Contact Officer:
Maureen Potter 01352 702321
maureen.potter@flintshire.gov.uk

To: Cllr Dave Hughes (Chairman)

Councillors: Haydn Bateman, Billy Mullin, Ted Palmer and Ralph Small

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

7 June 2018

Dear Councillor

You are invited to attend a meeting of the Clwyd Pension Fund Committee which will be held at 10.00 am on Wednesday, 13th June, 2018 in the Delyn Committee Room, County Hall, Mold CH7 6NA to consider the following items

A G E N D A

1 **APOLOGIES**

Purpose: To receive any apologies.

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

Purpose: To receive any Declarations and advise Members accordingly.

3 **APPOINTMENT OF VICE CHAIR**

Purpose: Appointment of Vice Chair and note that the Chair and Vice Chair are therefore appointed as Member and Deputy respectively of the Joint Governance Committee for the Wales Pension Partnership.

4 **MINUTES** (Pages 5 – 14)

Purpose: To confirm as a correct record the minutes of the last meeting held on the 21st March 2018.

5 **CLWYD PENSION FUND ACCOUNTS 2017/18.** (Pages 15 - 48)

Purpose: To provide Committee Members with the Clwyd Pension Fund Accounts 2017/18 for consideration and changes to the approval process.

6 **POOLING INVESTMENTS IN WALES** (Pages 49 - 70)

Purpose: To provide Committee Members with an update on implementation of Pooling Investments in Wales.

7 **GOVERNANCE UPDATE.** (Pages 71 - 116)

Purpose: To provide Committee Members with an update on governance related matters and to agree changes to the Fund Business Plan.

8 **LGPS UPDATE** (Pages 117 - 128)

Purpose: To provide Committee Members with current matters affecting the management of the LGPS.

9 **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE** (Pages 129 - 160)

Purpose: To update Committee Members on administration and communication matters for the Clwyd Pension Fund and to agree changes to the Fund Business Plan relating to the workforce review.

10 **INVESTMENT AND FUNDING UPDATE** (Pages 161 - 180)

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

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

Purpose: To provide Committee Members with an economic and market update

12 **INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 197 - 214)

Purpose: To update Committee Members on the performance of the Fund’s investment strategy and Fund Managers

13 **FUNDING AND FLIGHT PATH UPDATE** (Pages 215 - 230)

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

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

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

The report contains information relating to the financial affairs of the Pension Fund and the public interest in not disclosing the information outweighs the public interest in disclosing the information.

14 **EMPLOYER CARE PAY ISSUE** (Pages 231 - 236)

Purpose: To provide Committee Members with details of a potential breach relating to a specific Employer.

Yours sincerely

Robert Robins
Democratic Services Manager

This page is intentionally left blank

CLWYD PENSION FUND COMMITTEE
21 March 2018

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold on Wednesday 21 March 2018.

PRESENT: Councillor Dave Hughes (Chairman)
Councillors: Ted Palmer, Ralph Small, Haydn Bateman, Billy Mullin.

CO-OPTED MEMBERS: Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Nigel Williams (Wrexham County Borough Council), Mr Steve Hibbert (Scheme Member Representative).

APOLOGIES: Councillor Andrew Rutherford (Other Scheme Employer Representative), Gary Ferguson (Corporate Finance Manager)

IN ATTENDANCE:

Advisory Panel comprising: Colin Everett (Chief Executive) - from item 109, Philip Latham (Clwyd Pension Fund Manager), Karen McWilliam (Independent Advisor – Aon Hewitt), Kieran Harkin (Fund Investment Consultant – JLT Group), Paul Middleman (Fund Actuary – Mercer).

Officers/Advisers comprising: Debbie Fielder (Pensions Finance Manager), Helen Burnham (Pension Administration Manager) and Megan Fellowes (Apprentice – Mercer - taking minutes).

106. **DECLARATIONS OF INTEREST (including conflicts of interest)**

No new conflicts were declared.

107. **MINUTES**

The minutes of the meeting of the Committee held on 21 February 2018 were submitted. Cllr Bateman and the Chair wanted to emphasise the excellent quality of the previous minutes and congratulated Miss Fellowes on a job well done.

RESOLVED:

It was agreed the minutes could be received, approved and signed by the Chairman.

108. **PLSA CONFERENCE SESSION VIDEO ON COST TRANSPARENCY**

The Chairman introduced the PLSA conference session video on cost transparency and how to ensure value for money with investment management fees. The video can be found at https://www.youtube.com/watch?v=0SDtFo5AOhs. The video was in regards to the transparency of investment fees, with asset owners and regulators pushing for disclosure of manager fees across asset classes. Therefore, investors must continue to seek investment advice and so with new recommendations emerging from the Industry Disclosure Working Group, the video explained what the next steps are for investors, advisors and service providers.

The Chairman explained that, in terms of the Clwyd Pension Fund, they have always asked their fund managers to provide full investment costs for its annual report and so the session showed the Committee how this should become more consistent in the future across the investment community especially as some LGPS funds still do not publish the data.

He also advised the Committee that, as the Fund's representative on the Joint Governance Committee (JGC) of Wales Pensions Partnership (WPP), he confirmed he would be ensuring that the Operator (LINK), who the board met at the last Committee, would be expected to require that managers comply with the new Cost Transparency Code where possible.

After the video finished Mr Latham mentioned that the topic was close to the heart for the Fund as there has been a lot of work involved in providing cost transparency including gathering research and thoughts to input into the requirements. The work has included setting up a template for Funds.

109. **BUSINESS PLAN 2018/19 TO 2020/21**

The Chairman introduced the main item on the agenda to the Committee and passed over to Mr Latham. Mr Latham asked the Committee for approval of the Business Plan for the upcoming 3 years and directed the room to page 24 of the papers where the bullet points emphasised the main purposes of the Business Plan.

The key points in relation to the Business Plan were;

- Page 19-21 showed the progress versus the 2017/18 business plan. The vast majority was on target or complete.
- Page 25 showed the updated structure for the pool with the new WPP.
- There is a lot of business as usual tasks on the Business Plan which shows the amount of work needed to run the Fund; page 30 onwards outlined the 9 different areas of work and it was noted the Employer Liaison team tasks were a new addition.
- The bottom of page 32 highlighted the achievements over the past 3 years which were improvements on governance, risk management and the governance arrangements for the WPP.
- The main issues that would be faced over the next 3 years were defined on page 33 where pooling will dominate the Business Plan but there could also be implications from the outcome of the cost management process (probably from 2020).
- Page 35 shows the cost budget for 2018/19 and the 2017/18 budget versus estimate.
- In terms of governance of the Fund (page 41) key tasks included the implementation of the new GDPR data protection requirements and recognised the necessity for more training needs for the Committee as per the recent training needs analysis.

Mr Latham continued by stating that the section on Funding and Investment risks (page 47) showed that risks will always be high since the Fund is not 100% funded or able to hedge out all of the risks. The flightpath is the "plan" put in place in order for the Fund to move towards full funding and also minimise the risk of deterioration. An interim actuarial review will be undertaken in 2018 to help with budgeting for employers and alongside this is the finalisation of the employer risk management framework.

Other risks take account of the administration and member communication. The administration involves training and supplementing that with the outsourcing of work to external parties to clear the backlogs etc. The communication with members is now more and more through the Member Self Service (MSS).

The upcoming tasks for the administration team (including communications) are displayed on page 52 where most of the items are already familiar as ongoing work; however these tasks would take time to implement. These tasks are as follows;

1. Improvement on the quality of member data which is critical for the Fund through various initiatives e.g. GMP reconciliation (which has been outsourced to Equiniti) and the aggregation project (some assistance from Mercer).
2. The data improvement plan (which would be completed on the back of the Pensions Regulator guidance).
3. The implementation of iConnect for the Fund for a wider number of employers

Mrs Fielder then discussed the finances in delivering the Business Plan. Page 34 showed the three year cashflow 2018 to 2021 on an annual basis and forecast for 2017/18. The intention was that this assists with treasury management.

She added that the figures that are estimated for Lump Sums, Transfers-In and Transfers-Out are calculated based on historic figures. The pension benefits and contributions forecasted over 3 years is easier to measure because of the Actuarial Valuation and the certified contributions. Mrs Fielder confirmed that the Fund will get more clarification after the funding review for estimations regarding the figures over 2018- 2021.

The key details that Mrs Fielder explained in relation to the cashflow projection for 2018/19 and the budget for 2018/19 were that;

- The uncertainties are around the in-house investments on drawdowns for private markets.
- Drawdowns been much higher than the income that the Fund had received due to the market conditions.
- Currently the Fund is expected to be cashflow positive (by c£10m) in 2018/19 but this could move depending on a number of factors. More consideration will be given after the 2018 interim review.
- The main change in terms of the cost budget is the fund manager fees, the budget in 2017/18 was roughly £11.9 million and estimations of the actuals are around £15.2 million. The main reason for the difference was that the value of the Fund has increased more than expected.
- There has been an increase in the fees, mainly due to the additional work that the Fund has completed e.g. Equity protection and assisting the Fund with private markets.
- There are contingencies for the Trivial Commutation project that may or may not be outsourced, as well as the aggregation.
- The pooling budget covers the cost of any external advice for the pool going forward, but any internal works i.e. meetings, do not include salary costs separately.

Cllr Bateman queried the investment fees and why the fund manager fees have increased. Mrs Fielder stated that there has been an increase in the value of the Fund more than expected. The future budget analysed all of the asset classes expenses based on what the Fund paid for all of those underlying assets. This allowed for the average basis points expenses. If the value of the Fund goes up more than expected, it would be higher than that and this makes it difficult to estimate accurately unless markets are very stable.

Cllr Bateman asked Mrs Fielder to explain the last paragraph on page 35 in regards to the Employer Liaison Team (ELT). Mrs Fielder clarified that employer contribution rates are in the Actuarial Valuation, whereby administration costs for ELT services are to be paid by an additional amount which would be incorporated into their contribution rate at the next valuation.

Cllr Bateman questioned Mrs Fielder on page 26 regarding what the difference in costs is between the 7 core external fund managers and the 45 non-core external managers. Mrs Fielder stated that the costs are split out for each manager. The core managers are investments such as listed in equities, fixed income and the non-core managers are investments such as private market funds. The investment managers used are shown in the JLT report to the Committee.

Mr Hibbert asked whether the Fund needs to set any money aside in the budget for 2018/19 for further development in regards to the MSS. Mrs Burnham stated that historical MSS costs were the additional implementation costs for the new software and so it did not recur in future years.

In terms of the representation of risk, Mr Hibbert asked whether the Fund is content in areas which are more than one colour between where we are and where we want to be at e.g. amber and yellow. An example is shown on page 38 where it described the number of insufficient staff with a current risk status as red and a target of green. On page 39 the employers current staff risk status is red and also moves to a green target. Therefore Mr Hibbert queried whether the Fund is comfortable with level of detail in the Further Actions on these pages where the risk status would need to make a significant jump from red to green.

Mr Everett agreed and wondered whether employers should be in amber rather than red in the key risks.

Mr Latham noted that the expected time that is shown should also be considered in this context and noted that the current risk scores are a subjective judgement in some cases. He welcomed any comments that the Committee had and would reflect on them for the next iteration of the Risk Register

Mrs Burnham noted that Flintshire County Council had only recently implemented iConnect, therefore this is why the Employer risk colour is higher than what perhaps might be deemed appropriate. Mr Latham agreed with Mrs Burnham that it is early days and suggested that this would be put this on the agenda every Pensions Advisory Panel (PAP) to update for any changes.

Mr Hibbert noted that a member who was a teaching assistant and had four different jobs received statements for four different pensions; therefore Mr Hibbert asked whether the aggregation project would deal with this sort of issue. Mrs Burnham responded to Mr Hibbert by confirming that this would be the case.

The Chairman thanked the officers on the success on delivering the tasks in the previous business plan. Particularly in paragraph 1.03 of the covering report it referred to the 1st Tier rating for the Stewardship code where he understood that this is not held by many other LGPS funds. The Chairman also thanked the administration team for the additional work at the end of the recent year i.e. the rolling out of iConnect ahead of schedule as outlined in paragraph 1.04.

RESOLVED:

1. That the Committee members noted the progress made towards the Fund's Business Plan during 2017/18

2. That the Committee approved the Business Plan in Appendix 2 relating to the period 2018/19 to 2020/21

110. **POOLING INVESTMENTS IN WALES**

Mr Latham guided the Committee to page 65 where this section of the agenda is a report which is for information purposes.

The key points Mr Latham made were that;

- There was positive progress in the setting up the sub-funds with the current focus being on the Global Equity Funds. There had been a lot work by officers to ensure this met the objectives of the Fund. The sub funds should be agreed at the next JGC.
- The WPP budget was discussed and it was noted it covered all the Host Authority costs.
- The information and agenda for the next JGC is on the Carmarthenshire website.
- The Minister had written to the Chair/Vice Chair of the WPP welcoming the appointment of an operator but noting the work to be done. This illustrates the ongoing level of scrutiny.

Mrs McWilliam noted that the WPP budget covers areas such as staffing, legal services and operator services fees for Link and Russell.

Mrs Fielder confirmed that she had increased the fees relating to pooling compared to those incorporated within the budget as she believed more work will be needed to implement the sub funds than first thought. However it is difficult to predict the level of costs currently.

Mr Hibbert noted that there are concerns in the pools generally regarding two tier workforce due to different pay/conditions and TUPE issues and asked whether there were any problems in Carmarthenshire.

Mrs McWilliam replied that the concerns tend to be in relation to staff being transferred from local authorities to the pool but this is not the case for WPP as it is an external operator.

Mr Everett asked whether they were all Carmarthenshire employees. Mrs McWilliam confirmed that the employees operating the pool were Link and Russell employees but the staff and hires relating to the Host Authority work will be Carmarthenshire employees.

Mr Everett wanted confirmation of how running costs are proportioned. It was confirmed that they are split equally, i.e. 1/8th to each Fund.

Mrs Fielder added that any costs relating to Link and Russell are in relation to the size of assets that are pooled. These had been estimated and included in the separate budget figures in the business plan although it was noted for 2018/19 it will only be part year costs as the assets have yet to be transitioned.

Mr Latham asked whether any of the Committee members will attend the JGC. Mr Hibbert confirmed he will try to attend.

Mr Latham said that there are ongoing discussions regarding the fact that the Committee and Board would not be entitled to sit in the JGC for parts of the meeting due to confidentiality reasons at this stage e.g. due to ongoing discussion over manager fees. It was commented that this is not an ideal situation and the hope is that over time Committee members could attend the meeting as they would be bound by the same level of confidentiality as the JGC members.

RESOLVED:

1. That the Committee note the report and discuss progress being made by the Wales Pension Partnership

111. **LGPS UPDATE**

The Chairman passed over this item of the agenda to Mr Middleman to highlight key points regarding the LGPS current issues. Mr Middleman noted the comments regarding the slowdown in life expectancy improvements based on the 2017 analysis by the Continuous Mortality Investigation Bureau (CMI) which has continued into 2018 based on the latest information. This is of course not a good thing for individuals but is positive for Fund finances.

Mr Middleman added that there could be a reduction in the liabilities of 1-2% which could lead to a fall of around £40 million off the deficit.

He commented that also in the press is the event of the Northamptonshire County Council (NCC) section 114 notice. This was in relation to the spending controls at NCC reflecting a severe financial strain on the county council. This was the first time Mr Middleman had seen this since he had been an Actuary, but he thought that it reinforced the need for a robust employer management framework. This situation highlights the need to be aware that these things happen to even the strongest employers.

Cllr Bateman queried whether the auto-enrolment review was still happening. Mr Middleman responded by saying that it was complete and the implementation is mid-year of 2020. The impact in the long term could be that auto enrolment could capture a bigger population. However, it would not be expected to be significant for the Fund.

RESOLVED:

1. It is recommended that all Committee 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 Fund

112. **PENSION ADMINISTRATION COMMUNICATIONS UPDATE**

Mrs Burnham stated that there was nothing specific to highlight in this report but that on page 91 the caseloads under appendix 1 (day to day tasks) for the member case levels were in new graphic form as opposed to just figures. This gives more of an idea of what work has been completed, added and the amount of work coming into the office as well as the historical levels and peaks in case levels. It also shows the level of activity for the 3 Councils separately.

The trend shows that there has been an increase in the monthly number of tasks. Some of this relates to the amount of work caused in the creation of new admitted bodies on transfers of staff, for example, when 400 staff was transferring to new admitted bodies (NEWydd and Aura).

Mrs Burnham also noted that the were in excess of 700 unknown joiners notified due to the iConnect implementation which would lead to more work in the busy interim review period and this would have a knock on effect of other tasks. However, this would be expected to settle down and going onto iConnect is a very positive step going forward for the Fund in terms of data quality and meeting the statutory deadlines.

Mr Hibbert pointed out that on page 91 whether there was a scaling issue that the Fund needs to be looked at as it is a concentrated amount of information. Mrs Burnham confirmed the format of the graph would be reviewed and the underlying statistics are available in tabular format.

Mrs Burnham commented that on appendix 2 from page 94 onwards which showed the performance against KPIs, this was also done in a graphical format for clarity showing the three different areas of legal requirement, internal turnaround times and the overall experience i.e. end to end process. TPR is interested in the legal requirements but it is important to look at this from different perspectives. It covers 7 key process areas.

The Chairman asked if Mrs Burnham could explain the new graphs from appendix 2.

Mrs Burnham explained that on page 94 the thick line showed the % number of completed cases (right hand axis) and the bar chart showed the number of cases completed (left hand axis). It was noted that some of the legal obligations were not being met and it was explained that the various initiatives (iConnect, Data Improvement plan etc.) are part of the plan to assist in meeting the targets but noting that 100% compliance in every area may not be possible as it relies on 3rd parties supplying the data in a timely way e.g. employers.

Mr Hibbert commented that for the graphical presentation it was clear to understand the ones where the Fund hadn't achieved compliance. However with the ones where the Fund has exceeded the legal requirement it was difficult to see e.g. why the thick line on the graph looks way above the bars on page 97.

This relates to the different axis. Mrs Burnham said that whilst the lines are above the bars, it shows that in the first month overall 65% was achieved. She added that there will be explanatory notes to explain the graphs to the Committee in the future.

After further discussion the Chairman also asked if there could be explanatory notes for the graphs on this appendix. Mrs Burnham confirmed that she will arrange for this to be done.

Page 101 highlighted statistics for the Member Self Service usage. On the coloured chart it demonstrates the amount of registered members split for each unitary, which shows 17.03% of potential members but this figure has now increased to 18%. It was emphasised that the amount of registered members is large in comparison as other schemes are around 10%-15%. It was noted that it is incumbent on all to keep encouraging use of MSS through employers and Fund publications.

On the right hand side of the page it outlined the amount of people that have entered the website, with a total of 10,697 benefit projections having been calculated. The MSS has given people the opportunity to connect to the website and look at their benefits at different dates using different pay. Mrs Burnham also commented that there are 31,275 potential members and only 264 elected to receive paper copies of documents. This is all very positive in terms of usage.

Cllr Llewelyn Jones mentioned that as a member of the pension fund as a Councillor he had not yet been able to enrol on to the MSS. Mrs Burnham replied by saying that it is a different scheme and that at the moment the benefit projections etc. don't work for Councillors. She explained it is unlikely the software would be developed for Councillors as it impacts very few members.

RESOLVED:

1. That the Committee considered the update and provided comments on the format of the graphs.

113. **INVESTMENT AND FUNDING UPDATE**

The Chairman noted that there is no written report for this item on the agenda as the areas were covered at the February Committee but passed over to Mr Middleman, Mr Harkin and Mrs Fielder for a verbal update on Investments and Funding.

Key points were;

- Responsible Investment is becoming more of an issue across pools and getting consistency of application as view differs.
- Pooling implementation is at different stages for the pools but the structures are set up. Some pools are transitioning assets at a greater pace than others depending on their underlying asset strategies.
- Risk Management – The flightpath is functioning well and other Funds are moving in the same direction around LDI, Equity Protection and de-risking especially given the improvement in funding levels. The officers and Mercer/JLT had met that morning regarding the implementation of a new equity protection strategy for the Fund and this will be reported on at the June committee.
- The value of assets in January to February went down by around £14 million; Mrs Fielder noted that the Fund is still above by £1.8 billion in total assets.
- Mr Middleman added that the funding level is around 90% which is still ahead of target.

114. **PLSA CONFERENCE SESSION VIDEO ON PENSION RISK**

The Chairman introduced the final PLSA training session video about Pension Risk which can be found at https://www.youtube.com/watch?v=Xwx3MfQzeuY. The video included a panel of senior investment figures discussing macro and thematic risks to determine which they see as most threatening. Examples include risks from geopolitical developments, climate change risks, and stranded assets.

The Chairman thanked everyone for their attendance and stated that the next Committee meeting will be 13th June 2018 at 10am.

The meeting finished at 5:00pm.

……………………………………

Chairman

This page is intentionally left blank

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13 June 2018
Report Subject	Draft Pension Fund Accounts 2017/18
Report Author	Pension Finance Manager

EXECUTIVE SUMMARY

Changes to the statutory financial framework remove the requirement to report the Pension Fund accounts with the Flintshire County Council statement of accounts. Instead the pension fund accounts must be reported solely via the Pension Fund Annual Report.
The separation of the Pension Fund accounts from the main County Council statement of accounts means that the Pension Fund accounts have to be subject to separate approval by Members. The 6 June 2018 meeting of the Audit Committee approved delegation to approve the Pension Fund accounts to the Clwyd Pension Fund Committee.

The draft Pension Fund accounts for 2017/18 are attached at Appendix 1 and are scheduled to be audited by Wales Audit Office in June/July 2018.

The audited Pension Fund accounts will be submitted to the Clwyd Pension Fund Committee for approval on 5 September 2018 as part of the Pension Fund Annual Report.

RECOMMENDATIONS	
1	That Members note the delegation of the approval of the accounts and comment on the draft unaudited Pension Fund accounts.

REPORT DETAILS

1.00	**Annual Accounts**
	Governance
1.01	The Accounts and Audit (Wales) 2018 Regulations remove the requirement to report the pension fund accounts with the Flintshire County Council statement of accounts. Instead the pension fund accounts must be reported solely via the Pension Fund Annual Report. The LGPS Regulations 2013, as amended, require the Fund to publish an Annual Report before 1st December 2017. This is a later deadline to the County

	Council statement of accounts which remains 30 June for submission to external audit with a 30 September publication deadline. The separation of the Pension Fund accounts from the main County Council statement of accounts means that the Pension Fund accounts have to be subject to separate approval by Members. The 6 June 2018 meeting of the Audit Committee approved delegation to approve the Pension Fund accounts to the Clwyd Pension Fund Committee. The draft Pension Fund accounts for 2017/18 are attached as appendix 1 and are scheduled to be audited by Wales Audit Office in June/July. The audited Pension Fund accounts will be submitted to the Clwyd Pension Fund Committee for approval on 5 September 2018 as part of the Pension Fund Annual Report.

1.02
	Pension Fund Accounts
	
	The draft Annual Accounts for 2017/18 are at Appendix 1. The separation of the Pension Fund accounts from the County Council statement of accounts has provided the opportunity to align the layout of the accounts with that of the Annual Report.
	
	The key changes to the accounts for 2017/18 include:
	
	• Expansion of the significant accounting policies (Note 3) and inclusion of the critical judgments (Note 4) to more fully comply with the CIPFA Code of Practice on Local Authority Accounting (the Code);
	• Simplified disclosure of management costs and investment management expenses to focus on the significant figures (Note 10) in line with the Code and CIPFA Guidance. More detail will be reported in the Pension Fund Annual Report;
	• Re-analysis of investments to meet the Code and CIPFA Guidance focussing on the class of assets rather than the investment strategy (Notes 11-13);
	• Additional disclosures concerning fair value (Notes 15A and 15B);
	• Slimmed down disclosure concerning financial risk (Note 17) to reflect the Code requirements, professional guidance and the key elements of the Council's approach.
	
	Salient points from the accounts include:
	
	• Management expenses increased by £6m. This largely reflects:
	  o Increases in ad valorem fees for the core fund managers;
	  o Additional fees arising new investments in private equity and infrastructure together with greater fee transparency arising from regulatory changes
	
	• Net growth of assets dropped from £318m (23%) in 2016/17 to £87m (5.2%) in 2017/18.

	• The actuary reported a slight decrease in gross pension liabilities from £2,642m in 2016/17 to £2,629m in 2017/18, when valued on an accounting standards basis (IAS26). This was largely due to a reduction in the rate used to discount liabilities from 4.9% to 4.6%. Coupled with the increase in net assets this improved funding from 63.9% to 67.9%. IAS 26 tends to overstate the value of liabilities because of the discount rate, however it indicates that funding levels have improved since last year. It should be noted that these figures are based on IAS19 rather than the assumptions and methodology used for funding purposes. The estimated funding position on this basis as at 31st March 2018 was 89%, which reflects a significant improvement on the 2016 funding position of 76%.

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	Note 17 of the Pension Fund accounts discloses the risks to which the Fund is exposed from using different types of financial instrument and how those risks are managed. These form part of the Pension Fund risk register (along with strategic and operational risks) which is subject regular scrutiny by the Committee, internal and external audit.

5.00	**APPENDICES**
5.01	Appendix 1 – Draft Clwyd Pension Fund Accounts 2017/18

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

CLWYD PENSION FUND ACCOUNTS
for the year ended 31st March 2018

FUND ACCOUNT

2016/17 £000		Note	2017/18 £000
	Dealings with members, employers and others directly involved in the Fund		
(76,439)	Contributions	7	(105,079)
(2,797)	Transfers in		(4,839)
(79,236)			**(109,918)**
	Benefits payable :		
54,744	Pensions	8	56,739
10,413	Lump sums (retirement)		10,474
1,560	Lump sums (death grants)		1,676
66,717			**68,889**
5,586	Payments to and on account of leavers	9	5,689
72,303			**74,578**
(6,933)	**Net (additions)/withdrawals from dealings with members**		**(35,340)**
17,475	Management expenses	10	23,538
10,542	**Net (additions)/withdrawals including fund management expenses**		**(11,802)**
	Returns on Investments		
(7,432)	Investment income	11	(10,060)
0	Tax on investment income		
(310,601)	Change in market value of investments	12	(77,179)
(318,033)	**Net return on investments**		**(87,239)**
(307,491)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(99,041)**
(1,380,675)	**Opening net assets of the scheme**		(1,688,166)
(1,688,166)	**Closing net assets of the scheme**		**(1,787,207)**

NET ASSETS STATEMENT

2016/17 £000s		Note	2017/18 £000s
1,685,928	**Investment Assets**	**13**	1,781,826
1,685,928	**Net Investment Assets**		**1,781,826**
	Long-term debtors	**18**	29
4,545	**Debtors due within 12 months**	**18**	6,225
(2,307)	**Creditors**	**19**	(873)
1,688,166	**Net assets of the fund available to fund benefits at the end of the reporting period**		**1,787,207**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the actuary's report at page 27.

NOTE 1 - THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

General

Clwyd Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Flintshire County Council. The County Council is the reporting entity for the pension fund.

The LGPS, is a contributory defined scheme established by statute, which provides pensions and other benefits to employees and former employees of Flintshire County Council and the scheduled and admitted bodies in North East Wales. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The LGPS is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013, as amended;
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014, as amended; and
- The LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is financed by contributions and investment earnings from the Fund's investments. 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 2018. Employers also pay contributions to the Fund based on triennial funding valuations. The last valuation was at 31st March 2016, the findings of which became effective on 1st April 2017. The valuation showed that the funding level increased from the previous valuation (31st March 2013) from 68% to 76%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over a 14 year period from April 2018. Currently employer contribution rates range from 8.0% to 30.5% of pensionable pay.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of service, summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable pay	Each year worked is worth 1/60 x final pensionable pay
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

In addition Clwyd Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from the pension fund. The Fund uses Prudential and Equitable Life as its AVC providers. AVCs are paid to the AVC providers by employers and provide additional benefits for individual contributors.

Governance

Flintshire County Council, as the pension fund administering authority, has delegated management of the Fund to the Clwyd Pension Fund Committee (the "Committee"). The Committee comprises five elected Members from Flintshire County Council and four co-opted members comprising two elected Members from unitary authorities, one other scheme employer representative and one scheme member representative, each with equal voting rights, access to training and to information. The Committee is responsible for both the administration and investment policy of the Fund.

In accordance with the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance of the Pension Fund. The Board met three times in 2017/18 and has its own Terms of Reference. Board members are independent of the Pension Fund Committee.

Investment Strategy

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, the Committee approved the Investment Strategy Statement on 21 March 2017. The Statement shows the Fund's compliance with the Myners principles of investment management.

The Committee has delegated the management of Fund's investments to eight core investment managers appointed in accordance the 2016 Regulations, and whose activities are specified in detailed investment management agreements and are monitored on a quarterly basis.

Membership

Membership of the LGPS is voluntary and employees are free to choose to whether to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. 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 bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 43 employer bodies within the Fund with active members (including Flintshire County Council) and over 46,000 members are detailed below.

2016/17 No.		2017/18 No.
40	Number of employers with active members	**43**
15,748	Active members	16,543
11,985	Pensioners receiving benefits	12,296
15,679	Deferred Pensioners	17,822
43,412		**46,661**

The scheduled bodies which contributed to the Fund during 2017/18 are:

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

The admitted bodies contributing to the Fund are:

Aramark Ltd Aura Leisure & Libraries Ltd Bodelwyddan Castle Trust Careers Wales Cartref y Dyffryn Ceiriog Cartref NI	Chartwells Civica UK Cymrhyd Rhan Denbigh Youth Group Freedom Leisure Glyndwr Students' Union	Holywell Leisure Ltd Home Farm Trust Ltd Newydd Catering & Cleaning Ltd Wrexham Commercial Services

NOTE 2 - BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year end as at 31st March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 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) 26 basis, is disclosed in the actuary's report at page 27 of these accounts.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.
- **IFRS 15 Revenue from Contracts with Customers**, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.
- **IAS 7 Statement of Cash Flows (Disclosure Initiative)**, will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.

- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)**, applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In summary, accounting policies adopted are detailed as follows:

Fund Account – Revenue recognition

Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations 2013. Individual transfer values received and paid out have been accounted for on a cash basis.

Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Investment income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Fund Account – expense items

Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts dues but unpaid are disclosed in the Net Assets Statement as current liabilities.

Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold.

As Flintshire County Council is the administering authority for the Fund, VAT input tax is recoverable from all Fund activities including expenditure on investment expenses.

Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Management expenses

The Fund discloses its administration, governance and investment management expenses in accordance with the CIPFA Guidance *Accounting for Local Government Pension Scheme Management Expenses* (2016).

Administration, oversight and governance expenses are also 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.

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.

Net Assets Statement

Financial instruments

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account.

Financial liabilities are recognised at fair value on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 15). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash held in current accounts is kept to a minimum, all other cash deposits are included as part of investment balances in the net assets statement.

Actuarial present value of promised future retirement benefits

The actuarial value of promised future retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the Code and IAS26. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a report from the actuary (see page 27).

Additional Voluntary Contributions (AVCs)

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016, but are disclosed as a Note only (see Note 20).

NOTE 4 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net pension fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and set out in the actuary's report at page 27. These actuarial re-valuations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

NOTE 5 - ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items in the Net Assets Statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (see page 27)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 10% decrease in future investment returns would reduce the current funding level of 76% to 68%. A 10% increase in the current valuation of estimated future pension liabilities would reduce the funding level to 70%, and a combination of the two would reduce the funding level to 60%.

Value of investments at level 3

The Pension Fund contains investments in private equity, hedge funds and pooled funds including property, infrastructure, timber and agriculture, that are classified within the financial statements as level 3 investments in note 15 to these accounts. The fair value of these investments is estimated using a variety of techniques which involve some degree of tolerance around the values reported in the Net Assets Statement. Note 15 summarises the techniques used, the key sensitivities underpinning the valuations and the sensitivity or tolerance around the values reported.

NOTE 6 - POST BALANCE SHEET EVENTS

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2018. Performance of global financial markets since this date may have affected the financial value of pension fund investments as reported in the Net Asset Statement, but do not affect the ability of the Fund to pay its pensioners.

NOTE 7 - ANALYSIS OF CONTRIBUTIONS RECEIVABLE

By employer

2016/17 £000s		2017/18 £000s
(26,936)	Administering Authority - Flintshire County Council	(27,479)
(48,150)	Scheduled bodies	(74,495)
(1,353)	Admitted bodies	(3,105)
(76,439)	**Total**	**(105,079)**

By type

2016/17 £000s		2017/18 £000s
(14,429)	**Employees contributions**	(14,829)
	Employers contributions:	
(32,257)	Normal contributions	(36,175)
(28,562)	Deficit contributions	(52,570)
(1,191)	Augmentation contributions	(1,505)
(62,010)	**Total employers' contributions**	**(90,250)**
(76,439)		**(105,079)**

NOTE 8 – BENEFITS PAYABLE

By employer

2016/17 £000s		2017/18 £000s
25,206	Administering Authority - Flintshire County Council	26,524
40,605	Scheduled bodies	39,127
906	Admitted bodies	3,238
66,717		**68,889**

By type

2016/17 £000s		2017/18 £000s
54,744	Pensions	56,739
10,413	Lump sums (retirement)	10,474
1,560	Lump sums (death grants)	1,676
66,717		**68,889**

NOTE 9 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17 £000s		2017/18 £000s
5,212	Transfer values paid (individual)	5,316
106	Refunds of contributions	101
268	Other	272
5,586	Total	**5,689**

NOTE 10 – MANAGEMENT EXPENSES

2016/17 £000s		2017/18 £000s
1,633	Oversight and Governance	1,399
14,474	Investment Management Expenses (see Note 10A)	20,570
1,368	Administration costs	1,569
17,475	**Total**	**23,538**

The Oversight and Governance costs include the fees payable to the Wales Audit Office for the external audit of the Fund of £39,000 for 2017/18 (£39,000 in 2016/17).

Note 10A – INVESTMENT MANAGEMENT EXPENSES

2016/17 £000s		2017/18 £000s
267	Transaction costs	941
11,200	Fund Management Fees	15,761
31	Custody Fees	31
2,976	Performance related fees	3,837
14,474	**Total**	**20,570**

Fund management fees increased significantly during the year due to a combination of additional investments being made during the year (which incurred management fees), increases in fees based on the fund value and regulatory requirements.

NOTE 11 - INVESTMENT INCOME

2016/17 £000s		2017/18 £000s
(3,236)	Private equity income	(4,593)
(1,584)	Pooled Investments	(2,509)
(2,501)	Pooled property investments	(2,540)
(111)	Interest on cash deposits	(17)
0	Other income	(401)
(7,432)	**Total**	**(10,060)**

NOTE 12 – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 1 April 2017 £000s	Purchases £000s	Sales £000s	Change in market value £000s	Market Value 31 March 2018 £000s
Bonds	198,621	0	0	5,751	204,372
Pooled investment vehicles	980,438	466,477	(455,140)	41,785	1,033,560
Pooled Property Funds	114,714	3,829	(11,302)	8,281	115,522
Infrastructure	31,761	13,034	(2,297)	(373)	42,125
Timber and agriculture	29,103	(300)	(1,435)	(1,596)	25,772
Private equity	170,389	36,515	(37,258)	18,753	188,399
Hedge Fund	127,279	19,028	0	4,578	150,885
	1,652,305	**538,583**	**(507,432)**	**77,179**	**1,760,635**
Other investment balances:					
Cash	33,623			0	21,191
Net investment assets	**1,685,928**			**77,179**	**1,781,826**

	Market Value 1 April 2016 £000s	Purchases £000s	Sales £000s	Change in market value £000s	Market Value 31 March 2017 £000s
Bonds	170,331	79,277	(63,140)	12,153	198,621
Pooled investment vehicles	745,393	83,289	(110,126)	261,882	980,438
Pooled Property Funds	109,233	7,470	(10,774)	8,785	114,714
Infrastructure	27,351	2,143	(5,227)	7,494	31,761
Timber and agriculture	25,937	93	(1,632)	4,705	29,103
Private equity	147,822	32,550	(37,595)	27,612	170,389
Hedge Fund	139,221	(553)	0	(11,389)	127,279
	1,365,288	**204,269**	**(228,494)**	**311,242**	**1,652,305**
Other investment balances:					
Cash	15,034			(641)	33,623
Net investment assets	**1,380,322**			**310,601**	**1,685,928**

NOTE 13A – ANALYSIS OF INVESTMENTS

2016/17 £000		2017/18 £000
	Bonds - overseas	
	Pooled investment vehicles:	
237,485	Managed equity funds - quoted overseas	263,996
393,858	Liability driven investments - quoted UK	400,005
349,095	Multi strategy investments - quoted overseas	354,181
	Fixed income funds - unquoted UK	15,378
127,279	**Hedge Funds**	150,885
	Limited liability partnerships	
	Pooled investment vehicles - overseas	
29,103	Timber and agriculture - unquoted	25,772
	Infrastructure	
13,043	Quoted	11,764
18,718	Unquoted	30,361
	Pooled property investment vehicles	
39,919	Open-ended UK	42,578
74,795	Closed-ended overseas, unquoted	72,944
	Private equity	
1,013	Quoted	0
17,966	Unquoted - Opportunistic funds	30,647
151,410	Unquoted	157,752
1,652,305		**1,760,635**
33,623	**Cash**	21,191
1,685,928	**NET INVESTMENT ASSETS**	**1,781,826**

NOTE 13B – ANALYSIS BY FUND MANAGER

2016/17 £000	%		2017/18 £000	%
393,858	23.9	Insight	400,005	22.7
198,621	12.0	Stone Harbor	204,372	11.6
183,475	11.1	Mobius	188,710	10.7
214,022	13.0	Investec	159,306	9.0
127,279	7.7	MAN FRM	150,885	8.6
106,336	6.4	Wellington	122,182	6.9
82,747	5.0	Pyrford	80,751	4.6
0	0.0	Blackrock	67,228	3.8
0	0.0	Permira	15,378	0.9
152,423	9.2	Private Equity	157,752	9.0
114,714	6.9	Property	115,522	6.6
31,761	1.9	Infrastructure	42,125	2.4
17,966	1.1	Opportunistic	30,647	1.7
29,103	1.8	Timber/Agriculture	25,772	1.5
1,652,305	**100.0**	**Total**	**1,760,635**	**100.0**

The following investments represent more than 5% of the net assets of the scheme. All of these companies are registered in the UK.

2016/17 £000	%	Manager	Holding	2017/18 £000	%
393,858	23.3	Insight	LDI Active 22 Fund	400,005	22.4
128,862	7.6	Stone Harbour	SHI LIBOR Multi Strategy No2 Portfolio	132,224	7.4
131,149	7.8	Investec	OEIC Global Strategic Equity Fund Sterling GBP	74,586	4.2

NOTE 14 – DERIVATIVES

No derivative instruments were held by Clwyd Pension Fund at 31 March 2018 or 31 March 2017.

NOTE 15 - FAIR VALUE OF INVESTMENTS

Fair Value – Basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Quoted Pooled Investment Vehicles	Level 1	Quoted market bid price on the relevant exchange	Not required	Not required
Infrastructure	Level 1	Published bid price ruling on the final day of the accounting period	Not required	Not required
Unquoted bond funds	Level 2	Closing kid-market price for the underlying assets in each sub-fund subject to any premiums or discounts	Net Asset value (NAV)-based pricing set on a forward pricing basis	Not required
Quoted Pooled Investment Vehicles	Level 2	Closing bid price where bid and offer prices are published. Closing bid price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted pooled investment vehicles	Level 3	Valued quarterly at NAV in accordance with *International Private Equity and Venture Capital Association Guidelines*	Valued net of unrealised gains/losses on hedging	Internal rate of return
Pooled property funds	Level 2	Bid market price	Existing lease terms and rentals, tenant's covenant strength, lease length, transactional activity in the sector	Not required
Hedge Fund	Level 2	Valued monthly using closing bid price where bid and offer prices are published or closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Property Funds	Level 3	Valued quarterly at NAV in accordance with *International Private Equity and Venture Capital Association Guidelines*	EBITDA multiples, revenue multiples, discount for lack of market evidence, control premium	EBITDA achieved compared with forecast
Infrastructure	Level 3	Valued using discounted cashflow techniques to generate a net present value	Discount rate and cashflows used in the models	Rates of inflation, interest, tax and currency exchange
Timber and agriculture	Level 3	NAV of underlying funds using a mixture of cost, income and sales comparison approaches depending on the maturity of the investment. Valued annually, subject to quarterly adjustments based on harvest	Productive area, current and forecast prices and costs, marketing and harvest constraints, growth rates and discount rates	Market price for timber and agricultural product, land values and discount rates
Private equity and hedge fund	Level 3	Valued quarterly at NAV using the market approach using quarterly financial statements in accordance with *International Private Equity and Venture Capital Association Guidelines*	EBITDA multiples, revenue multiples, discount for lack of market evidence, control premium	Valuations could be affected by material events between the date of the financial statements provided and the pension fund's reporting date, changes to cashflows and differences between audited and unaudited accounts

Investments have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1 - where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - where quoted market prices are not available, valuation techniques are used to determine fair value.

Level 3 – where at least one input that could have a significant effect on the investment's valuation is not based on observable market data. Sensitivity analysis of Level 3 assets is shown below.

