/EUR/JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Notes: All the indices above are denominated in Sterling

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Tuesday, 27 September 2016
Report Subject	Investment Strategy and Manager Summary
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

The purpose of the Investment Strategy and Manager Summary is to update Committee Members on the performance of the Fund's investment strategy and performance of the Fund's investment managers.

The report covers the quarter ending 30 June 2016.

The Fund experienced a strong quarter from an Investment Strategy perspective, with positive returns from all strategic asset classes except the Managed Account Platform. Key facts covered in the report are as follows:

- Over the 3 months to 30 June 2016, the Fund's total market value increased by £97.8m to £1,480,291,434.
- As at 30 June 2016, the value of the Fund's liabilities had increased by £201 million to £2,455 million, resulting in a funding level of 60% - this is a slight decrease in the funding level from 31 March 2016 which was at 61%.
- Over the quarter, total Fund assets returned 5.3% compared with a composite target of 4.7%.

The Fund's investment strategy is currently under review (on a light touch basis) as part of the Actuarial Valuation Process. (Agenda item 9)

A number of the Fund's investment managers outperformed their respective targets during the quarter. There was particularly strong performance from the Fund's In-House portfolio.

RECOMMENDATIONS	
1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 30 June 2016.
2	That the Committee considers the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Investment Strategy and Manager Summary 30 June 2016** Over the 3 months to 30 June 2016, the Fund's total market value increased by £97.8m to £1,480,291,434. Total Fund assets returned 5.3% over the quarter, compared with a composite target of 4.7%. Over the one year period, Total Fund assets returned 7.1%, compared with a composite target of 7.7%. Over the last three years, Total Fund assets returned 7.3% p.a., compared with a composite target of 8.4% p.a. The strongest returns over the quarter came from the Equity allocation and the Best Ideas portfolio assets. The Fund’s asset portfolio was within the strategic ranges set for all asset classes, except Multi-Asset Credit, during the period.
1.02	At this time, there are no concerns with any of the Fund’s investment managers and there are regular meetings held with the managers to discuss individual mandates. The Fund’s investment consultant is currently reviewing the mandate specification for each of the manager positions as part of the light touch review of investment strategy. This is to ensure that the structure of the mandates remain appropriate to serve the needs of the Fund going forward.

2.00	RESOURCE IMPLICATIONS
2.01	None directly as a result of this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	None directly as a result of this report.

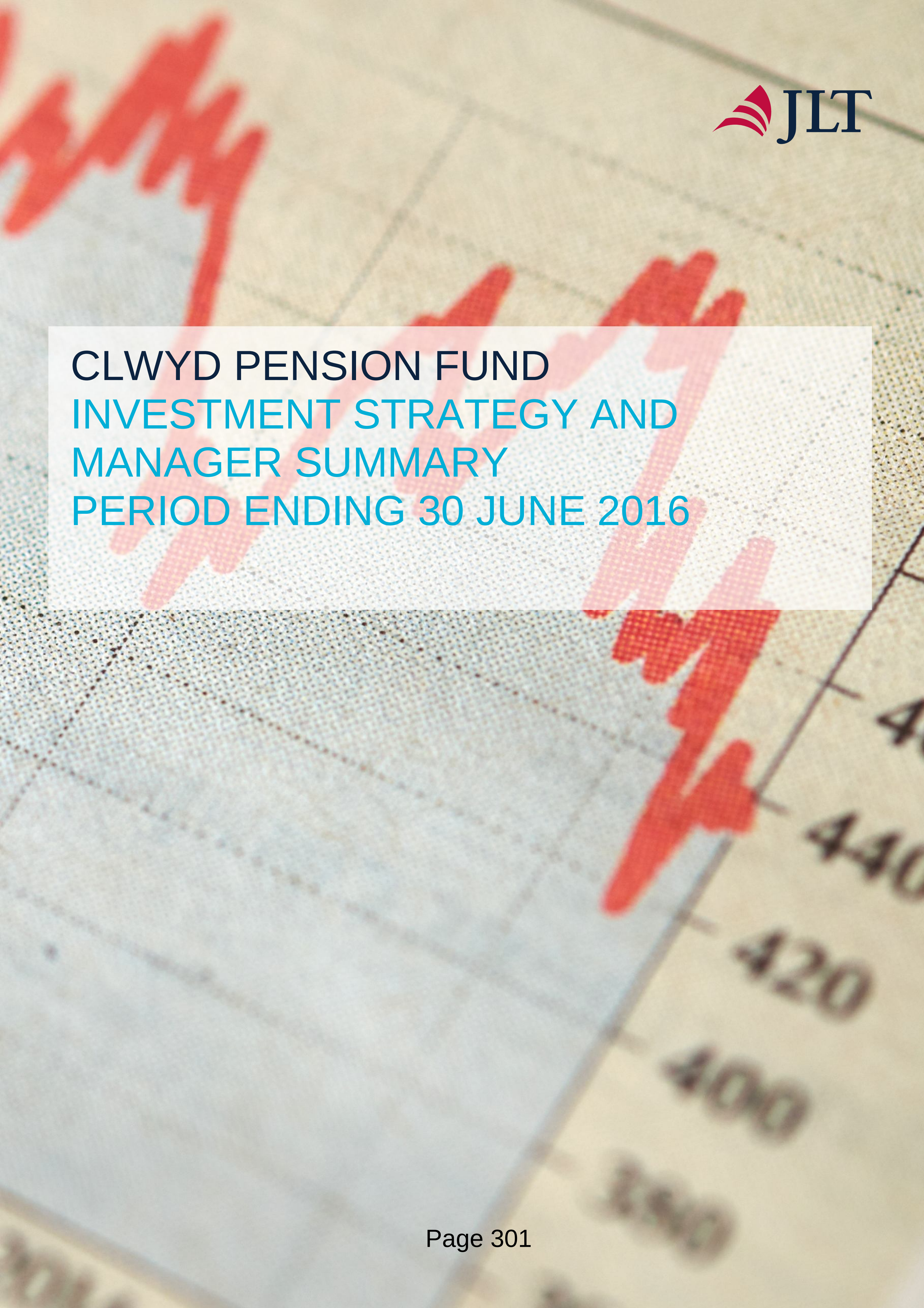
4.00	RISK MANAGEMENT
4.01	The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk. Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.

5.00	APPENDICES
5.01	Appendix 1 – Investment Strategy and Manager Summary 30 June 2016.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Investment Strategy and Manager Summary 31 March 2016. **Contact Officer:** Debbie Fielder, Pension Fund Manager **Telephone:** 01352 702259 **E-mail:** debbie.a.fielder@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact.

	(e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf



CLWYD PENSION FUND

INVESTMENT STRATEGY AND MANAGER SUMMARY PERIOD ENDING 30 JUNE 2016

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1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

This report is produced by JLT Employee Benefits ("JLT") to assess the performance and risks of the investment managers of the Clwyd Pension Fund (the “Fund”), and of the Fund as a whole. The report does not comment on the Fund’s Liability Driven Investment (“LDI”) portfolio, as information in respect of this allocation is produced separately by Mercer.

OVERALL

Over the 3 months to 30 June 2016, the Fund's total market value increased by £97.8 million to £1,480,291,434.

As at 31 March 2016, the Fund’s liabilities were valued at £2,254 million, resulting in a funding level of 61%.

As at 30 June 2016, the value of the Fund’s liabilities had increased by £201 million to £2,455 million, resulting in a funding level of 60%.

Over the quarter, total Fund assets returned 5.3% compared with a composite target of 4.7%. Total Fund (ex LDI) returned 3.0% against a target of 2.8%. With the exception of the Managed Account Platform which returned -1.2% over the quarter, all strategic asset classes delivered positive absolute returns. Equities (+6.8%), the Best Ideas Portfolio (+6.1%) and the LDI Portfolio (+12.7%) delivered the majority of the Fund’s total return, whilst Multi-Asset Credit made a modest gain of 0.9% over the period.

In relative terms, total Fund assets produced a return 0.6% above the target, mainly due to the LDI Portfolio which returned 12.7% and is overweight the strategic benchmark by 5.0%. In-House assets returned 3.3%, above their target by 2.0% and adding 0.5% to relative performance. The Best Ideas Portfolio outperformed its target by 4.9% and added 0.4% to the total Fund’s outperformance of the composite target return.

Despite the positive return over the quarter, Total Equities underperformed the composite target by 2.2% and detracted 0.5% from relative returns. Within the In-House portfolio, Opportunistic assets declined by -15.6% over the quarter and ended the last 12 months down by 36.9%, this detracted 0.1% from relative return over the quarter.

Insight’s LDI portfolio rose by 12.7% as yields plunged on the back of the Brexit decision of the EU Referendum and added 0.5% to the Fund’s relative return.

EQUITIES

Global equity markets rose over the quarter, with positive returns seen in all major regions.

Investors maintained a constructive albeit cautious view on equity markets over much of the quarter, as generally upbeat corporate earnings, supportive central bank rhetoric and further stabilisation in commodity prices supported sentiment. However, this relative calm proved to be short-lived as risk aversion reared its head in the wake of the UK electorate’s vote to leave the EU, leading to increased volatility in the markets.

Stock markets throughout the world fell for two days and then steadied as traders completed unwinding their positions and others went on a bargain hunt. Investors shifted into defensive stocks to weather the heightened volatility in markets, which has been the typical pattern during such times over the past few years, with the Chinese currency devaluation scare in the third quarter of 2015 and concerns about global growth during the first quarter of 2016 providing recent examples.

In Developed markets, US equities provided the strongest returns increasing by 10.3%. Japanese equities rose by 8.8% followed by Asia Pacific (ex Japan) equities which were up by 8.5%. UK equities and European equities posted positive returns of 4.7% and 4.4%, respectively.

Over the last 12 months, US equities provided the strongest returns, increasing by 21.4%. UK equities experienced the lowest return of the developed markets, increasing by 2.2%.

Emerging Markets and Frontier Markets were both up by 8.4% and 8.2% respectively over the quarter, with both markets seeing a positive annual return of 3.9%.