	Assessed Valuation Range (+/-) %	Market at 31 March 2018 £000	Value on Increase £000	Value on Decrease £000
Pooled investment vehicles (incl LDI)	10%	15,378	16,916	13,840
Pooled Property Funds	10%	51,529	56,682	46,376
Infrastructure	10%	30,361	33,397	27,325
Timber and agriculture	7%	25,772	27,576	23,968
Private equity (incl Opportunistic Fund	10%	188,399	207,239	169,559
Hedge Fund	10%	6,645	7,310	5,981
Total		**318,084**	**349,120**	**287,049**

	Assessed Valuation Range (+/-) %	Market at 31 March 2017 £000	Value on Increase £000	Value on Decrease £000
Pooled investment vehicles (incl LDI)	10%	12,768	14,045	11,491
Pooled Property Funds	10%	74,795	82,275	67,316
Infrastructure	10%	18,718	20,590	16,846
Timber and agriculture	10%	29,103	32,013	26,193
Private equity (incl Opportunistic Fund	15%	169,376	194,782	143,970
Hedge Fund	10%	9,634	10,597	8,671
Total		**314,394**	**354,302**	**274,487**

The following tables show the position of the Fund's assets at 31st March 2018 based on the Fair Value hierarchy:

2017/18	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Bonds	0	204,372	0	204,372
Pooled investment vehicles	197,774	820,408	15,378	1,033,560
Pooled Property Funds	0	63,993	51,529	115,522
Infrastructure	11,764	0	30,361	42,125
Timber and agriculture	0	0	25,772	25,772
Private equity	0	0	188,399	188,399
Hedge Fund	0	144,240	6,645	150,885
Total	**209,538**	**1,233,013**	**318,084**	**1,760,635**

2016/17	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Bonds	0	198,621	0	198,621
Pooled investment vehicles	335,351	632,319	12,768	980,438
Pooled Property Funds	0	39,919	74,795	114,714
Infrastructure	13,043	0	18,718	31,761
Timber and agriculture	0	0	29,103	29,103
Private equity	1,013	0	169,376	170,389
Hedge Fund	3,554	114,091	9,634	127,279
Total	**352,961**	**984,950**	**314,394**	**1,652,305**

NOTE 15A: TRANSFERS BETWEEN LEVELS 1 AND 2

£84.720m was transferred from Level 1 to Level 2 following further information about the pricing methodology used for the Investec Diversified Growth Fund.

NOTE 15B: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2017 £000	Purchases £000	Sales £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Realised gains/ (losses) £000	Unrealised gains/ (losses) £000	Market Value 31 March £000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI)	12,768	14,914			(12,768)		464	15,378
Pooled Property Funds	74,795	4,701	(11,302)		(21,415)	734	4,016	51,529
Infrastructure	18,718	13,059	(2,297)			1,989	(1,108)	30,361
Timber and agriculture	29,103	173	(1,435)			164	(2,233)	25,772
Private equity (incl Opportunistic Fun	169,376	40,675	(37,258)			9,142	6,464	188,399
Hedge Fund	9,634						(2,989)	6,645
Net investment assets	**314,394**	**73,522**	**(52,292)**	**0**	**(34,183)**	**12,029**	**4,614**	**318,084**

The Fund holds no other assets or liabilities at fair value.

	Market Value 1 April 2016 £000	Purchases £000	Sales £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Realised gains/ (losses) £000	Unrealised gains/ (losses) £000	Market Value 31 March £000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI)	315,530				(302,762)			12,768
Pooled Property Funds	70,245	7,968	(10,774)			2,875	4,481	74,795
Infrastructure	15,934	1,938	(5,227)			727	5,346	18,718
Timber and agriculture	25,937	219	(1,632)				4,579	29,103
Private equity (incl Opportunistic Fun	145,824	33,290	(37,595)			14,467	13,390	169,376
Hedge Fund	8,013						1,621	9,634
Net investment assets	**581,483**	**43,415**	**(55,228)**	**0**	**(302,762)**	**18,069**	**29,417**	**314,394**

(a) Transferred to level 2 to reflect re-appraisal of pricing data of the fund during the year

(b) Transferred to level 2 to reflect re-appraisal of pricing data of the fund during the year

NOTE 16 - FINANCIAL INSTRUMENTS

NOTE 16A - CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

2016/17 Fair Value through profit and loss £000	2016/17 Loans and receivables £000	2016/17 Financial liabilities at amortised cost £000		2017/18 Fair Value through profit and loss £000	2017/18 Loans and receivables £000	2017/18 Financial liabilities at amortised cost £000
			Financial assets:			
198,621			Bonds	204,372		
980,438			Pooled investment vehicles	1,033,560		
114,714			Property	115,522		
31,761			Infrastructure	42,125		
29,103			Timber and agriculture	25,772		
170,389			Private equity	188,399		
127,279			Hedge Fund	150,885		
	33,623		Other investment assets - cash		21,191	
	250		Debtors		314	
1,652,305	**33,873**	**0**		**1,760,635**	**21,505**	**0**
			Financial liabilities:			
		(531)	Creditors			(760)
0	**0**	**(531)**		**0**	**0**	**(760)**
1,652,305	**33,873**	**(531)**	**Total**	**1,760,635**	**21,505**	**(760)**

NOTE 16B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

2016/17 £000		2017/18 £000
	Financial assets:	
311,242	Designated at fair value through profit and loss	65,978
(641)	Loans and receivables	0
	Financial liabilities:	
0	Designated at fair value through profit and loss	0
0	Financial liabilities at amortised cost	0
310,601	**Total**	**65,978**

NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Procedures for Managing Risk

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimize the risk to an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows.

Responsibility for the Fund's risk management strategy rests with the Clwyd Pension Fund Committee (the Committee) and is set out in the Investment Strategy Statement (ISS), which is available on the Fund's website (www.clwydpensionfund.org.uk).

The ISS is subject to annual review and has been prepared taking into account advice from the Fund's consultants JLT Group. The Committee manages investment risks, including credit risk and market risk, within agreed risk limits, which are set after taking into account the Fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers and monitored by the Committee by regular review of the investment portfolio throughout the year.

The investment objective of the Committee is to achieve and maintain a portfolio of suitable assets of appropriate liquidity equal to 100% of liabilities within the 15 year average timeframe, whilst remaining within reasonable risk parameters.

The current strategy is to hold:

- 81% in return-seeking investments comprising UK and overseas equities pooled funds, investment property funds, hedge funds, private equity, venture capital and infrastructure;

- 19% in investments that move in line with the long-term liabilities of the Fund. This is referred to as Liability Driven Investment (LDI) and comprises UK and overseas government and corporate bonds, and repurchase agreements which allow the Fund to gain unfunded exposure to gilts.

Market Risk

Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rate and credit spreads. The Fund is exposed to market risk all its investment activities. The Committee seeks to manage this risk through diversifying investments across a range of asset classes and markets with low correlations with each other and across a selection of managers. In addition, the Committee sets a strategic benchmark in the ISS for each asset class subject to fixed tolerances which also seeks to diversity and minimize risk through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. The current benchmark is targeted to produce long-term returns of 6.5% with a volatility of around 12.6%.

Market risk is also managed through manager diversification with no single manager managing more than 23% of Fund assets. Currently the maximum holding within any one fund manager is 22.7% with Insight managing the LDI mandate, which is within this limit.

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate because 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. The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by an average of 6.69%, which is the three-year price volatility as advised by JLT Group for the Fund's investment strategy.

Assets exposed to price risk	Value	3 year volatility range	Value on increase	Value on decrease
	£000s	%	£000s	£000s
As at 31 March 2017	1,685,928	7.94%	1,827,458	1,544,398
As at 31 March 2018	**1,781,826**	**8.00%**	**1,902,970**	**1,618,300**

Interest Rate Risk

The Fund invests in cash-based financial instruments for the primary purpose of obtaining a return on investments. Bonds and cash 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 table below demonstrates the change in value of these assets had interest rates varied by 1%. It should be noted that the value of bonds varies inversely to interest rates.

Assets exposed to interest rate risk	Value	Value on 1% increase	Value on 1% decrease
	£000s	£000s	£000s
As at 31 March 2017	232,244	230,594	233,894
As at 31 March 2018	**225,563**	**223,731**	**227,395**

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 because some of the Fund's investments are held in overseas markets through pooled vehicles. The Committee manages currency risk through its Tactical Asset Portfolio allocation which covers any financial instruments that are denominated in any other currency other than GPB. The following table sets out the Fund's potential currency exposure as at 31st March 2018:

Assets exposed to currency risk	Value £000s	Percentage change %	Value on increase £000s	Value on decrease £000s
As at 31 March 2017	1,132,720	5.95%	1,200,087	1,065,353
As at 31 March 2018	**1,204,394**	**8.85%**	**1,310,981**	**1,097,808**

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The Fund is exposed to credit risk because it invests in pooled investment vehicles and is therefore directly exposed to the credit risk in the pooled investment vehicle and indirectly exposed the credit risks arising on financial instruments held by the pooled investment vehicles.

The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash is held in financial institutions which are at least investment grade credit rated.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the financial position of its admitted bodies.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Committee monitors cashflows regularly during the year and as part of the triennial funding review and takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2018, liquid assets were £1,462m representing 82% of total fund assets (£1,387m at 31 March 2017 representing 82% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

NOTE 18 – DEBTORS

2016/17 £000s		2017/18 £000s
0	**Long-term debtors**	29
	Short-term debtors	
1,129	Contributions due - Employees	1,172
2,572	Contributions due - Employers	3,564
12	H.M. Revenue and Customs	14
582	Administering authority	1,157
0	Prepayments	303
250	Sundry debtors	15
4,545	**Total Short-term debtors**	**6,225**
4,545	**Total**	**6,254**

2016/17 £000s		2017/18 £000s
12	Central Government	17
3,935	Other Local Authorities	5,349
598	Other Entities and individuals	888
4,545	**Total**	**6,254**

NOTE 19 – CREDITORS

2016/17 £000		2017/18 £000
(7)	Contributions received in advance	(9)
(1,259)	Benefits payable	0
(90)	Added years	(9)
(418)	Administering authority	(531)
(2)	H.M. Revenue and Customs	(4)
(531)	Sundry creditors	(320)
(2,307)	**Total**	**(873)**

2016/17 £000		2017/18 £000
(3)	Central Government Bodies	(4)
(508)	Other Local Authorities	(540)
(1,796)	Other Entities and Individuals	(329)
(2,307)	**Total**	**(873)**

NOTE 20 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Clwyd Pension Fund has engaged two additional voluntary contribution (AVC) providers: Prudential Assurance Company Ltd and Equitable Life Assurance Society. The value of the funds invested with both AVC providers are shown below. AVCs paid directly to the Prudential are shown below.

In accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

2016/17 £000		2017/18 £000
807	Contributions in the year	922
	Value of AVC funds at 31 March:	
5,069	Prudential	5,213
462	Equitable Life	420
5,531	**Total**	**5,633**

NOTE 21 – AGENCY SERVICES

Clwyd Pension Fund pays discretionary awards to former employees of the current unitary authorities and Coleg Cambria shown below together with former local authorities, current town and community councils and other bodies listed below under Other employers.

2016/17 £000s		2017/18 £000s
551	Conwy County Borough Council	534
1,823	Denbighshire County Council	1,778
3,209	Flintshire County Council	3,136
22	Powys County Council	21
2,255	Wrexham County Borough Council	2,190
51	Coleg Cambria	57
67	Other employers	58
7,978	**Total**	**7,774**

NOTE 22 - RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2018, four Members of the Clwyd Pension Fund Committee had taken this option.

The six 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.

Flintshire County Council

During the year Flintshire County Council incurred costs of £1.6m (£1.0m in 2016/17) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The costs have been included within Oversight & Governance costs and administration expenses at Note 10.

Key Management Personnel

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Flintshire Chief Executive and the Flintshire s.151 officer. Total remuneration payable to key management personnel is set out below:

2016/17 £000s		2017/18 £000s
15	Short-term benefits	26
44	Post-employment benefits	6
59	**Total**	**32**

NOTE 23 MATERIAL ITEMS OF INCOME AND EXPENSE

For the purpose of this Note, the Council considers material items of income and expense to be those exceeding £18m. During the year the Fund incurred the following material transactions:

- Sold £70m from the Investec Global Equities Fund and invested £70m in the Blackrock Global Equity Tracker Fund;
- Transferred £385m from the Insight Umbrella Holding to the Insight Liability Driven Investment (LDI) Fund; and
- Invested £20m in the MAN FRM Hedge Fund of Funds.

NOTE 24 - CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31 March 2018, the Fund has contractual commitments of £760m (£672m in 2016/17) in private equity, infrastructure, timber and agriculture, and property funds, of which £523m (£517m in 2016/17) has been deployed, leaving an outstanding commitment of £237m (£155m at 31 March 2017).

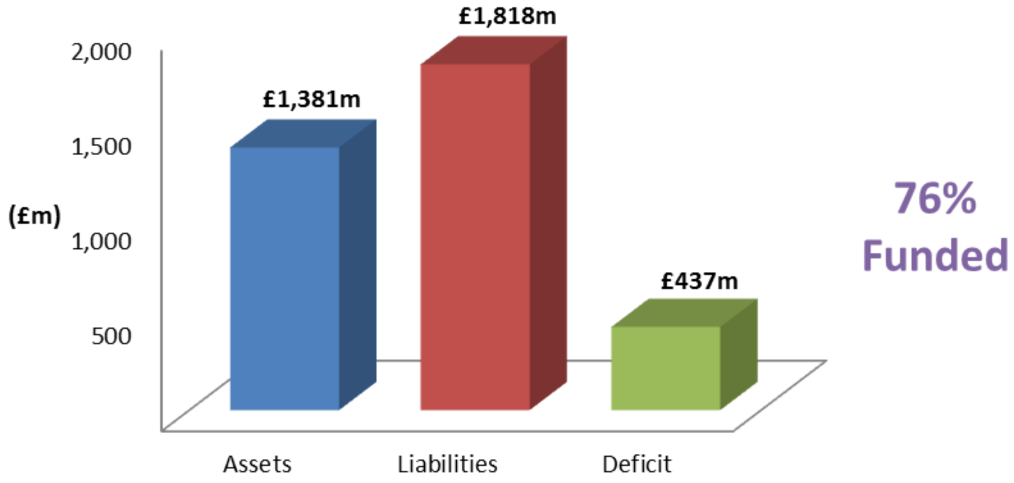
CLWYD PENSION FUND

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018 - STATEMENT BY THE CONSULTING ACTUARY

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

An actuarial valuation of the Clwyd Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,381 million represented 76% of the Fund's past service liabilities of £1,818 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £437 million.



The valuation also showed that a Primary contribution rate of 15.3% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At the most recent actuarial valuation the average deficit recovery period was 15 years, and the total initial recovery payment (the "Secondary rate") for the three years commencing 1 April 2017 is approximately £29.4 million per annum. For most employers, the Secondary rate will increase at 3.45% per annum, except where phasing has been applied or where it was agreed with the employer to pay a flat contribution. With the agreement of the Administering Authority employers could also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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 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 Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.20% per annum	4.95% per annum
Rate of pay increases (long term)*	3.45% per annum	3.45% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

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 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / CARE revaluation	2.3% per annum	2.1% per annum
Rate of pay increases*	3.55% per annum	3.35% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.3% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal 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 2017.

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected rate of long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £2,642 million. Interest over the year increased the liabilities by c£66 million, and net benefits accrued/paid over the period also increased the liabilities by c£28 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £107 million due to "actuarial gains" (i.e. the effect of actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £2,629 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2018

Mark Wilson
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2018

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13th June 2018
Report Subject	Pooling Investments in Wales
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The project to pool investments across the eight LGPS funds in Wales continues with the focus on documenting a Prospectus for the Wales Pension Partnership (WPP) Authorised Contractual Scheme (ACS).

This is the umbrella under which all the sub funds will be held. It requires approval by the Finance Conduct Authority (FCA) and, in the first instance, will include two global equity funds. The WPP Joint Governance Committee (JGC) will receive the Prospectus for approval on 11th June 2018. By investing in the WPP ACS the Authorities, including Flintshire County Council, will agree and become subject to the terms of the Prospectus. A verbal update of the outcome of the JGC will be provided at this Committee. The decision to agree the transition of assets will be brought to a later Committee meeting.

The new Minister for Local Government wrote to the Chair and Vice Chair of the WPP requesting a progress report, which is included as Appendix 1. One point to emphasise is that approximately 80% of the assets across the Wales funds should be pooled over the next 12 months. In terms of the Clwyd Pension Fund this percentage will be lower due to its investments in private markets and liability driven investing. The latter is specifically mentioned in the update to Government.

RECOMMENDATIONS	
1	That the Committee note the report and discuss progress being made by the Wales Pension Partnership.

REPORT DETAILS

1.00	**Pooling Investment in Wales**
1.01	This update report follows a series of previous reports on the progress of the work of the Wales Pension Partnership (WPP). At the February Clwyd Pension Fund Committee the new Operator explained their role in assisting WPP with its objectives and issues specific to the Clwyd Pension Fund. It was also explained that the initial focus was on creating global equity funds and their approach. (See Clwyd Pension Fund Committee Minutes 21st February 2018 for further details).
1.02	Since the last Committee there have been two Joint Governance Committees (JGC), one at County Hall Mold on 28th March 2018 and another on 11th June 2018 in Cardiff. The main item for the March JGC was a confidential presentation on the two global equity funds to ensure that all Authorities were confident that one or both of the funds would be suitable. Although there remains some detailed due diligence on the global funds by Clwyd Fund Officers and investment consultant we should be in position to make a recommendation to the September Committee. Early due diligence suggests that the Clwyd Fund will be able to achieve its investment and sustainability objectives for this asset class at a lower cost. A transition of assets, which is a reserved matter for this Committee under the Inter-Authority Agreement, should be achievable this calendar year. The focus of the JGC on11th June 2018 is to receive the Prospectus for the WPP ACS. The Officer Working Group, including Clwyd Pension Fund officers have been actively engaged in the production of this document but due to its technical content much of the detailed work has been undertaken by legal and investment advisors. This ACS is the umbrella under which all the sub funds will be held. It requires approval by the Finance Conduct Authority (FCA) and, in the first instance, will include two global equity funds. By investing in the WPP ACS the Authorities, including Flintshire County Council, will agree and become subject to the terms of the Prospectus. A verbal update of the outcome of the JGC will be provided at Committee. The Prospectus is a 70+ page document which includes an explanation of the ACS structure, buying and redeeming units, valuation process, risk factors, fees and expenses, taxation, voting rights and much more detailed information including brief details about the two global equity funds. Further sub-funds will be added as they are agreed by the JGC.
1.03	Clwyd Officers remain committed to the work of the WPP and the national asset pooling programme. The Pension Finance Manager represents Wales at the national Infrastructure Cross Pool meetings and, at the request of the Host Authority, represented Wales at the last two national Cross Pooling meetings and the recently established national Client Cross Pool Meeting.
1.04	The Minister for Local Government wrote to the Chair and Vice Chair of

	the Wales Pension Partnership requesting an update on progress. The response is attached. Some highlights points to note are: • 80% of assets across the Wales funds should be pooled in the next 12 months. • Long term savings are still forecast. Although for individual assets classes pooling fees may be higher than current fees, as experienced by some funds for global equity and may be experienced by Clwyd Pension Fund for other asset classes. • The Clwyd Pension Fund LDI programme (Liability Driven Investments – our flight path strategy) is mentioned with a view of the difficulty in pooling.
1.05	Before the JGC on the 11th June, members of the JGC and the Officer Working Group will receive a presentation from First State Investments on the Swansea Tidal Bay Lagoon.

2.00	**RESOURCE IMPLICATIONS**
2.01	The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the 2018/19 budget (within the separate business plan report for this meeting). The estimated Operator costs are also included within that budget.
2.02	There has been considerable time allocated by the Clwyd Pension Fund Manager and Pension Finance Manager on this project which has impacted on time available for other Fund matters. This is expected to continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None.

4.00	**RISK MANAGEMENT**
4.01	How the Wales Pension Partnership operates will be key in enabling the Fund to implement its investment strategy in the future. If performance is not in line with the assumptions in our strategy, it will impact on the cost of the scheme to employers at future Actuarial Valuations.
4.02	This risk has been identified as significant in the Fund's risk register.

5.00	**APPENDICES**

5.01	Appendix 1 – The Response to the Minister for Local Government on WPP Progress.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	• Earlier Committee reports on the progress of the Working Together in Wales project. • The Wales Pension Partnership Inter-Authority Agreement (available on request). **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) **The Fund – 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) **The Committee – 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 **(e) Inter-Authority Agreement (IAA) –** the governance agreement between the eight Wales pension funds for purposes of pooling **(f) Wales Pension Partnership (WPP) –** the name agreed by the eight Wales pension funds for the Wales Pool of investments **(g) The Operator –** an entity regulated by the FCA which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link (h) **Financial Conduct Authority (FCA)** – the regulator of the financial markets and financial services firms in the UK

This page is intentionally left blank

Wales Pension Partnership
Local Government Pension Scheme Pooling: Spring Progress Report 2018

Pool: Wales Pension Partnership (WPP)
Date: 3 May 2018

Criterion A: Scale

- **Scale – please state the estimated total value of assets owned by participating funds**

  In our final submission to DCLG in July 2016, we stated that the ambition for the Wales Pool was to create appropriate vehicles for collective investment for all participating funds across all asset classes in time. We can confirm that remains our intention.

  The total value of assets of the participating funds referred to in that proposal, valued as at March 2015, was £12.8bn. The total value of assets as at 31 December 2017 was circa **£16bn**.

- **Assets within the pool – please state the total value of assets included in the transition plan for investment through the pool structure, with the valuation date**

  The passive investments of the WPP (circa **£3bn-19% of WPP**) are now effectively within the pool. These are held by the WPP authorities in the form of insurance policies. We regard these assets as already forming part of the Pool. The selection exercise for a single manager was carried out on a collective basis in order to derive maximum fee savings from the scale of assets, and the monitoring of the manager and any future retender will be the responsibility of the Joint Governance Committee (JGC).

  It may not be feasible for these passive investments to be transferred into the WPP ACS managed by the third party operator as the individual funds will remain beneficiaries of the relevant policies and changing from a life policy vehicle may create additional taxpayer costs without any benefit to justify the change. However, the JGC will review the position on a regular basis.

- **Assets outside the pool – please state the value of assets not included in the transition plan for investment through the pool structure, with the valuation date and the rationale for retaining these assets outside the pool structure**

  The funds also have a number of illiquid investments with fixed term lives. It would be very costly to exit from such investments before the planned realisation of the underlying assets. The intention is that the operator will make available pooled vehicles to allow new commitments to be made on a collective basis to illiquid asset classes such as private equity and infrastructure. As the current illiquid investments mature and capital is returned to investors, they will be replaced by new commitments through the new pooled vehicles. These new investments will all form part of the Pool. The JGC may also explore the potential for the operator to carry out due diligence monitoring on the current illiquid investments until they mature.

  In addition, the Clwyd Pension Fund has a Liability Matching mandate and a Managed Account Platform, comprising assets in total of approximately **£500m**. Although the Clwyd Fund ISS states that it is committed to investing all assets through the Pool where pooling objectives are met, for these bespoke mandates, it will depend on the capabilities of the appointed operator to accommodate these mandates within the Pool.

- **Transition – please state the current transition plan, including:**
  - **the sub-funds that are on offer and planned, with launch dates**
  - **progress on establishing these sub-funds**
  - **timetable for transitioning assets**

Initial ACS sub-funds

After passive investments (already within WPP pooling arrangements), actively managed high alpha global equities is the next largest single liquid component across the combined asset allocation of the participating funds (circa **£3.4bn**). WPP is therefore prioritising high alpha global equities for the initial ACS sub-funds.

The detailed specification of two actively managed high alpha global equity sub-funds has been finalised. A prospectus allowing the two funds to be launched within an ACS structure has been drafted and is expected to be submitted to the FCA in May/June 2018.

Transfers of assets are expected to be carried out in autumn 2018.

Further phases of ACS sub-fund launches

The intention is to initiate work shortly on a sub-fund or sub-funds for active UK equities for launch late 2018 / early 2019, and also begin discussions on the range of bond / credit funds.

Asset class	Timing	Status	31.03.2018 values	
			£bn	% of WPP
Global equity	September 2018	Current Phase	**3.4**	**21**
Active UK equities	January 2019	Future Phases	**1.6**	**10**
Other liquid assets	May 2019	Future Phases	**5.0**	**31**

With the 19% of passive investments included, as stated above, this means that circa 80% of the WPP investments will be within the pooling structure by this time next year.

- **Reporting – please explain how you will publicly and transparently report progress against your transition timetable**

WPP is committed to transparent reporting, respecting normal protocols and constraints in respect of commercially sensitive information.

We will report progress in the first instance to the participating authorities' pension committees and local pension boards who in turn will report progress to their normal stakeholder audiences.

This will include appropriate progress reporting in annual reports for the individual funds and any ongoing reporting required by government or the Scheme Advisory Board.

Criterion B: Governance

- **New functions – please provide an update on the new governance arrangements established/planned and their current status, including:**

  The diagram below illustrates the governance structure established by the WPP.

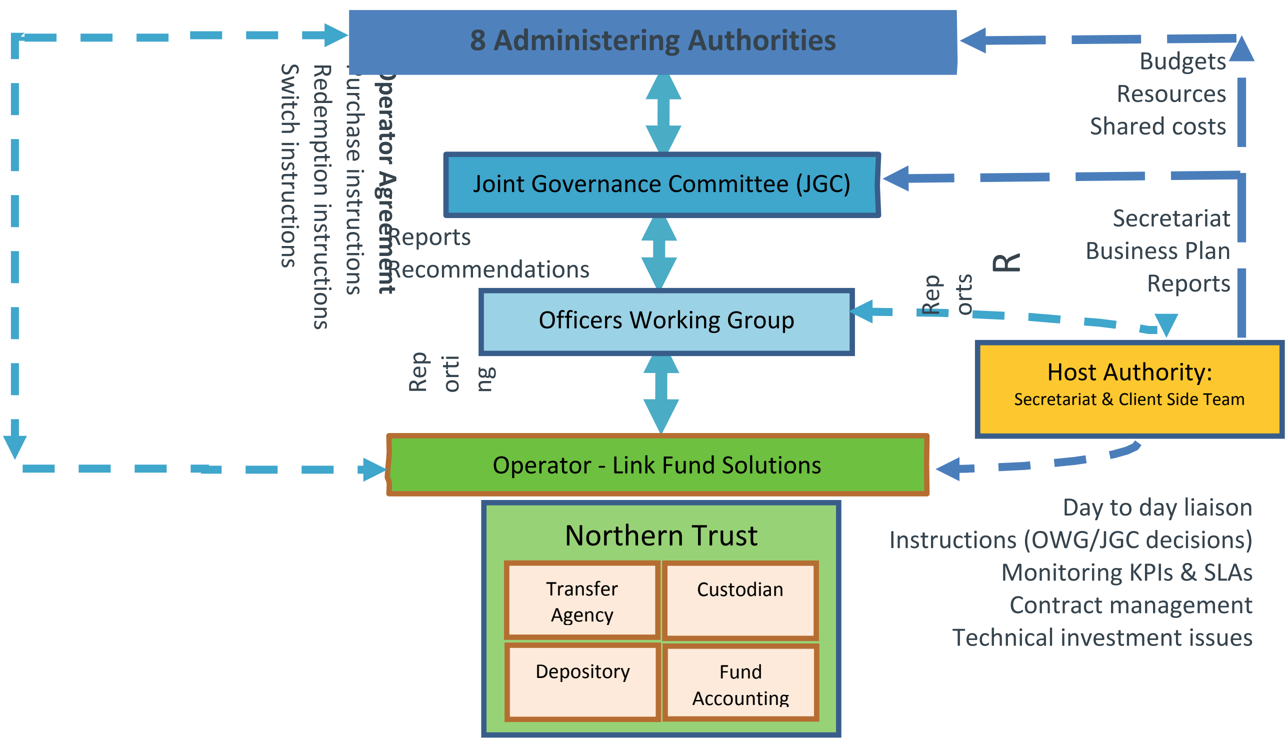
  The constituent authorities have committed to the establishment of the WPP through an Inter-Authority Agreement.

  Roles and responsibilities of the Constituent Authorities, Joint Governance Committee (JGC), Host Authority and Operator are summarised in the Appendix.

  Carmarthenshire took on the role of "Host Authority" with effect from June 2017.

  In summary, the roles and responsibilities of the Host Authority include:
  - secretariat functions for the "client side" governance bodies (JGC and Officers Working Group (OWG))
  - technical support to the JGC and OWG
  - managing the contract with the third party Operator –Link Fund Solutions(LFS)
  - preparation of the WPP business plan
  - co-ordinating reporting and
  - day to day liaison with the Operator and advisors.

  Following a procurement process in 2017, WPP appointed Link Fund Solutions (LFS) as the "Operator" of the Pool. The Operator Agreement with LFS was finalised and effective from December 2017.



- **Fund governance (i.e. joint committees or equivalent/related functions) – terms of reference, resources, key appointments, policies and procedures, accountability to elected members, external support/scrutiny, contract management function etc.**

Terms of reference for client side governance groups

The terms of reference for both the Officers Working Group (OWG) and Joint Governance Committee (JGC) are incorporated into the Inter-Authority Agreement (IAA), which was signed and executed by the 8 Constituent Authorities involved in the Wales Pension Partnership in June 2017.

Accountability to elected members

The Operator is held to account by the JGC. As per the IAA, the JGC comprises one elected member from each Constituent Authority. This ensures a direct link to the elected members and pension committees with fiduciary responsibility for the governance of the individual funds participating in pool.

Resources

It has been agreed that the Host Authority will have 2 full time permanent staff initially.
This will be reviewed on a regular basis.

In addition the Host Authority is supported by external advisors including:
- Burges Salmon – legal advisors
- Hymans Robertson – project management and technical support.

Policies and procedures

Required policies and procedures are currently being developed in conjunction with the Operator (LFS) and its Depositary (Northern Trust).

- **Relationship – please provide an update on the relationship between the fund and the pool company, including:**
  - **who makes what decisions (asset allocation, manager selection, custodian selection, etc.)**

Investment Manager Selection

The Operator Agreement sets out the contractual duties of the Operator and governs the relationship between the Operator and the WPP.

The Operator is responsible for:
- appointment of investment managers (IMs)
- due diligence
- entering into investment management agreements (IMAs)
- monitoring and reporting IM performance
- dismissal and replacement of IMs

It is assisted in these functions by Russell Investments (RI). RI is a sub-contractor to the Operator (LFS) with capabilities in investment manager research. It was a requirement of the tender process that the Operator should be able to provide these services using in-house capabilities or using a sub-contractor.

Selection of custodian and other support services

The Operator is also responsible for the appointment of, and contractual relationships with, all of the necessary service providers for the establishment and operation of the pool investment vehicles including depositary and custodian services.

Asset allocation decisions

The IAA, which governs the relationship between the 8 Constituent Authorities, sets out that responsibility for decisions relating to individual asset allocation is to be retained by the Constituent Authorities.

For further details please refer to the Roles and Responsibilities Appendix.

- **Reporting and communications - to assure authorities that their investments are being managed appropriately by the pool company, in line with their stated investment strategy**

The Operator (LFS) is contractually bound to provide

(i) a monthly KPI report which will include details on its performance against specified delivery targets;

(ii) regular reporting on investment performance at pool and individual fund authority level.

It is also a regulatory requirement that the Operator should monitor adherence by the IM to the investment objectives of the sub-fund it manages as set out in the sub-fund prospectus.

- **Risk management/contingency planning on both sides (e.g. how will changes in fund requirements be implemented , how will unsatisfactory performance be tackled) key contract features (where relevant)**

The Service Level Agreement section of the Operator Agreement includes details of the required timeframes and service standards the Operator must adhere to. This includes procedures and timescales for responding to change requests including sub-fund requirements of the WPP authorities.

The Host Authority will monitor and manage the performance of the Operator on behalf of the JGC. This will include monitoring the adequacy of the Operator’s resources.

The Operator Agreement includes details of the remediation available to the WPP should the Operator fail to fulfil their obligations under the Service Level Agreement.

In the current establishment phase of the project, project managers within LFS and Hymans (acting for the Host Authority) monitor risks on the Operator and client side respectively. Appropriate mitigation plans are identified and actioned.

- **Transparency – please confirm that the pool company has signed up to the Scheme Advisory Board Code of Transparency**

  It is the intention of the Wales Pension Partnership that the Operator will sign up to the SAB code of transparency.

- **Benchmarking – please explain the extent to which benchmarking will be used to assess governance and performance of the fund and the pool company**

  Performance of the pool company will be measured against the Service Level Agreement contained within the Operator Agreement.

  Investment performance against agreed benchmarks will be monitored by the Operator.

  The WPP funds are using CEM Benchmarking for investment cost benchmarking.

Criterion C: Reduced costs and value for money

- **Implementation costs – please state your best current estimate for implementation costs to date and in future years distinguishing set-up costs, transition costs and running costs as far as possible with assumptions and definitions where relevant. Please indicate to what degree costs are on a fully transparent basis in line with the Code of Transparency.**
- **Investment cost savings – please state your best current estimate for investment cost savings to date and in future years, with assumptions and definitions where relevant.**
- **The CIPFA post pooling reporting working group has recently agreed to recommend a draft baseline for reporting costs and savings arising from pooling of 31 March 2015. Please indicate what if any costs or savings before March 2015 are included.**
- **Please also state your best current estimate for the date you will break even.**
- **Where possible please also state total savings on management fees using the draft direct fee methodology presented to the CIPFA working group.**
- **Other benefits and other indicators – please state other benefits of pooling (realised or expected), as well as other indicators of progress (e.g. reduction in the aggregate number of mandates awarded by participating funds, examples of individual savings achieved e.g. through joint procurement of passive management or joint custodian)**
- **Benefits realisation – please explain your plan for achieving (and monitoring the achievement of) savings and other benefits of pooling, while at least maintaining overall investment performance**
- **Reporting – please explain how you will publicly and transparently report:**
    - **transition costs against forecasts**
    - **fees and net performance for each asset class, with a comparison to a passive index for each listed asset class**
    - **savings and other benefits of pooling against forecasts**

Implementation costs

We estimate that the costs involved in setting up the pool prior to March 2018 have been in the region of circa **£1m**.

This includes:

- External legal costs (including legal support on the Operator procurement)
- External project management and administration
- External consultancy support on technical investment matters and Operator procurement
- Host authority costs to date

The stated implementation costs exclude officer time. The costs of setting up the ACS and its sub-funds are being absorbed by the Operator. All of the Operator costs are based on funds under management in the ACS and, to date, are nil.

Transition costs

Transition planning for the two initial sub-funds is due to commence. In the meantime, our estimate of transition costs remain unchanged from earlier reports to government which were **£5.0m to £11.5m** over the next 3-5 years.

Estimated cost savings

It has been estimated previously that the reductions in fees for **passive** management have achieved savings are circa **£2.0m** per annum.

Fee negotiations are still ongoing in relation to the two global equity sub-funds due to be launched shortly. However, the Operator has already negotiated material savings from some Investment Managers based on aggregation of assets within the pool. Initial indications are that annual fee savings for the first two ACS sub-funds will be in the region of **£1m** per annum (excluding tax savings) or **£3.4m** per annum (including tax savings).

Discussions on potential fees in relation to other asset classes have not yet begun.

Therefore, our best estimate overall for the level of cost savings from investment manager fees which might be achieved over time remains as set out in our original proposal from July 2016 and the table from the submission is shown below.

Three year period ending	Expected annual savings
March 2021	£8.4m
March 2024	£9.8m
March 2027	£11.3m
March 2030	£12.5m
March 2033	£12.5m

It is important to note that some authorities have already secured very competitive Investment Manager fees and, in some cases, may suffer higher costs on transferring assets to certain sub-funds within the pool since any fee savings will be outweighed by the additional costs of operating the pool (e.g. Operator and Depositary fees). However, it is important to acknowledge other pooling benefits including tax savings and potential for better risk-adjusted future investment returns.

Break-even point

Break even points will vary between funds and will be a function of the level of transaction costs incurred in transferring assets to the pool, individual funds' current fee arrangements and any tax savings which will also depend on current investment approach in individual authority funds (where funds currently use pooled funds there is potential for significant tax savings in the pool's ACS).

However, given the passive savings already achieved, our initial estimates for break even at a pool level remain at 2018-2020 depending on the level of transaction costs incurred.

CEM Benchmarking have been appointed to provide detailed analysis and reporting on cost savings as the pool arrangements are put in place.

Other benefits

In addition to IM fee savings and tax savings there are other scale and pooling benefits.

These include:

1) **Tax savings**: There are material tax savings to be gained through all funds moving into a new tax efficient vehicle. The extent of savings will vary across asset classes and will depend on the tax efficiency of the current investment approach used by individual

authorities for specific mandates (e.g. those currently using pooled mandates will benefit from a switch to segregated mandates in an ACS structure).

2) **Diversification and improved risk-adjusted returns:** Potential for improved future risk-adjusted returns (e.g. pooling enables individual funds to achieve greater diversification by manager than they might achieve on their own at the same time as getting benefits of scale on IM fees)

3) **Access to alternative asset classes**: Some authorities may be able to access certain asset classes via the pool that are less easy to access economically without pooling scale (e.g. private equity and infrastructure).

4) **Stock-lending**: The move to the pool has provided the opportunity for the WPP funds to re-appraise their policy on stock lending (currently only used by one of the WPP funds). Stock-lending can deliver additional income that is material in the context of operator / depositary fees and can help offset the additional costs of pooling.

Reporting

The Operator will be required to provide WPP with all of the data on cost savings, transition costs and investment performance needed by the JGC and by individual authorities and required to comply with all relevant external reporting requirements.

Criterion D: Infrastructure

- **Status – please state the current allocation to infrastructure at participating funds and how much is currently committed**
- **Ambition – please state the current ambition of the pool for infrastructure investment with timescale**
- **Progress – please explain how pooling has increased capacity and capability to invest in infrastructure, or is expected to, including:**
  - **the platform/product/external manager arrangements that are being used or are intended to be used**
  - **indicators of progress made to date (e.g. mandates awarded, specialist appointments at pool companies, examples of investments made)**

Ambition

Our stated ambition remains as set out in our original submission from 2016, namely - in the short to medium term - to have at least 5% of assets invested in infrastructure investments with a longer term aspiration set at 10% - subject to satisfactory investments being available.

Current allocation

A total of circa **£200m** is either invested in infrastructure assets or formally committed to infrastructure funds, equivalent to circa 1.2% of pool assets, so the stated target represents a significant increase from the current position (potentially a five to ten-fold increase).

However, we also acknowledged in our original submission that allocations to infrastructure represent asset allocation decisions and are therefore the responsibility of individual funds rather than a collective decision for the Pool.

Approach to infrastructure investment

We have opened discussions with the appointed operator and adviser as to the options available for accessing infrastructure investments through the pool. It is intended that one or more pooled vehicles will be made available for funds to make commitments to investment in the asset class. In addition, the WPP has commissioned a report from a third party consultant on how infrastructure assets might be accessed on a collective basis. The OWG have also arranged a presentation on a specific local Infrastructure project.

We are also aware that the most efficient way of accessing infrastructure investment suitable for LGPS fund liabilities might be through national vehicles, e.g. GLIL, developed for use by the funds and pools. We therefore continue to engage with and support the work of the cross pool infrastructure collaboration group in order to ensure that we may benefit from any national initiatives which may emerge in the future.

Appendix - Roles and Responsibilities

Constituent Authorities / Individual Funds

In addition to managing its own liabilities, setting its own employer contributions and administering its pensions:

- Investment strategy decisions
  - Strategic asset allocation
  - ISS/FSS
  - Investment beliefs
  - Delegation of investment manager decisions to the Pool
- Monitoring/reporting
  - Monitoring investment performance of own portfolio
  - Challenge pool if investment managers are underperforming
- Governance
  - Holding pool to account (e.g. if not happy with sub-fund performance, request review)
  - Providing representation on the JGC and OWG
- Operational/BAU
  - Timing of own transitions (initial and ongoing) and switches between sub-funds
  - Custody for non-pooled assets
  - Instructions to invest, redeem, switch in or between the pool sub-funds
- Policies*
  - Rebalancing policy
  - Responsible investment
  - Voting policy
  - Stock lending – what is in/out – existing/future
  - Policy/rules for investment in infrastructure
  - Currency overlay strategy

* WPP will consider the extent to which some policies or guidance should apply at pool level in order to avoid, where possible, the creation of additional sub-funds to accommodate different policies.