The weakness of Sterling following the Brexit vote to leave the EU has boosted overseas equity returns for unhedged Sterling investors.

Total Equity assets returned 6.8%, which was 2.2% below their composite target. All the funds in the strategy generated positive returns, however, Wellington Emerging Markets (Core) and Wellington Emerging Markets (Local) were the only funds in the strategy that outperformed their targets over the quarter.

Global equity exposure to telecommunication services, information technology and utilities were the main contributors to performance, while energy, industrials and consumer discretionary were the largest detractors from returns.

In Emerging Markets, exposures to Brazil and Russia contributed to the majority of gains, although this was offset to some extent by exposures in Taiwan and off-benchmark positions in United States.

In Frontier Markets, the underweight allocations to both Pakistan and Argentina were the primary detractors. The underweight to the former was costly as Pakistan was the best performing market during the quarter, ahead of its promotion to the MSCI's emerging markets index. Meanwhile, Argentina's markets continued to reflect the growing optimism that Macri's reforms will dampen inflation and boost the stagnant economy.

MULTI-ASSET CREDIT

US Treasury yields markets experienced a predominantly upward rate trajectory in the first two months of the quarter, however, yields collapsed in June as a result of both economic and political factors.

From an economic perspective, a weakening of US economic data refuelled investor concerns of a slowdown in growth and rising recession risks, which resulted in increasing the demand for US government bonds. This was further supported by the combination of negative interest rate policy and quantitative easing from the Bank of Japan and European Central Bank. Politically, the Brexit vote became a reality in late June and as a result, the market took a sharp turn to lower yields. Flight to quality intensified and risk assets sold off sharply, while global safe heaven assets held on to hefty gains.

Over the quarter, long-dated fixed interest gilts, long-dated index-linked gilts and long-dated corporates generated positive returns of 11.8%, 11.1%, and 9.8% respectively. Global bond markets also rose, as High Yield, Investment Grade and Emerging Market Debt returned 12.3%, 11.8% and 5.0% respectively. However, much of the gains in global bond markets can be attributed to the British pound depreciating against the Euro, Yen and Dollar over the period as in local terms, returns were much lower.

Total Multi-Asset Credit generated a return of 0.9% over the quarter, ahead of its target by 0.5%. Overall, this made a marginal contribution of 0.1% to total Fund relative performance. Investment Grade (+0.5%), High Yield (+0.4%) and Emerging Market Debt (+0.2%) all added to the performance of the strategy, although Global Rates detracted 0.4%.

In Emerging Market Debt, Latin America, where the portfolio's largest overweights at a country level remain, was the largest contributor, mainly driven by Brazil, particularly strong performance from its oil company Petrobras. Meanwhile, Africa was the best performing region led by strong returns from gold mining stocks in South Africa.

The strategy benefitted from the recovery in commodity prices as US High Yield sectors, Energy, Steel and Metals/Mining exposures rose dramatically since the start of the year. Althought the portfolio remains underweight in the Energy and Metals/Mining sectors despite increasing exposure in both during the quarter.

HEDGE FUNDS

The Hedge Fund industry posted asset gains over the quarter, navigating volatility and dislocations across currency, equity, fixed income and commodity markets following Britain's decision to leave the European Union.

Hedge Fund capital rose over the second quarter to $2.898 trillion, recovering the decline from the previous quarter and rising above the level at the end of 2015, and making it the 3rd highest quarterly capital on record. Meanwhile, investor redemptions declined to $8.2 billion over the quarter, nearly half of the outflow in the first quarter.

Hedge Funds (in sterling terms) returned 9.7% over the quarter; this primarily due to the US dollar strengthening against Sterling, as hedge funds returned 2.0% in US dollar terms. In Sterling terms, Emerging Markets (+10.8%) were the strongest strategies, whilst Equity Hedge (+9.0%) were the worst performing.

ManFRM's Managed Futures & Hedge Funds strategy had a negative return of -1.2%, underperforming its target by 2.2% and detracting 0.2% from relative performance.

ManFRM Hedge Funds (Legacy) portfolio which consists of Duet, Liongate and Pioneer assets returned -11.5% over the quarter, behind their target of 1.2%. The poor return was mainly a result of a write-down in the value of Totalis, an underlying position in Liongate's portfolio which was written down to zero in May 2016.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets returned 2.3%, ahead of their absolute target by 1.7%. Overall this was broadly neutral for total Fund relative performance.

Pyrford returned 3.4% compared to a target of 1.9%. The Fund's modest allocation to equities, together with a preference for quality and value helped to protect value in the early part of the quarter during a significant sell off. As markets rebounded, a focus on Asia Pacific (ex Japan) contributed strongly and the allocation to Canadian equities was also positive. Towards the end of the quarter, as yields declined, the bond portfolio benefited from capital gains. Unhedged US and Canadian bonds benefitted from relative Sterling weakness, whilst UK bonds were marginally positive.

Investec's portfolio generated a return of 1.1% compared to a target of 1.6%. Japanese equities, a relative value position in US diversified financials vs US equity and a short position in the Swiss Franc were the main detractors. Global equities, technology stocks and a long Australian dollar position were positive for the Fund. A long duration exposure in US Treasuries benefited from falling yields. Short currency positions in the Singapore dollar, Korean won, Taiwanese dollar and Swedish krona all impacted performance in a period of Sterling weakness. Investec took advantage of the flight-to-safety during the early part of the quarter by doubling its position in gold in January.

BEST IDEAS PORTFOLIO

The Best Ideas portfolio returned 6.1%, above its target by 4.9%. Overall, this made a contribution of 0.4% to total Fund relative performance.

F&C's UK Equity-Linked Gilts (+12.9%) and LGIM Japanese Equities (+8.8%) performed the strongest over the quarter, contributing 0.2% and 0.1%, respectively, to relative performance of the strategy.

LGIM's Japanese Equities (Hedged) returned -9.4% was the worst performing position in this portfolio, detracting 0.1% from relative performance.

Over the quarter, two positions were disposed of; BlackRock US Equities was redeemed on 20 May 2016 and LGIM's Japan Equity (Unhedged) Fund was redeemed on 30 June 2016. Proceeds from the US Equity sale were reallocated to new positions established the Investec Global Natural Resources Fund and Wellington Commodities Fund, whilst the proceeds of the redemption of Japanese Equities were initially transferred to LGIM's Cash Fund.

IN-HOUSE ASSETS

Total In-House assets returned 3.3%, ahead of their composite target by 2.0%. Overall this contributed to 0.5% to the total Fund relative performance. Property, Infrastructure, Timber/Agriculture and Private Equity assets made positive absolute and relative contributions to the performance of the strategy whilst Opportunistic assets were negative.

Private Equity, which is overweight the strategic allocation by 1.4%, produced a return of 4.4% and outperformed its target by 3.0%. Overall this contributed 1.3% to the In-House strategy and 0.3% to the total Fund performance.

Property delivered a return of 2.9%, outperforming its target by 1.6% and adding 0.1% to relative performance.

Infrastructure and Timber/Agriculture, which are both 0.1% underweight their strategic allocation, delivered returns of 5.7% and 5.9% respectively and each added 0.4% to the In-House strategy and 0.1% to the total Fund return.

Opportunistic assets were the poorest performing of the In-House assets, returning -15.6% and underperforming its target by 16.9%.

2 STRATEGIC ASSET ALLOCATION
30 JUNE 2016

Allocation by underlying asset class

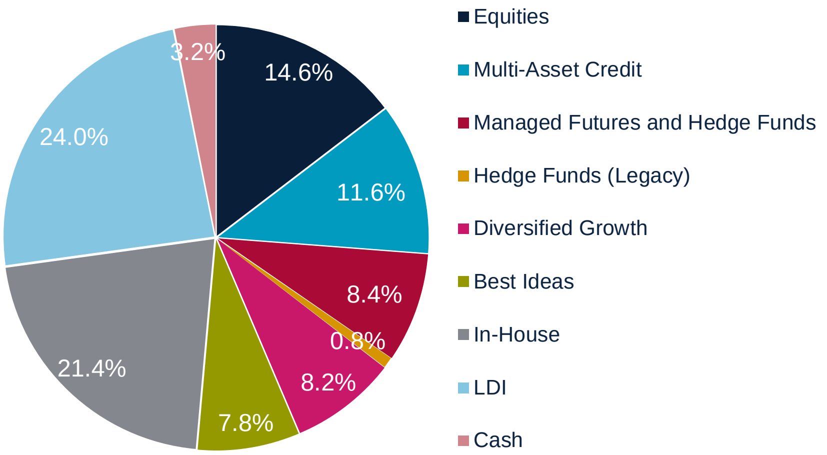
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	101,983,656	6.9	8.0	-1.1	5.0 – 10.0
Emerging Market Equities	86,155,631	5.8	6.5	-0.7	5.0 – 7.5
Frontier Market Equities	28,471,376	1.9	2.5	-0.6	1.0 – 4.0
Multi-Asset Credit	171,879,540	11.6	15.0	-3.4	12.5 – 17.5
Managed Futures and Hedge Funds	123,828,991	8.4	9.0	-0.6	7.0 – 11.0
Hedge Funds (Legacy)*	12,283,739	0.8	0.0	+0.8	–
Diversified Growth	120,645,459	8.2	10.0	-1.8	15.0 – 25.0
Best Ideas	115,760,238	7.8	9.0	-1.2	
Property	110,775,529	7.5	7.0	+0.5	5.0 – 10.0
Private Equity & Opportunistic	150,364,596	10.2	10.0	+0.2	8.0 – 12.0
Infrastructure / Timber / Agriculture	55,742,612	3.8	4.0	-0.2	2.0 – 7.0
LDI & Synthetic Equities	355,748,346	24.0	19.0	+5.0	10.0 – 30.0
Cash	46,651,720	3.2	0.0	+3.2	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**1,480,291,434**	**100.0**	**100.0**	**0.0**	

Notes: * Hedge Funds (Legacy) includes the Duet, Liongate and Pioneer portfolios.