Joint Governance Committee Responsibilities

- Governance
    - Conform with IAA (joiners/leavers/cost allocation)
    - Hold Officer Working Group (OWG) to account
    - Oversight of all assets under pool governance (including passive investments)
    - Strategic planning, resourcing plan, business plan and budget for WPP
- Operator relationship
    - Agree specification for Operator and oversee procurement
    - Recommendation on 3rd party Operator to Constituent Authorities
    - Monitor performance of Operator
    - Recommend termination of the Operator, extension or new supplier to Constituent Authorities at end of contract
    - Input to consultation by the Operator on matters such as reviews of Investment Managers and asset transition plans
    - Agree any changes to the Operator Agreement, SLAs or agreed practices, procedures and protocols ("change control")
- Decisions at pool level
    - Instruct Operator on initial sub-fund and mandate requirements
    - Instruct Operator to establish additional sub-Funds or terminate existing ones
    - Instruct Operator on requirement for any non-ACS pooling vehicles
    - Approve high level transition plan proposed by Operator
    - Decisions on how to access infrastructure
    - Agreeing any common policies (e.g. stock lending/voting)
    - Decide other advisors and suppliers to the WPP
- Communications e.g. government and civil servants, press, etc
- Value for money

Host Authority & Client Side Team

- Secretariat to Joint Committee
- Lead on procurement for pool services (e.g. advisers, etc.)
- Client side team for:
    - Operator contract management
    - Monitoring performance of Operator against SLAs and KPIs
    - Day to day liaison with the Operator and its provider of establishment, consultative and non-consultative services, especially on matters affecting all funds / investors in the pool
    - Liaison with other advisers
    - Reporting Operator performance to the OWG and JGC
    - Executing and reporting progress on the Business Plan agreed with the JGC and OWG
    - Other analysis, support and reports for the OWG and JGC as required. Examples:
      - options for accessing alternatives / illiquid assets including infrastructure
      - pool policies on ESG
      - implications of regulatory change and required action e.g. MiFID
      - options at end of Operator contract – extend, re-tender, build and own
  - Client side team will NOT be middle man for all instructions to the Operator from individual administering authorities (investors and clients of the Operator) e.g. payments into the pool's investment funds, redemptions, switch instructions can all go directly to the Operator

Operator (Link Fund Solutions) Responsibilities

Core responsibilities

- Establish and operate an ACS and sub-funds for the sole use of the WPP LGPS funds
- Obtain all necessary regulatory approvals
- Fund administration
- All regulated functions and reporting
- Appoint and contract with investment managers
- Select and procure asset servicers (transfer agent/ depository/ custodian/ accounting)
- Propose sub-fund structure
- Manager monitoring and review and manager searches and recommendations (working with investment advisors)
- Asset transition management
- Implementing individual fund rebalancing policy

This page is intentionally left blank

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13 June 2018
Report Subject	Governance Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

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

(a) Business Plan 2018/19 update, including requesting an increase in budget due to the review of the Finance Team
(b) The results of the latest Pensions Administration and Contributions Internal Audit review
(c) An update from the last Local Pension Board meeting
(d) Various items being considered by the National Scheme Advisory Board
(e) Training implementation and monitoring, including noting a further training day and other forthcoming conferences
(f) The latest additions to our breaches of the law register
(g) The latest risk register which reduces the risk relating to the risk of inappropriate decisions due to poor knowledge and advice now that the Committee has undertaken a number of training days.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments
2	That the Committee are asked to agree the two changes relating to the business plan i.e. • Item G3 - The deferral of the approval of changes to the Conflicts of Interest Policy until September 2018 (as part of the annual report and accounts) • Item G5 -- The increase in staffing budget for the Finance Team of a maximum of £60.6k per annum, which may be subject to further change as the review of the structure is progressed. The Committee

	are also asked to agree that any decisions relating to further change as part of this review are delegated to the Chairman of the Pension Committee and either the Chief Executive or Corporate Finance Manager

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
	Business Plan 2018/19 Update

1.01	Progress against the business plan items for quarter one of this year is generally on track. This quarter's work includes the following items:
	• G1 – Data protection changes – the Pensions Administration Manager has been managing this significant project relating to the implementation of the General Data Protection Regulation (GDPR) which includes collating a register of all items of personal data and where those are held, updating all contracts where suppliers receive personal data from the Fund, creating a privacy notice explaining what data is held and for what purposes and advising all scheme members of where to view the privacy notice and their rights. Appendix 1 provides a detailed breakdown of the various stages and progress achieved, which shows many items have been completed and those remaining items will shortly be completed.
	• G2 – Review appointment of Local Board Members – the existing scheme member representative (non-trade union) of the Pension Board, Mrs Gaynor Brooks, sadly decided to resign from her post at the end of the initial term. Her final meeting will be on 28th June 2018. A process to recruit a replacement for Mrs Brooks, which is in line with the Pension Board Protocol, has been underway and Mr Paul Friday, a deferred member of the Fund and a former employee of Denbighshire Council has been appointed.
	• G3 – Review of governance related policies – the Conflicts of Interest Policy is due to be reviewed this quarter. It is proposed that this and all the other main policies that require updating should be reviewed as part of the Annual Report and Accounts which will be brought to the 5th September Pension Fund Committee.
	• G5 – Structure Review of Finance Team – The retirement of a Pension Finance Manager was a catalyst for a fundamental review of the resources required for the governance, investments, accounting and funding service (known as the Finance Team). The Clwyd Pension Fund Manager, with assistance from Human Resources, is currently reviewing how to resource these services. A set of design principles have been agreed (as attached in Appendix 2) and three position are to be created:
	  o Pension Fund Accountant – to allow for a qualified accountant to be part of the team with ownership of accounting matters
	  o Investment officer – to provide greater self-sufficiency of the management and oversight of investments, including in-house investments and pooling investments
	  o Governance & Business Support Officer - an additional post as a result of the increase in governance related responsibilities and also to provide business support given the

	overall growth in the team. This would also result in the role relating to the retired Finance Manager being removed. The expected increase in the Pension Fund staffing budget will not be known until the three vacant positions are filled as some may be not be full-time posts; the maximum additional costs relating to these three positions would be £60.6k (including on-costs). The Committee is asked to agree to these additional costs, with the final change in budget (if there is any further change) being reported to a later Committee. It is, however, proposed that any final changes to the structure is delegated to the Chairman of the Pension Committee and either the Chief Executive or Corporate Finance Manager. Updates in relation to the progress in appointing to these positions will be provided at future meetings.
1.02	The Committee is asked to note the contents of the business plan update and agree the recommendations relating to items G3 and G5.
  1.03	**Current Developments and News** *Internal Audit Report - Pensions Administration and Contributions* Internal audit recently completed a review of Pensions Administration and Contribution collection as part of their 2017/18. A copy of the report with the findings of the review is included in Appendix 3. This year the level of assurance given was amber/red. The report notes the increase in the volume of work, with a significant number of projects being undertaken and ongoing staff training impacting on service delivery. The areas highlighted for further improvement are: • Performance is below the standards set by the Key Performance Indicators under the Administration Strategy. • The number of outstanding tasks yet to be completed, with particular regard to pensioner deaths and retirements, has increased impacting on task management and workloads. • Lack of a formalised operational management action plan to facilitate timely interventions to ensure service objectives keep on track. • The Pensions administration team consists of many relatively inexperienced members who require a significant amount of training and support increasing the time taken to process and reduce workloads. The report highlights the following areas as being managed well: • Life cycle events are being processed accurately. • Communications with stakeholders are delivered in line with the Communications Strategy. • Disaster recovery testing is carried out annually. • The member Self-Serve facility on the Clwyd Pension Fund website has been successfully implemented. • Control accounts and reconciliations are regularly performed for cancelled pay and lump sums and these are closely monitored. • Monthly contributions from all contributing bodies are regularly reconciled and monitored. Mrs Burnham, the Pensions Administration Manager, will be able to answer

	specific questions relating to the report. The Committee should also note the update relating to the review of staffing levels in the separate Administration and Communications Update report which will be fundamental in responding to some of the concerns in the Audit report.
1.04	*Pension board update* The last meeting of the Clwyd Pension Fund Board was held on 27th February 2018. Due to resource constraints, the formal minutes are not yet available. The key items of discussion were as follows: • Administration Update – discussion around the increases in day to day workloads, the benefits of the Member Self-Service facility, the challenges of implementing the new I-Connect system and progress with an employer who uses the Employer Liaison Team service • Disaster Recovery, GDPR and Cybercrime – the Board heard how ongoing plans for disaster recovery testing and how a new system had been implemented reducing reliance on other parts of FCC for making lump sum payments to scheme members. The Board received assurances about the encryption of data and the changes being made to prepare for GDPR. • Asset pooling – The Board had noted how useful the presentations on asset pooling had been at the November meeting and encouraged the Clwyd Pension Fund Manager to ensure the PFC and PB members received ongoing training on what was a complex area. In particular all noted the complicated subject matter in the risk/reward presentation by CEM.
1.05	*National Scheme Advisory Board (SAB) Update* The following are items to note relating to the work of the national Scheme Advisory Board: • Updated Board Statement on Pool Governance - At its meeting on the 16th February 2018, the Board agreed to review the wording of the existing policy statement on pool governance published 23rd March 2017. The following statement was subsequently agreed (revised text shown in bold/underlined) – "*The Board recognises that it is for scheme managers within each pool to develop appropriate governance to assure all stakeholders of the transparent and effective implementation of strategy. In this respect the Board notes the comments made by the then Local Government minister Marcus Jones MP on this matter in the Westminster Hall debate on 24th October 2016.* *The board recognises that strategic decisions on asset allocations and responsible investment will remain at the local level and therefore the involvement via local pension boards of those employers beyond the scheme manager along with member representatives in those areas would continue. However the Board* ***<u>would expect that</u>*** *scheme managers involve those same employers and member representatives in assisting with the assurance of transparent reporting from pools and ensuring the effective implementation of strategies by pools. Such involvement should include the consideration of provision of direct representation on oversight structures.* ***<u>In line with the UK Corporate Governance Code principle of 'comply or explain', any pool making a</u>***

	<u>decision to exclude member representatives from their formal oversight structures should publish this decision and formally report the reasons to the local pension boards which the pool serves</u>." • New MiFIDII Q&A - A Questions and Answer document has been developed to assist LGPS funds and managers to effectively deal with new relationships post January 2018 when local authorities are default retail clients including conversations at conferences. The document can be found on MiFIDII SAB website page (http://www.lgpsboard.org/index.php/schemedata/mifidii). • LGPS third tier employers – SAB are looking to identify the potential funding, legal and administrative issues and liabilities relating to admitted and scheduled bodies that do not benefit from local or national tax payer backing (Tier 3 employers). At the meeting of the SAB on 26th February 2018, Aon updated members on progress of their work commissioned by the Board to review current issues faced by the LGPS and associated stakeholders in relation to Tier 3 employers participating in LGPS funds in England and Wales. Aon outlined their extensive engagement with the main third tier employers' sectors including higher education, housing associations and charities as well as other key stakeholders, and confirmed that they are now ready to analyse the survey and interview data. A draft report will be prepared for consideration at the next Board meeting on the 27th June 2018. Details of the third tier employers' project can be found here - http://lgpsboard.org/index.php/structure-reform/tier-3-employers. • Pension Committee and Board Chair's Pooling Event - On the 27th March 2018, the Chairs of LGPS pension committees and local pension boards (including Councillor Dave Hughes and Karen McWilliam, representing Clwyd Pension Fund) attended an open session where representatives from the eight asset pools reported on their progress in establishing their organisational structures and governance arrangements. A copy of the presentations used on the day can be found here – http://www.lgpsboard.org/images/PDF/Publications/Cross_Pool_Open_Forum_main_slide_pack.pdf. Steps will soon be taken to establish the Cross Pool Open Forum approved by the Scheme Advisory Board in February 2018, comprising three representatives from each of the eight pools and three trade union representatives.
1.06	*PLSA* Phil Latham, the Clwyd Pension Fund Manager, is a member of the LGPS Committee of PLSA (Pensions & Life Savings Association). In this role he presented at the LGPS PLSA conference on 22nd and 23rd May 2018 on the ongoing challenges of adequately resourcing LGPS Pension Fund Management Teams. Steve Hibbert, the member representative, was also in attendance. The Pension Fund Manager will provide a further update on the conference.
  1.07	**Policy and Strategy Implementation and Monitoring** *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 and • attend at least one day each year of general awareness training or events. Appendix 4 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Appendix 4 also includes training and various external events attended by Committee Members and Pension Board members during 2018/19. Appendix 5 includes details of planned training events including forthcoming events considered suitable for general awareness training. Members should note the following: • a further training day will take place on Thursday 13th September at which all PFC and Board members should attend. The agenda will be confirmed nearer the time. • the LGC Investment Summit takes place on 6th and 7th September 2018 at Celtic Manor, Newport. Members wishing to attend this event should let the Finance Manager know at their earliest opportunity to secure places. The current programme is attached at Appendix 6.
1.08	*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. Appendix 7 details a number of current breaches that have been discussed by the Clwyd Pension Fund Manager and the Fund's Independent Advisor. At this point none will be reported to the Pension Regulator although this is still being considered in relation to the Assumed Pensionable Pay error by one of the Fund's employers.
1.09	**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 governance matters.
1.10	**Calendar of Future Events** Appendix 8 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	The report touches on the ongoing challenges as a result of the current workloads and the recent retirement of a Finance Manager. The Pension Fund Manager is continuing to ensure work is prioritised appropriately but it is likely that some non-essential tasks are not being carried out until the full staffing establishment is achieved.

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

4.00	RISK MANAGEMENT
4.01	Appendix 9 provides the dashboard showing the current risks relating to the Fund as a whole, as well as the extract of governance risks. The key governance risks continue to relate to: • potentially insufficient resource, which puts a risk on us being able to deliver our legal and policy objectives • the impact of externally led influence and scheme change (such as asset pooling) which could also restrict our ability to meet our objectives and/or legal responsibilities. Note that the likelihood and impact ratings relating to risk number two have been updated from significant to low and marginal to negligible respectively to reflect the training that has been undertaken with the Committee in the last year.

5.00	APPENDICES
5.01	Appendix 1 – GDPR progress plan Appendix 2 – Design principles for Finance Team Appendix 3 – Internal Audit Report – Pensions Administration & Contributions 2017/18 Appendix 4 – Training undertaken Appendix 5 – Training plan Appendix 6 – LGC Investment Summit agenda Appendix 7 – Breaches Appendix 8 – Calendar of future events Appendix 9 – Risk register

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	No relevant background documents. **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) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (g) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation.

CLWYD PENSION FUND – GDPR TIMELINE			
W/C	**Description**	**Action**	**Completed**
	Assign roles and responsibilities	✓	Nov 2017
	Appointment of data protection officer (ICO 11) – Internal FCC	✓	Internal (FCC)
01/01/18	Basic overview training to be provided to individuals involved (ICO 1)	✓	01/01/18
29/01/18	Review policies, procedures, privacy notices, communications (ICO 5)	✓ Procedures confirmed to be managed by FCC. Template Privacy Notices received	13/03/18
12/02/18	Gather information asset register for FCC (ICO 2)	✓ All assessed and verified by Governance Team at FCC	18/05/18
19/02/18	Ensure that decision-making in relation to the balance between the interests of the controller (or relevant third party) and the rights of data subjects is documented (legitimate interests) (ICO 6)		
19/02/18	'Right to Erasure' and 'Right to Restriction of Processing' testing (ICO 4)	✓ Forwarded to Deb Sainsbury	28/02/18
29/01/18	Website update	✓ Webpages launched on website	13/04/18
26/02/18	Pinpoint all contracts held with third parties who process data on the Funds behalf or joint controllers.	✓	26/02/18
05/03/18	Notification that contracts will be required to be amended (SLA's for employers plus external bodies)	✓ SLA's not amended, external parties contacted (Prudential, Aquila Heywood)	05/03/18
05/03/18	Confirm cyber security methods undertaken by AquilaHeywood (confirmed by end of February) – ICT too (shared drives).	✓	27/03/18
12/03/18	Identify anywhere the Fund uses member consent to ensure all forms are up to date. (ICO 7)	✓ Consent button in MSS TEST has been updated within Altair 8.1, to be inserted in LIVE from May 25th 2018	20/03/18
12/03/18	Creating processes whereby members can retract any consent provided previously (withdrawal), and how CPF deal with requests	✓ All processes are initially forwarded to FCC data protection team	18/05/18
12/03/18	Children's online data review, which national rules you will need to follow when obtaining consent (ICO 8)	✓MSS keys sent to all status 6 children. Under 16's requiring parent/guardian consent prior to key/link being distributed	29/03/18
19/03/18	Insurance policies should be confirmed internally along with risk registers to assess the extent of breach coverage (FCC insurance section to incorporate CPF) Breaches procedures to be set. (ICO 9)	✓ Confirmed	19/03/18
19/03/18	Privacy notice to be updated, and inserted to all relevant means of communications (overview of letters/website) (ICO 3)	✓ GDPR paragraph inserted in all member correspondence	18/04/18
26/03/18	Data protection policy (FCC reviewing), possible amendments ensuring that it covers data retention, destruction, security and anonymisation	✓ West Midlands have forwarded reviewed policy which can be used for LGPS funds – confirmed FCC will cover processes	19/04/18
02/04/18	Revised agreements with third parties (e.g. employers)	✓ Received addendums from Prudential, Equiniti, Adare, Aquilaheywood, signed and returned.	18/04/18
09/04/18	Review security of data including details on cyber security to ensure data is safe (emails/egress/portal).	✓ Addendum signed for Aquila Heywood and returned	09/04/18
30/04/18	Overview of all set procedures above comply with those of GDPR	✓ Procedures confirmed by FCC governance	30/04/18
30/04/18	Assemble a further review of the GDPR processes, data protection policy and all documentation	✓ Privacy Notice submitted	25/05/18
07/05/18	In-house training to team including ICO code of practice information (ICO 10)	✓ Staff have completed in-house training	20/03/18

This page is intentionally left blank

Pensions Finance Service Review
Our Design Principles

WHAT WILL THE DEVELOPMENT OF THE SERVICE DELIVER?

Structure & Roles:

- An optimum staffing structure that is adequately resourced, fit for purpose and can respond to the challenge of anticipated changes
- Create a more confident, self-reliant, skilled, cost effective and resilient team for the future
- Responsibilities and accountability are devolved to appropriate levels; reporting relationships and standards are clear
- Roles are clearly defined, there is relativity and distance between jobs
- Clear Inter-relationships between CPF roles and the Councils Corporate Finance
- Manageable and achievable roles which fully consider the people management or supervisory responsibilities.

Culture, Knowledge, Skills and Behaviours:

- A working environment where time and skills are sufficiently focussed on the Fund's objectives, identifying what is required to deliver them (that isn't already business as usual), and then ensuring delivery
- At senior levels, an increase in time and energy spent using "thinking" skills vs "doing" skills with an emphasis on increased use of coaching skills
- Within the team, transfer knowledge, skills and expertise to build capability, sustainability and resilience
- To develop an environment in which all team members are able to fulfil their full potential

Focus and Standards:

- A greater focus and skills/knowledge development in the following areas:
    - In house Investments – so are equipped to undertake due diligence, analysis, selection, decision making and monitoring
    - Pension Fund Accounting
    - Governance – developing our approach to governance, ensuring it operates effectively with the right people doing the right task. Reduce reliance on external resources to prepare for boards and committees
    - Business Support - ensure appropriate business support capability and capacity is available
- Free up and increase capacity to undertake tasks:
    - to be completed more timely/avoid missing deadlines
    - to be done to a higher quality; increase "right first time"
    - introduced improved internal controls; increasing checking and sign off where required
    - to be done at the right level
    - and facilitate space for personal development and training
- Organise and delegate work, undertaken at the right level, allowing roles to add value

Manage risk and be "change ready":

- Reduce risk associated with "key people" by broadening responsibilities and reducing the over-reliance on the CPFM
- Create an appropriate balance between in house expertise and external consultancy support by increasing our current levels of in house expertise. Transfer knowledge and expertise from external providers into the team
- Have capacity, skills and knowledge to undertake internal (continuous improvement) process change and be able to adapt to externally driven changes with the minimum risk to business continuity

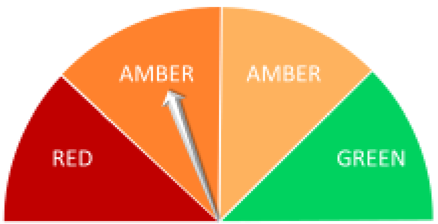
Flintshire Internal Audit

Audit Report

Title:	Pensions Administration & Contributions (2017/18)
Portfolio:	External
Issued Dated:	June 2018
Report No:	40-2017/18
Report Status:	Final Report

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

Audit Opinion



CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

1 Executive Summary:

Introduction and Scope:

An Audit of Pensions Administration was undertaken as part of Internal Audit's Annual Plan 2017/18.

The current Clwyd Pension Fund's Pension Administration Strategy (1st April 2017) document sets out the responsibilities of both the Administering Authority and the employers under the Scheme and the performance standards they are expected to meet to 'ensure the delivery of a high quality, timely and professional administration service'. This is a high profile strategy which is an important element of an effective governance arrangement.

The Clwyd Pension Fund comprises of 42 employers with active members and approximately 45,000 scheme members, including active, deferred and pensioner members.

The review has focussed on the following:

- Performance against the standards set in the Pension Administration Strategy.
- The processing of Lifecycle Events.
- Accuracy of membership data.
- Task and backlog management.
- We did not review the New Starter information for Flintshire County Council to the information held by Pensions Payroll. This is planned as a separate review in 2018/19

This has been a challenging year for Pensions Administration with a number of projects ongoing which coupled with staff training have impacted on the service delivery. The volume of work has risen and this in turn has had a negative effect on tasks outstanding. A KPI monitoring system has been developed and published from April 2017 with targets having been set in relation to Legal, Administrative and Overall

Audit Opinion:

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

Assurance:	Explanation
Amber Red - Some	Significant improvement in control environment required: •System/process objectives are not being met. Conclusion: key controls are generally inadequate or ineffective.

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

Priority	High (Red)	Medium (Amber)	Low (Green)	Total
No.	1	1	3	5

compliance. Performance reporting across the first three quarters (April 2017 to January 2018) has revealed performance below the set targets and in particular, non-compliance with legal requirements. Some improvement can be seen in quarter three, however performance has fallen in the beginning of quarter four.

Pensions Administration have responded positively by changing the ways of working within the section and are continually looking to improve performance by reviewing task management and their methodology. Embedded within the Clwyd Pension Fund Business Plan for 2017-2020 is an improvement plan for Administration (including Communications). This details the key strategic actions and timescales to achieve them. Progress is monitored and reported quarterly to Committee. However, on an operational level, outstanding tasks and volumes of work will require even closer management to deliver significant improvements in performance and achieve legal compliance.

2 Summary Findings:

Areas Managed Well	Areas for Further Improvement
• The Clwyd Pension Fund's Administration Strategy has a high profile within an effective governance arrangement. • Life Cycle events are being processed accurately. • Communications with stakeholders are delivered in line with the Communications Strategy. • Disaster Recovery testing is carried out annually. • The member Self-Serve facility on the Clwyd Pension Fund website has been successfully implemented. • Control accounts and reconciliations are regularly performed for Cancelled pay and Lump sums and these are closely monitored. • Monthly contributions from all contributing bodies are regularly reconciled and monitored.	• Performance is below the standards set by the Key Performance Indicators under the Administration Strategy. • The number of outstanding tasks yet to be completed, with particular regard to pensioner deaths and retirements, have increased impacting on task management and workloads. • Inadequate operational management action plan to facilitate timely interventions to ensure service objectives keep on track. • The Pensions administration team consists of many relatively inexperienced members who require a significant amount of training and support increasing the time taken to process and reduce workloads.

3 Action Plan:

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

No.	Findings and Implications	Agreed Action	Who	When
1 (R)	Key Performance Indicators (KPIs) are an important tool by which to monitor and report a service area's performance in meeting specific objectives. The Clwyd Pension Fund have devised seven key indicators reporting on three areas: • Legal Requirement (set target of 100%). • Overall Position • CPF Administration element target (set target of 90%). The CPF commenced publishing their KPIs from April 2017 having set aspirational targets under their Administration Strategy. These are monitored and reported to Committee quarterly. We reviewed the KPIs as reported to Committee from July 2017 to January 2018. The KPIs for quarters two to four show that for the majority reported, achievement is below both the administration and legal targets. Our testing on legal compliance identified that : • Legal compliance has only be achieved in 5 instances from July 2017 to January 2018 across the seven indicators. These were: achieved 100% for the indicator 'To inform members who leave the scheme of their leaver rights and options' in April, May, August and November 2017, and achieved 100% in 'provide details of transfer value for transfer out on	Pension's management team meetings are held every two weeks where the KPIs and any issues are discussed. Discussions at these meetings and any issues and resulting solutions will be recorded in a more formal action plan with immediate effect. URN 02180	Helen Burnham	30/06/2018

No.	Findings and Implications	Agreed Action	Who	When
	request' in December 2017. For the remaining five indicators 100% compliance has yet to be met. • Data published for indicator seven 'calculate and notify dependant/s of the amount of death benefits', has produced the lowest results against the target of 100% with July 2017 achieving 17% and November 2017 13%. Management have advised that it should be noted the Legal Requirement KPIs do not take into account delays experienced in receiving information from third parties. The CPF Administration element target of 90% has not been consistently achieved. In January 2018 the percentage of cases meeting the 15 working days target for informing members leaving the scheme of their leaver rights and options was 8%. Testing revealed that the pattern emerging from the KPIs is that of a fluctuating performance. KPIs should be meaningful and drive improvement. The indicators should provide assurance that the actions the service is taking operationally are having a positive impact. Whilst aspirational targets can be useful, they must be realistic or they can also be demoralising if the service is starting from a lower position. CPF does not have a formalised action plan in place nor interim targets in place to drive operational improvement across these key legal compliance or administration indicators. We have not tested the robustness of the performance data in this review.			

No.	Findings and Implications	Agreed Action	Who	When
	The risk of not achieving legal compliance is that the CPF may be reported to the Pension Regulator and incur fines.			
2 (A)	Task management is important to monitor the workloads within the Pensions Administration section and ensure that tasks are assigned and completed in a timely and efficient manner. A number of changes have been implemented since the previous review to try and address the increasing workload and manage tasks on an operational level: • More specialised teams have been created to deal with specific tasks. • A new online dashboard facility is now available showing cases overdue, due today or open. • Due Date Plan gives the number of cases within the Operations Team, Employee Liaison Team, Aggregation Team and those cases with consultants. System weekly reports continue to be run showing those tasks on time, running late and overdue and cases overdue. Principal Pension Officers assign and monitor tasks on a daily basis using information from the system and the weekly system reports. Whilst these are useful operational tools, giving management a sense of the workload facing the service, they do not represent an action plan to address or improve performance across the current workload. A formal action plan would enable management to identify and monitor operational objectives, help the team to identify milestones and internal targets for completion and focus the available internal resource in the most	A Business Case is being produced which is seeking to increase the resource in the team. This will address the trend of increasing case load and the need for specialist in house resource. We will investigate incremental targets at the next internal management meeting and link actions accordingly. URN 02177	Helen Burnham	31/08/2018

No.	Findings and Implications	Agreed Action	Who	When
	efficient way. The service is further impacted by new and an inexperienced team, subject to a significant amount of training, as well as having to respond to a number of internal projects and legislative changes. The risk is that without a defined plan to direct the team's efforts the workloads will continue to increase and be outsourced at significant cost.			
3 (G)	Accuracy of Life Cycle processing is crucial to maintain the integrity of Clwyd Pension Fund information. Our testing did not reveal any issues with information processed but found that processes could be more consistent to aid more efficient ways of working. Evidence to support the independent checking of calculations for Life Cycle events was agreed as being sufficient via the Member task facility, however worked and signed calculations are still being rescanned into Altair. There is a risk of inconsistent working practices across the team leading to inefficient use of resources.	A message reiterating that documents showing calculations are only to be rescanned for manual interventions and training purposes will be made at the next section meeting. URN 02199 .	Helen Burnham	31/05/2018
4(G)	Training is essential to ensure staff within Pensions are up to date with current regulations and are competent to undertake their tasks. The department is made up of a large number of new recruits without a great deal of experience. Extensive training has been undertaken during the current year. We reviewed the Principal Pensions Officer's spreadsheet of training. Despite the training undertaken	Team Leader appraisals identified the requirement for the Team Leaders to devise training plans for the members of their respective teams. These are being completed and will include a column to detail training still required.	Helen Burnham	30/09/2018

No.	Findings and Implications	Agreed Action	Who	When
	only one member of staff is shown as fully competent on all key areas of Pensions administration. Over 50% of staff are shown as having little or no knowledge in over 50% of key areas. Knowledge in all key areas is not required as members of the team are trained to undertake specific tasks. The department has been re-organised into teams of certain specialisms to address key areas of outstanding tasks. There is an opportunity to evaluate the impact of the current training programme on the speed and effectiveness of clearing current caseloads. The risk is that time is being lost in being able to complete tasks at the expense of training that may not be delivering the required results.	URN 02178		
6 (G)	Each year all contributing bodies send over a spreadsheet with every member's contributions for the financial year. This information is uploaded to the CPF and reports produced to show discrepancies. At the time of testing (March 2018) there were several unresolved queries for leavers for both Wrexham and Flintshire and all of the queries relating to Coleg Cambria were still outstanding (from having the information in October 2017). Subsequently the Lead Technical Development Officer has copied the Head of Finance in to the request for information and some responses have now been received. There is a risk that requests are sent to officers without sufficient authority to respond.	A process of escalation for responses to queries will be put in place and communicated to the department at the next section meeting. URN 02200	Helen Burnham	31/05/2018

4. Additional Audit Comments:

The purpose of this section is to inform Managers of those areas where:

- A finding has been discussed but which has not been included within the overall audit opinion.
- Value for money has been considered and areas of opportunity for further improvement have been identified.

Page 92

No.	VFM Findings/Suggestions	Management Comment
Value for Money:		
1	We reviewed the statistics spreadsheet showing cases completed and those added each month. We noted that the totals are not governed by a formula to ensure accuracy.	Noted and will review
2.	The use of trend analysis across the statistic spreadsheet, KPIs and consultants costs would help identify patterns in workloads, performance and costs to support management decisions.	Noted- this will in the first instance be reported to and considered by the Advisory Panel.
3.	The increased backlog of work in the current year has resulted in outsourcing more work to Mercers and Equiniti. Mercers have been approached to collate information and perform initial calculations on aggregation cases and Equiniti appointed to ensure the changes in legislation regarding Guaranteed Minimum Pensions are complied with. Close monitoring of the work outsourced and associated costs will be required to ensure the CPF is able to demonstrate VFM and reviewing other alternatives.	This matter will in the first instance be reported to and considered by the Advisory Panel. Backlog is closely monitored through the Committee and Pension Board meetings. Monthly progress reports on the work undertaken by consultants are also received by the Pensions Administration Manager. Costs associated with outsourcing are reported as part of the budget process each financial year. The Pensions Finance Manager maintains a spreadsheet of the costs.
4.	There is a legal requirement to communicate the Annual Benefit Statements to Active and Deferred Members by 31st August each year. Our testing revealed that written confirmation was not	An email will be sent out to all members who have registered for Self-Serve notifying them of when they will be able to view their Annual Benefit Statements. There is no legal obligation to send out in the post to those that have not registered. Members who have opted for postal receipt of statements will receive them in this way.

	secured to evidence the mailing within the legal requirements. At the time of distribution only verbal confirmation was received from Adare. An email requesting the information from Adare was supplied to us. As Annual Benefit Statements will be distributed via the Members Self-Serve facility in the future Pensions will need to manage the legal requirement in house against the burden of the additional workload this will create.		
5.	GDPR obligations will need to be investigated (if not already completed).	All preparatory work has been completed ahead of GDPR.	

5. Distribution List:

Name	Title
Philip Latham	Accountable officer for the implementation of agreed actions
Colin Everett	Chief Executive Officer
Philip Latham	Clwyd Pension Fund Manager
Helen Burnham	Pensions Administration Manager

Appendix A – Audit Opinion:

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

Assurance	Explanation
Green - Substantial	**Strong controls in place (all or most of the following)** • Key controls exist and are applied consistently and effectively • Objectives achieved in a pragmatic and cost effective manner

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

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	**Cllr T Palmer**	S Hibbert
Committees (3hrs)									
June 2018									
September 2018									
November 2018									
Special Committee February 2019									
March 2019									
CIPFA Framework Requirements 2017/18 – 2019/20 Refreshers									
Governance (0.5 day)	✓	✓	✓	✓		✓	✓		✓
Administration (day)									
Funding & Actuarial (0.5 day)	✓	✓	✓	✓		✓	✓		✓
Investments (1 day)	✓	✓	✓	✓	✓	✓	✓	✓	
Accounting									
Additional Training & Hot Topics									
Statement of Accounts (June Committee)									
CPF Annual Employer Admin Meeting (am)									
CPF AJCM (pm)									

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
Conferences (Restricted spaces)									
PLSA 21-23 May 2018									✓
LGC Investment Summit (1.5 days) Sept 2018									
LAPFF Annual Conference (1.5 days) Dec 2018									
LGC Seminar (1.5 days) March 2019									
Cross Pool Open Forum March 2019									

Clwyd Pension Fund

Training Plan 2018/ 19 - as at 6 June 2018

Title of session	Training Content	Timescale	Training Length	Audience	Complete
Employer Risk Management	Employer Risk Management including the monitoring framework (employer covenant, fundiong and protections)	20/09/2017	Before Cttee	Committee, Pensions Board and Officers	Deferred

This page is intentionally left blank

Ever changing times: investing in the LGPS

Celtic Manor Resort: 6-7 September 2018

Thursday 08:10- 09:10	Registration and visit the exhibition floor	
09:10- 09:20	Welcome Chair's introduction; the Chair sets the scene.	Nick Golding, Editor, LGC Denise Le Gal, Chair, Brunel Pension Partnership
09:20- 10:00	**Session 1** **UK and global perspective on the economy** • Confirming whether the global recovery will continue • Offering the latest thinking on markets and the need for future optimism • Discussing views on equities and their future outperformance • Emerging markets vs. developed markets • Discovering the cautious approach on Credit • Interest rates and Government Bonds	John Roe, Head of Multi-Asset, Legal & General Investment Management
Keynote Session 10:00- 10:40	Session 2 Speaker to be confirmed	
10.40- 11:20	Visit the exhibition floor for refreshments	

11:20- 11:40	Investment briefing sessions on the exhibition floor	
11:45- 12:30	**Session 3** **What actually matters when managing liabilities and risks to your fund** Which costs actually impact: • The cost benefit of good quality data, including case studies • Managing employer risk and assessing employer covenant • The need for appropriate employer investment strategies • Risk transfer and consolidation • A sustainable scheme design	Barry McKay, Head of LGPS Actuarial, Hymans Robertson
12:30- 13:35	Lunch on the exhibition floor	
	Session 4 – Focus sessions	
Attend Focus session 1 or 2 13:35- 14:10	Focus Session 1 **Pension plans have paid for the recovery. Where do they find returns in such a headwind?** David Buckle - Head of Investment Solutions Design, Fidelity International	Focus Session 2 Speaker to be confirmed
Attend Focus session 3 or 4 14:15- 14:50	Focus session 3 **What impact will AI and technology have** Richard Carlyle, Equity Investment Director, Capital Group	Focus session 4 Session and speaker from MSCI
Attend the session which relates to your role 14:55- 15:30	**Councillors' discussion** **The Scheme Advisory Board programme – issues for Councillors** Roger Phillips, Chair, LGPS Scheme Advisory Board	**Interactive Officer discussion** **Current issues for officers with reference to progressional and vfm responsibilities and managing initiatives resulting from pooling** Mike Ellsmore, Chair, CIPFA Pensions Panel

	Chaired by Ian Greenwood, Chair, Northern pool	Chaired by Duncan Whitfield, President ALATS
15.30-16:05	Visit the exhibition floor for refreshments	
16.05-17.05	**Session 5** **Infrastructure, urban regeneration and real estate** • Illustrating why experience in investment is essential to effective delivery of urban regeneration • Showing how to create opportunities for long term investors • Investigating which measures other than financial considerations are important • Facilitating participation by smaller-scale development companies • Demonstrating how to address management challenges associated with urban regeneration projects • Investing in the financing of infrastructure	Duncan Symonds – Director, Asset Management, IFM Tony Brown, Head of M&G Real Estate Claire Smith, Investment Director, Schroders
17.05-17.40	**Session 6** **Governance and Stewardship** • How the TPR and FRC work • Latest insight on Governance and what the implications are • Current Stewardship issues and their potential consequences • Impacts for the LGPS funds and pools	Jennifer Sisson, Investor Engagement, FRC
19:00	Networking drinks reception	
19:30	Networking dinner in the Caernarfon Suite	

Friday 08:15- 08:45	**Visit the exhibition floor for refreshments**	
08:45- 08:55	**Welcome from the chair:**	Joanne Segars, Chair, LGPS Central
08:55- 09:35	**Session 7** **Protecting your equity portfolio without timing the market** • How can an equity portfolio incorporate downside protection without forsaking the upside? • The importance of diversification and rebalancing • Understanding and adapting to market volatility • Exploring how long investment horizons are crucial to best employ defensive strategies	David Schofield, President, Intech International Division
09:35- 10:15	**Session 8** Building successful partnerships: recommendations and pitfalls Looking at how successful partnerships are formed within the pool. Exploring how to engage with other pools, other asset owners, external asset managers and amongst staff.	Rachel Elwell, Chief Executive, Border to Coast Pensions Partnership
10.15- 10:55	Visit the exhibition floor for refreshments	
10:55- 11:15	Investment briefing sessions in the pods	
11:20- 12:00	**Session 9** **Review of the Pools** A review of the Pools' submissions Topical issues from the Advisory Board Current Government thinking Reflections on 3 years of Pool operation	Bob Holloway, Pensions Secretary, Local Government Association Michael O'Higgins, Chair, LPP

12:00- 12:40	**Session 10** **Devolution and Regionalism** Where do pension funds fit into local infrastructure	Dawn Turner, Chief Executive, Brunel Pension Partnership
12:40- 12:45	**Closing Remarks**	Joanne Segars
12.45	Lunch and depart	

This page is intentionally left blank

Appendix 7

CURRENT BREACHES OF THE LAW

Ref.	9	**Date first recorded**	19/9/2017	**Owner**	H Burnham
Breach by	Clwyd Pension Fund			**Reported to TPR**	No
Title of Breach	Late notification of joining				
Description and cause of breach	Requirement to send a Notification of Joining the LGPS to a scheme member within 2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled. Due to a combination of late notification from employers and untimely action by CPF the Legal requirement was not met. Q1 17/18 547 cases completed / 61%(338) were in breach. Q2 17/18 408 cases completed / 72% (292) were in breach. Q3 17/18 381 cases completed / 38% (375) were in breach. Q4 17/18 1340 cases completed / 78% (1041) were in breach.				
Possible effect and wider implications	Late scheme information sent to member which may result in lack of understanding and/or complaint from member affecting scheme reputation.				
Reaction to breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of new joiners (ongoing). - Set up of Employer Liasion Team(ELT) to monitor and provide joiner details more timelessly. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time.				
Outstanding actions	Ongoing roll out of i-Connect and bedding in of new staff/ training. Carrying out backlogs of previous joiners (most of which are due to i-Connect roll out). Contacting employers which are causing delays.				

Ref.	11	**Date first recorded**	19/9/2017	**Owner**	H Burnham
Breach by	Clwyd Pension Fund			**Reported to TPR**	No
Title of Breach	Late transfer in estimate				

Description and cause of breach	Requirement to obtain transfer details for transfer in, and calculate and provide quotation to member 2 months from the date of request. Breach due to late receipt of transfer information from previous scheme and late completion of calculation and notification by CPF. Only 2 members of team fully trained to carry out transfer cases due to new team structure and additional training requirements. Q1 17/18 Of 59 cases completed 44% (26) were in breach. Q2 17/18 Of 77 cases completed 29% (22) were in breach Q3 17/18 66 cases completed / 41% (27) were in breach Q4 17/18 33 cases completed / 30% (10) were in breach
Possible effect and wider implications	Information being provided to scheme members later than hoped. Could have some financial implications. Members may contact the section to enquire as to the progress of the transfer.
Reaction to breach	Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with more timelessly.
Outstanding actions	Completion of training of team members in transfer and aggregation processes.

Ref.	12	**Date first recorded**	19/9/2017	**Owner**	H Burnham
Breach by	Clwyd Pension Fund			**Reported to TPR**	No

Title of Breach	Late transfer out estimate
Description and cause of breach	Requirement to provide details of transfer value for transfer out, on request within 3 months from date of request (CETV estimate) Late completion of calculation and notification by CPF. Only 2 members of team fully trained to provide transfer details due to new team structure and additional training requirements Q1 17/18 Of 77 cases completed 27% (21) were in breach Q2 17/18 Of 63 cases completed 8% (5) were in breach Q3 17/18 193 cases completed / 4% (7) were in breach Q4 17/18 49 cases completed / 0% (0) were in breach – kept open to monitor situation for next quarter.
Possible effect and wider implications	Information being provided to scheme members/new scheme later than hoped. Could have some financial implications. Members and providers may contact the section to enquire as to the progress of the transfer.

Reaction to breach	Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with more timely.
Outstanding actions	Completion of training of team members in transfer and aggregation processes

Ref.	13	**Date first recorded**	19/9/2017	**Owner**	H Burnham
Breach by	Clwyd Pension Fund			**Reported to TPR**	No
Title of Breach	Late notification of retirement benefits				
Description and cause of breach	Requirement to provide notification of amount of retirement benefits 1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age. Due to a combination of late notification by employer and late completion of calculation by CPF. Also, delay in receipt of AVC fund values from AVC provider. Q1 17/18 284 cases completed / 31% (87) were in breach Q2 17/18 196 cases completed / 31% (61) were in breach Q3 17/18 237 cases completed / 43% (103) were in breach Q4 17/18 243 cases completed / 51% (124) were in breach				
Possible effect and wider implications	Late payment of benefits which may miss payroll deadlines and result in accrual of interest on lump sums/pensions. Members upset about delays.				
Reaction to breach	Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of retirees (ongoing). Set up of ELT to monitor and provide leaver details more timely. Prioritising of task allocation. Set up of new process with one AVC provider to access AVC fund information.				
Outstanding actions	Further training of newly promoted team member to deal with volume of work. Identifying which employers are causing delays.				

Ref.	14	**Date first recorded**	19/9/2017	**Owner**	H Burnham
Breach by	Clwyd Pension Fund			**Reported to TPR**	No
Title of Breach	Late estimate of benefits				
Description and cause of breach	Requirement to provide quotations on request for potential retirements as soon as is practicable, but no more than 2 months from date of request unless				

	there is a previous request in the last year. Delays are late completion of calculation by CPF. Increasing estimate requests being made by members is causing problems. Q1 17/18 140 cases completed 34% (47) in breach Q2 17/18 155 cases completed 41% (65) in breach Q3 17/18 136 cases completed / 36% (49) were in breach Q4 17/18 56 cases completed / 38% (21) were in breach
Possible effect and wider implications	Late notification of benefits/costs to member/employer resulting in complaints and poor understanding/ missed opportunities. Section contacted to check on progress of estimate.
Reaction to breach	Introduction of MSS should alleviate the volume of requests received as member will be able to calculate own estimate through database. Further training of team members also required. Task allocation reviewed by team leaders. Estimates have been prioritised.
Outstanding actions	Additional staff training

Ref .	15	**Date first recorded**	19/9/2017	**Owner**	H Burnham
Breach by	Clwyd Pension Fund		**Reported to TPR**	No	
Title of Breach	Late notification of death benefits				
Description and cause of breach	Requirement to calculate and notify dependant(s) of amount of death benefits as soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative). Due to late completion by CPF the legal requirement are not being met. Due to complexity of calculations, only 2 members of team are fully trained and experienced to complete the task. Q1 17-18 41 cases 58% (24) in breach Q2 17/18 47 cases 66% (31) in breach Q3 17/18 27 cases completed / 67% (18) were in breach Q4 17/18 38 cases completed / 39% (15) were in breach				
Possible effect and wider implications	Late payment of benefits which may miss payroll deadlines and result in accrual of interest on lump sums/pensions. Beneficiaries upset about delays.				
Reaction to breach	Further training of team and review of process to improve outcome (review now complete).				
Outstanding actions	Further staff training required.				

Ref	16	**Date**	30/10/201	**Owner**	H Burnham

.		first recorded	7		

Breach by	Clwyd Pension Fund	**Reported to TPR**	No

Title of Breach	No or late annual benefit statement issued - 2017
Description and cause of breach	Requirement to issue annual benefit statements by 31st August each year. For 2017, all benefit statements were sent out to members on time apart from those members within the following employers: a) Connahs Quay High School – 68 members due to non-receipt of year end return b) Cefn Mawr Community Council – 2 members due to non-receipt of year end return c) Coedpoeth Community Council – 6 members due to non-receipt of 15/16 year end return (we have received return for 16/17 but require 15/16 to produce statements)
Possible effect and wider implications	Member less aware of pension provision. Member upset at not receiving statement on time.
Reaction to breach	a) Payroll provided by a payroll bureau. This has been chased up to no avail. FCC HR(Schools) are aware of the issue. b) Has been followed up but training required. c) have sent the data but it has not been received. It is being pursued. Update 30-11-17 - a) received c) received b) further reminder to be sent. Update 6/6/18 - despite ongoing chasing, information for 2017 has not been received albeit 2018 information has now been received.
Outstanding actions	Continue to chase for missing information from Cefn Mawr Community Council

Ref .	17	**Date first recorded**	5/6/2018	**Owner**	D Fielder

Breach by	Employers	**Reported to TPR**	No

Title of Breach	Late payment of contributions
Description and cause of breach	Three employers have been late in paying contributions. These are shown below along with number of late payments for April 18: Argoed - 1 CoedPoeth -1 Marchwiel- 1
Possible effect and wider implications	Could expose employers to late payment interest charge. Assumptions regarding funding assume regular monthly payment, not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.

Reaction to breach	All contacted to chase outstanding payments. Argoed no details Coed Poeth. on going issues. Marchweil ongoing.
Outstanding actions	Ongoing and regular chasing

Ref.	18	**Date first recorded**	5/6/2018	**Owner**	D Fielder
Breach by	Employers	**Reported to TPR**	No		
Title of Breach	Late remittance advice				
Description and cause of breach	The following employers have not yet sent the remittance advice for April 2018: a) Aura, Newydd, FCC b) Acton c) Argoed d) Civica e) Coedpoeth f) Coleg Cambria g) Denbigh Youth h) Marchweil				
Possible effect and wider implications	Unable to verify information being paid or reconcile with member year end information.				
Reaction to breach	Contacted employers to chase. Now received remittance advices for Aura, Newydd and FCC but still chasing the others outstanding.				
Outstanding actions	Ongoing and regular chasing				

Ref.	19	**Date first recorded**	5/6/2018	**Owner**	H Burnham
Breach by	One employer (confidential)	**Reported to TPR**	No		
Title of Breach	Incorrect APP notified				
Description and cause of breach	Provision of Assumed Pensionable Pay (ususally pay to be used when normal pay is reduced due to sickness or maternity) extracted and provided to CPF Administration team is incorrectly calculated resulting in incorrect CARE pension for the years where it is incorrect.				
Possible effect and wider implications	CARE pension will be under or over stated and for those who have retired, CARE pension will be under or overpaid. Might also impact the amount of employer contributions that should have been paid.				
Reaction to breach	Working group set up to: - Identify cases that have been impacted and advise Administration Section. - Work with payroll provider to ensure root problem is resolved.				
Outstanding actions	- Resolve root problem - Work with CPF to agree approach for resolving				

	affected cases

Ref.	20	**Date first recorded**	5/6/2018	**Owner**	H Burnham
Breach by	Clwyd Pension Fund			**Reported to TPR**	No
Title of Breach	Incorrect CARE pension calculated and/or paid				
Description and cause of breach	Due to incorrect Assumed Pensionable Pay information from an employer (see breach 19), the CARE pensions for the affected scheme members are incorrect.				
Possible effect and wider implications	CARE pension will be under or over stated and for those who have retired, CARE pension will be under or overpaid. Might also impact the amount of employer contributions that should have been paid.				
Reaction to breach	Working group set up to - Identify cases that have been impacted and consider options for correcting. - Work with employer to ensure root problem is resolved.				
Outstanding actions	- Identify and analyse case to understand full impact - Develop plan of action and work with employer for approach for resolving affected cases - Work with employer to ensure root problem is resolved				

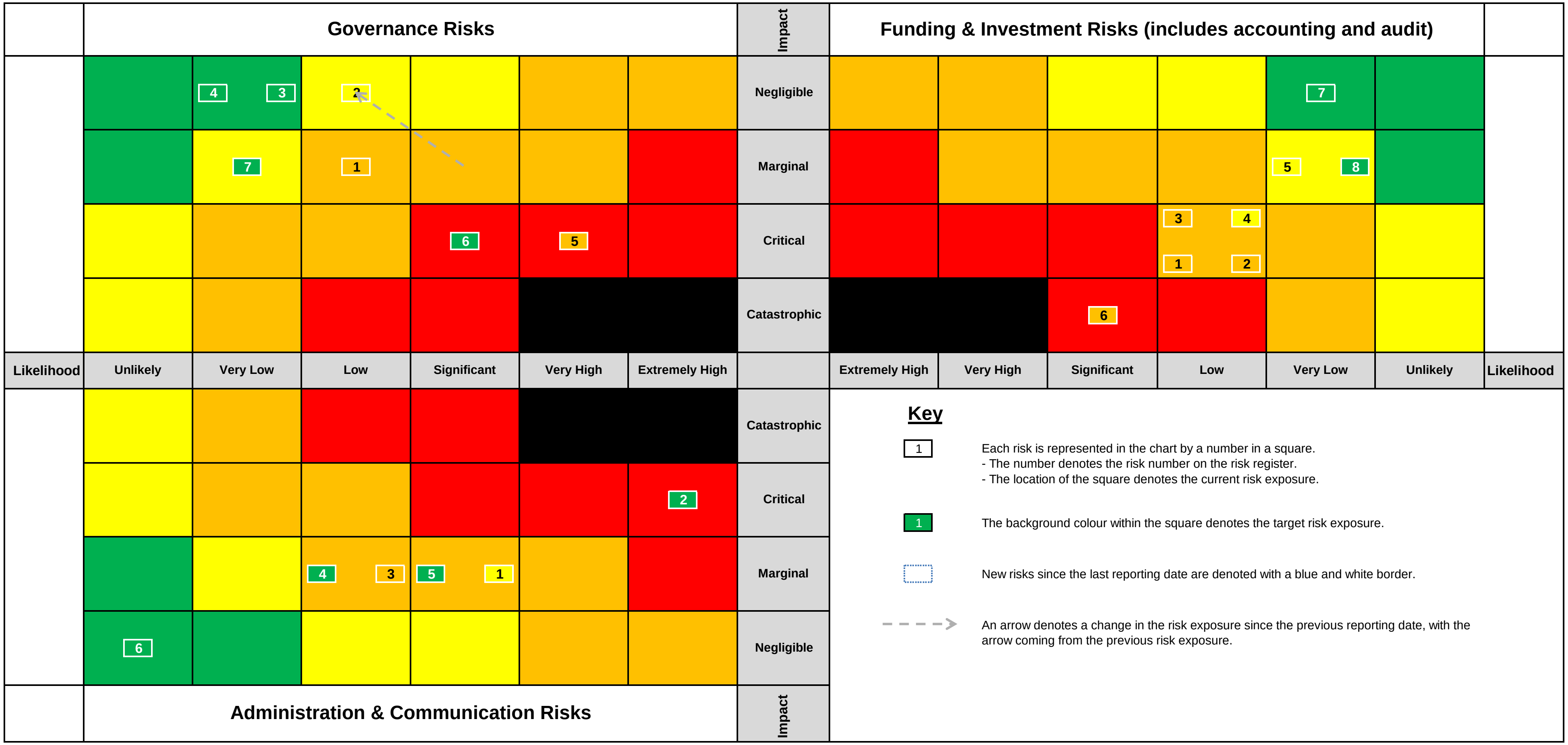
This page is intentionally left blank

CLWYD PENSION FUND - CALENDAR OF EVENTS APRIL 2018 ONWARDS

Month	Date	Day	Committee	Training	Pension Board	Location
2018						
April	11 Apr	Wed		Day 1 Induction/ Refresher Training - Investments		Beaufort Park
	20 Apr	Fri				Cardiff
	25 Apr	Wed		Day 2 Induction/ Refresher Training - Governance & Funding		County Hall
	27 Apr	Fri				County Hall
May	10 May	Thu				County Hall
	21 - 23	Mon - Wed		PLSA Local Authority Conference		Gloucestershire
June	11 Jun	Mon				Cardiff
	13 Jun	Wed	AM			County Hall
	27 Jun	Wed				Cttee Rm 4, C Hall, Cardiff
	27 Jun	Wed			CIPFA PB Annual Event	London
	28 Jun	Thu			9.30AM - 12.30PM	County Hall
July	27 Jul	Fri				County Hall
August	09 Aug	Thu				County Hall
September	05 Sep	Wed	9.30am - 1pm			County Hall
	5-7 Sept	Wed - Fri		LGC Investment Summit		Newport
	13 Sep	Thu		Day 3 Induction/ Refresher Training - Various Topics		County Hall
	25 Sep	Tue				Siambr Dafydd Orwig, Caernarfon,
October	11-Oct	Thu			9.30am - 12.30pm	County Hall
	24-Oct	Wed				County Hall
	30-Oct	Tue				County Hall
November	06-Nov	Tue				County Hall
	28-Nov	Wed	9.30am - 1pm			County Hall
December	5 - 7 Dec	Wed - Fri		LAPFF		Bournemouth
2019						
January	11-Jan	Fri				County Hall
	17-Jan	Thu				County Hall
February	20-Feb	Wed	9.30am - 1pm			County Hall
	27-Feb	Wed			9.30am - 12.30pm	County Hall
	28 Feb - 1 Mar	Thur - Fri		LGC Investment Seminar		Carden Park Chester
March	20-Mar	Wed	2pm - 5pm			County Hall
May	03-May	Fri				County Hall
	16-May	Thu				County Hall
June	12-Jun	Wed	9.30am - 1pm			County Hall

This page is intentionally left blank

All Fund Risk Heat Map and Summary of Governance Risks



05 June 2018

<u>Clwyd Pension Fund - Control Risk Register</u>

Governance Risks

Objectives extracted from Governance Policy (03/2017), Training Policy (11/2015) and Procedures for Reporting Breaches of the Law (11/2015)

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?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Losses or other determintal impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognising 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	31/08/2018	13/04/2017
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	Negligible	Low		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 - Training Needs self assessment carried out (January 2018) and training programme reviewed based on results 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		☺			None	CPFM	31/08/2018	04/06/2018
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	31/08/2018	13/11/2017
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	01/07/2016	Jul 2018	1- Ensure work relating to annual monitoring is completed and included in PFC papers (PL)	Pension Finance Managers	31/08/2018	13/11/2017
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such scheme change, national reorganisation 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 and expected tasks identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OWG	Marginal	Low		😐 Current impact 1 too high Current likelihood 2 too high	28/02/2017	Dec 2018	1 - Regular ongoing monitoring by AP to consider if any action is necessary (PL) 2 - Ensure Board requests to JGC/OWG are responded to (PL) 3 - Regular consideration of impact national reorganisation at APs (PL)	CPFM	31/08/2018	04/06/2018
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 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restrcuture commenced (2017/18) 4 - Quarterly update reports consider resourcing matters 5 - Advisory Panel provide back up when required 6- Additional resources, such as outsourcing, considered as part of business plan	Negligible	Very Low		☹ Current impact 2 too high Current likelihood 2 too high	01/07/2016	Sep 2018	1 - Complete and implement Finance team restructure, including fundamental review of future service requirements (PL) 2 - Ongoing consideration of succession planning (PL)	CPFM	31/08/2018	13/11/2017
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	01/07/2016	Dec 2018	1 - Ongoing work to ensure breaches are identified and the procedure used appropriately (DF) 2 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure (DF) 3 - Embed system of reviewing outstanding actions relating to TPR Code (HB/DF)	CPFM	31/08/2018	04/06/2018

CLWYD PENSION FUND COMMITTEE

Date of Meeting	13 June 2018
Report Subject	LGPS Current Issues
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the key issues affecting the LGPS as at May 2018 and makes recommendations for Members to review the update document found at Appendix 1 from Mercer. This covers many of the current ongoing issues and the latest news since the last Committee update in March, in particular:

- The implications on the Fund and employers following the introduction of Exit Credits in the Local Government Pension Scheme (Amendment) Regulations 2018.
- An invitation from Mercer's specialist AVC team to join their new "LGPS AVC Club" - an independent monitoring and governance service with a view to reducing the costs and governance burden associated with AVC arrangements, together with an update of Equitable Life.
- An update on improvements in life expectancy.
- An invitation for pension managers and administering authorities to attend the Government Actuary's Department regional workshops to discuss data quality and the Section 13 process.

RECOMMENDATIONS	
1	It is recommended that all Committee 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 Fund.

REPORT DETAILS

1.00	**LGPS Current Issues**
1.01	The purpose of this report is to provide a general update to Committee 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	Key points to be aware of are: • Introduction of the Local Government Pension Scheme (Amendment) Regulations 2018 and the implications on the Fund and employers, in particular highlighting the importance of reviewing Fund policies (i.e. the termination policy) to ensure that they allow sufficiently for the introduction of exit credits. • An invitation from Mercer's specialist AVC team to join their new "LGPS AVC Club" - an independent monitoring and governance service with a view to reducing the costs and governance burden associated with AVC arrangements. • An update on Equitable Life who is currently in the final stages of evaluating the options for the future of the Society (communicated at their AGM on 31 May 2018 in London). Strategies being looked at include the sale of the society, reopening to new business and liquidation. • A further update on improvements in life expectancy noting that liabilities may reduce by c2% based on the latest information. This is something that will be considered later in the year as part of our demographic analysis ahead of the 2019 actuarial valuation. • An invitation for pension managers and administering authorities to attend the Government Actuary's Department regional workshops to discuss data quality and the Section 13 process.

2.00	**RESOURCE IMPLICATIONS**
2.01	Some of the actions arising out of the issues identified could mean significant changes to operational matters for the Fund. In particular, the review of and update to Fund policies will require some officer and advisor resource to ensure the Fund is well placed going forward.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report but noting the developments in the highlighted areas, and the consultation that will be required following the review of the termination policy. More details to follow on this.

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. • Funding and Investment risks: F1, F5

5.00	**APPENDICES**
5.01	Appendix 1 – LGPS Current Issues - May 2018 edition

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Earlier editions of the LGPS Current Issues document, tabled at previous Committee meetings. **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) **The Fund – 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) **The Committee – 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) **GAD** - The Government Actuary's Department. (f) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (g) **DCLG - Department for Communities and Local Government** - Central Government department responsible for the LGPS

(h) **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.

(i) **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.

(j) **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.

(k) **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.

(l) **Annual Allowance –** the annual allowance is a limit on the capital amount that individuals can contribute to their pension each year, while still receiving tax relief. The standard Annual Allowance is £40,000 in any year. For members who taxable earnings are over £110,000 they can fall into the Tapered Annual Allowance which falls between £10,000 and £40,000 depending on their level of earnings.

(m)**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.

(n) **Scheme Pays** – the option for a member to ask the Fund to pay any tax associated with breaching the Annual Allowance. The Mandatory Scheme Pays option applied where a members exceeds the statutory Annual Allowance limit of £40,000. The Voluntary Scheme Pays option applies when a member falls into Tapered Annual Allowance or their tax charge is less then £2,000. Voluntary Scheme Pays can be used at the discretion of the Administering Authority.

(o) **Section 114 Notice** – Refers to Section 114 of the Local Government Finance Act 1988. Once a council issues a notice under section 114 it is prohibited from entering into new agreements that incur expenditure and must strive to set a balanced budget.

LGPS CURRENT ISSUES

NEWS IN BRIEF

IN THIS ISSUE

HOT TOPICS

- **LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018 -** Our previous Newsalert summarised the new LGPS Regulations that came into force on 14 May 2018, (noting that some of the Regulations have effect from 1 April 2014). Following on from this, it is now important for Funds to review their policies to ensure that they allow sufficiently for the introduction of exit credits. In particular, do you have a clear termination policy in place? Have you considered how the new Regulations may affect it?

  It may also be appropriate to communicate the changes to employers (particularly those that let contracts) to alert them to the changes and highlight the importance of reviewing any commercial agreements in light of the new Regulations. It is not clear currently how any exit credit will be treated for tax purposes (i.e. will they be treated as a public service scheme payment and be exempt from tax or will they be subject to an authorised surplus payment charge of 35%) and we will update you once we know more. The Local Government Association Bulletin sets out a summary of all of the Regulation changes in more detail here.

- **LGPS AVC CLUB -** At recent LGPS conferences, it has been acknowledged that members are falling well short of the 2/3rds pension target and Funds, understandably, want to help members make best use of the opportunities the LGPS provides. The tax-efficient AVC facility is an area where Administering Authorities (and employers) can focus efforts in promoting the options to meet the future needs of employees.

  LGPS Administering Authorities should be reviewing their AVC arrangements (or at least the investment performance) on a regular basis. Given that most LGPS Funds' AVC arrangements make use of one or more of a common group of AVC providers, any reviews undertaken by Funds are likely to have material similarities.

  Mercer's specialist AVC team is therefore pleased to invite you to join our new **"LGPS AVC CLUB"**, an independent monitoring and governance service. The club is open to all LGPS funds who wish to reduce the cost and governance burden associated with these arrangements. Participation in this new club will avoid the unnecessary duplication of costs of undertaking AVC reviews and will therefore entitle member Funds to a

material discount for our AVC monitoring reports due to these greater efficiencies. For more information about joining the club, please contact david.r.barker@mercer.com (0207 178 3392) or your usual Mercer consultant.

- Mercer recently presented to the London Pension Officers Group about the importance of good quality data (particularly with actuarial valuations just around the corner) and how Funds can benefit from BULK TRIVIAL COMMUTATION EXERCISES, leading to:
  - reduced risk and an effective way of managing liabilities (particularly for employers planning to exit the fund)
  - reduced administration costs

  Given that typically up to a quarter of the pensioner membership can qualify for trivial commutation, we expect that these exercises will become fairly common place in future.

- We would like to WELCOME ALL NEW PENSION FUND COMMITTEE MEMBERS following the recent local elections. At this time it is key for Funds to keep in mind the training requirements for members who will be joining their Committees (not forgetting Local Pensions Board members too). Keeping on top of training is vital, particularly with the 2019 actuarial valuations next year. Mercer will again be supporting CIPFA and the LGA with their respective “Introduction to LGPS” and “Fundamentals” training programmes in the autumn. Bespoke training sessions will also enhance knowledge of Fund characteristics - for further information on the training that we offer and how we can help, please contact your usual Mercer consultant.

- NOT SO FAST: WHAT DOES A SLOW DOWN IN LIFE EXPECTANCY MEAN FOR SCHEME LIABILITIES? - Improvements in life expectancy are slowing in the UK. Depending on the actuarial assumptions adopted, this has the potential to reduce pension scheme liabilities by billions of pounds. The latest analysis of national death data from the Actuarial Profession’s Continuous Mortality Investigation (CMI) shows that people are still living longer than previously, but recent improvements in life expectancy have been slower than expected.

  Rates of improvement in longevity have been slowing since 2010, suggesting a trend that may be driven by medium or long-term influences rather than a short-term “blip” in experience. Compared to the assumptions adopted for the 2016 valuations, the latest CMI data could see liabilities fall by c2%. The impact on liabilities may yet be greater in the future too. Mercer’s analysis of the latest national death data for 2018 so far shows higher rates of mortality than in 2017, suggesting the slowdown in life expectancy improvements may be continuing.

  This will be considered again later in the year at a Fund level when we perform our demographic analysis ahead of the 2019 valuations.

- THE EQUITABLE LIFE BOARD is in the final stages of evaluating the options for the future of the Society and is expected to communicate further at their AGM on 31 May 2018 in London. We are advised that this will not be subject to a vote at the AGM (the Resolution would need to be listed in the Notice regarding the AGM, which has already been issued to Members of the Society). For group pension schemes, a “Member” broadly means the trustee(s) or an authorised representative thereof. However, the Society does wish their Members to engage with them regarding these options.

Equitable Life has been evaluating all the following possible strategies, and combinations thereof:

- Sale of the Society (no approaches from other companies yet),
- Reopening to new business / buying closed books (unlikely),
- Liquidation (material potential tax issues, as Equitable Life is solvent),
- Continuing in "run off" (despite the risk to the Capital Distribution, indeed guarantees, within a low interest rates environment, as well as the likely increase in operational costs per policy as the Society gradually shrinks),
- Increasing the Capital Distribution to encourage With Profits Fund transfers (thereby reducing future capital intensive guarantees, potentially making the sale of the remaining Society more feasible).

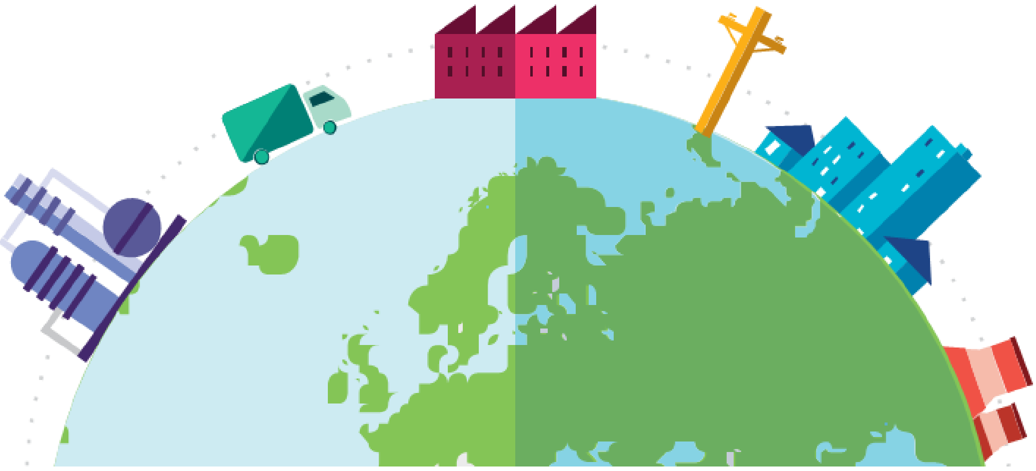
Further information can be found on their website.

- POOLING – Now that we have passed April 2018, LGPS funds must now begin transitioning their assets into their new investment pools. Representatives from the eight asset pools reported their progress in establishing their organisational structures and governance arrangements to an open session containing the Chairs of LGPS pension committees and local pension boards on 27th March 2018.

  A Cross Pool Open Forum will soon be established which will contain three representatives from each of the eight pools and three trade union representatives.

- GDPR comes into force on 25 May 2018 replacing the Data Protection Directive. It includes new standards for protecting personal data and applies to all EU member states. As we have previously noted, the Secretariat commissioned Squire Patton Boggs to produce template privacy statements for administering authorities to use and a memorandum of understanding document for participating employers (published on 1 April 2018). In addition, the Secretariat has published an 'actions for administering authorities' document, a Q&A for members and example documents from the West Midlands Pension Fund in order to assist Funds with the process.

  The Information Commissioner's Office's website also contains a host of information that can assist Funds including a data protection self-assessment toolkit.



OTHER DEVELOPMENTS ON REGULATIONS AND CONSULTATION

GOVERNMENT ACTUARY'S DEPARTMENT

The Government Actuary's Department is offering a number of regional workshops to discuss DATA QUALITY and the SECTION 13 PROCESS aimed at pension managers and administrative authorities. The dates are as follows:

- London - 4 June 2018
- Cardiff - 7 June 2018
- Wolverhampton - 11 June 2018
- Manchester - 18 June 2018 (hosted by Mercer – hurry, this one will be a sell out!!)
- Durham - 25 June 2018

SCHEME ADVISORY BOARD UPDATES

TIER 3 EMPLOYERS – Having gathered the results of the surveys, Aon confirmed at the Scheme Advisory Board meeting in February that they are ready to analyse this and the interview data. A draft report from Aon is expected at the 27 June 2018 meeting for consideration by the Board. Further details on the project can be found here.

DATES TO REMEMBER

DATE	ISSUE	THE LATEST
14 May 2018	Exit credits	Effective date for the introduction of exit credits for employers leaving the LGPS.
25 May 2018	Data protection	Date by which EU member states must comply with the new General Data Protection Regulation.
13 January 2019	IORP II	Date by which member states must adopt the new EU directive covering occupational pensions
March 2019	Brexit	It is expected that the UK will formally leave the EU by the end of this month.
2018	Tier 3 Employers	Outcome of the Tier 3 employers review
2018	Academies	Outcome of the academies review
2019	Pensions Dashboard	These are expected to go live some time in 2019

MEET SOME OF THE TEAM -

THINGS YOU MAYBE DIDN'T KNOW

Name: Maria Cass
Role: Actuarial Consultant
Joined Mercer: April 1992
Place of Birth: Liverpool
Favourite Film: 13 Going on 30 and the Bourne Trilogy
Summer Holiday Destination: Disney and Universal in Orlando, Florida or a caravan in Prestatyn, North Wales
Did you watch the Royal Wedding: I saw parts of it but it was a sunny day (see next question)…
Have you been enjoying the British Summer: Yes, I like to spend as much time as possible outdoors when the weather is good
Top tip for cooling down in this weather: Work in the Mercer Liverpool office – it's freezing!

Name: Paul Clare
Role: Actuarial Consultant
Joined Mercer: 2010
Place of Birth: Ormskirk
Favourite Film: Forrest Gump
Summer Holiday Destination: Kiev for a day in May and then Porto/Douro Valley, Portugal
Did you watch the Royal Wedding: No, I was too busy sunbathing!
Have you been enjoying the British Summer: Of course. The grass needs cutting too often though…
Top tip for cooling down in this weather: Do they still sell Fab lolly ices?

Name: Nick Page
Role: Investment Consultant
Joined Mercer: April 2015
Place of Birth: Birkenhead, Wirral
Favourite Film: Jurassic Park
Summer Holiday Destination: Last year we went to Miami and Ibiza. This year we'll be under new born baby house arrest.
Did you watch the Royal Wedding: There was a wedding on?! Nobody mentioned it
Have you been enjoying the British Summer: Apart from the office being a sauna, it's been great to get as much golf in as possible ahead of the new arrival.
Top tip for cooling down in this weather: Find the optimal position to best mooch off of Mark Wilson's desk fan.

CONTACTS

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

Leanne Johnston
leanne.johnston@mercer.com
0161 837 6649

Ian Kirk
ian.x.kirk@mercer.com
0151 242 7141

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

John Livesey
john.livesey@mercer.com
0151 242 7324

Clive Lewis
clive.lewis@mercer.com
0151 242 7297

Charlotte Dalton
charlotte.dalton@mercer.com
0161 837 6660

Jonathan Perera
Jonathan.perera@mercer.com
0151 242 7434

This edition of LGPS: Current Issues is for information purposes only.
The articles do not constitute advice specific to your Fund and you are responsible for obtaining such advice.
Mercer does not accept any liability or responsibility for any action taken as a result of solely reading these articles.
For more information about other training or advice about how any article in this issue relates to your Fund, please contact your usual Mercer consultant.

Visit us at www.uk.mercer.com

This page is intentionally left blank

CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13 June 2018
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 2018/19 update

(b) Current Developments and News, including the potential impact of the changes to Prudential's Corporate Pensions Team

(c) Administration and communications related policy/strategy implementation and monitoring, including an update on the numbers of tasks received and completed, performance against Key Performance Indicators, a Member Self Service update and the results of our annual Satisfaction survey.

(d) Delegated responsibilities which include an urgency delegation relating to additional resources.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Workforce Review which was intended for quarter 4 and 2019/20 is brought forward to commence in quarter 2 2018/19.
3	That the Committee approve that the Chair and Chief Executive or Corporate Finance Manager under delegation approve further staffing resources upon receipt of a more detailed business case.

REPORT DETAILS

1.00	**ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS**
	Business Plan 2018/19 Update
1.01	Progress against the business plan items for quarter one of this year is generally on track. Key items to note relating to this quarter's work are as follows: • A1 – Additional payroll functionality – This functionality, which allows the CPF Administration Team to process their own lump sum payments has now been implemented albeit some final coding is required before it starts being used. • A2 – Move to electronic annual benefit statements – This project to issue benefit statements electronically for the first time is now well underway. The Deferred Benefits Statements have been issued electronically via Member Self Service to all deferred members other than those who have opted out of electronic communications. The electronic Active Benefit Statements will be issued via Member Self Service in July. All members are to receive a hard copy newsletter reminding them that their statements are now available on Member Self Service. • A4 and A5 Expanded Backlog and Aggregation Project – Mercers have now been commissioned to carry out these two bits of work so as to remove the historical backlogs that exist (as envisaged within the original business plan). Ongoing monitoring in relation to these projects will be provided to Committee in future reports. An allowance had been included in the 2018/19 budgets for this work.
1.02	The Committee is asked to note the contents of the business plan update.
	Current Developments and News
1.03	A separate LGPS Update report has been provided by Mercer and included with the Committee Papers. In general we are aware of the points highlighted in the report and a number of these are specifically referred to in the Business Plan for 2018/19. However, more specifically it is worth noting the following areas we are currently working on: • The Amendment Regulations came into force on the 14 May 2018. Amongst the changes is the requirement to review our Admission Agreements following the introduction of exit credits. • Another change is that all members with deferred benefits can request payment of their deferred benefits at age 55 (reduced) irrespective of when they left the scheme, rather than having to wait until age 60. This is likely to have an impact on the workload of the Administration Section as more scheme members request estimates of benefits between age 55 and 60, and on the number of retirements processed in the short term. Scheme members will be encouraged to use Member Self Service to carry out initial estimates to help minimise the additional work.

1.04	*Additional Voluntary Contributions (AVC*s) – Last year, a number of changes were made to the Fund's AVC offering with Prudential following a review by Mercers. At that point, it was agreed that this would continue to be monitored and the information below provides an update on this, on the use of AVCs during 2017/18 and on other matters relating to the Prudential AVC facility. Following the changes to our AVC portfolio in November 2017 when the existing lifestyle options were closed to new members and 2 new Prudential Dynamic Growth (PDG's) lifestyle options were launched, 8 members switched from the existing lifestyle options to the new ones offered and 15 selected the new lifestyle option upon joining. At the same time the default option (With Profits) was removed so that members needed to make a positive election as to where they wanted their AVC funds to be invested. There has been no adverse reaction to this change from members. 88 new members joined the AVC facility in the 12 months 6th April 2017 to 5th April 2018. The current membership for the 3 unitary authorities is:- Employer – Active Members Flintshire – 188 Wrexham – 144 Denbighshire – 139 Since the presentation given by our Regional Workplace Consultant at our Employer meeting last November, Denbighshire has gone live with Salary Sacrifice Shared Cost AVC's (SSSCAVC's) and there is interest from both Wrexham and Flintshire Councils too. This facility provides savings to national insurance contributions for both scheme members and employers. An email was received by the Pensions Administration Manager on 11 May which stated:- Changes to M&G Prudential's Corporate Pensions Team *"M&G Prudential recently announced a company-wide transformation programme designed to modernise the business. As part of this programme we are now making changes to the Corporate Pensions Team which provides member presentations and individual meetings in the workplace.* *I would like to confirm M&G Prudential's commitment to being the leading provider of AVCs. However, as a result of these changes, with immediate effect, member presentations and individual meetings will no longer be provided. We will continue to provide the full range of online services and telephony support through our Retirement Specialist Team. This includes*

	the ability for members to start or amend contributions on-line or over the phone. The impact of these changes are not fully known at present, however, the following employee and employer activity that has taken place over the last 12 months is not expected to be taking place in the future as a result of the changes. • 16 presentations with a total of 354 attendees • 28 individual 1 to 1's with members • 7 Client meetings with Employers
1.05	*Cybercrime* – Following a request by the Pension Board, they will be receiving presentations from both Flintshire County Council's ICT and Aquila Heywood 11 October on the steps they take to protect the Fund from Cybercrime. An update will be provided at the November Committee.
	Policy and Strategy Implementation and Monitoring
1.06	*Administration Strategy* The latest monitoring information in relation to administration is outlined below: • Day to day tasks – Appendix 1 provides the analysis of the numbers of tasks received and completed on a monthly basis since April 2015 as well as how this is split in relation to our three unitary authorities and all other employers. As can be seen, April included a major increase in cases added (i.e. new work received) due to the implementation of iConnect for FCC. There continue to be an increase in the outstanding number of tasks, due to ongoing increases in workloads, projects such as the implementation of iConnect and the team also suffered due to the long term sickness of a senior member of staff. • Key performance indicators – Appendix 2 shows our performance against the key performance indicators that are measured on a monthly basis up to March 2018. As requested at the last Committee an explanation of the graphs is also now included. As can be seen improvements have been made in certain areas relating to the CPF turnaround times (graphs "c" on each page) e.g. starters and leavers. This has been due to a reallocation of work and overtime, and this also explains some of the changes in the numbers of cases completed in each category in March compared to previous months. The deaths have also improved however this has been to the detriment of the retirements due to the same level of staff performing both roles. April and May figures are not available at present as an update is awaited from Aquila Heywood which impacts the reports that produce this information.
1.07	As can be seen by the information presented there continues to be large amounts of work coming into the Section and also a large number of outstanding tasks, meaning we are unable to meet all our KPIs. These points are separately mentioned in the Audit Report (within the Governance Update). It was always intended to review resources and this was included in the Business Plan (A!2), in the main for 2019/20 however circumstances have required more urgent attention, and it is

recommended that this workforce review is brought forward to quarter 2, although an interim increase in staffing has been agreed via an urgency delegation referred to later in this report. In relation to staffing and resource matters, a business case is currently being put together for additional resource to enable the Administration Section to deliver the services in line with Fund's objectives including meeting the KPIs. Furthermore, as mentioned previously Mercers have recently commenced work to assist with the aggregation work which was being carried out by the in-house team. Some further information around the key issues causing the increase in workloads will be presented at the Committee.

The Committee are asked to approve that any further decisions around further staffing resources within the Administration Section are delegated to the Chair and either Chief Executive or Corporate Finance Manager upon development of a more detailed business case.

1.08 Internal dispute resolution procedures – Below is a summary of the internal dispute resolution cases that have arrived this and last year. Of the appeals received against the employers at Stage 1 in the current year, all are based on non-payment of deferred benefits and the 1 against the Administering Authority is due to the overstated estimate of benefits due to incorrectly recorded service. The 1 that was rejected progressed to Stage 2 at which point additional evidence became available that the employer had not seen and was therefore referred back to the employer for review. The other Stage 2 case that had been through Stage 1 in 2017/18 was also upheld as additional evidence was forthcoming.

	2018/19			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	2		1	2
Stage 1 - Against Administering Authority	1			1
Stage 2 - Against Employers	2	2		
Stage 2 - Against Administering Authority				
	2017/18			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	13	2	9	2
Stage 1 - Against Administering Authority	1		1	
Stage 2 - Against Employers	3	2	1	
Stage 2 - Against Administering Authority	1		1	

The appeal against the Administering Authority at Stage 2 in 2017/18 has been progressed to the Pensions Ombudsman. We are currently awaiting their determination. The Pensions Ombudsman also made their determination in respect of a case that was dismissed at Stage 1 and Stage 2 against the Administering Authority in 2016/17 and a compensation payment of £1,000 was made in April 2018.

1.11 *Communications Strategy* – The Communication Officer has provided the following services since the last update (i.e. relating to the period from 20 March 2018 to 31 May 2018):

- Visit to Glyndwr University promoting Member Self Service.

1.12 The following communications have been distributed during this period:

	• Activation Keys sent to 1,600+ Dependant Members • First bulk email project has been undertaken with emails sent to all members with email addresses (9,242) including details relevant to their status. e.g. Pensions Increase • Deferred Diaries (newsletter) has been published to Member Self Service • GDPR Privacy Notice added to website • Deferred Benefit Statements and Lifetime Allowance letters posted to all members who elected for postal correspondence, with the remainder having been published on Member Self Service.
1.13	The updated information concerning Member Self Service is shown in Appendix 3 and this illustrates enrolment to Member Self Service is continuing to grow at a steady pace. The annual Satisfaction Surveys were sent out with all postal communication for the two week period 9 April to 22 April. Online employer and scheme member surveys were also implemented. Results from both members and employers along with an analysis of comments made are shown in Appendix 4. Against nearly all measures, this shows an improvement in satisfaction with all employer ratings exceeding our KPI target of 90% agreeing or strongly agreeing that we have met our objectives. All scheme member results are 80% or higher with some being very close to the KPI target. Given the ongoing publicity of Member Self Service, the move to electronic annual benefit statements and recent launch of the updated website, we would hope the results in early 2019 for scheme members will be even more positive.
  1.14	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 5 updates the Committee on the one area of delegation used since the last meeting relating to administration. This relates to an urgency request for additional posts in the Administration Section due to the increases in workload.

2.00	**RESOURCE IMPLICATIONS**
2.01	The Administration Section continue to be under pressure as a result of the ongoing increases in workload many of which stem from the introduction of the new scheme in 2014. Under the urgency delegation for staff in the interim period whilst awaiting a full business case, the additional annual cost (including on costs) amounts to £91,944.

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

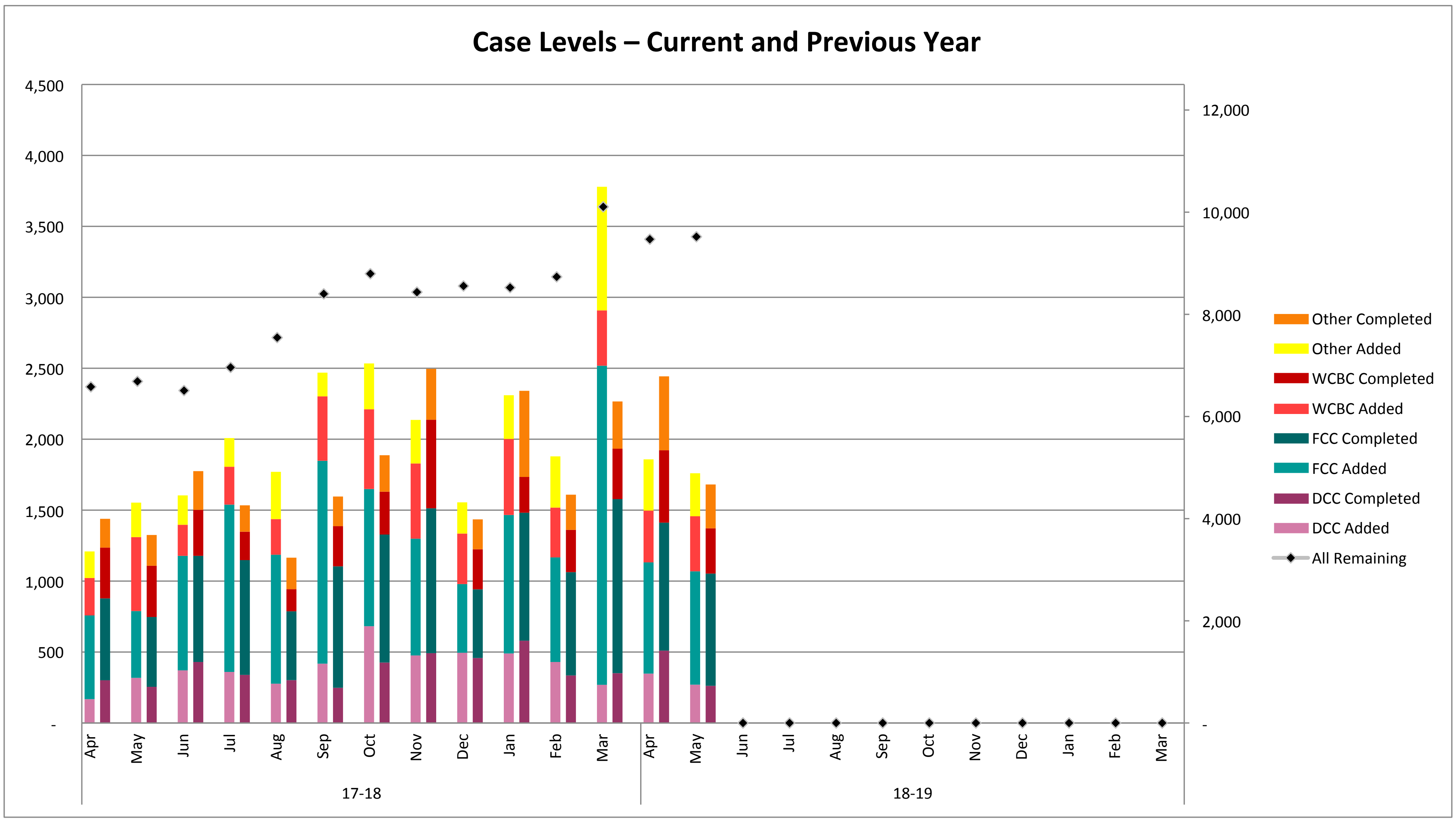
4.00	**RISK MANAGEMENT**
4.01	Appendix 6 provides the dashboard and the extract of administration and communications risks. The key risks continue to relate to: • Employers not understanding or meeting their responsibilities which could lead to us unable to meet our legal or performance expectations, and • Poorly trained or insufficient staff numbers which could lead to us unable to meet our legal or performance expectations – this has been updated to include further action to review the existing staffing establishment and develop a business case for further staff.