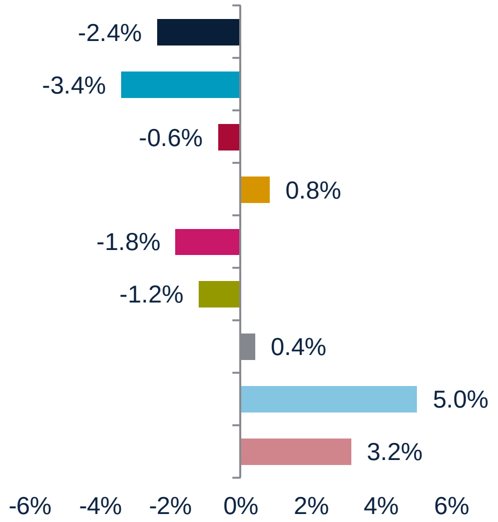
Points to note

- Total allocation to LDI rose by 1.2% over the quarter and is 5.0% overweight relative to its strategic allocation.
- Multi-Asset Credit is 3.4% underweight its strategic allocation and is now 0.9% below its lower strategic range, however, allowing for bond exposures elsewhere in the Fund, the total effective allocation to Multi-Asset Credit was around 16.1% at the end of the quarter.

Strategic Asset Allocation as at 30 June 2016



Deviation from Strategic Allocation



Notes: Totals may not sum due to rounding

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3 VALUATION AND ASSET ALLOCATION AS AT 30 JUNE 2016

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Investec	Global Strategic Equity	101,983,656	6.9	8.0	5.0 – 10.0
Wellington	Emerging Market Equities (Core)#	41,488,898	2.8	3.25	5.0 – 7.5
Wellington	Emerging Market Equities (Local)#	44,666,733	3.0	3.25	
Aberdeen	Frontier Markets#	28,471,376	1.9	2.5	1.0 – 4.0
Total Equities		**216,610,664**	**14.6**	**17.0**	
Stone Harbor	Libor Multi-Strategy Portfolio	171,879,540	11.6	15.0	12.5 – 17.5
Total Multi-Asset Credit		**171,879,540**	**11.6**	**15.0**	**12.5 – 17.5**
ManFRM	Managed Futures and Hedge Funds	123,828,991	8.4	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	12,283,739	0.8	0.0	–
Managed Account Platform		**136,112,730**	**9.2**	**9.0**	**7.0 – 11.0**
Pyrford	Global Total Return	63,074,025	4.3	5.0	–
Investec	Diversified Growth	57,571,433	3.9	5.0	
Total Diversified Growth		**120,645,459**	**8.2**	**10.0**	**–**
BMO	UK Equity-Linked Gilts	33,642,831	2.3	9.0	–
LGIM	Japanese Equities (Hedged)	9,693,562	0.7		
LGIM	Cash	14,190,072	1.0		
BlackRock	European Equities	27,863,964	1.9		
Investec	Global Natural Resources	15,808,502	1.1		
Wellington	Commodities	14,561,308	1.0		
Best Ideas Portfolio		**115,760,238**	**7.8**	**9.0**	**–**
Tactical Allocation Portfolio		**236,405,697**	**16.0**	**19.0**	**15.0 – 25.0**
In-House	Property	110,775,529	7.5	7.0	5.0 – 10.0
In-House	Infrastructure	28,289,815	1.9	2.0	2.0 – 7.0
In-House	Timber / Agriculture	27,452,797	1.9	2.0	
In-House	Private Equity	138,769,848	9.4	10.0	8.0 – 12.0
In-House	Opportunistic	11,594,748	0.8		
Total In-House Assets		**316,882,737**	**21.4**	**21.0**	
Insight	LDI Portfolio	355,748,346	24.0	19.0	10.0 – 30.0
Total LDI		**355,748,346**	**24.0**	**19.0**	**10.0 – 30.0**
Trustees	Cash+	46,651,720	3.2	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**1,480,291,434**	**100.0**	**100.0**	

Notes: * ManFRM Hedge Funds (Legacy) includes the Duet, Liongate and Pioneer portfolios which were transferred at the end of December 2015. Valuations are provided by ManFRM.
+ The Trustee cash valuations include SSARIS redemption balances that are due to be received in June 2016.
# Wellington Emerging Markets Core and Local, Aberdeen Frontier Markets and Pioneer valuations have been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.