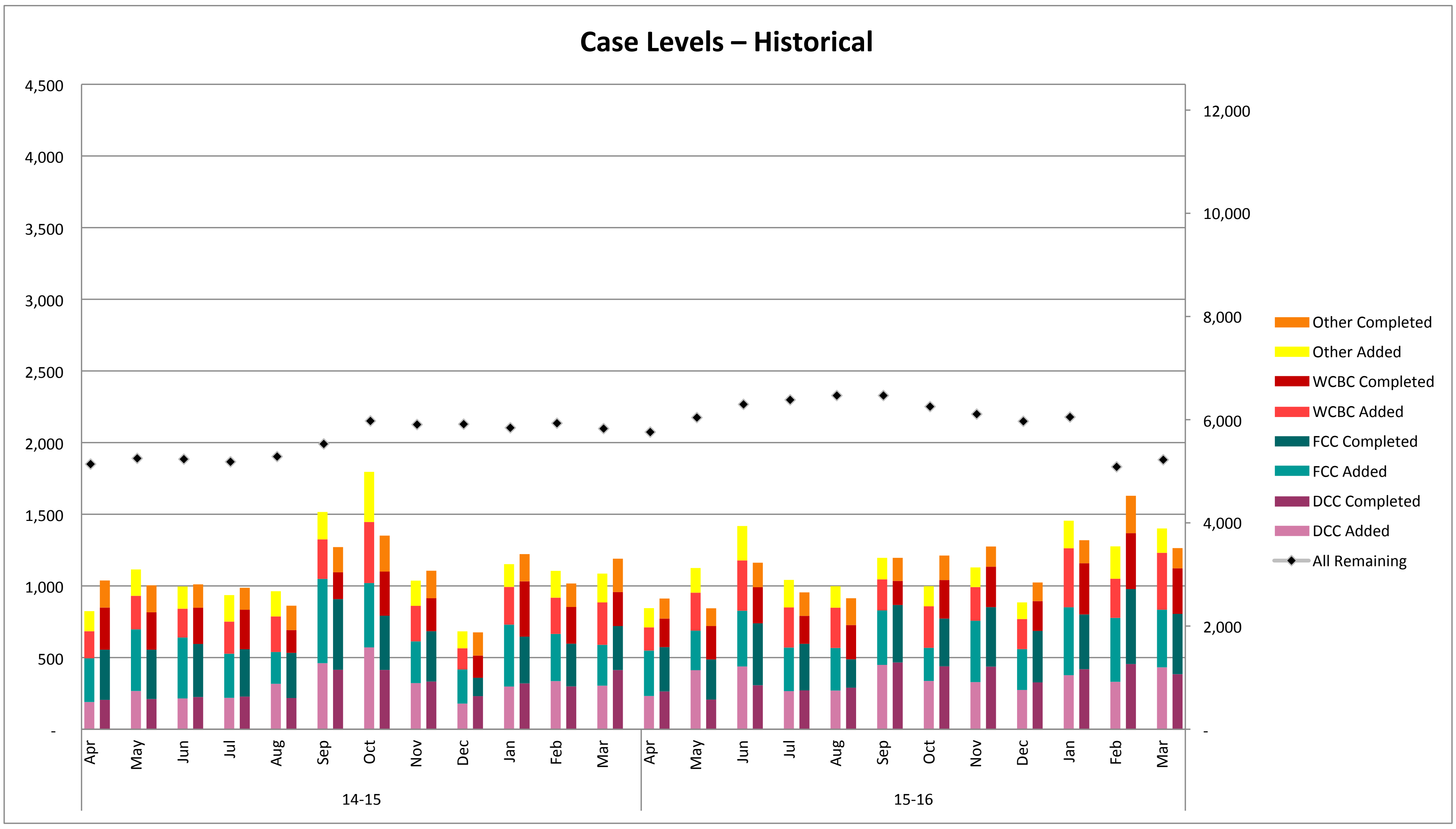
5.00	**APPENDICES**
5.01	Appendix 1 - Analysis of cases received and completed Appendix 2 – Key Performance Indicators Appendix 3 – Member Self Service Appendix 4 – Satisfaction Survey Appendix 5 – Delegated responsibilities Appendix 6 – Risk register update

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Business Plan 2017/18 to 2019/20 **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) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation.


Case Levels – Current and Previous Year
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
10,000
8,000
6,000
4,000
2,000
-
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
17-18
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
18-19


Case Levels – Historical
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
10,000
8,000
6,000
4,000
2,000
-
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
14-15
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
15-16

Appendix 2

Key Performance Indicators

The following pages show the performance against the key performance indicators (KPIs) which have been agreed within Clwyd Pension Fund's Administration Strategy. They cover seven areas of work, and for each there is a KPI for each of the following:

- The legal timescale that must be met
- The overall timescale for the process (including any time taken by employers and/or scheme members) - The timescale relating to the Clwyd Pension Fund administration team only

The KPIs are specific to each process (as set out in the Administration Strategy) and illustrated by the graphs are as follows:

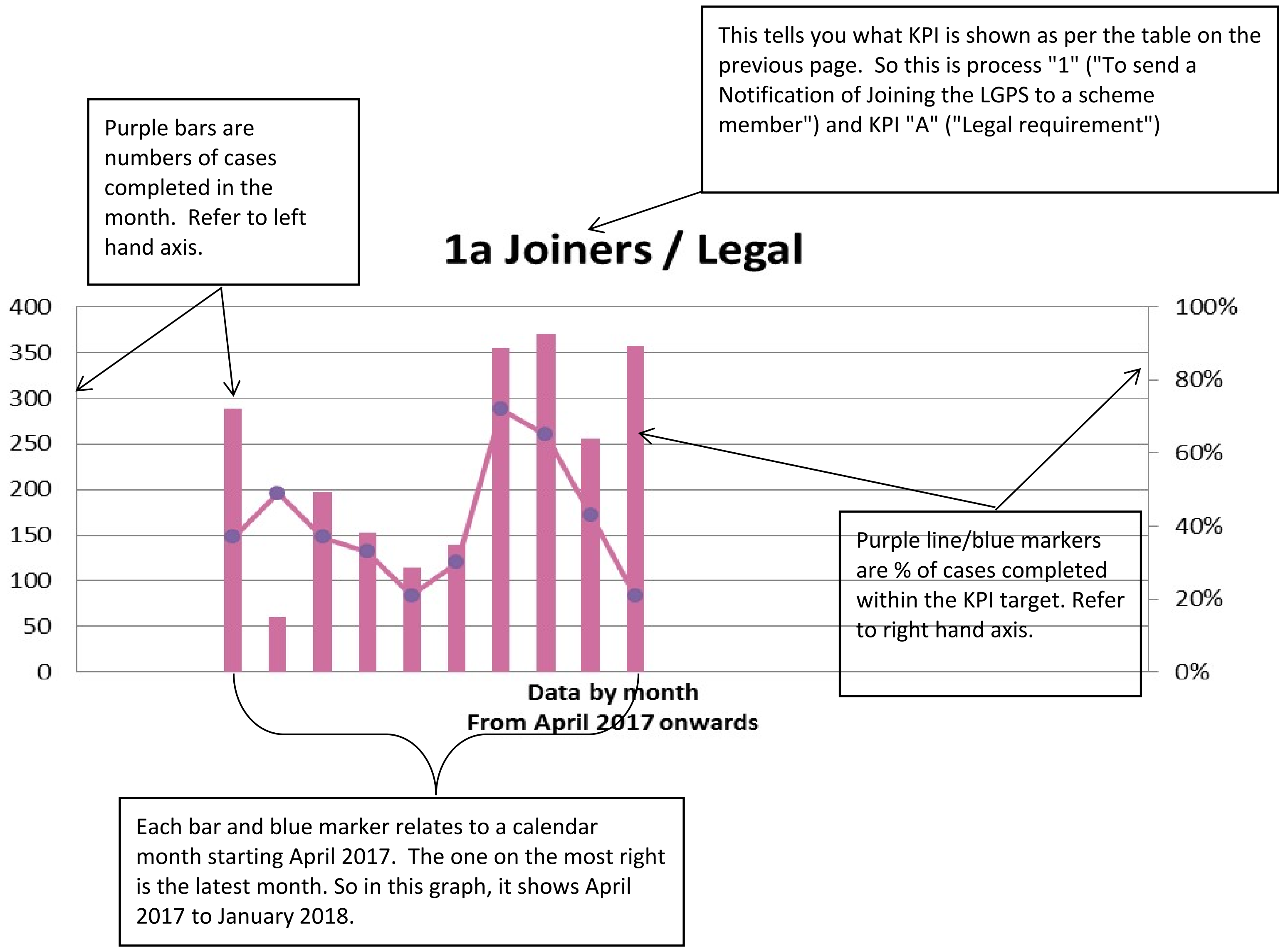
		A	B	C
	Process	**Legal Requirement**	**Overall**	**CPF Administration element target**
1	To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / reenrolled	46 working days from date of joining (ie 2 months)	15 working days from receipt of all information
2	To inform members who leave the scheme of their leaver rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	46 working days from date of leaving	15 working days from receipt of all information
3	Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	46 working days from date of request	20 working days from receipt of all information
4	Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	46 working days from date of request	20 working days from receipt of all information
5	Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age [4]	23 working days from date of retirement	10 working days from receipt of all information
6	Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	46 working days from date of request	15 working days from receipt of all information
7	Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative)	25 working days from date of death	10 working days from receipt of all information

Interpretation of graphs

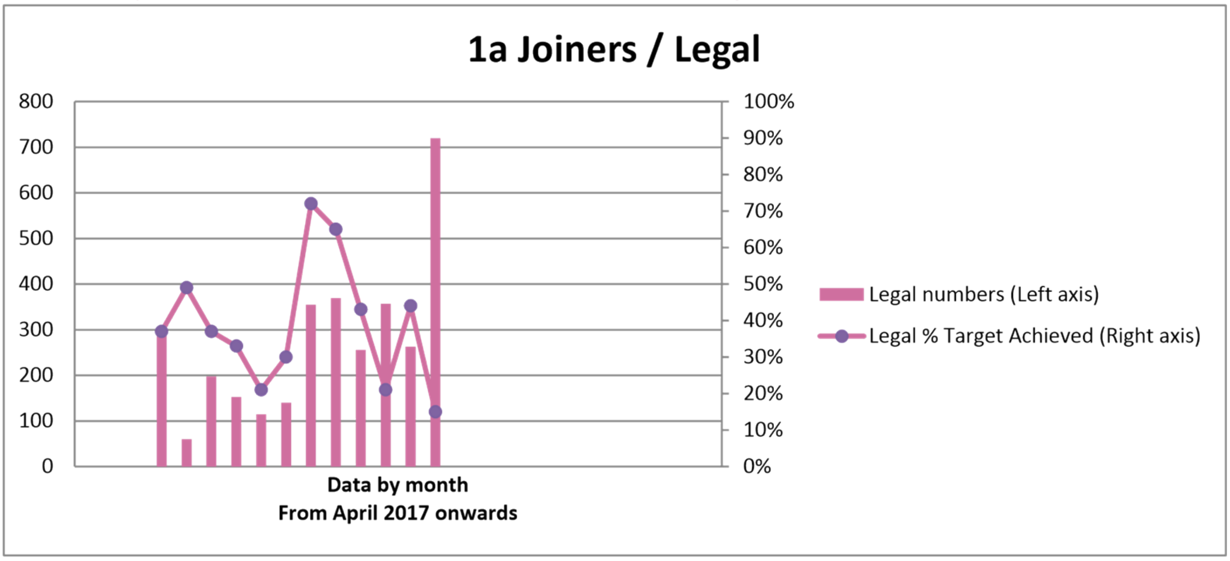
One graph has been provided for each KPI in the table above. Each graph shows month by month:

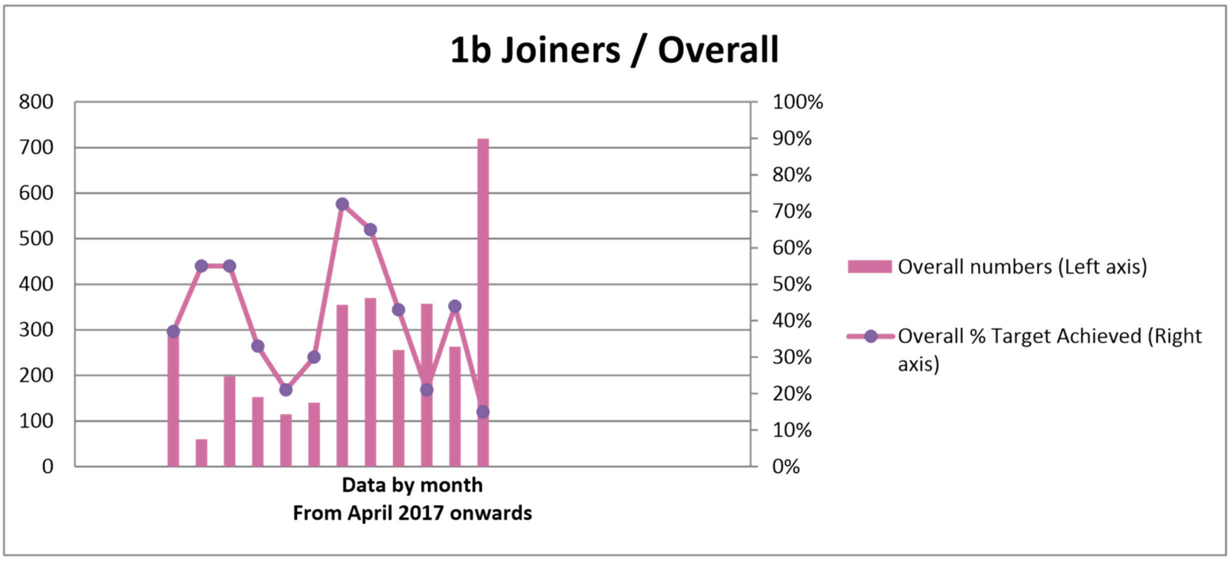
- The number of cases which have been completed each month
- The percentage of those cases completed that were completed within the KPI target

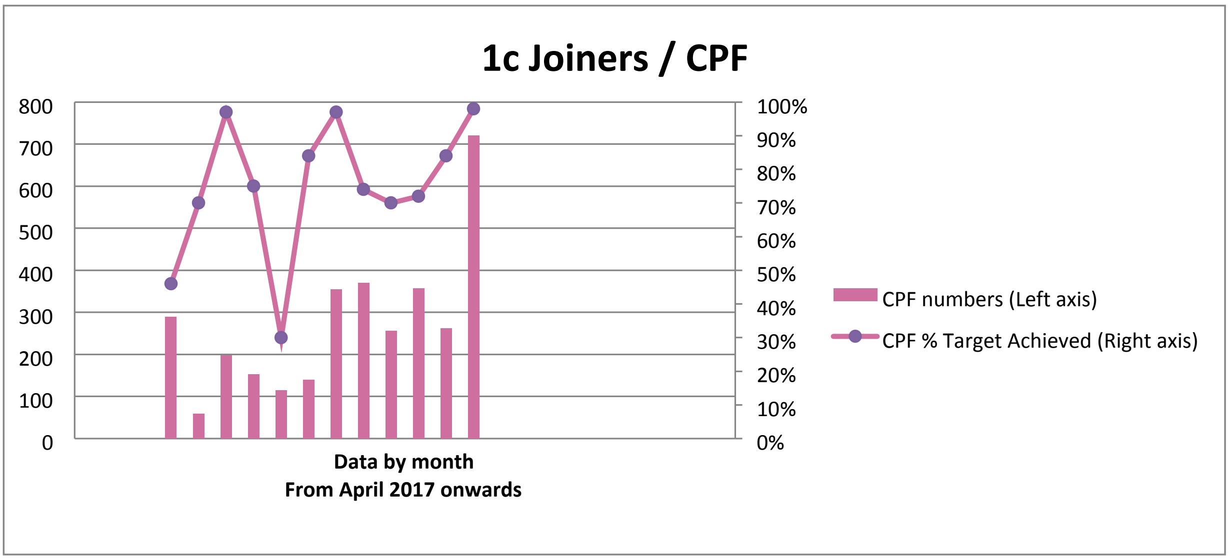
This is illustrated further below.


This tells you what KPI is shown as per the table on the previous page. So this is process "1" ("To send a Notification of Joining the LGPS to a scheme member") and KPI "A" ("Legal requirement")
Purple bars are numbers of cases completed in the month. Refer to left hand axis.
1a Joiners / Legal
400
350
300
250
200
150
100
50
0
100%
80%
60%
40%
20%
0%
Purple line/blue markers are % of cases completed within the KPI target. Refer to right hand axis.
Data by month
From April 2017 onwards
Each bar and blue marker relates to a calendar month starting April 2017. The one on the most right is the latest month. So in this graph, it shows April 2017 to January 2018.

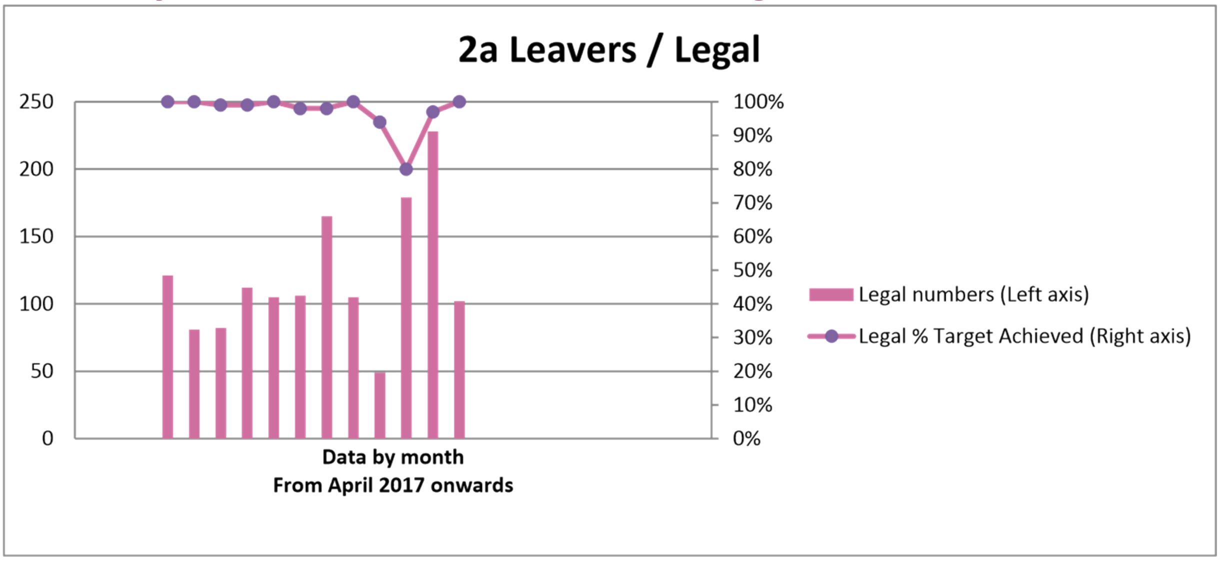
Key Performance Indicators - relating to 31 March 2018

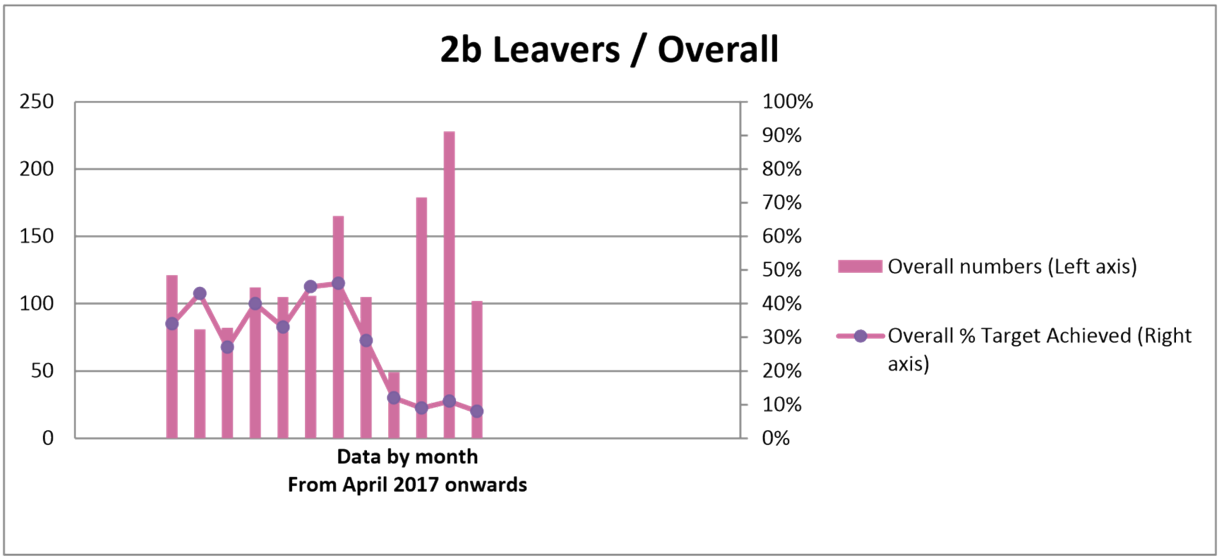


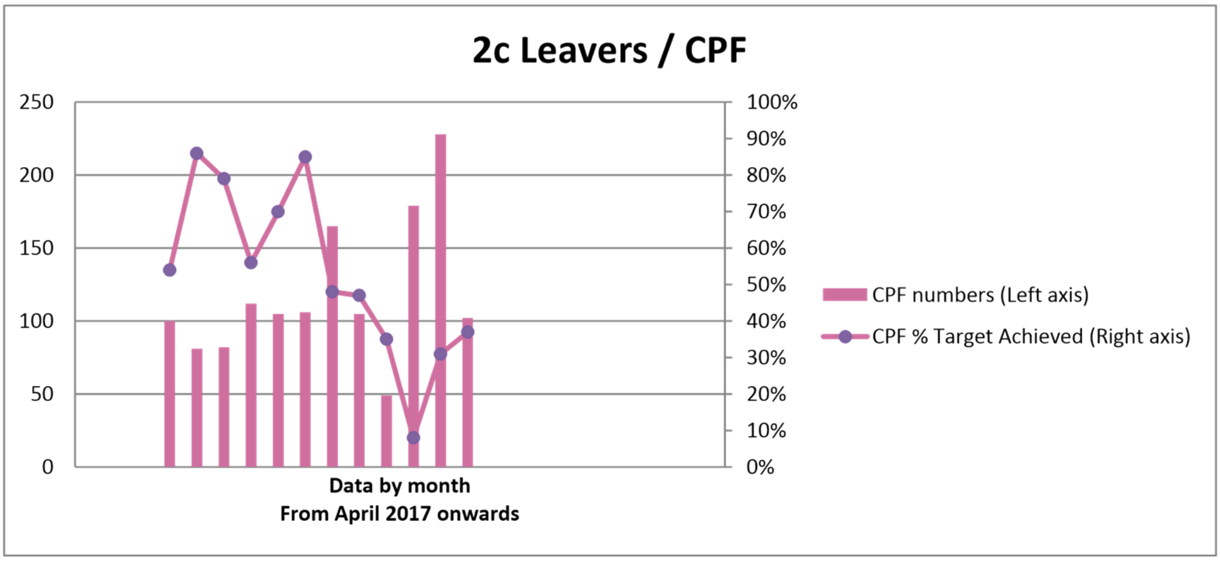




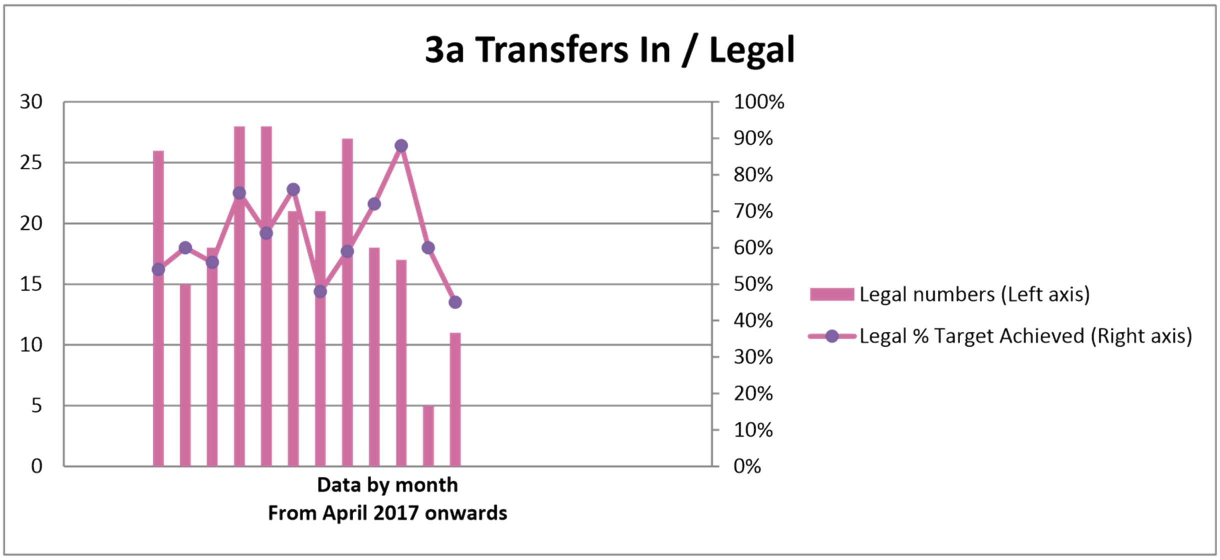
Key Performance Indicators - relating to 31 March 2018

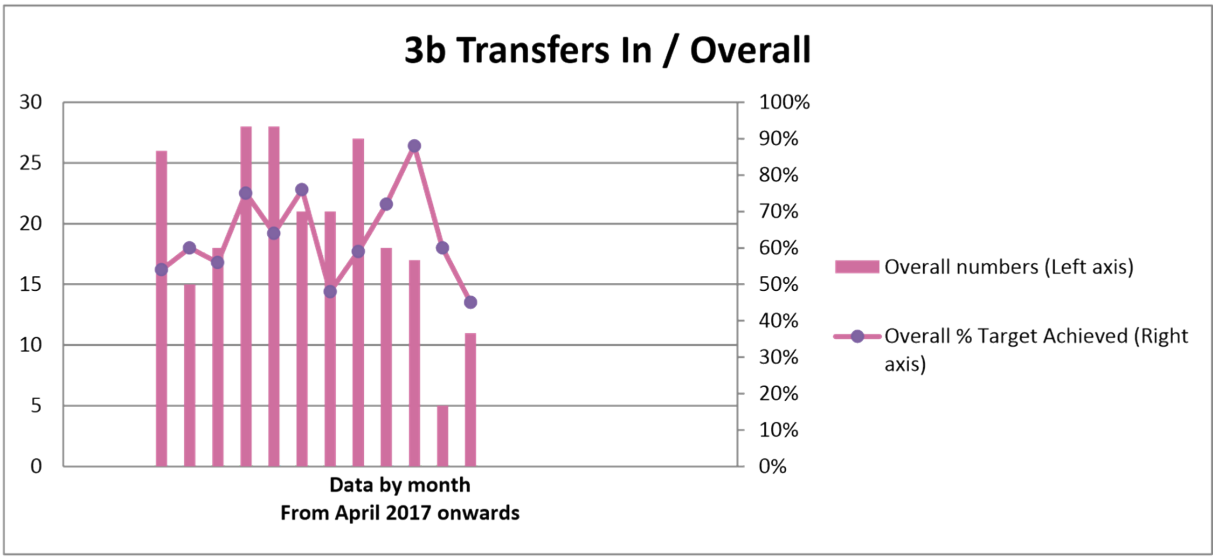


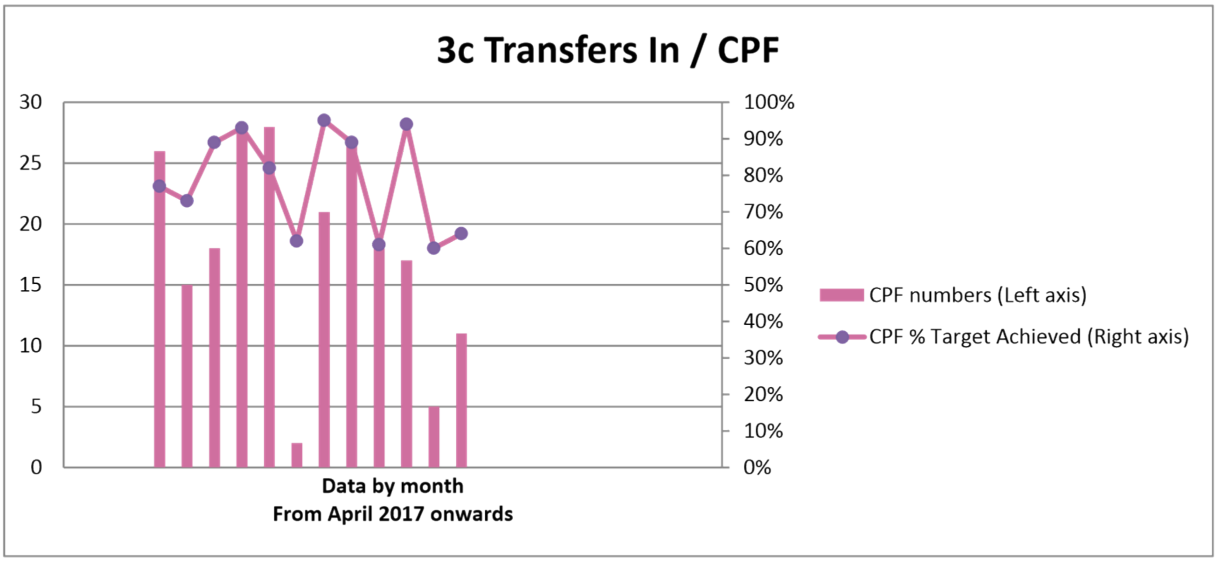




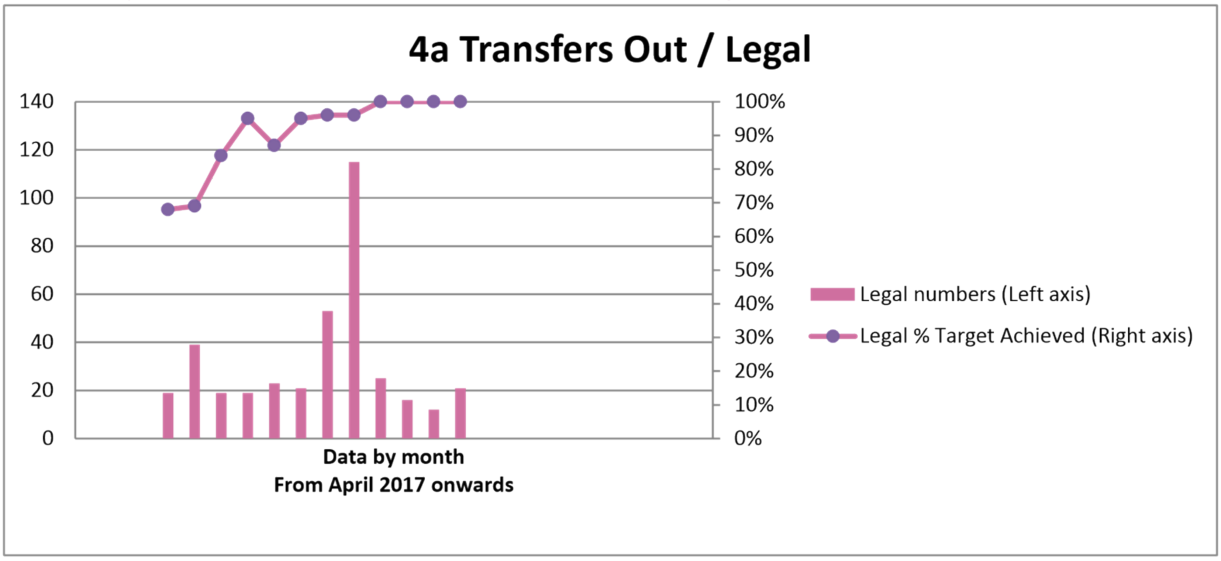
Key Performance Indicators - relating to 31 March 2018

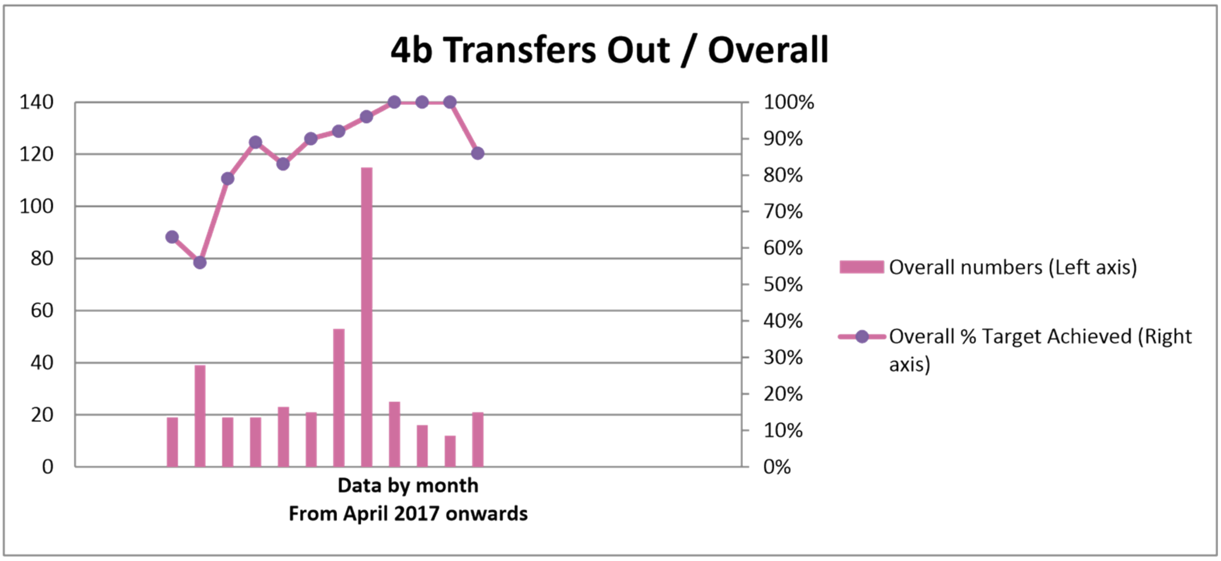


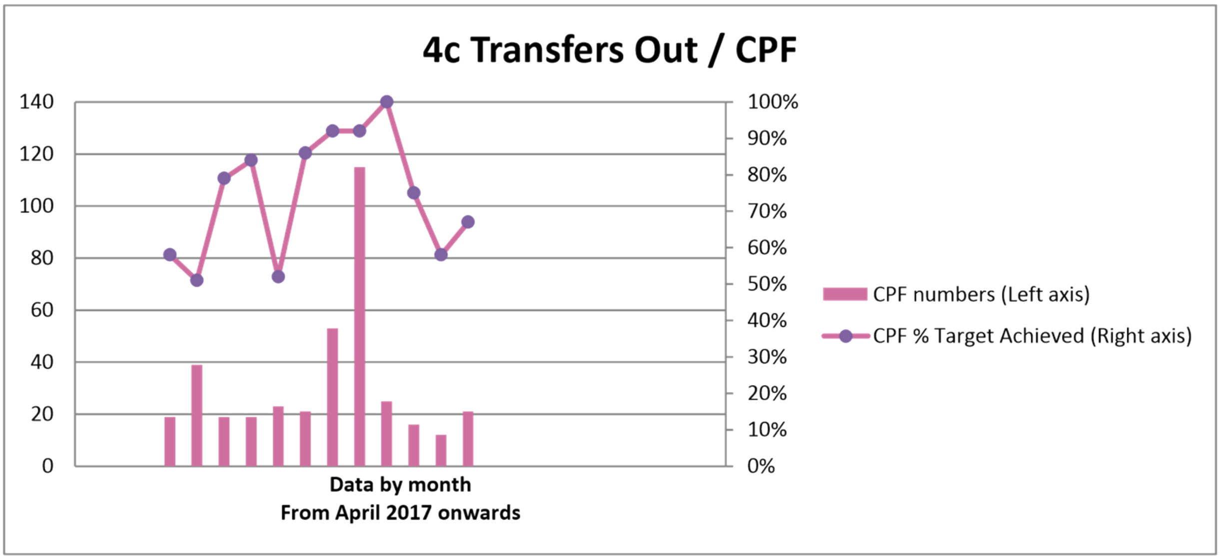




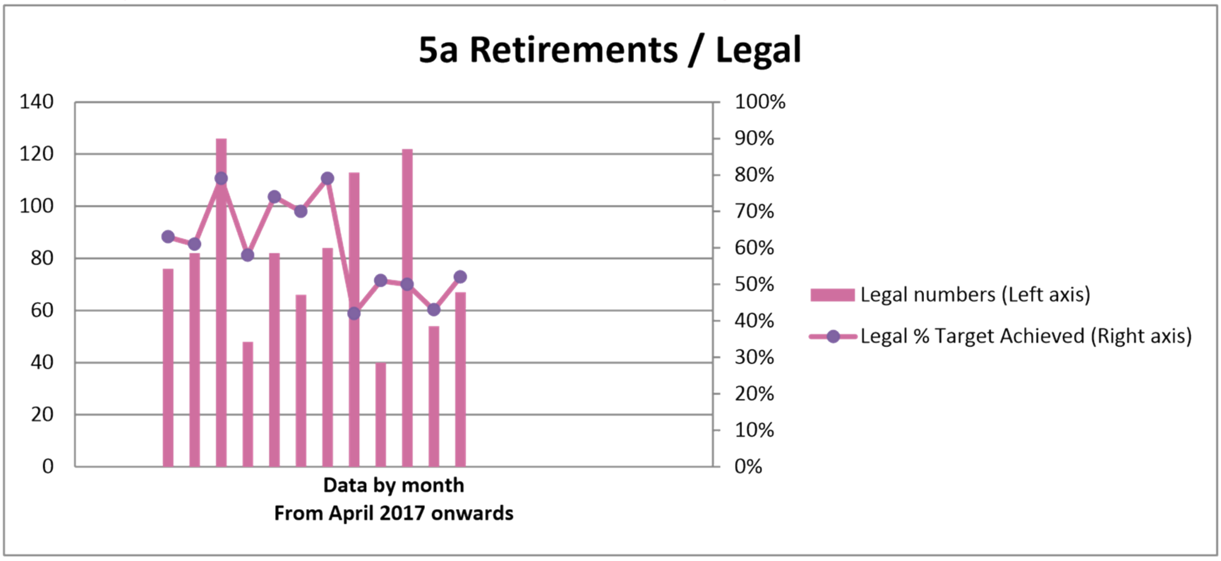
Key Performance Indicators - relating to 31 March 2018

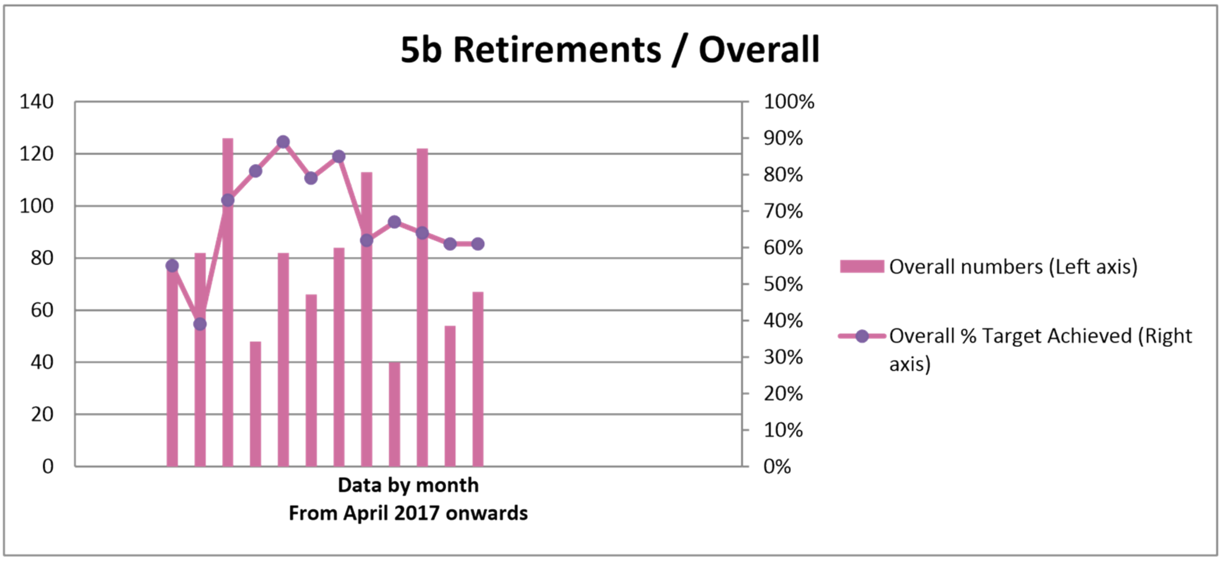


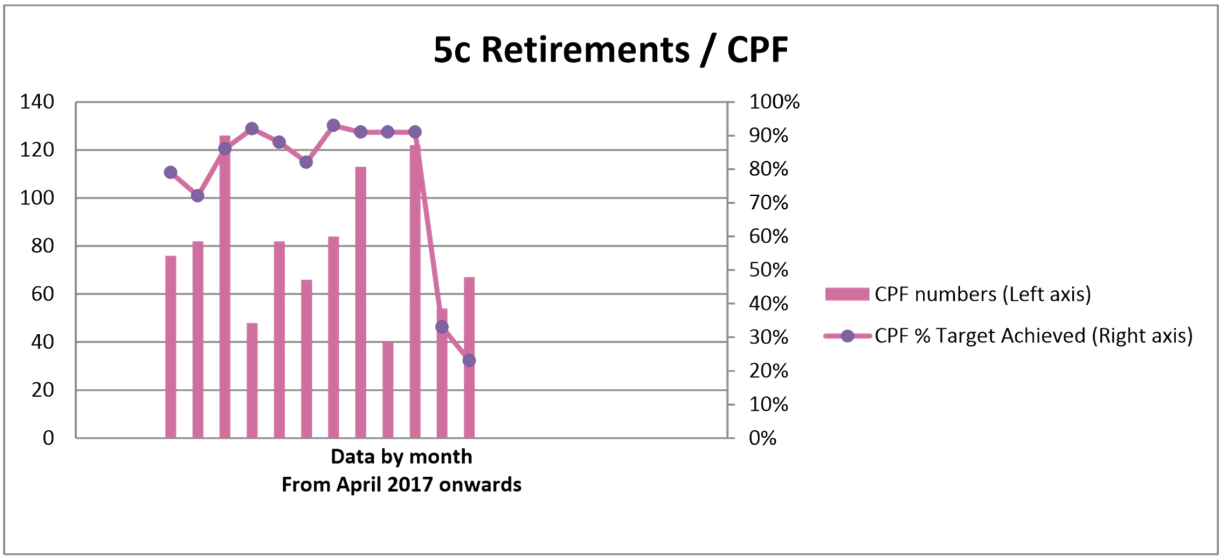




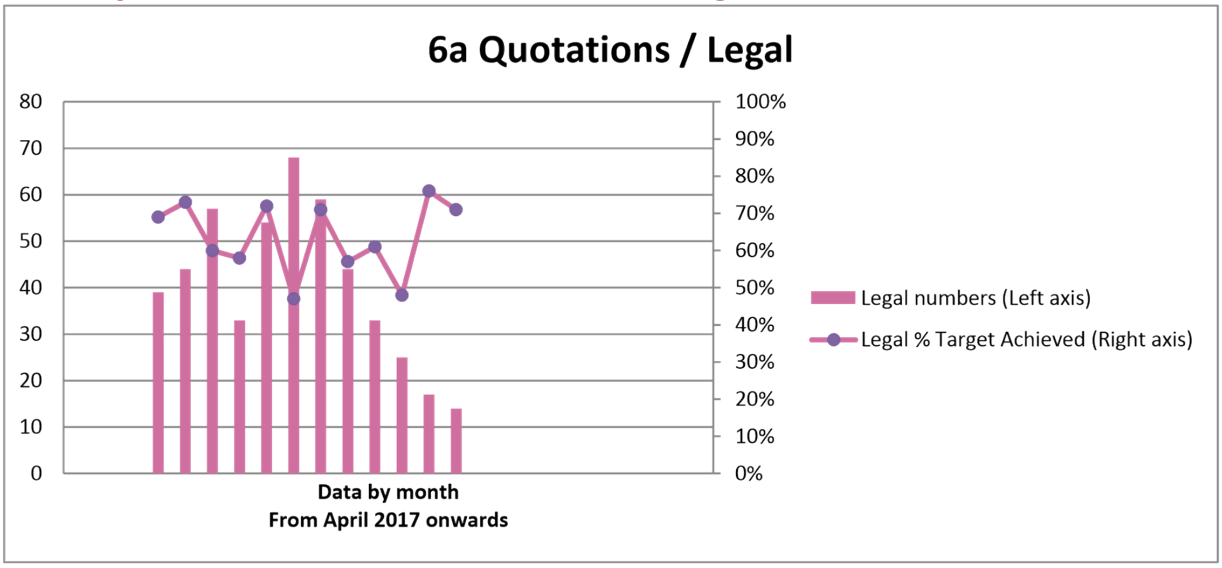
Key Performance Indicators - relating to 31 March 2018

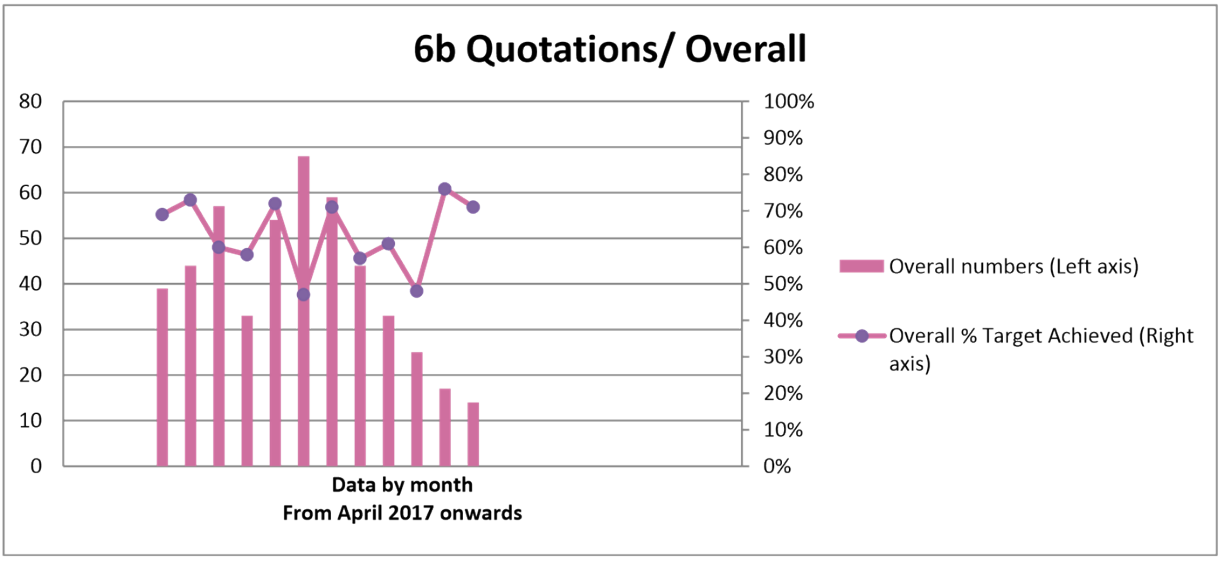


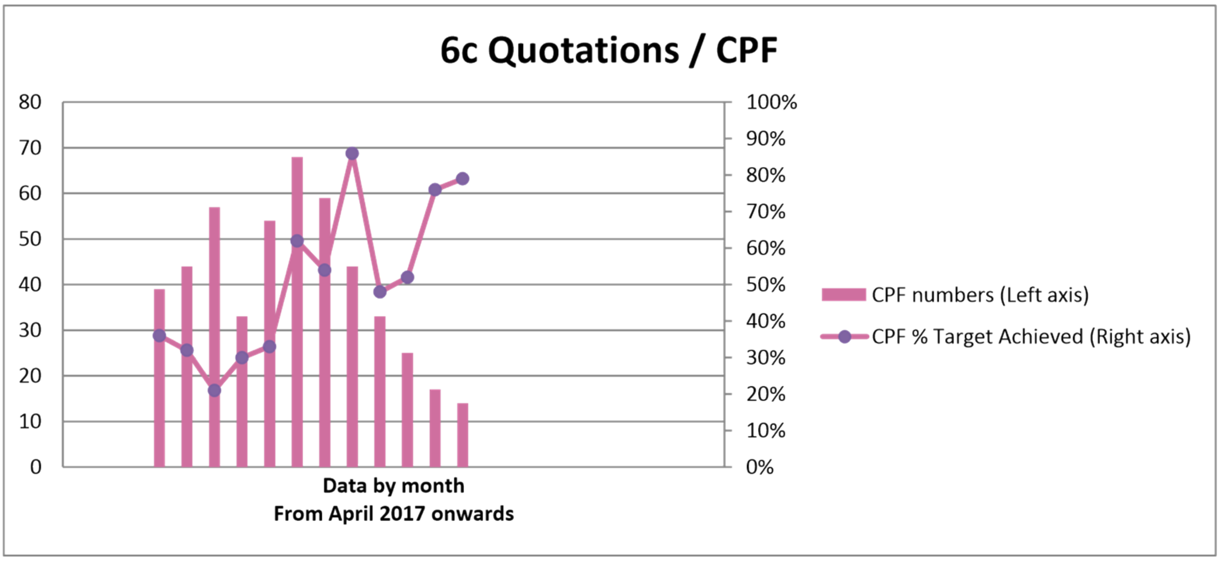




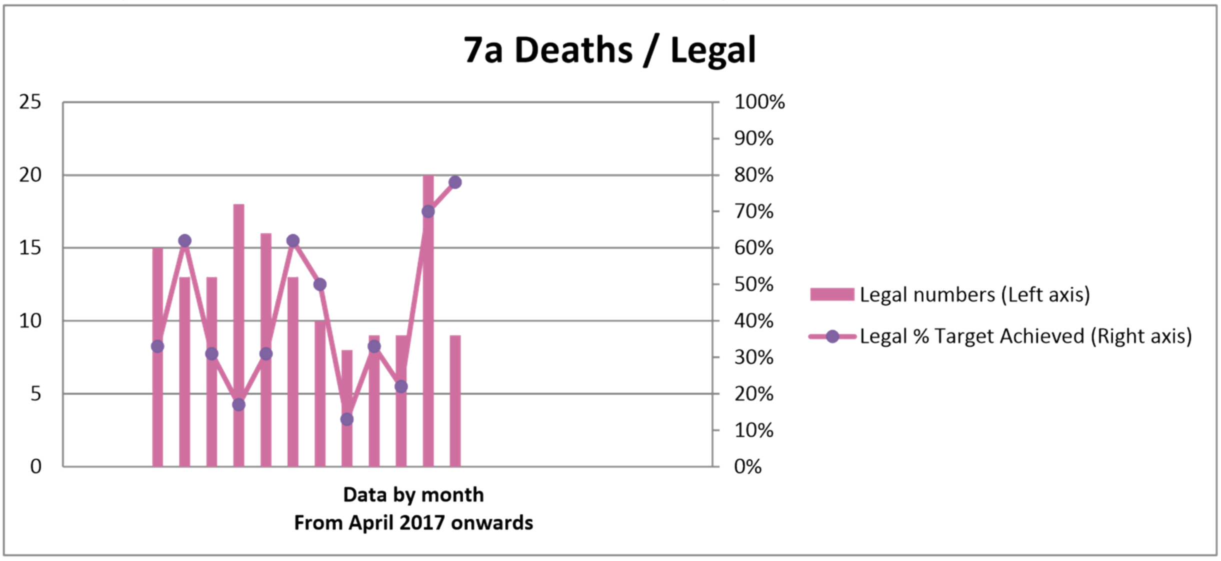
Key Performance Indicators - relating to 31 March 2018

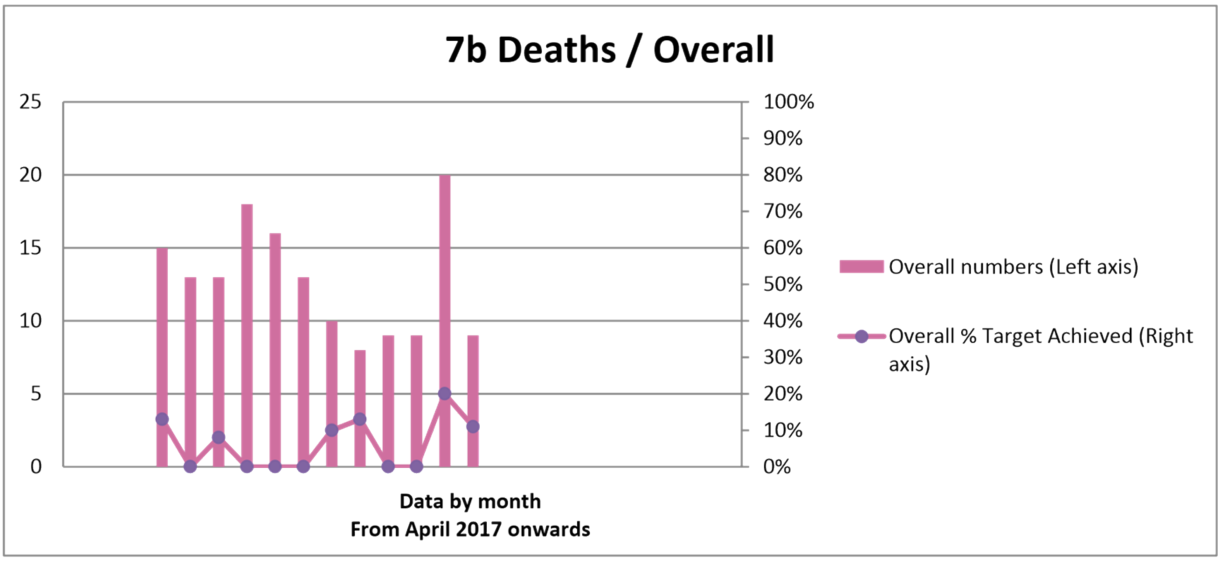


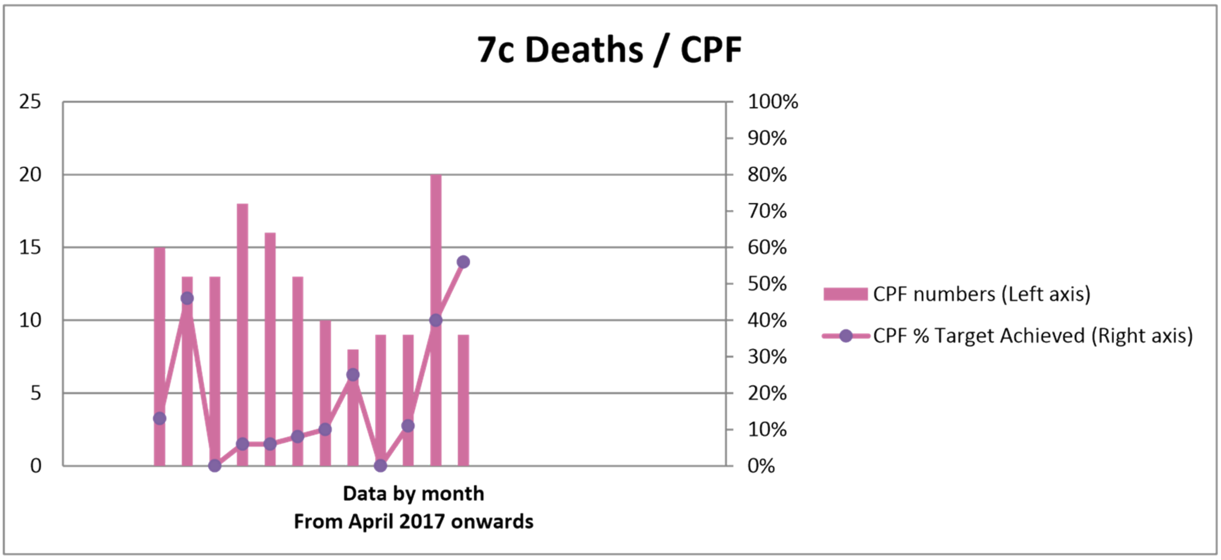




Key Performance Indicators - relating to 31 March 2018







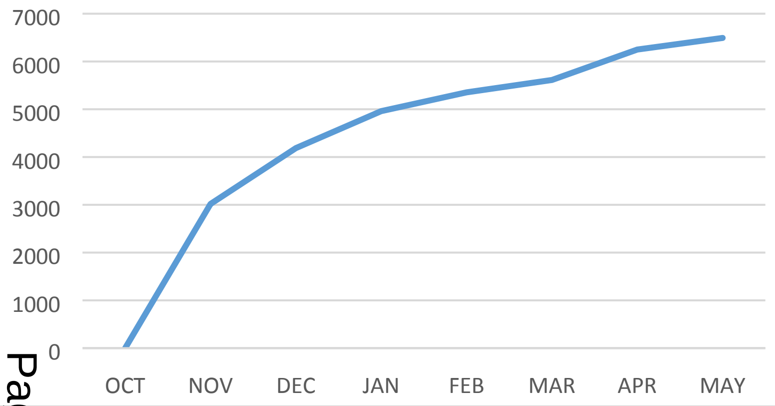
This page is intentionally left blank

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Appendix 4

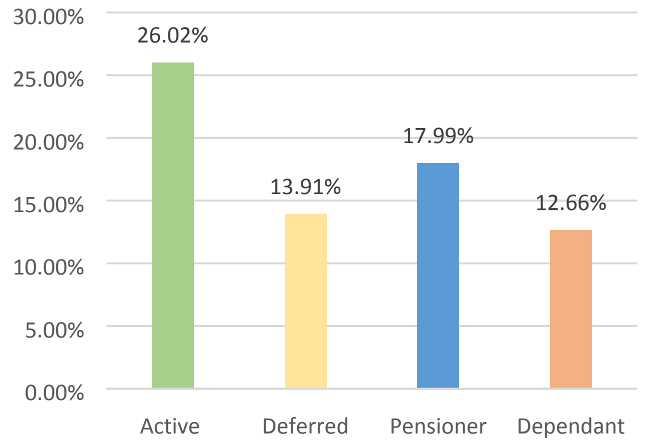
MEMBER SELF SERVICE – 31/05/18

Total Registered Members
6493 (19.80%)



Percentage by Status

A quarter of active members have registered



CONTACT US TASKS

1,194	MSSKEY	Key requests **(5.85 per day)**
249	MSSENQ	Enquiry tasks
22	MSSEST	Estimate tasks
64	MSSRET	Retirement tasks
54	MSSTRVT	Transfer tasks

389 Contact Us Tasks (1.91 per day)

BENEFIT PROJECTIONS

14956 BENEFIT PROJECTIONS CALCULATED

73.31 per day (204 days)

Update from last Committee

Following campus visit (20/03/18) Glyndwr University active membership increased from 19.8% to 47.4%

First bulk email (13/04/18) was sent to all members with email addresses on records (9,242) with details relevant to their status. 415 registered within a 2 week period following email.

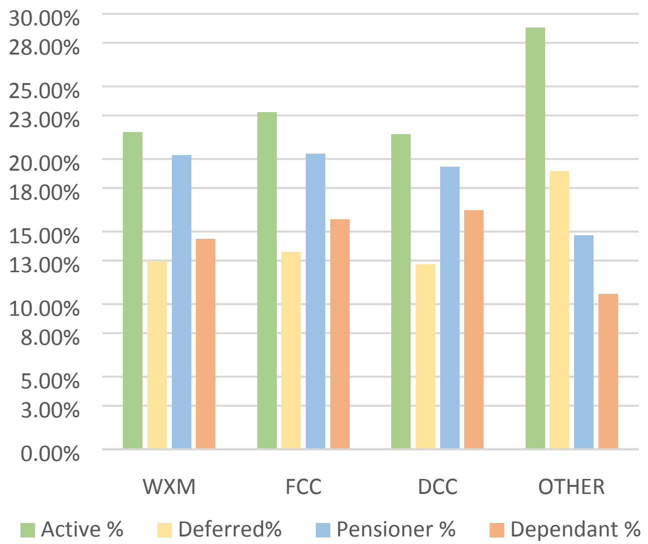
Amended defer, estimate and retirement processes to include MSS keys to enhance membership. (18/04/18)

23/05/18 - Deferred Diaries published to Member Self Service including details of drawing benefits from 55 years old.

Deferred Annual Benefit Statements and Lifetime Allowance letters published to Member Self Service and further bulk email sent to deferred Member Self Service members to notify them

% Split between status

23.22% of FCC active members are registered



EXPRESSION OF WISH

1,258 CHANGES OF EXPRESSION OF WISH

6.16 per day (204 days)

ELECTED FOR POSTAL CORRESPONDANCE

1,848 OF POTENTIAL 34,450 MEMBERS

5.36% of overall members

213	ACTIVE
110	DEFERRED
1338	PENSIONER
187	DEPENDANT

This page is intentionally left blank

Appendix 7

2018 Member Satisfaction Survey

317 posted (21 responses)
7869 emails (38 responses)

		Strongly Disagree	Disagree	Agree	Strongly Agree	> Agree 59 responses	KPI	+ / - from 2017
Administration	… offers documentation, guidance and information in a professional manner?	3 (5.1%)	4 (6.8%)	37 (62.7%)	15 (25.4%)	52 (88.1%)	90%	1.1%
	… is proactive in their approach to provide a service to members?	1 (1.7%)	8 (13.6%)	36 (61.0%)	14 (23.7%)	50 (84.7%)		2.1%
	… gives an appropriately timed service with regular updates?	4 (6.8%)	5 (8.5%)	35 (59.3%)	15 (25.4%)	50 (84.7%)		6.4%
	… is customer focused and meets the needs of its members	2 (3.4%)	8 (13.6%)	35 (59.3%)	14 (23.7%)	49 (83.1%)		-3.9%
	… has provided a high quality service throughout your membership?	3 (5.1%)	8 (13.6%)	32 (54.2%)	16 (27.1%)	48 (81.4%)		-1.2%
Communications	… promotes the scheme as a valuable benefit and provide sufficient information so you can make informed decisions about your benefits?	1 (1.7%)	6 (10.2%)	38 (64.4%)	14 (23.7%)	52 (88.1%)		11.2%
	… communicate in a clear and concise manner?	5 (8.5%)	3 (5.1%)	36 (61.0%)	15 (25.4%)	51 (86.4%)		9.5%
	… use the most appropriate means of communication?	4 (6.8%)	5 (8.5%)	33 (55.9%)	17 (28.8%)	50 (84.7%)		7.8%

88 Surveys emailed (1 reminder sent)
19 Responses (21.6%)

Do you agree that the Clwyd Pension Fund…

		Strongly Disagree	Disagree	Agree	Strongly Agree	> Agree	KPI	+ / - from 2017
Employer Survey	...offers documentation, guidance and information in a professional manner?	0 (0.00%)	1 (5.3%)	9 (47.4%)	9 (47.4%)	18 (94.8%)	90%	-5.2%
	...is proactive in their approach to provide a service to employers?	0 (0.00%)	1 (5.3%)	10 (52.6%)	8 (42.2%)	18 (94.8%)		5.9%
	...gives an appropriately timed service with regular updates?	0 (0.00%)	0 (0.00%)	13 (68.4%)	6 (31.6%)	19 (100%)		16.7%
	...is customer focused and meets the needs of its employers?	0 (0.00%)	0 (0.00%)	12 (63.2%)	7 (36.8%)	19 (100%)		5.6%
	... ensures you are aware of your LGPS employer related roles and responsibilities for the administration of the Clwyd Pension Fund?	0 (0.00%)	0 (0.00%)	12 (63.2%)	7 (36.8%)	19 (100%)		5.6%
	… communicates in a clear and concise manner?	0 (0.00%)	0 (0.00%)	12 (63.2%)	7 (36.8%)	19 (100%)		11.1%
	… uses the most appropriate means of communication?	0 (0.00%)	0 (0.00%)	12 (63.2%)	7 (36.8%)	19 (100%)		0.0%

2018 Employer Satisfaction Survey

Comments: "Very helpful and professional staff with understandable explanations given on any questions raised"

"Can members have one to one meetings with CPF staff."

"Always very helpful and communication from Clwyd Pensions has improved"

Approximately how many active members does your employer have? (optional question)	Under 100	9	101 – 999	2	1000+	6

Members who have elected to include comments, alongside their individual responses (14 out of 59)

S Agree	Agree	Disagree	S Disagree	Member Comments
8				Very impressed with this website and also the service provided by Flintshire Pensions
8				Simple to use.
8				Web link is very useful
7		1		The online statements and calculator for calculating pension pensions if retiring early has been very useful. The previous printed statements were quite difficult to understand. As a member who intends to retire early, this has been invaluable.
	8			The new web site can be hard to obtain.
1	5	2		On-line information is not always the best form of communication. How do members know if there's any update news?
1	3	1	3	Every member of the fund that I have spoken with has had major delays in initially receiving their pension and/or lump sum to the point where they have to depend on other sources of income to live for at least the first three months and have had to change their plans eg not being able to invest or pay off their mortgage.
	3	4	1	In schools, we are not kept informed of how to read our pension benefit statements and now the system is on line, we have not been given instructions on how to understand the system at all.
	2	5	1	Waited 3 months for cetv.. Everything's time chased, was promised it would happen asap.
	1	4	3	It seems obvious that the Pension Section is severely and significantly understaffed. This leads to a less than satisfactory service. I would stress that what few staff remain in the Pension Section should not be blamed for this lack of quality service. As a Welsh speaker it is also clear that the Pension Section is only able to offer, at best, a tokenistic response through Welsh.
		4	4	Not happy with Web communication and e mail. Communication was already minimal and infrequent so with changes to e mail addresses passwords etc surviving family will not have access to information currently maintained in a dedicated paper home file.
		8		It has taken a number of phone calls, at least one meeting and numerous mailshots to get to this position, when I made this clear at the onset
			8	I have had the need to contact Clwyd pensions via email and phone and haven't received the information I requested, which was up to date figures for my current role. I was very disappointed especially as this was needed for a financial review. I have a pension from my previous employer they were able to provide this information much quicker.

			8	I have been unable to view my pension on line and error message keeps appearing now my account has deactivated. *(Feedback left 22/04/18, successfully registered 23/04/18)*

Cyngor Sir y Fflint
Flintshire County Council

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

CLWYD PENSION FUND

SCHEME OF DELEGATION

The Clwyd Pension Fund has certain functions which are delegated to the Chairman, Vice-Chairman and/or Officers of the Fund by the Pension Fund Committee. This paper outlines the decision made, the powers under which it is made, when the decision was taken, and by whom.

DELEGATED POWERS BEING USED (extracted from agreed PFC delegations):	**Delegation:**	Other urgent matters as they arise.
	Delegated Officer(s):	PFM and either CFM or CE, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)
	Communication and Monitoring of Use of Delegation	PFC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PFC.

SUBJECT:	Interim Increase In Administration Section Establishment

BACKGROUND:

In recent years, the work of the Administration Section has increased both in magnitude and complexity. Despite identifying ongoing efficiencies and improved technology, the team are unable to deliver to the Fund's agreed key performance indicators which include best practice and legal timescales. As a result, Mrs Helen Burnham, Pension Administration Manager, is investigating the most appropriate staffing establishment for the section and expects to deliver a full business case in the next two months. The purpose of this urgent decision under delegated powers is to ask for an interim increase in the establishment whilst that business case is being prepared.

Some of the initial research into the increases in workload include:

- As can be seen in the table below, the number of people joining the scheme each year has increased by over 400% compared to 2013/14. The number of people leaving the scheme has increased by over 150% in the same period. Both of these are key measures relating to areas that result in additional work for the team (i.e. processing new entrants to the scheme and leavers benefits).

Year	Joiners	Leavers
13/14	998	1868
14/15	2327	2330
15/16	2141	2408
16/17	3039	2385
17/18	4146	3097

- This is evidenced further by the increases in each class of scheme member in the last ten years as shown below, meaning respective increases of 120%, 225% and 145% for actives, deferred and pensioner members.

	Active	Deferred	Pensioners
2008/09	14554	7345	8507
2009/10	15073	8024	8820
2010/11	14960	9255	9091
2011/12	14519	10171	9553
2012/13	14920	10855	9874
2013/14	16133	11480	10367
2014/15	15941	12426	10367
2015/16	15989	13049	11478
2016/17	15748	17432	11985
2017/18	17591	16573	12256

Major changes to the scheme, particularly since 2014, have increased the complexity of the Section's work and have had a knock on impact on the levels of work to be completed – both in relation to the amount of work and the technical expertise (and therefore seniority) of staff required to carry it out. Key points include:

- The introduction of a new CARE tranche of scheme benefits from 1st April 2014 which means year end CARE pay must be accurately collected for every active scheme member in additional to ongoing administration of the pre 1st April 2014 final salary scheme.
- This also introduced new rules for members moving job within the Scheme – even just a basic promotion now triggers various options for scheme members which require calculations and communications to them (known as aggregation options), whereas before scheme membership was automatically classed as continuous and no action was required by the Administration Team in the majority of cases.

In this period, there has been very little change to the establishment of the Section's main Operations and Technical teams (i.e. ignoring the separate Employer Liaison Team), albeit there are a number of temporary positions now in place. A more detailed business case is being developed to clarify the specific ongoing requirements and at what grades. In the meantime, to assist with what is becoming a critical issue, it is requested that the establishment be increased by:

- 2 Lead Pension Officers

- 1 Pension Officer

In addition it is requested that the current temporary positions be made permanent. These are as follows:

- 3.7 Pension Assistants– these are positions created in recent years where the team members have no substantive posts.
- 5 Pension Officers – these are positions where substantive Pension Assistant posts exist but it is now felt that the increased complexity of the duties merit that these temporary upgrades should be made permanent.

The additional salary costs relating to the three new posts is estimated to be in the region of £91,944 including oncosts. There are no additional costs as a result of making the temporary positions permanent as costs are already included in the Pension Fund budget for these. All costs will be fully recharged to the Clwyd Pension Fund.

RECOMMENDATION:

To agree to the interim Pension Administration Section establishment changes of:

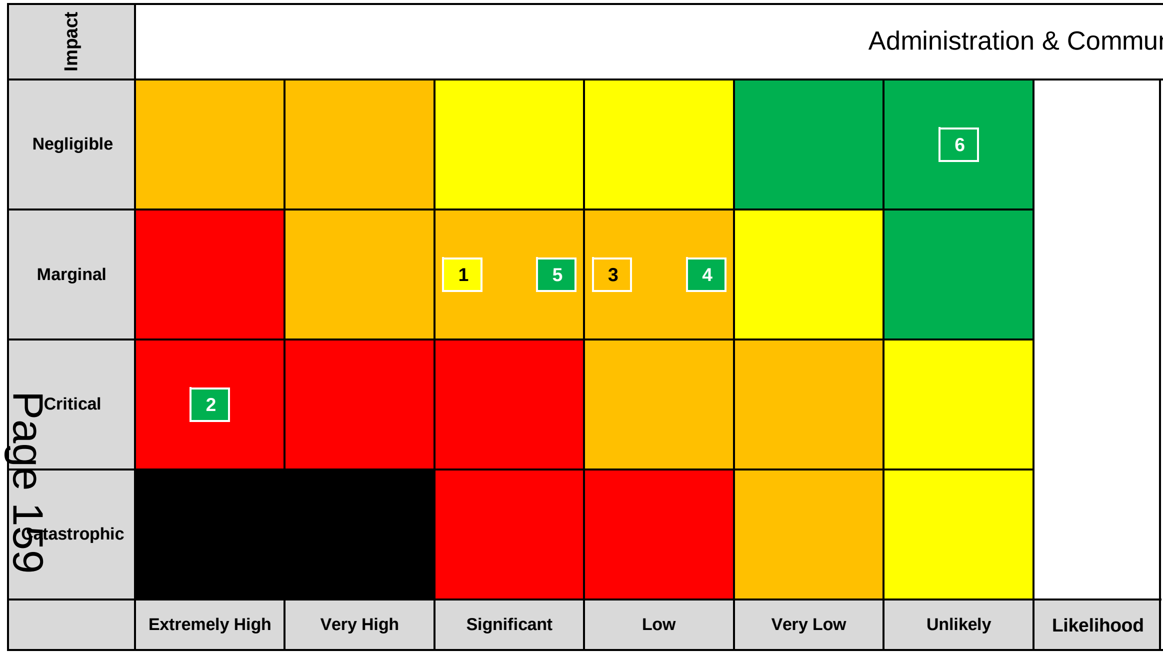
- creation of 3 additional posts and
- making permanent 8.7 temporary posts

as outlined above, resulting in an additional salary cost to the Pension Fund of approximately £91,944 (including associated on-costs).

By signing below, we confirm that we agree to the above recommendation.

	Signature:	Date:
1a) Chair:	.... Councillor Dave Hughes	4/6/18
and/or		
1b) Deputy Chair:	.... Councillor Haydn Bateman	....
2) Pension Fund Manager:	P. Latt. .... Philip Latham	4/6/18
3a) Corporate Finance Manager:	.... Gary Ferguson	....
or		
3b) Chief Executive:	C Everett . ... Colin Everett	04-06-18
ADDITIONAL REQUIREMENTS (IF APPLICABLE)		

Administration and Communication Risks Heat Map and Summary **Appendix 2**



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.

05 June 2018

Clwyd Pension Fund - Control Risk Register

Administration & Communication Risks

Objectives extracted from Administration Strategy (03/2017) and Communications Strategy (04/2016):

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?		Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	That 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 2017/18 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 - Data protection training, policies and processes in place 6 - System security and independent review/sign off requirements 7 - ELT established 8 - Temporary staff changed to permanent, and interim resource increase	Negligible	Low		😐	Current impact 1 too high Current likelihood 1 too high	01/07/2016	Mar 2020	1 - Ongoing training (HB) 2 - Ongoing bedding in of aggregation team and use of Mercers with backlogs (HB) 3 - Ongoing monitoring of ELT and Ops resource/workload for backlogs (HB) 4 - Preparation of business case for additional resources (HB)	Pensions Administration Manager	31/08/2018	04/06/2018
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 updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT	Negligible	Very Low		☹	Current impact 2 too high Current likelihood 4 too high	01/07/2016	Mar 2019	1 - Ongoing roll out I-connect (HB) 2 - Ongoing monitoring of ELT resource/workload (HB)	Pensions Administration Manager	31/08/2018	13/11/2017
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	Marginal	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		☺					Pensions Administration Manager	31/08/2018	21/03/2017
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 4 - Website reviewed and relaunched (2017) 5 - Member self service launched (2017)	Negligible	Very Low		😐	Current impact 1 too high Current likelihood 1 too high	01/07/2016	Mar 2019	1 -Ongoing promotion of member self service (HB) 2 - Ongoing identification of data issues and data improvement plan (HB) 3 - Review of effectiveness of new website/iConnect planned for 2018/19 (HB)	Pensions Administration Manager	31/08/2018	04/06/2018
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	Marginal	Significant		1- Business plan has number of improvements (I-connect/MSS etc) 2 - Review of ad-hoc processes (e.g. deaths and aggregation)	Negligible	Very Low		😐	Current impact 1 too high Current likelihood 2 too high	01/07/2016	Mar 2020	1 - Ongoing roll out of iConnect 2 - Ongoing identification of data issues and data improvement plan (HB) 3- Review of effectiveness of new website/iConnect planned for 2018/19 (HB) 4 - Implementation of other Altair modules in 2018/19 business plan (HB)	Pensions Administration Manager	31/08/2018	13/11/2017
6	Service provision is interupted	System failure or unavailability	A1 / A4 / C2	Negligible	Unlikely		1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented	Negligible	Unlikely		☺				1 - Ongoing checks relating to interface of recovery plan with non-pensions functions (HB) 2 - Resolve other areas identified by last disaster recovery test (HB) 3 - Implement lump sum payments via pensioner payroll facility (HB)	Pensions Administration Manager	31/08/2018	13/11/2007

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13 June 2018
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) Current Developments and News – News and development continues to be dominated by the Pooling across the LGPS which has been covered in agenda item 6.

(b) Delegated responsibilities (Appendix 1). This details the responsibilities which have been delegated to officers since the last Committee meeting. These can include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

(c) The implications of the LGPS Amendment Regulations 2018 on the Fund and employers – in particular the introduction of exit credits on treasury management and funding policies set out in the FSS. Other implications for administration etc. are covered in other reports. Equally for employers it is important they consider the implications for their own commercial arrangements where they have transferred staff to new employers. The Fund is writing to employers to make them aware of the implications of the changes. A consultation with all employers on the changes required to the FSS and termination policy will also be completed over the coming weeks. The outcome will be reported back to Committee at the next meeting for agreement of the changes

RECOMMENDATIONS	
1	That the Committee consider and note the steps proposed due to the Regulation changes for exit credits.
2	That the Committee consider and note the update for delegated responsibilities and provide any comments.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Implications of the LGPS Amendment Regulations 2018 on the Fund and Employers in relation to Exit Credits.** The Local Government Pension Scheme (Amendment) Regulations 2018 were announced on 19th April 2018. They covered a number of issues, in particular, the introduction of "exit credits". This applies when an employer exits the Fund whilst in surplus (based on an actuarial assessment). Historically any surplus would be subsumed by the guarantor (or the whole Fund if no guarantor exists) as the Fund was not permitted to pay a surplus back to an employer under the Regulations. This Regulation change now requires the Fund to pay the surplus assets versus the liabilities directly to the exiting employer within 3 months of exit. This will be seen as fair to employers who in the past have been required to pay a termination deficit but would not benefit from a surplus upon termination. However, it does impact on the treasury management for the Fund as some payments maybe large and potentially unanticipated. Given the significance of the change, the Fund will need to review its policies (in particular the termination policy contained within the FSS) to ensure that they allow sufficiently for the introduction of exit credits. Following this, a consultation with employers will be required and this will be done over the next few weeks. The Fund is also seeking advice on their own documents (e.g. admission agreements) to ensure that they remain fit for purpose. Critically, employers who have outsourced services need to ensure any commercial arrangements are aligned with this change. This is not a Fund matter but it is important the Fund works with employers to highlight the issues. With this in mind the Fund is in the initial process of drafting letters to all employers to inform them of the Regulation change and implications ahead of the consultation. This will also give them time to review their commercial agreements with their legal teams. The Committee will be updated on the progress of this at the next meeting including the outcome of the consultation to ratify the final changes.
1.02	**Policy and Strategy Implementation and Monitoring** The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, JLT which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the JLT report included in agenda item 12. The Advisory Panel also receive reports from the following groups: • Tactical Asset Allocation Group (TAAG) • Funding and Risk Management Group (FRMG) • Private Equity and Real Assets Group (PERAG) Within the Fund's Investment Strategy Statement is our policy on Social and Responsible investments and Social Impact.

	In terms of measuring the social impact the Private Equity and Real Asset Group are conducting an exercise which will identify the allocations to Responsible Investments and Social Impact (RISI) within the Fund's Private Market exposures. This has involved an initial analysis of the portfolio to gain estimates of investments which may fall within these categories. The next phase of the exercise will be to contact all our Private Market managers to share our initial findings and ask for their views on the results and request further information on the degree and type of RISI impact analysis carried out within their fund commitments. The background and details of the exercise which is being circulated to the managers is attached as Appendix 3.
1.03	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 1 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). • Within the "In House" portfolio, no commitments have been made but due diligence on existing managers who are fund raising is ongoing.

2.00	**RESOURCE IMPLICATIONS**
2.01	Some of the actions arising out of the issues identified for exit credits could mean changes to operational matters for the Fund. In particular, the review of and update to Fund policies will require some officer resource along with advice which was not anticipated in the 2018/19 budget

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	A consultation with Employers will be required following the review of the FSS and termination policy.

4.00	**RISK MANAGEMENT**
4.01	Appendix 2 provides the dashboard and risk register showing the current risks relating to Investments and Funding matters.
4.02	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. Funding and Investment risks: Five of the eight risks are currently at their overall target risk albeit the individual current impact or likelihood risk may be slightly higher than target. Of the remaining three risks in Investments

	and Funding, one is substantially different to the target risk, F6 with the other two being just one step away from their targets. Risk F6 remains the only risk with a significant likelihood and this relates to matters related to Pooling, Brexit and MiFID II.

5.00	**APPENDICES**
5.01	Appendix 1 – Delegated Responsibilities Appendix 2 – Risk dashboard and register – Investments and Funding Appendix 3 – RISI letter to Private Market managers

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) **The Fund - 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) **The Committee - 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. This will be replaced by the **Investment Strategy Statement (ISS)** (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (k) A full glossary of Investments terms can be accessed via the following link. http://www.fandc.com/uk/private-investors/tools/glossary/

This page is intentionally left blank

DELEGATED RESPONSIBILITIES

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.061	Rebalancing and cash management	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Rebalancing Asset Allocation

Background

The Investment Strategy Statement (ISS) includes a target allocation against which strategic performance is monitored (Strategic Allocation). There are strategic ranges for each asset category that allow for limited deviation away from the strategic allocation as a result of market movements. In addition there is a conditional medium term asset allocation range (Conditional range) to manage major risks to the long term strategic allocation which may emerge between reviews of the strategic allocation.

The Tactical Asset Allocation Group (Investment Consultant & Officers) which meets each month consider whether it is appropriate to re-balance to the strategic asset allocation. Recommendations are made to the Clwyd Pension Manager who has delegated authority to make the decision. Re-balances or asset transitions may be required due to market movements, new cash into the Fund or approved changes to the strategic allocation following a strategic review.

Action Taken

In the quarter to March 2018 there were no movements of assets.