4 PERFORMANCE SUMMARY

PERIODS ENDING 30 JUNE 2016

	Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance
			Fund	Target	Fund	Target	Fund	Target	vs Objective
●	Investec	Global Strategic Equity	5.2	9.2	3.5	16.1	11.3	12.9	Target not met
●	Wellington	Emerging Markets (Core)#	11.0	8.6	5.8	4.9	3.3	4.1	Target not met
●	Wellington	Emerging Markets (Local)#	10.2	8.9	8.0	5.9	4.7	5.1	Target not met
●	Aberdeen	Frontier Markets#	8.5	8.6	1.9	5.4	-1.2	4.6	Target not met
Total Equities			**6.8**	**9.0**	**3.8**	**10.6**	**7.5**	**10.9**	
●	Stone Harbor	Libor Multi-Strategy	0.9	0.4	-1.0	1.5	0.5	1.6	Target not met
Total Multi-Asset Credit			**0.9**	**0.4**	**-1.0**	**1.5**	**0.5**	**1.6**	
n/a	ManFRM	Managed Futures & Hedge Funds	-1.2	1.0	n/a	n/a	n/a	n/a	n/a
n/a	ManFRM	Hedge Funds (Legacy)*	-11.5	1.2	-9.0	5.4	-1.0	4.9	n/a
Managed Account Platform			**-2.3**	**1.0**	**n/a**	**n/a**	**n/a**	**n/a**	
●	Pyrford	Global Total Return	3.4	1.9	7.9	6.2	4.2	6.3	Target not met
n/a	Investec	Diversified Growth	1.1	1.6	-2.4	5.1	n/a	n/a	n/a
Total Diversified Growth			**2.3**	**1.7**	**2.8**	**5.6**	**1.5**	**5.8**	
Best Ideas Portfolio			**6.1**	**1.2**	**3.3**	**3.4**	**n/a**	**n/a**	
Tactical Allocation Portfolio			**4.1**	**1.2**	**3.1**	**3.5**	**n/a**	**n/a**	
●	In-House	Property	2.9	1.3	11.7	9.1	11.0	14.7	Target not met
●	In-House	Infrastructure	5.7	1.4	25.1	5.7	14.7	5.6	Target met
●	In-House	Timber / Agriculture	5.9	1.4	13.7	5.7	3.6	5.6	Target not met
●	In-House	Private Equity	4.4	1.4	17.5	5.7	10.1	5.6	Target met
●	In-House	Opportunistic	-15.6	1.3	-36.9	5.5	-14.1	5.6	Target not met
Total In-House Assets			**3.3**	**1.3**	**13.4**	**6.8**	**9.5**	**8.6**	
n/a	Insight	LDI Portfolio	12.7	12.7	14.7	14.7	n/a	n/a	n/a
Total (ex LDI)			**3.0**	**2.8**	**4.8**	**6.0**	**4.7**	**6.3**	
TOTAL CLWYD PENSION FUND			**5.3**	**4.7**	**7.1**	**7.7**	**7.3**	**8.4**	

Notes: 'n/a' against the objective is for funds that have been in place for less than three years.
* ManFRM Hedge Funds (Legacy) includes Duet, Liongate and Pioneer portfolios.
\# Wellington Emerging Markets Core and Wellington Emerging Markets Local and Aberdeen Frontier Markets data has been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.

● Fund has met or exceeded its performance target ● Fund has underperformed its performance target

5 STRATEGIC ASSET CLASSES
PERFORMANCE TO 30 JUNE 2016

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**6.8**	**3.8**	**7.5**
Composite Objective	9.0	10.6	10.9
Composite Benchmark	8.5	8.4	9.0
Total Multi-Asset Credit	**0.9**	**-1.0**	**0.5**
Objective	0.4	1.5	1.6
Benchmark	0.1	0.5	0.8
Managed Account Platform	**-2.3**	**n/a**	**n/a**
Objective	1.0	n/a	n/a
Benchmark	1.0	n/a	n/a
Total Hedge Funds (Legacy)	**-11.5**	**-9.0**	**-1.0**
Composite Objective	1.2	5.4	4.9
Composite Benchmark	1.2	5.4	4.9
Total Diversified Growth	**2.3**	**2.8**	**1.5**
Composite Objective	1.7	5.6	5.8
Composite Benchmark	1.7	5.6	5.8
Best Ideas Portfolio	**6.1**	**3.3**	**n/a**
Objective	1.2	3.4	n/a
Benchmark	1.2	3.4	n/a
Total In-House Assets	**3.3**	**13.4**	**9.5**
Composite Objective	1.3	6.8	8.6
Composite Benchmark	1.3	6.8	8.6
Total LDI Portfolio	**12.7**	**14.7**	**n/a**
Composite Objective	12.7	14.7	n/a
Composite Benchmark	12.7	14.7	n/a
Total (ex LDI)	**3.0**	**4.8**	**4.7**
Composite Objective	2.8	6.0	6.3
Composite Benchmark	2.6	5.4	5.6
Total Clwyd Pension Fund	**5.3**	**7.1**	**7.3**
Composite Objective	4.7	7.7	8.4
Composite Benchmark	4.6	7.2	7.9

Source: Performance is calculated by JLT Employee Benefits based on data provided by the managers and is only shown for complete periods of investment.