Cash Management

Background

The Pension Finance Manager forecasts the Fund's 3 year cash flows in the Business Plan and this is monitored and revised quarterly. The bank account balance is monitored daily. The main payments are pension related, expenses and investment drawdowns. New monies come from employer and employee contributions and investment income or distributions. This cash flow management ensures the availability of funds to meet payments and investment drawdowns. The LGPS investment regulation only allow a very limited ability to borrow. There is no strategic asset allocation for cash, although there is a strategic range of +5% and a conditional range of +30% which could be used during times of major market stress.

Action Taken

The cash balance as at 31st March 2018 was £21.2m (£29.6m at 31st December 2017). Cash balance as at May 31st 2018 was £28.9m. The cash flow has been monitored to ensure there is sufficient monies to pay benefits and capital calls for investments.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.062	Short term tactical decisions relating to the 'best ideas' portfolio	PFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

<u>Background</u>

The Tactical Asset Allocation Group (Investment Consultant and Officers) meet each month to consider how to invest assets within the ‘Best Ideas’ portfolio given the shorter term market outlook (usually 12 months). The strategic asset allocation is 11% of the Fund (increased from 9% at the last strategic review). The investment performance target is CPI +3 %, although the aim is to also add value to the total pension fund investment performance.

<u>Action Taken</u>

Since the previous Committee the following transactions were agreed within the portfolio:

- Part redemption of BlackRock Emerging Market Equity - 10.0m (crystallised +17.9%)
- Part redemption of Legal & General US Equity - 5.0m (crystallised +21.3%)
- Part redemption of Investec Global Natural Resources- 5.0m (crystallised +35.2%)
- Additional investment of £20.0m in BlackRock Japanese Equities

The current allocations within the portfolio following the transactions are:

- US Equities (2.8%)
- Emerging Market Equities (2.3%)
- European Equities (1.2%)
- Japanese Equities (1.2%)
- Emerging Market Debt (1.0%)
- Commodities (0.9%)
- Real Estate (0.8%)
- Infrastructure (0.8%)

Detailed minutes of the Group identifying the rationale behind the recommendations made to the Clwyd Pension Fund Manager and decisions made under this delegation are be circulated to the Advisory Panel.

As at the end of March 2018, the Best Ideas portfolio has outperformed its target since inception by 2.0% per annum.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.063	Investment into new mandates / emerging opportunities	PFM and either the CFM or CEO (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP

Background

The Fund's investment strategy includes a 22% asset allocation to private equity (10%), property (4%), infrastructure (7%) and agriculture (1%). The last strategic investment review reduced the property allocation by 3% and increased the infrastructure allocation by 3%. Given the illiquid nature of these investments this transition will take a number of years to implement. These are higher risk investments, usually in limited partnerships, hence small commitments are made of £8m in each. Across these asset categories there are currently in excess of 50 investment managers, investing in 115 limited partnerships or other vehicles.

The Private Equity & Real Estate Group (PERAG) of officers and advisor meet quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular focus on Environmental, Social and Governance (ESG) aspects on the investments made.

A review was undertaken of the existing portfolio and future cash flows and the results were incorporated into the forward work plan. As a result, extensive work has been carried out to identify suitable Infrastructure investments. Several commitments have already been agreed and further due diligence is still being undertaken on other possible opportunities. It is anticipated that an allocation of 7% to Infrastructure will be achievable by 2020. Within the remaining In House portfolio, officers are continuing to look at any opportunities which fulfil their agreed strategy. The minutes of the PERAG Group are circulated to the Advisory Panel

Action Taken

There have been no new commitments made under delegated authority since the last Committee but the PERAG have been continuing due diligence on several follow on investments with existing property and private equity managers who are fund raising for their next funds.

This page is intentionally left blank

Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary **Appendix 2**

Impact	Funding & Investment Risks (includes accounting and audit)						
Negligible					7		
Marginal					5 8		
Critical				3 4 1 2			
Catastrophic			6				
	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.

04 June 2018

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement (3/2017) and Statement of Investment Principles (3/2017):

F1 Achieve and maintain assets equal to 100% of liabilities within the 15 year average timeframe whilst remaining within resonable 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.
F8 Ensure that its future strategy, investment management actions, governance and reportin gprocedures take full account of longer-term risks and sustainability
F9 Promote acceptance of sustainability principles and work tougher with others to enhance the Fund's effectiveness in implementing these.

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?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low		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 1 too high	31/03/2016	Mar 2019	1 - Finalise employer covenant monitoring and ill health captive (DF)	CPFM	31/08/2018	13/11/2017
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	Low		See points within points 3,4 and 5	Marginal	Low		Current impact 1 too high	31/03/2016	Mar 2019	1 - Revised Equity Protection Strategy to be put in place (PL) - See points within points 3,4 and 5	CPFM	31/08/2018	04/06/2018
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	Low		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					1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG) (DF)	Pension Finance Managers	31/08/2018	13/11/2017
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	31/03/2016	Mar 2019	1 -The level of hedging will be monitored and reported regularly via FRMG (DF)	Pension Finance Managers	31/08/2018	13/11/2017
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	Very 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					1 - Assumptions and experience will be reviewed at the 2019 valuation (DF)	Pension Finance Managers	31/08/2018	13/11/2017
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), progression of Brexit, MIFIDII and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Catastrophic	Significant		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 4 - Particiaption in National consultations and lobbying	Marginal	Low		Current impact 2 too high Current likelihood 1 too high	31/03/2016	Mar 2019	1 - Ensure proactive responses to consultations etc. (PL)	CPFM	31/08/2018	13/11/2017
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. Further risk presented with the introduction of Exit Credits for exiting employers in the 2018 Regulations update.	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). (DF) 2 – Contact major employers to highlight the change and ensure any potential contract end dates are notified to the Fund in sufficient time so that the risk of large payments can be reduced (i.e. through a contribution rate review in advance of the contract end date) (DF)	Pension Finance Managers	31/08/2018	04/06/2018
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	31/03/2016	Mar 2019	1 - Employer risk management framework to be finalised (DF)	Pension Finance Managers	31/08/2018	13/11/2017

DRAFT LETTER TO All MANAGERS

Dear

Responsible Investing and Social Impact (RISI)

Background

For many years now, the Clwyd Pension Fund (CPF) has had a formal sustainability policy, which was put in place well before there was any formal requirement for such. It has recently updated this to the reflect the modifications in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the statutory guidance issued by the MHCLG.

Again the CPF's policy revision took the Regulation requirements much further than was necessary, strengthening considerably the focus on social and impact investing and the measurement of outcomes. This enhanced focus was reflected throughout the changed policy document, but particularly in a new appendix, specifically relating to "Non-financial Factors and Social Investing".

It was felt that, having established this new policy document, the CPF needed to try to assess both the performance of managers against this in terms of outcomes and impact, and the performance of the CPF itself in terms of investment decisions and its allocation to RISI-qualifying funds, with an initial focus on private equity and real assets (PE/RA), a 22% allocation within the CPF. Whilst the CPF has for some time invested directly in environmental and social impact funds within PE/RA, it was also clear that many other funds and investments contained exposure to sectors and specific underlying assets that were likely to be RISI-compliant.

This latter objective of trying to measure the CPF's degree of RISI compliance, even just within PE/RA, effectively meant trying to at least assess each of the CPF's managers and funds in this respect – a daunting task as the CPF has almost 50 such managers, around 160 relevant funds and countless underlying assets.

The CPF was also aware that at least one public sector body, the Environment Agency Pension Fund (EAPF), had already set a target weighting for environmental, social and governance (ESG) investing within its portfolio.

Approach

The CPF's objective is to place a far greater emphasis on the outcome and impact of investment decisions rather than just the decision-making process itself, whilst accepting that there is clear linkage there. Certainly broader ESG aims and processes in terms of governance and the screening of investments by managers remain very important for the CPF as part of its sustainability policy, since these can ensure positive outcomes or at least avoid potentially negative ones. As a result, these will remain on the in-house team's agenda for discussion with managers at all update meeting. However, for the future, there will also be an increased focus on the outcomes of those investment decision and the measurement of their impact. As noted above, this exercise and this letter focus specifically on this latter objective.

A considerable amount of research was carried out during 2017 trying to determine how this objective might be approached. The CPF was already aware that there was a growing interest in and focus on responsible investing, green issues and social impact. A number of national and global groupings were already trying to establish definitions around these, agreed criteria for inclusion and possible measurement methodologies. These were used as a basis for the development of the CPF's approach. The exercise itself was carried out on a phased basis over several months and started with setting of some broad guidelines. As part of this process, the CPF followed the progress being made through the Impact Management Project facilitated by one its dedicated social impact managers, Bridges Fund management (BFM).

Broad Guidelines

In trying to establish a RISI assessment process, it was agreed at an early stage that –

- Any such process had to be simple, relatively easy to implement and at minimum cost.
- Initially at least the exercise should concern just private equity and real asset (PE/RA).
- In assessing compliance, the focus should be on direct RISI elements, not wider ESG considerations.
- Detailed criteria would need to be set for the CPF and its managers to determine RISI compliance.
- Any RISI-compliance target must reflect the asset types being considered and the criteria set.
- If limited to PE/RA, this target should be a % of both the 22% PE/RA weighting and the total fund.
- The degree of RISI compliance would henceforth be a factor in due diligence on prospective investments.

Definition and Criteria

Here the aim was to specify criteria that identify funds or investments for inclusion in RISI quantification and, in doing this, reference was made to a number of Sustainable Development Goals (SDGs). These include good health and wellbeing (SDG 3), quality education (SDG 4), sustainable cities and communities (SDG 11) and responsible consumption and production (SDG 12). Some components of these, such as clean energy and the elimination of waste, are straightforward, whilst others, such as job creation and the provision of services can be less clear. In these latter areas, the criterion of deprivation or under-served areas would be a key factor. In addition, it is also important to take account of the investee business itself in terms of the proposal's likely longevity and potential for growth in relevant RISI areas.

It was ultimately decided to adopt the three broad categories as a basis for this approach – sustainable communities and living, health and well-being and education and skills. These broad criteria are set out below with the main areas for inclusion listed. It should be noted that the deprivation and investee business issues overarch all three main areas.

<u>Sustainable Communities and Living</u>

- Any clean energy investments (wind, solar, wave, hydro etc.) and any infrastructure and technological development around these areas;
- Treatment of waste, landfill avoidance, clean water production, recycling of material and energy;
- Energy and waste saving through real estate developments and construction;
- Cleaner transport developments;
- Responsible consumption and production;
- Any infrastructure and technological developments related to the above.

<u>Health & Well-being</u>

- The provision of residential and day care health services;
- Initiatives to address aging population, chronic illness and obesity issues;
- Community health support projects (transport, pharmacies etc.)
- Projects to support healthy living;
- Any health infrastructure and technological developments related to the above.

<u>Education & Skills</u>

- The provision of nursery, before-school, after-school and day care services for children;
- The provision of apprenticeships, adult training and further education;
- Projects addressing numeracy/literacy;
- Other projects aimed at addressing skill shortages and job creation;
- Any infrastructure and technological developments related to the above.

Application and Measurement

With the criteria set, consideration moved to the determination of a workable methodology so that these could be applied and a RISI measurement determined. The agreed outcomes from these considerations are set out below.

- Measurement should be at value, not cost, as this best defines the active element within the CPF portfolios.
- For simplicity and consistency, application should be at individual fund level to create a percentage RISI weighting, rather than trying to value RISI for all individual investments on an ongoing level.
- Whilst this percentage basis would only deliver an "approximation", the alternative of valuing every individual holding within a fund with existing resources was impossible, and the outcomes would only be available well in arrears, after the receipt of detailed valuations from every fund.
- This exercise would be carried out initially for all the CPF's heritage holdings and later for new funds or commitments as part of due diligence and once they joined the portfolio.
- On existing investments, each fund would be assessed using current data to determine those investments meeting the RISI criteria to produce a percentage RISI figure for that fund. This would then be applied to the current and all future valuations to produce quarterly RISI valuation levels.
- New Investments would be assessed in terms of their RISI weighting at the time of commitment based upon the information from the manager concerned and the due diligence carried out.
- For all funds, RISI impact or outcome statistics would also be sought from managers, and adjustments could be made to fund percentages going forward, on the basis of later data or where clear and significant changes from the intended strategy were identified.

Exercise

The initial exercise on PE/RA was carried out in late 2017 to test the above approach and to deliver draft results for consideration. In structuring this work, the following important points were noted.

- Some areas such as infrastructure and timber/agriculture were likely to be more RISI significant than others, although there were specific funds within PE and property with strong RISI credentials.
- In terms of value, a good number of funds were closed or had minimal value and would therefore be less significant in terms of the overall RISI percentage.
- Evidence of RISI would be firmer in funds closer to full investment than newer ones, where prior fund or pipeline evidence would need to be used.
- A relatively small number of the CPF's PE/RA holdings would probably deliver the bulk of the RISI percentage (20/80 rule?), so the emphasis needed to be on these.
- Portfolios down to investee company would not always be known, particularly on fund of funds.
- Even where a fund's portfolio was fully known, there would still be subjective considerations about RISI compliance or degree of compliance.
- So, whatever the fund, the evidence was unlikely to be absolute and RISI assessments, of necessity, would usually be subjective approximations to some extent.
- A very conservative approach should be taken in determining these initial RISI percentages.
- The key factor was not the absolute overall figure determined, but rather the determination of an established measurement process and a base level to see how RISI figures moved over time.
- With this in mind, 31 March 2017 portfolios and valuations were deemed a reasonable starting point to establish an early base position for the first exercise.
- Whilst this would exclude a number of the infrastructure commitments made in-year, it would allow an early comparative view to be considered at 31 March 2018.

Results

The exercise itself produced two key documents as follows, with the outputs from these spreadsheets and the exercise summarised in the table below.

- RISI Portfolio Analysis – A narrative document listing every PE/RA fund individually, giving details of RISI involvement, where accessible, and a suggested RISI weighting.
- RISI Percentage Analysis – A spreadsheet listing every PE/RA fund individually, showing commitment size (£), value at 31 March 2017, RISI percentage to be applied from the above document, the resulting RISI value, plus overall RISI weights on the basis of the PE/RA portfolio valuation and the total CPF valuation at 31 March 2017.

	Commit Cost £000	**Value £000**	**RISI Value £000**	**RISI % Of PE/RA %**	**RISI % Of CPF %**
Private Equity					
FOF	174,930	80,270	8,742	2.6	0.5
Direct	237,370	66,183	18,553	5.5	1.1
Free	80,600	17,247	236	0.1	0.0
	492,900	**163,700**	**27,531**	**8.2**	**1.6**
Real Assets					
Infrastructure	93,300	31,468	24,998	7.5	1.5
Property Open Ended	28,167	39,765	398	0.1	0.0
Property Closed Ended	142,500	73,563	16,249	4.8	1.0
Timber Agriculture	27,500	28,013	28,013	8.3	1.7
	291,467	**172,803**	**69,657**	**20.7**	**4.2**
	784,367	**336,509**	**97,188**	**28.9**	**5.8**

Conclusions

As can be seen, the application of this analysis suggests that, overall, about 29% of the PE/RA portfolio on a value basis is deemed RISI-compliant as at 31 March 2017 and that this equates to around 6% at total CPF fund level[1]. This appears to be very much within the range expected prior to the undertaking of the exercise. At a more detailed level, the bulk of the RISI weighting did prove to have come from a limited number investments, as shown below -

- PE FOF – Of the 2.6% (% of PE/RA), almost 80% came from two environmental funds.
- PE Direct – Whilst more broadly spread, of the 5.5%, 70% is accounted for by five funds.
- RA Infrastructure – Again this was spread, but two funds accounted for over 50% of the 7.5%.
- RA Closed-Ended – Over 95% of the 4.8% is accounted for by three relevant funds.
- RA Timber/Agriculture – All exposure was deemed RISI on the grounds of decarbonisation, the reversal of de-forestation impacts and the global food shortage.

[1] £1.67 billion at 31 March 2017

Actions

On the basis of the exercise, it was agreed –

- To set the following long-term RISI targets for the CPF –
  - % of PE/RA assets – 50%
  - % of total Fund – 10%
- To share these overall results with the CPF's PE/RA managers and to ask for feedback on the approach and process adopted.
- To share with PE/RA individual managers the exercise results on their vehicles and to seek their views on these, particularly the RISI percentages determined.
- To seek from managers information on the degree and type of RISI impact analysis carried out on their fund commitments post-investment.
- To raise and discuss all the above issues with managers at the regular update meetings held with them.

It is accepted that the RISI results achieved represent very much an educated approximation, but they do provide a base against which progress towards greater RISI compliance can be measured. However, hopefully with your help and cooperation, both the approach and process can be refined and the results achieved updated to reflect input from you.

This is seen as a key initiative by the CPF and any feedback on the on the approach, process, exercise and the results achieved would be very much appreciated.

The exercise results on your vehicles are shown on the attached pro forma. I should be grateful if you would complete the pro forma indicating your own estimated figure for RISI compliance, together with some justification for this and any other comments on the CPF's approach and process.

I look forward to hearing from you.

Kind Regards

RISI RETURN

MANAGER – HARBOURVEST

CPF Assessment (%)

Fund	Details	%
A	These are broadly based FOF but with little information on underlying assets, it is difficult to quantify RI exposure. Assumed 2%.	2
B		
C		
D	Invests in cleantech funds and other generalist funds with strong cleantech elements.	70
E	Broadly based FOF but with little information on underlying assets, it is difficult to assess RI exposure. Assumed 2%.	2

Manager Assessment

Fund	Details	%
A		
B		
C		
D		
E		

Comments on Approach & Process

RISI RETURN

MANAGER – HARBOURVEST

Assessment Breakdown over SDGs

Fund	Details	%
A	SDG – Sustainable Communities & Living	
	SDG – Health & Well-being	
	SDG – Education & Skills	
	SDG - Other	
B	SDG – Sustainable Communities & Living	
	SDG – Health & Well-being	
	SDG – Education & Skills	
	SDG - Other	
C	SDG – Sustainable Communities & Living	
	SDG – Health & Well-being	
	SDG – Education & Skills	
	SDG - Other	
D	SDG – Sustainable Communities & Living	
	SDG – Health & Well-being	
	SDG – Education & Skills	
	SDG - Other	
E	SDG – Sustainable Communities & Living	
	SDG – Health & Well-being	
	SDG – Education & Skills	
	SDG - Other	

This page is intentionally left blank

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13 June 2018
Report Subject	Economic and Market Update
Report Author	Clwyd Pension Fund 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 31 March 2018.

Most markets have suffered falls during the quarter, with few exceptions. The only equity market that was positive in the period was Frontier Markets which rose +1.4%. A number of factors have influenced the market in the quarter, such as the potential trade war between the US and China, the potential for rising interest rates, the US political situation and the progress of the Brexit negotiations. Market volatility has picked up in most asset classes, and whilst not consistent, is likely to a sign of things to come in 2018. Despite this volatility, however, the global economic conditions appear reasonably robust. There were a number of key driving factors in the quarter:

- Rising Oil prices
- Subdued inflation
- Markets have priced in Interest rate rises in the UK and US, albeit timing is uncertain

During the quarter markets started with an upwards trajectory, with positive returns being seen in most markets in January, however this was reversed in February and March, with most markets suffering falls. Property showed marginally positive returns during the quarter driven by rental income. Emerging Market Debt and Senior Secured Loans were the only other areas appreciating in the period. Property was the best performing segment of the market with a return of +1.9%.

Over the 12 months to end of March, despite the sell off in February and March, there were only two markets that showed negative performance; Hedge Funds and High Yield Debt which were down -5.4% and -4.9% respectively. Over the year Frontier Market Equity and Emerging Market Equity were the best performing areas at +13.7% and +11.8% respectively.

Since 1 April developed markets have recovered somewhat from the volatility seen in February and March. UK equity markets have been the best performer returning +9.4% for the quarter to the end of May, and US equity markets have also risen more than 8%. Emerging market equity has lagged developed markets, having risen +0.7% to the end of May. Frontier market equities and Emerging Market debt have performed less well, returning -7.9% and -5.2% respectively. The Fund's Investment Consultant will update the Committee verbally at the meeting.

RECOMMENDATIONS	
1	To note and discuss the Economic and Market Update 31 March 2018
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 31 March 2018** 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 31 March 2018

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update Period Ending 31 December 2017. **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 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

ECONOMIC AND MARKET UPDATE
PERIOD ENDING 31 MARCH 2018

TABLE OF CONTENTS

1 MARKET BACKGROUND
PERIOD ENDING 31 MARCH 2018

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-6.9	1.2	5.9
Global Developed Equities	-4.7	1.8	10.6
USA	-4.2	1.8	12.7
Europe	-4.4	4.3	8.8
Japan	-2.6	7.5	11.4
Asia Pacific (ex Japan)	-4.4	6.0	10.2
Emerging Markets	-2.2	11.8	11.3
Frontier Markets	1.4	13.7	10.4
Property	1.9	10.8	8.7
Hedge Funds	-3.4	-5.4	5.5
Commodities	-1.5	1.5	-2.3
High Yield	-3.8	-4.9	8.4
Emerging Market Debt	1.5	0.7	5.8
Senior Secured Loans	0.6	4.1	5.1
Cash	0.1	0.3	0.4

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	1.5	2.2	6.1
Index-Linked Gilts (>5 yrs)	0.1	0.7	7.8
Corporate Bonds (>15 yrs AA)	-1.0	1.1	5.4
Non-Gilts (>15 yrs)	-1.4	1.9	5.2

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	3.7	12.2	-1.9
Against Euro	1.3	-2.4	-6.2
Against Yen	-2.1	7.1	-5.7

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	0.1	3.3	2.7
Price Inflation – CPI	0.1	2.5	1.7
Earnings Inflation*	0.5	2.9	2.3

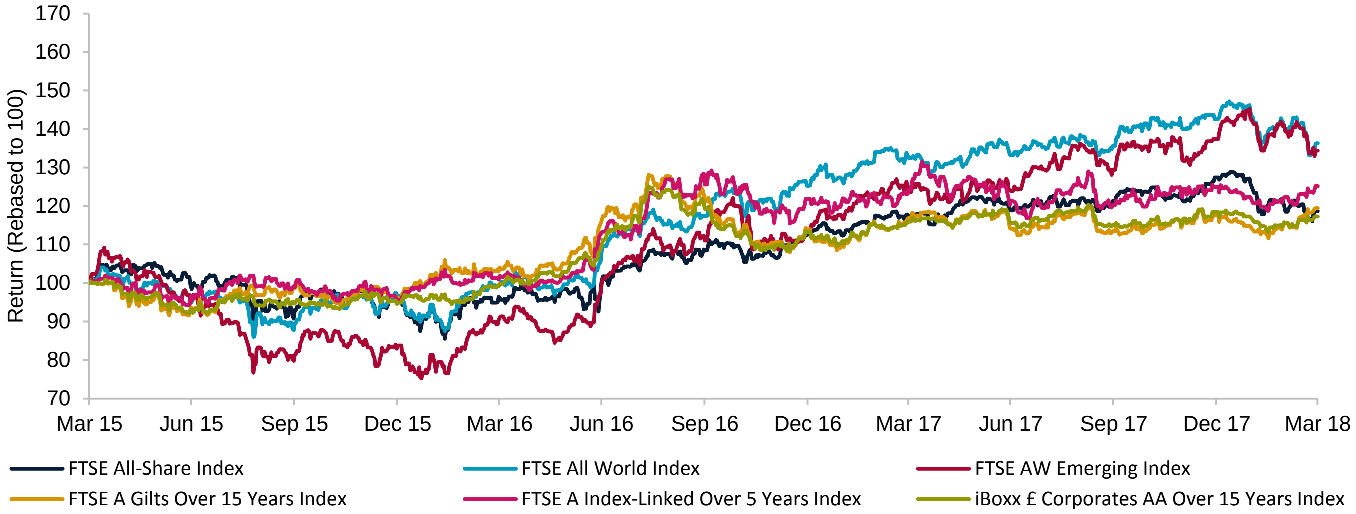
Yields as at 31 March 2018	% p.a.
UK Equities	3.85
UK Gilts (>15 yrs)	1.63
Real Yield (>5 yrs ILG)	-1.66
Corporate Bonds (>15 yrs AA)	2.58
Non-Gilts (>15 yrs)	3.03

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.26	0.38	0.52
UK Gilts (>15 yrs)	-0.05	-0.02	-0.60
Real Yield (>5 yrs ILG)	0.01	0.06	-0.73
Corporate Bonds (>15 yrs AA)	0.14	0.06	-0.53
Non-Gilts (>15 yrs)	0.12	0.13	-0.35

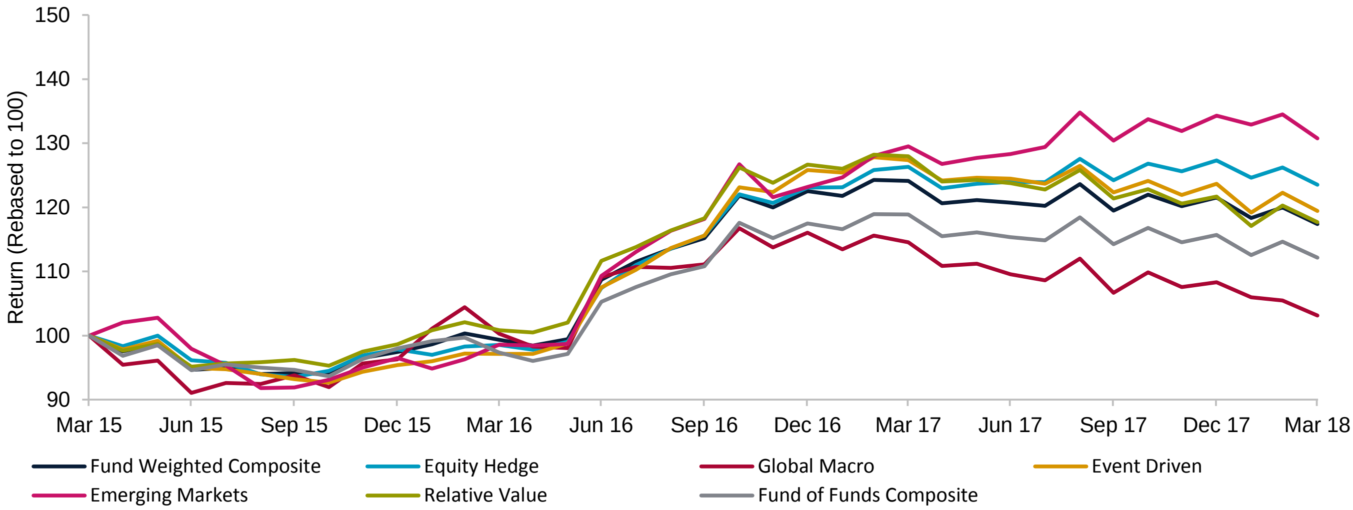
Source: Thomson Reuters and Bloomberg
Note: * Subject to 1 month lag

MARKET SUMMARY CHARTS

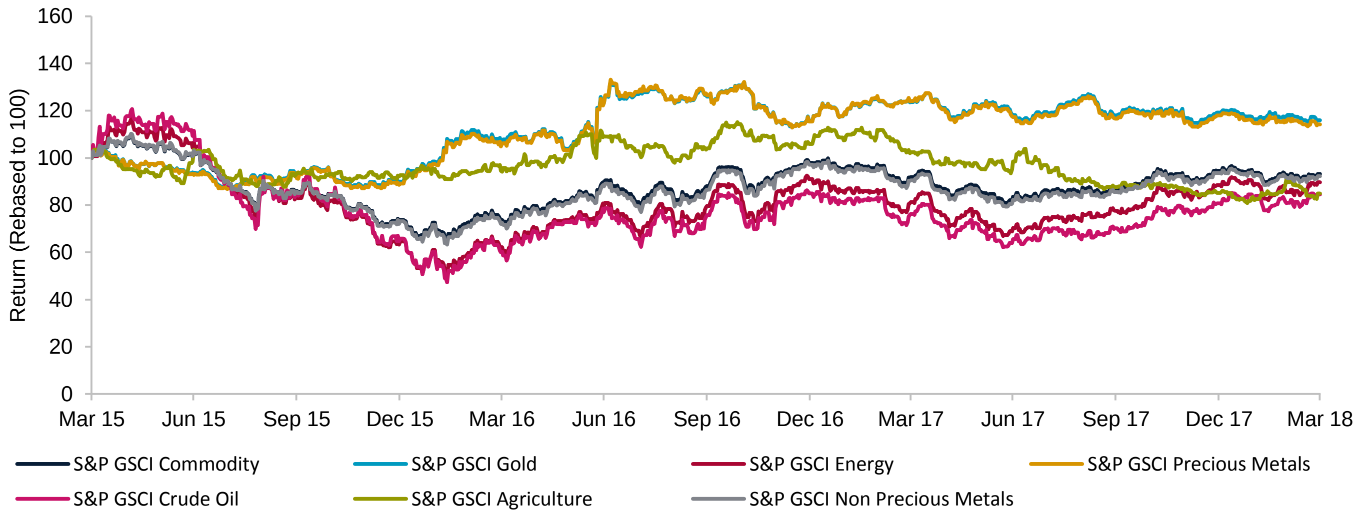
Market performance – 3 years to 31 March 2018



Hedge Funds: Sub-strategies performance – 3 years to 31 March 2018

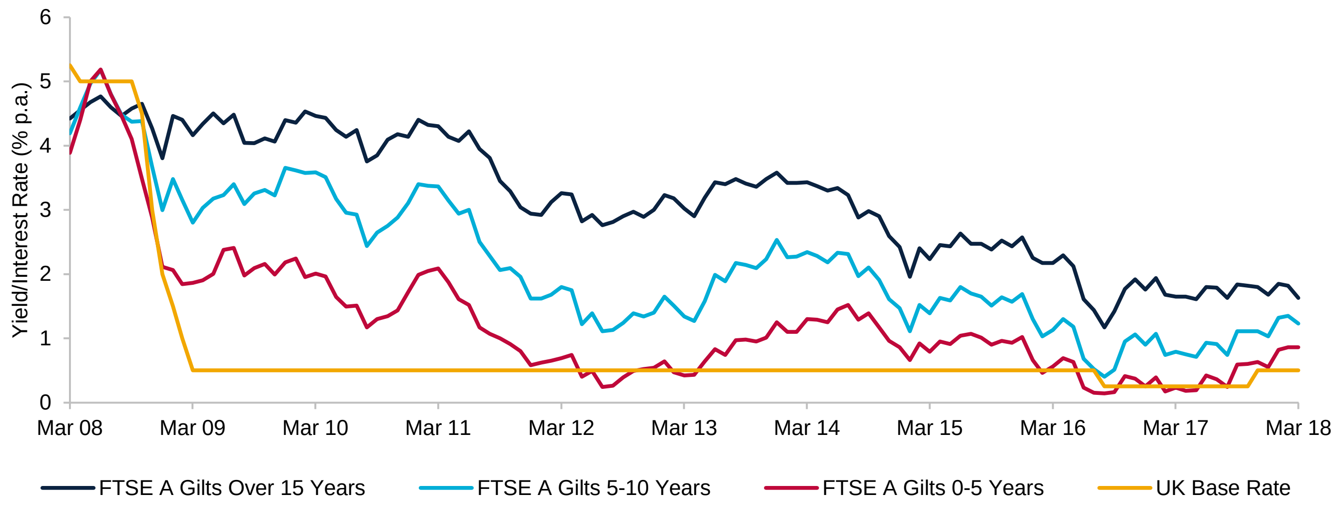


Commodities: Sector performance – 3 years to 31 March 2018

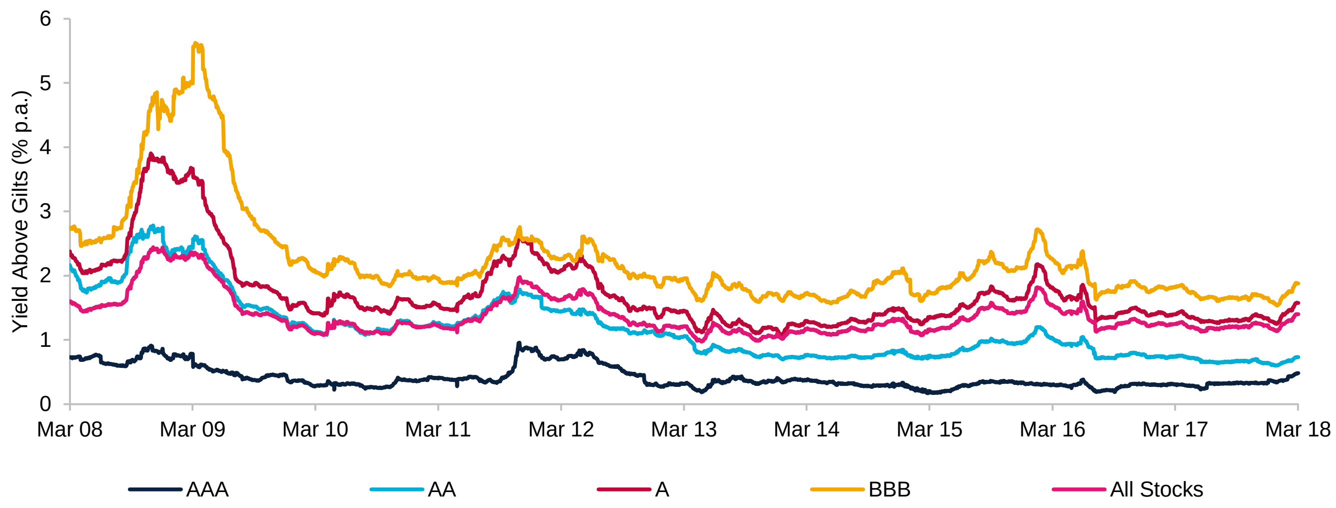


Source: Thomson Reuters

UK government bond yields – 10 years to 31 March 2018



Corporate bond spreads above government bonds – 10 years to 31 March 2018



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	31 March 2018			31 December 2017			31 March 2017		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	1.4%	4.0%	2.6%	1.8%	4.1%	2.3%	2.0%	2.7%	1.8%
Annual Inflation Rate[3]	2.5%	1.3%	2.4%	3.0%	1.4%	2.1%	2.3%	1.5%	2.4%
Unemployment Rate[4]	4.2%	8.5%	4.1%	4.3%	8.7%	4.1%	4.7%	9.5%	4.7%
Manufacturing PMI[5]	54.9	56.6	55.6	56.2	60.6	55.1	54.3	56.2	53.3

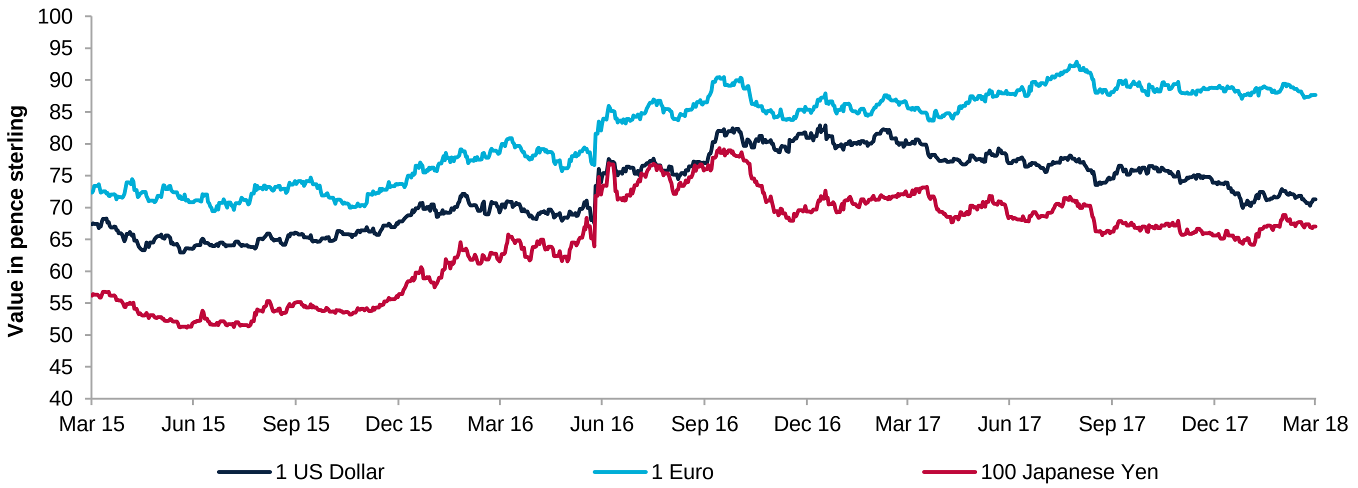
Change over periods ending:	3 months			12 months		
31 March 2018	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	-0.4%	-0.1%	0.3%	-0.6%	1.3%	0.8%
Annual Inflation Rate[3]	-0.5%	-0.1%	0.3%	0.2%	-0.2%	0.0%
Unemployment Rate[4]	-0.1%	-0.2%	0.0%	-0.5%	-1.0%	-0.6%
Manufacturing PMI[5]	-1.3	-4.0	0.5	0.6	0.4	2.3

Notes: 1.Euro Area 19 Countries. 2. GDP is lagged by 3 months. 3. CPI inflation measure. 4. 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	
	31 Mar 18	31 Dec 17	31 Mar 17	3 months	12 months
1 US Dollar is worth	71.29p	73.92p	79.97p	3.7%	12.2%
1 Euro is worth	87.67p	88.77p	85.54p	1.3%	-2.4%
100 Japanese Yen is worth	67.03p	65.62p	71.77p	-2.1%	7.1%

Exchange rate movements – 3 years to 31 March 2018



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

3 MARKET COMMENTARY

INTRODUCTION

It's been a busy start to 2018 – trade wars, a tech rout and rising interest rates have caused global financial market volatility to increase. Major equity indices ended below their January peaks and have decreased for the year to date. The long term impact of some of these events has yet to be quantified. In the short term however the impact is clear, investors are becoming more wary of markets.

The US political situation adds to overall economic uncertainty - it has the potential to over inflate the economy. For now, the economic backdrop is holding firm, yet signs that we are entering a new phase of the market cycle are appearing. We have seen rising yields, sharp equity corrections and indicators that inflation risks are becoming more prevalent. Volatility has picked up across most asset classes and the episodes of equity market volatility indicate that the returns of 2017 are unlikely to be a feature of 2018 and the number of potential outcomes ahead for the market has certainly increased.

This year is proving more familiar to investors with long memories; equity market volatility has risen to levels more consistent with previous investment markets. So far this year, we have witnessed a greater divergence of returns across and within asset classes. Rising interest rates are a challenge for both bond and equity markets, and valuations remain elevated across most markets. However, earnings growth is a powerful driver for equities, and we still see an attractive risk/reward trade off.

UNITED KINGDOM

- The UK equity market has fallen 6.9% since the start of the year giving back over half the gains that it made over 2017. It is the UK equity market's worst first quarter performance since the start of 2009, during the height of the financial crisis. The UK was also the laggard of the developed equity markets over the quarter.
- Investment market concerns surrounding the timetable and the outcome of the Brexit negotiations remain a dominant market theme. Despite reasonable progress being made with concessions on both sides, the herculean effort that is yet to be completed to produce a workable agreement fuels market insecurities. As a result of the uncertainty, the UK economy is expected by the IMF to grow by c.2% in 2018, the slowest growth rate among the G7.
- The prospect of a global protectionist trading environment has added to the concerns of the UK investment market. US President Donald Trump announced tariffs on steel and aluminium in March which caused global consternation. Whilst the UK reduced the immediate direct impact on domestic firms by negotiating a temporary exemption - the concern remains that if a reciprocal trade war erupted between China and the US then everybody would lose as the prices of goods would rise, creating further impetus to the inflationary environment.
- The strengthening of Sterling also hindered UK market progress; it is already up 4% against the US dollar in 2018. That said, the prospect of higher interest rates clears the path for better returns on cash held in Sterling. The market has already priced in a May rate rise and more could follow this year as the Bank of England walks the fine line between controlling the rate of inflation whilst encouraging economic growth. For UK based international companies, revenues are received in foreign currency, and this money is worth less when converted back into pounds when Sterling is stronger.

NORTH AMERICA

- The US equity market fell circa 6.5% over the quarter with the majority of the decline coming in March as President Trump announced a more protectionist trade policy, which included significant tariffs on steel and aluminium.
- Some market commentators have blamed the trigger for recent falls on data that showed wages growing at 2.9%, hence the heightened concern about inflation - and the possibility of more rapid rate rises. However, this should be considered in the wider context of US corporate valuations which occurred before the protectionist announcement. Shares, had perhaps, run too far ahead and a correction was needed, particularly in the technology sector. On a more positive note, global economies are experiencing some growth while tax cuts in the US may further brighten the outlook for company expansion.
- In the longer-term, above-trend economic growth, a buoyant labour market and strong earnings growth leads us to have a positive outlook for US equities. Stock selection has been positive in this asset class, particularly in light of the corporate repatriation of earnings after the recent tax breaks offered by the US administration. This provides a solid foundation for equities. US tax and spending plans have encouraged a degree of earnings growth, which was already gaining traction on the back of longer term economic strength.

EUROPE

- The European market declined over the quarter by 4.5%, this was caused by, among other factors, the strength of the Euro which acts as a headwind for exporters; however, there are other factors that can support ongoing earnings growth in the region including strong Purchasing Managers Indices and an increase in GDP growth. Growth in the region is likely to be encouraged by a backdrop of persistently low borrowing rates and high equity prices.
- The outlook for the euro-zone remains positive overall with monetary policy remaining supportive and global demand in good health. Corporate earnings should be reasonably supported by the improvement in the macro data and the region still offers value compared to other markets.
- However, inflation is likely to continue to build because capacity is in short supply in Europe and unemployment is falling. Tight capacity means companies either need to expand in order to produce greater volumes, or they can raise their prices. Tighter labour markets may mean workers try to demand higher wages. However, inflation remains below the European Central Bank's target.
- The introduction of tariffs on steel and aluminium by the US adds an element of uncertainty to the picture, though it remains unclear how this will unfold in Europe. Nonetheless, we see global growth continuing. This, combined with the improved pricing environment and robust domestic demand, can support ongoing positive growth in Europe.