Note: Objective performance includes the funds' outperformance targets above the relevant underlying benchmarks, as shown in the Appendix. Benchmark performance is based on the underlying benchmarks without the explicit **outperformance targets for the relevant funds within the Equity and Multi-Asset Credit portfolios.**

APPENDIX: SUMMARY OF MANDATES

Manager	Fund	Strategic Asset Class	Performance Objective (Net of Fees)	Strategic Allocation
Investec	Global Strategic Equity	Global Equities	MSCI AC World NDR Index +2.5% p.a.	8.0%
Wellington	Emerging Market (Global)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.25%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.25%
Aberdeen	Frontier Markets	Frontier Markets Equities	MSCI Frontier Equities Index +1.5% p.a.	2.5%
Stone Harbor	Libor Multi-Strategy Portfolio	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a. (1)	15.0%
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0% (3)
Pyrford	Global Total Return	Diversified Growth	UK Retail Price Index +4.5% p.a. (2)	5.0%
Investec	Diversified Growth	Diversified Growth	UK Consumer Price Index +4.6% p.a.	5.0%
Best Ideas	Best Ideas	Best Ideas Portfolio	UK Consumer Price Index +3.0% p.a.	9.0%
In-House	Private Equity	Private Equity / Opportunistic	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Equity / Opportunistic	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	IPD Balanced Funds Weighted Average	7.0%
In-House	Infrastructure	Infrastructure / Timber / Agriculture	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Timber / Agriculture	Infrastructure / Timber / Agriculture	3 Month LIBOR Index +5.0% p.a.	2.0%
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%

Notes: 1 FTSE A Gilts All Stocks Index until 31 March 2014.
2 UK Retail Price Index +4.4% p.a. until 31 March 2015.
3 Strategic Allocation represents the composite benchmark for the Managed Account Platform.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	27 September 2016
Report Subject	2016 Actuarial Valuation and Funding/Flightpath Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide an update on the actuarial valuation project alongside an update on the Flightpath strategy.

The actuarial valuation project is not only required by legislation, but it is also critical to the good governance of the CPF for the benefit of the members and employers.

Actuarial Valuation

The main progress on the project since the last report has been made in the following areas:

- The demographic experience analysis for CPF and the wider LGPS has now been completed, and this has informed the Actuary when determining the appropriate non-financial assumptions e.g. life expectancy, ill health rates etc, for the CPF.
- The Actuary has completed preliminary calculations based on the actual data provided by the Fund. The emerging deficit has been assessed as £447m, representing a funding level of 76% and an average employer future service cost (or Primary contribution rate) of 15.3% of pay.
- A number of meetings have taken place to discuss the high level valuation results:
    - Fund Actuary and the Fund Officers,
    - Fund Actuary, Fund Officers and Chief Finance Officers of the Unitary Authorities.
- The draft Funding Strategy Statement will be updated to reflect the discussions in the above meetings, and the formal consultation with all interested parties is due to commence in October. The Employer risk management framework will be developed alongside this.
- Data has been submitted to GAD for the S13 valuation as required by legislation.

- High level analysis of Data Quality (including the impact of the Backlog project) has been performed which goes beyond the basic requirements that TPR/legislation set out in relation to "Common Data" in order to maximise value.

Funding and Flightpath Update and Review

- The funding position was behind the expected position under the 2013 funding plan at the end of July but of course the position is being reviewed as part of the 2016 valuation and will be "rebased" in terms of the monitoring framework.

- The level of hedging at 30th June was around 16% for interest rate and 40% for inflation. No triggers have been hit since the last update report.

- Insight are operating the liability hedging mandate in line with the tolerances set by our advisors.

- A review of the Flightpath Framework is planned, with a full cost / benefit analysis will taking place in advance. It is anticipated that the review will consist of:

    - reviewing the flightpath plus updating the interest rate and inflation triggers,
    - possibly restructuring the current LDI portfolio;
    - exploration of potential the use of "equity options" to protect against falls in the Insight mandate.

RECOMMENDATIONS	
1	It is recommended that all PFC members note this report, the progress being made with the actuarial valuation project, the current position regarding the funding and flightpath framework and its review over the coming months.
2	The PFC should also note the preliminary results of the CPF valuation as contained in paragraph 1.02.

REPORT DETAILS

1.00	**2016 Actuarial Valuation and Funding & Flightpath Update**
1.01	**Actuarial Valuation** The purpose of this report is to update PFC Members on the 2016 actuarial valuation project, including key milestones, communications with employers and other events. This is the next report of the series of reports for the PFC meetings throughout 2016/17 until the conclusion of the valuation project.

1.02 The final actuarial outcome will be reported to Committee at the next meeting, however preliminary whole Fund results (based on the proposed assumptions to assess solvency and future service contributions) are set out below:

	£Ms
Assets	1,381
Liabilities	1,828
Deficit	447
Funding Level	76%
Average employer future service contribution rate*	15.3% p.a.

** no allowance for 50/50 take-up.*

Discussions have also commenced in relation to the funding strategy that will be adopted by the Fund, and individual results for the all employers.

1.03 The Actuary has met with the Unitary Authority Chief Finance Officers, to communicate their results. Dialogue will continue with them over the coming weeks.

Other individual employers' results will be communicated over the next few weeks, and the FSS consultation process/Annual Joint Consultative Meeting will provide a forum for further discussion/update.

As part of the consultation on the FSS the Fund will continue dialogue with all employers over the coming months.

1.04 The PFC is asked to note the progress made with the 2016 actuarial valuation, in particular the outline above of the discussions that have taken place since March 2016.

1.05 **<u>Funding and Flightpath Update & Review</u>**

The monthly summary report from Mercer on the funding position and an overview liability hedging mandate is attached as at 31 July 2016. It includes a "traffic light" of the key components of the Flightpath and hedging mandate with Insight. Pending the actuarial valuation, the flightpath dashboard shows the funding level flag as blank pending the valuation and the flightpath framework review which will result in a refresh of the monitoring framework.

1.06 The funding position was behind the plan at the end of July when measured relative to the 2013 funding plan. The funding position and monitoring framework is being reviewed alongside the flightpath framework, which is discussed further below.

1.07 The level of hedging at 31 July 2016 was around 16% for interest rate and 40% for inflation. The hedging implemented over 2014 and 2015 has

	provided some protection to the funding position against the changes in interest interests and inflation. In particular, without this hedging the deficit would have been approximately £125m higher since inception than if the original strategy had remained in place when measured on a like for like basis. This strategy has provided further protection since the result of the EU Referendum and interest rate cut by the Bank of England, and the consequent reduction in return expectations.
1.08	Based on data from Insight, the analysis shows that the management of the Insight mandate is rated as "green" meaning it is operating in line within the tolerances set by our advisors.
1.09	**Flightpath Framework Review** Market conditions are particularly challenging and we are expecting further volatility over potentially a long period. Interest rates and therefore investment return expectations remain subdued which affects the funding and investment outlook. We are reviewing the Flightpath framework in light of the updated valuation and market positions. This is to ensure we are managing risk at the most efficient levels with the intention to be in a better position to capture opportunities as cost effectively as we can. This will comprise of: 1. *Reviewing the flightpath plus updating the interest rate and inflation triggers.* This review will account for the new benefit cashflows following changes to the membership profile, updated market conditions and the actuarial valuation. This was already in the Fund's business plan. 2. *Potentially restructure the current LDI portfolio".* Insight and Mercer have identified an opportunity to restructure Insight's mandate that will be more efficient for the Fund. This will require a certain level of transaction costs and work will be initially done to assess its cost versus its value to the CPF before proceeding. 3. *Explore potential use of "equity options" to protect against market falls on the Insight mandate.* This is being explored to provide further downside protection given the current equity market levels. Again work will be initially done to assess its cost versus its value to the CPF before proceeding.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report. Significant resource requirements will be required from the administration and investment teams to support the valuation process and consult with employers. Officers will also be heavily involved in the review of the funding framework.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	The Fund is required to consult with employing bodies over the development of the FSS and overall framework of the actuarial valuation.

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The actuarial valuation is a key Governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements. The funding strategy (along with the investment strategy) which comes from the actuarial valuation is a key determinate of the overall financial risk levels in the CPF.
4.03	The recent market volatility has increased the relative risk levels in relation to CPF solvency position and the required contribution rates from 1 April 2017. The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates.

5.00	**APPENDICES**
5.01	Appendix 1 - Overview of risk management framework - July 2016

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – 2016 Actuarial Valuation – 24 May 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation – 22 March 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation – 26 November 2015, current FSS and 2013 Actuarial Valuation report.
6.02	Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (g) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement. (h) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (i) **GAD – Government Actuary's Department -** The Government Actuary's Department is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury. (j) **Section 13 Actuarial Valuation -** Section 13 of the Public Service Pensions Act 2013 provides for a review of the LGPS valuations and employer contribution rates to check that they are appropriate and requires remedial steps to be taken where it is considered appropriate. The GAD will undertake this review based on the results of the 2016 actuarial valuations.

	(k) **SIP – Statement of Investment Principles -** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund (l) **Flightpath -** A framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when “triggers” are hit, whilst still expecting to achieve the overall funding target. (m) **Deficit -** The extent to which the value of the Fund’s liabilities exceeds the value of the Fund’s assets. (n) **Funding - level** - The difference between the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage. (o) **Hedging -** A strategy that aims to reduce funding volatility. This is achieved by investing in assets that mimic changes in liability values due to changes in market conditions. (p) **Insight QIF – Insight Qualified Investor Fund -** An investment fund specifically designed for the Fund to allow Insight to manage the liability hedging and synthetic equity assets.

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HEALTH WEALTH CAREER

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK JULY MONTHLY MONITORING REPORT

September 2016

Paul Middleman
Adam Lane

MAKE TOMORROW, TODAY MERCER

EXECUTIVE SUMMARY

= as per expectations | = to be kept under review | = action required

Overall funding position

The monitoring of the funding position will be reconsidered in conjunction with the 2016 valuation and review of the flightpath framework. An update on this will be provided in future reports.

Liability hedging mandate

- Insight in compliance with investment guidelines
- Outperformed the benchmark over the quarter

To discuss with Insight the ongoing suitability of the Fund benchmark alongside the potential LDI restructuring.

Synthetic equity mandate

- Insight in compliance with investment guidelines
- Performance in line with expectations
- Maturity constraints as expected

No action required.

Collateral and counterparty position

- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.25% rise in interest rates and fall in inflation in combination with a 35% fall in equity markets before requiring further collateral

No action required.

LIBOR Plus Fund

- Fund has underperformed its target since inception
- Management team stable and no change in manager rating
- Allocation of £50m remains appropriate

Monitor performance over time to see whether remains suitable to meet equity TRS funding cost.

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Agenda Item 14

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