JAPAN

- Japanese equities are exhibiting strong earnings growth and benefitting from a solid well structured economy. Japan was the best performing of the developed market equities over the quarter. From a valuation perspective, Japanese stocks are attractive compared to historical averages and other markets. Yen weakness, as a result of the Bank of Japan retaining ultra-accommodative monetary policy also provides a boost to the region.
- In terms of policy implications, the Bank of Japan is likely to maintain the view that the Japanese economy remains steady against a backdrop of a strong global economy. Markets expect the reappointment of the current Bank of Japan Governor, Haruhiko Kuroda, whose term ends in April. This should allow the Bank of Japan to provide more clarity on the monetary policy outlook. The Yen continued to strengthen due to a combination of a weaker dollar and risk aversion.

ASIA PACIFIC EX JAPAN / EMERGING MARKETS

- The improving fundamentals of emerging markets have had a positive impact on the economies in the Asia Pacific region partly due to trade links. The region held up relatively over the first quarter albeit posting a negative return of minus 4.6%.
- Resilient domestic demand, which is being driven by public spending initiatives, stable commodity prices and accommodative monetary polices are supporting most of the countries in the region. US interest rate policy normalisation and a more protectionist stance from US President Trump are potential headwinds for economies in this area however, there are many positive growth factors attracting investors to this region. The outlook for Asia is heavily dependent on US trade policies and the degree of monetary tightening.
- Like most asset classes today, emerging market stocks are not cheap and although the emerging markets fell over the quarter, the region showed an impressive level of resilience. Emerging market stocks are trading close to their historical norm, both on an absolute basis and relative to developed markets.
- While investors have historically looked at relative valuations and US dollar fluctuations as some indication of expected emerging market performance, overall, the best case for emerging market equities generally ties back to global growth. Therefore, if emerging markets are expressing a view on global growth, they should be more inclined to outperform developed markets when industrial commodities are rising.
- The risk of a sharp dollar rally faded over the quarter and growth is broadening out. Relative to their developed market peers, emerging market equities offer an attractive valuation discount and strong earnings growth is expected across many of the larger economies such as India, Mexico and South Africa (subject to electoral change). Emerging economies as a whole have been successful in improving their economies, using measures to encourage economic activities.

FIXED INCOME

- Rising interest rates and tighter monetary policies are firmly on the global agenda. The US Federal Reserve in particular has been clearing the path for hiking interest rates and many investors expect at least three further rate hikes this year.
- In the UK, the Bank of England raised its interest rates for the first time in a decade back in November 2017. In other parts of the world, the European Central Bank and Bank of Japan have begun telegraphing their plans to withdraw from their respective quantitative easing programmes.
- Many investors are therefore expecting government bond yields to rise due to the inverse relationship between yields and prices (as yields increase, prices fall); as a result of this investors have become nervous about some fixed income investments.
- As interest rates tend to rise in anticipation of stronger economic growth, some fixed interest assets, which are more sensitive to economic growth, can still perform well. As corporate fundamentals usually also improve, this provides a boost to company profits and improves the creditworthiness of borrowers, supporting their corporate bonds.
- The variation in performance of these assets, combined with the fact that most returns have been positive during rising yield environments, underlines the importance of asset allocation during times of rising rates. If investors can combine sensible asset allocation with an awareness of credit assets behaviour when rates rise, then they potentially, may be able to add value even when credit markets are challenging, and the natural inclination may be to sell.

ALTERNATIVES

- Hedge funds posted narrow gains in US Dollar terms, as strong performance in January partially offset the impact of market volatility which was caused by increasing trade and tariff tensions later in the quarter. However, the appreciation of Sterling over the period led to a decline in Hedge Funds of -3.4% over the quarter, as all strategies generated negative returns. Over the 12 months to 31 March 2018, all strategies declined with the exception of Emerging Markets which returned 1.0%. Investors reduced exposure to equity market beta in in favour of M&A-focused Event-Driven exposures and fixed income-based Relative Value Arbitrage strategies over the period.
- Commodities markets were down 1.5% over the quarter; however, an upward trend in the monthly returns was experienced. Crude oil led performance over the quarter whilst gold was the worst performer over the period. Precious metals, non-precious metals and agriculture all posted negative returns in Sterling terms.
- The prospects for the UK commercial property sector remain uncertain given concerns around a hard Brexit, but the asset class has been relatively stable. This stability reflects strong demand from overseas investors for offices in London and other major British cities, attracted by the fall in prices in foreign currency terms. The Brexit referendum fallout has certainly caused capital depreciation but the income on offer remains attractive versus other asset classes.

CONCLUSION

In this investment environment it is vitally important to have a sensible investment strategy to drive through the ups and downs of the investment market. A more mixed asset performance is expected in 2018 after another year of unusually low equity market volatility and solid returns.

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 (ex UK)	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	IPD UK 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 GBI-EM 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 (>15 yrs)	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	Retail Price Index (All Items NADJ)
Price Inflation – CPI	Consumer Price Index (All Items Estimated NADJ)
Earnings Inflation	Average Weekly Earnings Index (Whole Economy excluding Bonuses)
Exchange Rates	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Note: All indices above are denominated in Sterling.
*The IPD Quarterly Property Index has been used to calculate the performance between 31 December 2017 and 31 March 2018.

CONTACT

KIERAN HARKIN
Director
+44 (0)161 957 8016
kieran_harkin@jltgroup.com

NICK BUCKLAND
Senior Consultant
+44 (0)207 528 4188
nick_buckland@jltgroup.com

ANTHONY WRAY
Consultant
+44 (0)161 253 1121
anthony_wray@jltgroup.com

NATALIE ZANI
Associate Consultant
+44 (0)161 253 1124
natalie_zani@jltgroup.com

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 13 June 2018
Report Subject	Investment Strategy and Manager Summary
Report Author	Clwyd Pension Fund 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 31 March 2018.

From an Investment Strategy perspective, the quarter was a turbulent one with the majority of areas producing negative absolute returns. Only Total Credit and In-house assets produced positive absolute returns; although both areas failed to beat their benchmarks. The Managed Account platform had a return of 0% for the quarter, which was 1% below benchmark. Key facts covered in the report are as follows:

- Over the 3 months to 31 March 2018, the Fund's total market value decreased by £41m to £1,777,286,415.

- Over the quarter, total Fund assets returned -1.9% which was behind the composite benchmark by 1.4%.

The overall benchmark is reflective of the new strategic weightings although full implementation of the strategy is still on going.

There was mixed performance amongst the Fund's investment managers in terms of outperforming or underperforming their respective targets during the quarter.

Since the end of the quarter Global markets have recovered from the volatility in February and March, with developed equity markets showing returns of between +4.0% and +9.4% for the quarter to the end of May. The market value of the Clwyd Fund's assets has seen a similar recovery; at the end of April it was £1,822,214,157. The Fund's Investment Consultant will update the Committee verbally at the meeting.

RECOMMENDATIONS	
1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 31 March 2018
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 31 March 2018** Over the 3 months to 31 March 2018, the Fund's total market value increased by £41.0m to £1,777,286,415. Total Fund assets returned -1.9% over the quarter, below the composite target which returned 0.5%. Over the one year period, Total Fund assets returned 4.3%, compared with a composite target of 4.8%. Over the last three years, Total Fund assets returned 8.1% p.a., compared with a composite target of 7.5% p.a. The strongest absolute returns over the quarter came from Total Credit and the In-house assets. The Fund's asset portfolio is broadly within the new strategic ranges set for the asset classes as agreed in the recent strategy review. There are some deviations which have been addressed with the appointment of the two Private Credit managers; however this asset class will take some time to fully invest all of the committed capital.

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. In addition, the Clwyd Pension Fund has committed to investing the majority of its assets through the Wales Pension Partnership, and as such any potential changes in investment management arrangements will need to be conscious of developments within the Pool. However should changes be required ahead of the Pool's timelines then the Fund may need to consider its options.

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.

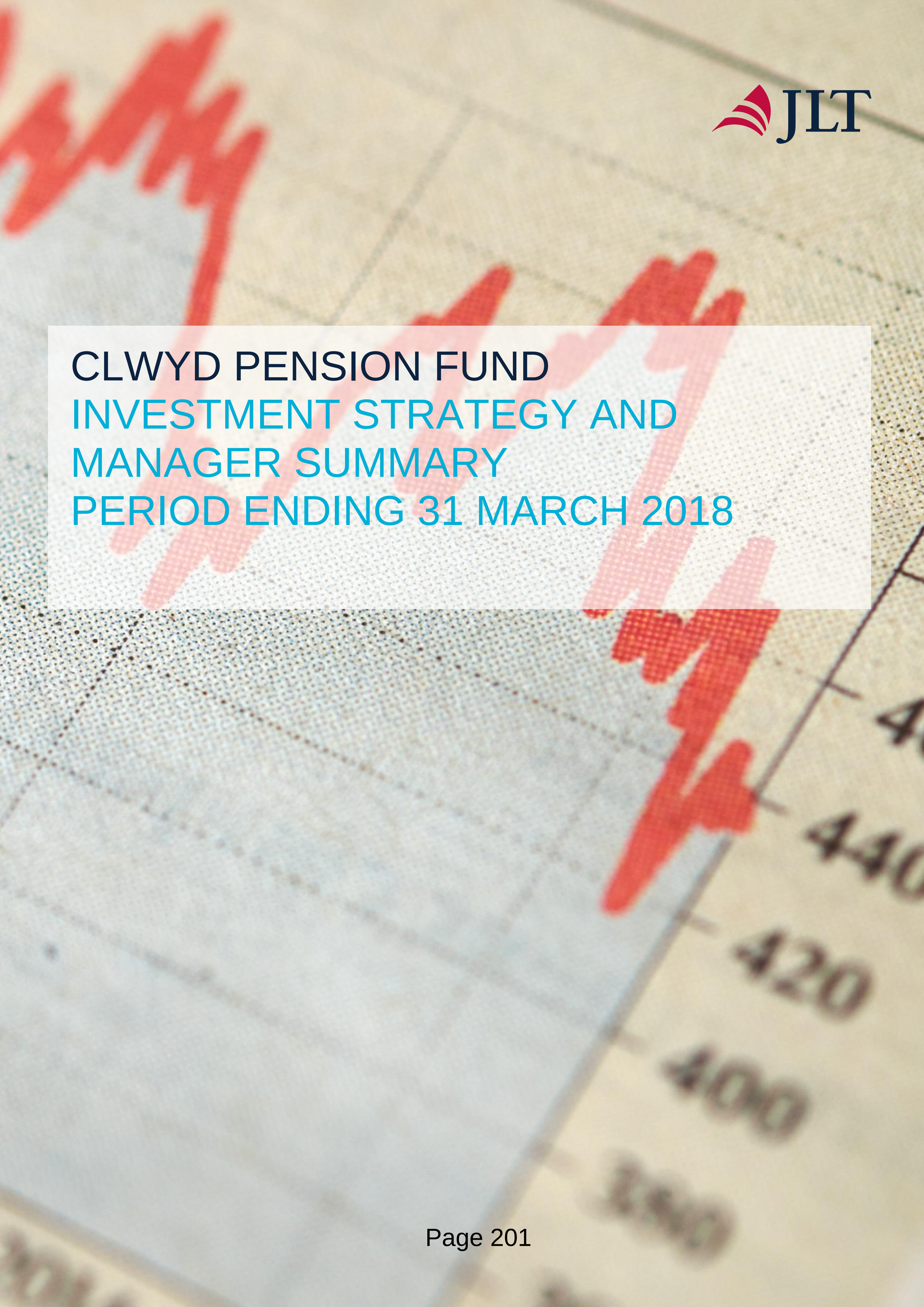
4.00	**RISK MANAGEMENT**
4.01	The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk. Diversification of the Fund's growth assets away from equities seeks 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 31 March 2018.

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Investment Strategy and Manager Summary 31 December 2017 **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 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 31 MARCH 2018

TABLE OF CONTENTS

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 31 March 2018, the Fund's total market value decreased by £41.0m to £1,777,286,415.

Over the quarter, total Fund assets returned -1.9%, behind its target by 1.4%, mainly attributable to underperformance within the Tactical Allocation Portfolio and Real Assets Portfolio. Total Fund (ex LDI) returned -1.4%, compared with its target of 0.3%.

In-House assets returned 0.7% followed by Total Credit assets which returned 0.4%. The Managed Account Platform was flat over the period. Total Equities and Best Ideas delivered returns of -3.3% and -4.1%, respectively.

In relative terms, total Fund assets fell short of their target, significantly affected by the Best Ideas portfolio which underperformed its target by 4.9%, detracting 0.5% from total relative performance.

Equities returned -3.3%, broadly in line with its composite target of -3.2%.

Total Credit performed in line with its target, returning 0.4%. The assets made a negligible contribution to overall relative performance.

Managed Futures and Hedge Funds underperformed its target by 0.8% over the quarter, and detracted 0.1% from total relative performance.

In-House assets returned 0.7% over the quarter, behind its target by 0.6% and detracted 0.2% from total relative performance.

Insight’s LDI portfolio fell by 3.7% over the quarter, largely driven by the poor equity market performance which offset the fall in yields. Overall, the overweight allocation to the LDI portfolio detracted 0.1% from relative performance.

EQUITIES

In a reversal of recent performance, global equity markets fell over the quarter as negative returns (in Sterling terms) were observed in all developed regions. This had the effect of dampening returns over the year to end March.

2018 started positively as surging growth indicators such as China’s better than expected GDP figures drove equities into rallies that investors had grown accustomed to in 2017. However, equity markets reversed sharply at the end of January as fears that the monetary conditions would tighten faster in the US than previously anticipated triggered a huge sell-off in markets. In March, further fears of an imminent trade war the market as took place, as Trump’s administration decided to impose tariffs on steel and aluminium imports, as well as tariffs on Chinese imports.

In Developed markets, Japan declined by 2.6%, followed by US which returned -4.2%. Asia Pacific (ex Japan) and Europe both returned -4.4%. UK lagged and delivered the lowest return of the Developed markets, returning -6.9%.

Over the last 12 months, all developed regions saw positive returns, led by Japan which posted gains of 7.5%, whilst UK equities generated the lowest return over the same period returning 1.2%.

Emerging Markets and Frontier Markets returned -2.2% and 1.4% respectively over the quarter, but both markets saw double-digit returns of 11.8% and 13.7%, respectively over the twelve months.

Total Equity assets returned -3.3%, slightly behind its composite target of -3.2%. Wellington Emerging Markets (Core) was flat over the quarter and outperformed its target by 1.9%. All the other funds declined; Investec Global Strategic Equity returned -4.1% against its target of -3.9% whilst Wellington Emerging Markets (Local) delivered returns of -3.1%, underperforming its target by 1.4%. BlackRock ACS World Multifactor declined by 4.5%, however, the fund outperformed its target by 0.2%.

Wellington Emerging Markets (Core) was the only equity fund that achieved its 3 year target objective.

Global equity exposures to Financials, Consumer Staples and Consumer Discretionary sectors were the main contributors to returns, due to strong stock selection. Within Consumer Discretionary, performance was largely driven by online retail giant, Amazon, following strong results in both North America and overseas markets, as well as continued progress in its effort to monetise its large user data base through advertising.

In Emerging Markets, exposures to China and Taiwan contributed to the majority of gain due to positive stock selection, although this was offset to some extent by asset allocation in Argentina and Malaysia. Manager stock selection added the most within Information Technology and Financials sectors, but this was partially offset by detractors within Consumer Discretionary and Consumer Staples.

CREDIT

Global credit markets were mixed in the first quarter of 2018; US short term yields rose in the first half of the quarter in anticipation of aggressive monetary policy tightening. However, concerns about a trade war later in the quarter pushed yields down. Longer-term yields declined in the in major developed markets.

Over the quarter, the US Federal Reserve increased interest rates by 25bps, noting a strengthening of the US economic outlook in recent months. The ECB kept interest rates unchanged, but adjusted its forward guidance, signalling a gradual exit from quantitative easing. In the UK, the Bank of England voted to maintain the interest rate at 0.5% at the March 2018 meeting.

Credit spreads widened modestly on the back of equity market volatility. In particular US High Yield and Emerging Market Debt credit spreads increased by 11bps and 16bps, respectively.

Over the quarter, Long Dated Fixed Interest Gilts, Long Dated Index-Linked Gilts and Long Dated UK Corporate Bonds produced returns of 1.5%, 0.1% and -1.0% respectively. Emerging Market Debt and Global High Yield posted returns of 1.5% and -3.8%, respectively. Global bonds declined by 1.6% over the quarter.

Total Credit, which includes an allocation to Private Credit, returned 0.4% over the quarter, in line with its target and made a neutral contribution to total relative return.

Within US High Yield, the best performing sectors were Aerospace, Diversified Media and Food & Drug retailers whilst the worst sectors were Banking, Cable & Satellite and Restaurants. Four companies defaulted in March, therefore increasing the default rate to 2.2% at the end of the quarter from 1.0% at the end of January. Meanwhile, European High Yield performance was impacted by weakening risk sentiment and rising interest rates.

In Emerging market Debt, the largest gains came from Venezuela and Lebanon whilst the lowest returns came from Argentina, Ecuador, Peru and Uruguay. The portfolio’s largest underweights are Hungary and Thailand, as the former’s Central Bank has committed to maintain the current base rates and loose monetary conditions whilst the underweight in Thailand reflects the fact that the country’s bonds provide some of the lowest yields in emerging markets.

HEDGE FUNDS

Hedge funds posted narrow gains in US Dollar terms, as strong performance in January partially offset the impact of market volatility which was caused by increasing trade and tariff tensions later in the quarter. However, the appreciation of Sterling over the period led to a decline in Hedge Funds of -3.4% over the quarter, as all strategies generated negative returns.

Over the 12 months to 31 March 2018, all strategies declined with the exception of Emerging Markets which returned 1.0%. Investors reduced exposure to equity market beta in in favour of M&A-focused Event-Driven exposures and fixed income-based Relative Value Arbitrage strategies over the period.

ManFRM's Managed Futures & Hedge Funds strategy posted positive return of 0.2%, underperforming its target by 0.8% and detracting 0.1% from total relative performance.

ManFRM Hedge Funds (Legacy) portfolio which consists of Duet (S.A.R.E.), Liongate and Pioneer (until August 2016) assets generated a negative return of -4.2%.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets fell by 3.2% over the quarter, underperforming the target by 4.4%. Overall, this detracted -0.5% from total relative performance.

Pyrford returned -2.0% compared to a target of 1.2%. Both the fund's equity and bond holdings detracted from performance; UK equity holdings were the largest detractors as regulatory and political concerns proved to be a headwind for the tobacco and utilities sectors whilst UK bond holdings also hurt performance as government bond yields continued to edge up, despite retreating towards the end of the period. Overseas bond holdings also detracted; however, this was largely offset by the fund's currency hedging strategy.

Investec generated a return of -3.8% compared to a target of 1.2%. The negative performance was driven by the fund's 'Growth' strategies; however 'Defensive' and 'Uncorrelated' strategies also detracted from performance. Within the fund's 'Growth' strategies, a long exposure to Japanese equities detracted as equity markets fell over the quarter. Additionally, the relative value Europe vs. US equity volatility position also detracted as US volatility rose more than that in Europe. Sterling appreciation hurt the fund's currency hedging strategies within the 'Defensive' strategies. A strengthening Yen benefitted the long Japanese Yen vs. Swiss Franc position within the 'Uncorrelated' strategies. However, these gains were not enough to offset the negative performance from the fund's long Swedish Krona, the US vs. Germany bonds relative value position and long infrastructure exposure.

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio declined by 4.1%, behind its target by 4.9%. Overall, this detracted -0.5% from total Fund relative performance. Over the last 12 months, the Best Ideas Portfolio has delivered a return of 2.9% and underperformed its target of UK CPI +3.0% p.a. by 2.6%.

Over the quarter, negative returns were generated by all funds within the Best Ideas Portfolio, with the exception of the Investec Emerging Markets Local Currency Debt Fund which returned 1.3% (in Sterling terms), outperforming its target by 0.5%. Emerging market debt assets were among the best performing risk assets over the quarter, with unhedged local currency bonds producing solid positive returns in US dollars. The returns in Sterling were softer than returns in US dollars, due to the appreciation of Sterling over the period.

North American Equities and BlackRock Emerging Market Equities returned -1.9% and -2.9%, respectively, and underperformed their targets. BlackRock European Equities (Hedged) declined by 4.1% and detracted 0.1% from total relative performance. LGIM Infrastructure Equities (-5.6%) and BlackRock US Opportunities (-6.3%) underperformed their targets by 6.5% and 7.3%, respectively.

LGIM Global Real Estate Equities returned -8.0% whilst the largest decline was produced by Investec Global Natural Resources Fund, which fell -8.8% as commodities dropped in line with a broader fall in equity markets.

During the quarter, a full redemption from the F&C UK Equity Linked Gilts Fund took place, and proceeds totalling £11,082,169 were split equally between BlackRock US Opportunities and BlackRock Emerging Market Equities.

A new position was established in BlackRock Japanese Equity at the end of March with an investment of £20m. The funds were raised through disinvestments from BlackRock Emerging Market Equities (£10m), Investec Global Natural Resources (£5m) and LGIM North American Equities (£5m).

IN-HOUSE ASSETS

Total In-House assets returned 0.7%, behind its composite target by 0.6%. Overall this detracted 0.2% from total relative performance. The two sub-sections of the In-House assets; the Real Assets Portfolio and the Private Markets Portfolio returned -0.2% and 1.6% respectively.

Opportunistic assets remained the strongest sector of the portfolio, returning 7.5% and outperforming its target by 6.2%. This added 0.1% to relative performance.

Timber/Agriculture rose by 3.3% and outperformed its target by 2.0%.

Private Equity and Property assets, which are both overweight the strategic allocation, returned 0.6% and 0.7%, respectively.

Infrastructure assets declined by 4.7% and underperformed its target by 6.0%. This detracted 0.4% from relative performance.

2 STRATEGIC ASSET ALLOCATION
31 MARCH 2018

Allocation by underlying asset class

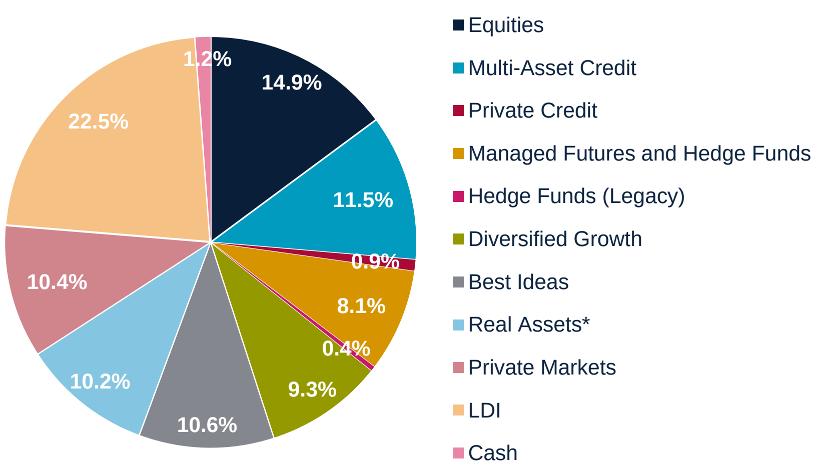
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	141,813,937	8.0	8.0	0.0	5.0 – 10.0
Emerging Market Equities	122,181,461	6.9	6.0	+0.9	5.0 – 7.5
Multi-Asset Credit	204,372,258	11.5	12.0	-0.5	10.0 – 15.0
Private Credit^	15,378,451	0.9	3.0	-2.1	2.0 – 5.0
Managed Futures and Hedge Funds	144,577,548	8.1	9.0	-0.9	7.0 – 11.0
Hedge Funds (Legacy)*	6,364,165	0.4	0.0	+0.4	–
Diversified Growth	165,470,667	9.3	10.0	-0.7	8.0 – 12.0
Best Ideas	188,718,746	10.6	11.0	-0.4	9.0 – 13.0
Property	114,218,899	6.4	4.0	+2.4	2.0 – 6.0
Infrastructure / Timber / Agriculture	67,310,261	3.8	8.0	-4.2	5.0 – 10.0
Private Equity / Opportunistic	185,683,767	10.4	10.0	+0.4	8.0 – 12.0
LDI & Synthetic Equities	400,005,244	22.5	19.0	+3.5	10.0 – 30.0
Cash	21,191,012	1.2	0.0	+1.2	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**1,777,286,415**	**100.0**	**100.0**	**0.0**	

Notes: * Hedge Funds (Legacy) include the S.A.R.E (Duet) and Liongate portfolios. ^ The Private Credit allocation is not yet fully funded.
Totals may not sum due to rounding.

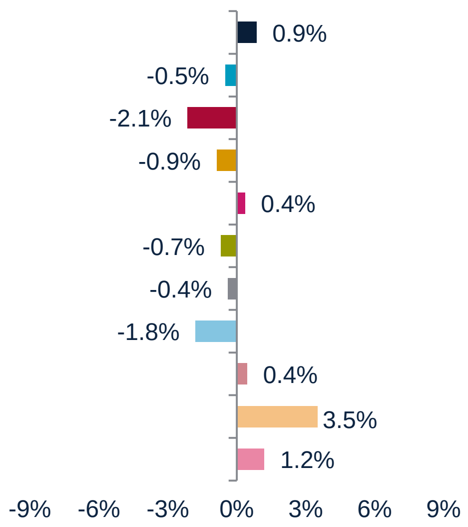
Points to note

- Asset allocation reflects the strategy to be implemented as part of the 2016 Investment Strategy Review; as such a number of asset classes will be underweight for an interim period until the portfolio is fully constructed.
- Total allocation to LDI decreased by 0.3% over the quarter and is 3.5% overweight relative to its strategic allocation.

Strategic Asset Allocation as at 31 March 2018



Deviation from Strategic Allocation



Note: Totals may not sum due to rounding.
* In-House Property, Infrastructure and Timber/Agriculture portfolios.

3 VALUATION AND ASSET ALLOCATION
AS AT 31 MARCH 2018

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Investec	Global Strategic Equity	74,585,937	4.2	4.0	5.0 – 10.0
BlackRock	World Multifactor Equity Tracker	67,228,000	3.8	4.0	
Wellington	Emerging Markets (Core)#	58,873,791	3.3	3.0	5.0 – 7.5
Wellington	Emerging Markets (Local)#	63,307,670	3.6	3.0	
Total Equity		**263,995,399**	**14.9**	**14.0**	
Stone Harbor	LIBOR Multi-Strategy	132,224,173	7.4	12.0	10.0 – 15.0
Stone Harbor	Multi-Asset Credit	72,148,085	4.1		
Multi-Asset Credit Portfolio		**204,372,258**	**11.5**	**12.0**	**10.0 – 15.0**
Permira	Credit Solutions III	15,378,451	0.9	3.0	2.0 – 5.0
Private Credit Portfolio		**15,378,451**	**0.9**	**3.0**	**2.0 – 5.0(1)**
Total Credit		**219,750,709**	**12.4**	**15.0**	**10.0 – 20.0**
ManFRM	Managed Futures & Hedge Funds	144,577,548	8.1	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	6,364,165	0.4	0.0	–
Managed Account Platform		**150,941,713**	**8.5**	**9.0**	**7.0 – 11.0**
Pyrford	Global Total Return	80,751,069	4.5	5.0	8.0 – 12.0
Investec	Diversified Growth	84,719,598	4.8	5.0	
Diversified Growth Portfolio		**165,470,667**	**9.3**	**10.0**	**8.0 – 12.0**
LGIM	North American Equities (Hedged)	24,954,343	1.4	11.0	9.0 – 13.0
BlackRock	US Opportunities	22,750,108	1.3		
BlackRock	European Equities (Hedged)	19,408,074	1.1		
BlackRock	Japanese Equities	20,000,000	1.1		
BlackRock	Emerging Markets Equities	41,587,500	2.3		
Investec	Global Natural Resources	13,737,211	0.8		
LGIM	Infrastructure Equities MFG (Hedged)	13,831,848	0.8		
LGIM	Global Real Estate Equities	13,352,282	0.8		
Investec	Emerging Markets Local Debt	19,097,378	1.1		
Best Ideas Portfolio		**188,718,746**	**10.6**	**11.0**	**9.0 – 13.0**
Tactical Allocation Portfolio		**354,189,412**	**19.9**	**21.0**	**15.0 – 25.0**
In-House	Property	114,218,899	6.4	4.0	2.0 – 6.0
In-House	Infrastructure	41,597,089	2.3	8.0	5.0 – 10.0
In-House	Timber / Agriculture	25,713,172	1.4		
Real Assets Portfolio		**181,529,160**	**10.2**	**12.0**	**10.0 – 15.0**
In-House	Private Equity	155,431,448	8.7	10.0	8.0 – 12.0
In-House	Opportunistic	30,252,319	1.7		
Private Markets Portfolio		**185,683,767**	**10.4**	**10.0**	**8.0 – 12.0**
Total In-House Assets		**367,212,927**	**20.7**	**22.0**	
Insight	LDI Portfolio	400,005,244	22.5	19.0	10.0 – 30.0
Total Liability Hedging		**400,005,244**	**22.5**	**19.0**	**10.0 – 30.0**
Trustees	Cash	21,191,012	1.2	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**1,777,286,415**	**100.0**	**100.0**	

Notes: * ManFRM Hedge Funds (Legacy) valuation includes S.A.R.E (Duet) and Liongate portfolio and is provided by ManFRM.
Wellington Emerging Markets Core and Local valuations have been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates. 1 The Private Credit allocation is not yet fully funded.

4 PERFORMANCE SUMMARY
PERIODS ENDING 31 MARCH 2018

	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	-4.1	-3.9	7.8	8.0	10.5	14.3	Target not met
n/a	BlackRock	ACS World Multifactor Equity	-4.5	-4.7	n/a	n/a	n/a	n/a	n/a
●	Wellington	Emerging Markets (Core)#	0.0	-1.9	13.6	12.9	13.0	12.4	Target met
●	Wellington	Emerging Markets (Local)#	-3.1	-1.7	16.1	14.0	13.3	13.5	Target not met
Total Equity			**-3.3**	**-3.2**	**11.2**	**8.2**	**11.1**	**12.3**	
●	Stone Harbor	LIBOR Multi-Strategy	0.3	0.4	2.5	1.3	2.3	1.4	Target met
n/a	Stone Harbor	Multi-Asset Credit	0.1	0.4	3.4	1.3	n/a	n/a	n/a
Multi-Asset Credit Portfolio			**0.2**	**0.4**	**2.9**	**1.3**	**2.6**	**1.4**	
n/a	Permira	Credit Solutions III	2.2	1.5	n/a	n/a	n/a	n/a	n/a
Private Credit Portfolio			**2.2**	**1.5**	**n/a**	**n/a**	**n/a**	**n/a**	
Total Credit			**0.4**	**0.4**	**n/a**	**n/a**	**n/a**	**n/a**	
n/a	ManFRM	Managed Futures & Hedge Funds	0.2	1.0	5.0	3.8	n/a	n/a	n/a
n/a	ManFRM	Hedge Funds (Legacy)*	-4.2	1.0	-33.9	3.8	-11.7	4.8	n/a
Managed Account Platform			**0.0**	**1.0**	**2.5**	**3.8**	**n/a**	**n/a**	
●	Pyrford	Global Total Return	-2.0	1.2	-2.4	8.0	2.4	7.5	Target not met
●	Investec	Diversified Growth	-3.8	1.2	2.8	7.2	1.3	6.6	Target not met
Total Diversified Growth			**-3.2**	**1.2**	**-0.1**	**7.6**	**1.9**	**7.0**	
Best Ideas Portfolio			**-4.1**	**0.8**	**2.9**	**5.5**	**n/a**	**n/a**	
Tactical Allocation Portfolio			**-3.7**	**0.8**	**1.5**	**5.5**	**n/a**	**n/a**	
●	In-House	Property	0.7	1.9	6.5	10.8	8.0	8.7	Target not met
●	In-House	Infrastructure	-4.7	1.3	-2.8	5.3	14.8	5.5	Target met
●	In-House	Timber / Agriculture	3.3	1.3	-3.8	5.3	4.3	5.5	Target not met
Real Assets			**-0.2**	**1.5**	**3.0**	**7.1**	**n/a**	**n/a**	
●	In-House	Private Equity	0.6	1.3	10.4	5.3	14.5	5.5	Target met
●	In-House	Opportunistic	7.5	1.3	15.1	5.3	-3.4	5.4	Target not met
Private Markets Portfolio			**1.6**	**1.3**	**11.1**	**5.3**	**n/a**	**n/a**	
Total In-House Assets			**0.7**	**1.3**	**7.0**	**6.3**	**10.3**	**6.2**	
n/a	Insight	LDI Portfolio	-3.7	-3.7	1.6	1.6	14.3	14.3	n/a
Total (ex LDI)			**-1.4**	**0.3**	**5.1**	**5.6**	**6.2**	**6.2**	
TOTAL CLWYD PENSION FUND			**-1.9**	**-0.5**	**4.3**	**4.8**	**8.1**	**7.5**	
Strategic Target (CPI +4.1%)			**1.6**		**6.2**		**6.2**		
Actuarial Target (CPI +2.0%)			**1.0**		**4.1**		**4.1**		

Notes: 'n/a' against the objective is for funds that have been in place for less than three years.
* ManFRM Hedge Funds (Legacy) currently includes the Duet (S.A.R.E) and Liongate portfolios.
\# Wellington Emerging Markets Core and Wellington Emerging Markets Local data has been converted from US Dollar to Sterling using the WM/Reuters closing price exchange rates for the respective dates.
Strategic and Actuarial targets derived from the latest JLT Market Forecast Group assumptions (Q4 2017 forecasts based on conditions at 30 September 2017). Current long term 10 year CPI assumption is 2.1% p.a.

● Fund has met or exceeded its performance target ● Fund has underperformed its performance target

5 STRATEGIC ASSET CLASSES
PERFORMANCE TO 31 MAR 2018

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**-3.3**	**11.2**	**11.1**
Composite Objective	-3.2	8.2	12.3
Composite Benchmark	-3.5	6.3	10.2
Multi-Asset Credit Portfolio	**0.2**	**2.9**	**2.6**
Objective	0.4	1.3	1.4
Benchmark	0.1	0.3	0.4
Managed Account Platform	**0.0**	**2.5**	**n/a**
Objective	1.0	3.8	n/a
Benchmark	1.0	3.8	n/a
Total Hedge Funds (Legacy)	**-4.2**	**-33.9**	**-11.7**
Composite Objective	1.0	3.8	4.8
Composite Benchmark	1.0	3.8	4.8
Total Diversified Growth	**-3.2**	**-0.1**	**1.9**
Composite Objective	1.2	7.6	7.0
Composite Benchmark	1.2	7.6	7.0
Best Ideas Portfolio	**-4.1**	**2.9**	**n/a**
Objective	0.8	5.5	n/a
Benchmark	0.8	5.5	n/a
Total In-House Assets	**0.7**	**7.0**	**10.3**
Composite Objective	1.3	6.3	6.2
Composite Benchmark	1.3	6.3	6.2
Total LDI Portfolio	**-3.7**	**1.6**	**14.3**
Composite Objective	-3.7	1.6	14.3
Composite Benchmark	-3.7	1.6	14.3
Total (ex LDI)	**-1.4**	**5.1**	**6.2**
Composite Objective	0.3	5.6	6.2
Composite Benchmark	0.2	5.1	5.6
Total Clwyd Pension Fund	**-1.9**	**4.3**	**8.1**
Composite Objective	-0.5	4.8	7.5
Composite Benchmark	-0.6	4.4	7.1

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.

6 SUMMARY OF MANDATES

Manager	Fund	Strategic Asset Class	Performance Objective (Net of Fees)	Strategic Allocation
Investec	Global Strategic Equity	Global Developed Equities	MSCI AC World NDR Index +2.5% p.a.	4.0%
BlackRock	World Multifactor Equity Tracker	Global Developed Equities	MSCI World Index	4.0%
Wellington	Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index +1.0% p.a.	3.0%
Wellington	Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index +2.0% p.a.	3.0%
Total Equity			**Composite Weighted Index**	**14.0%**
Stone Harbor	LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.[1]	12.0%
Stone Harbor	Multi-Asset Credit	Multi-Asset Credit	1 Month LIBOR Index +1.0% p.a.	
Permira	Credit Solutions III	Private Credit	Absolute Return 6.0% p.a.	3.0%
Total Credit Portfolio			**Composite Weighted Index**	**15.0%**[4]
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0%[3]
Managed Account Platform			**3 Month LIBOR Index +3.5% p.a.**	**9.0%**
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.	11.0%
Tactical Allocation Portfolio			**UK Consumer Price Index +3.0% p.a.**	**21.0%**
In-House	Private Equity	Private Markets	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Markets	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	IPD UK Monthly Property Index[5]	4.0%
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% p.a.	6.0%
In-House	Timber / Agriculture	Infrastructure	3 Month LIBOR Index +5.0% p.a.	2.0%
Total In-House			**Composite Weighted Index**	**22.0%**
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%
Total Liability Hedging			**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. 4 Committed but uninvested element of the Private Credit strategic allocation is represented by 1 Month LIBOR Index +1.0% p.a. 5. The IPD Quarterly Property Index has been used to calculate the performance between 31 December 2017 and 31 March 2018.

This report may not be further copied or distributed without the prior permission of JLT Employee Benefits. This analysis has been based on information supplied by our data providers Thomson Reuters and Bloomberg and by investment managers. While every reasonable effort is made to ensure the accuracy of the data JLT Employee Benefits cannot retain responsibility for any errors or omissions in the data supplied.

It is important to understand that this is a snapshot, based on market conditions and gives an indication of how we view the entire investment landscape at the time of writing. Not only can these views change quickly at times, but they are, necessarily, generic in nature. As such, these views do not constitute advice as individual client circumstances have not been taken into account. Please also note that comparative historical investment performance is not necessarily a guide to future performance and the value of investments and the income from them may fall as well as rise. Changes in rates of exchange may also cause the value of investments to go up or down. Details of our assumptions and calculation methods are available on request.

CONTACT

KIERAN HARKIN
Director
+44 (0)161 957 8016
kieran_harkin@jltgroup.com

NICK BUCKLAND
Senior Consultant
+44 (0)207 528 4188
nick_buckland@jltgroup.com

ANTHONY WRAY
Consultant
+44 (0)161 253 1121
anthony_wray@jltgroup.com

NATALIE ZANI
Associate Consultant
+44 (0)161 253 1124
natalie_zani@jltgroup.com

KANE SMITH
Associate Consultant
+44 (0)161 957 8087
kane_smith@jltgroup.com

This page is intentionally left blank

CLWYD PENSION FUND COMMITTEE

Date of Meeting	13 June 2018
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

Members should note that:

- On a consistent basis the estimated funding position at the end of April is 92% which is around 12% ahead of the expected position from the 2016 actuarial valuation. However, there still remains uncertainty regarding future inflation and investment return expectations.

- The level of hedging remains at 20% for interest rate and 40% for inflation at 31 December 2017.

- No triggers have been breached since the interest rate triggers were re-structured in September 2017.

- The LDI restructure completed in March 2017 is expected to achieve a net long-term gain of £36.5m. A gain could be crystallised earlier in certain market conditions. Since the restructure, the Fund has benefitted by around £13.6m at the end of April 2018. This position will continue to be monitored to highlight an opportunity to crystallise a gain earlier (subject to a minimum of £25m).

- The original Equity protection strategy (a static structure) was implemented on 24th April 2017 to protect against losses of more than 15% over a one year period relative to market levels at the start date. However this expired on 24th May 2018 and a new dynamic Equity Protection strategy with JP Morgan was put in place.

- After rigorous analysis and value for money considerations by the FRMG, a dynamic protection strategy was agreed (rather than renewing the static protection strategy previously in place). The strategy protects against falls of 15% or more of the average market position over the previous 12 months on the £360m of equity exposure in the Insight portfolio. This will be financed by giving up some potential upside return on a monthly basis. Whilst more complex to set up, the dynamic strategy provides advantages versus other approaches as follows:

1. Improved protection levels in upward trending markets
2. Expectation of better long-term risk adjusted returns (after fees and transaction costs) except in some extreme scenarios
3. Improved flexibility and on-going governance as it allows the structure to easily adapt to changing requirements including switching the protection off

Due to the requirements of implementing the strategy on a daily rolling basis, it was agreed that the strategy would be delivered using a counterparty bank rather than an investment manager. Mercer went through a process of determining the best counterparty bank and it was agreed that JP Morgan would deliver the strategy via the existing Insight investment vehicle.

RECOMMENDATIONS	
1	That the Committee note the updated funding and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.
2	That the Committee note the new dynamic equity protection strategy now in place which puts the Fund in a good strategic position in the run up to the next Actuarial Valuation

REPORT DETAILS

1.00	**FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE**
1.01	***Update on funding and the flightpath framework*** The monthly summary report as at 30 April 2018 from Mercer on the funding position and an overview of the liability hedging mandate is attached in Appendix 1. It includes a "traffic light" of the key components of the Flightpath and hedging mandate with Insight. The report will be presented at the meeting including a reminder of the principle objectives of the framework.
1.02	The estimated funding level is 92% with a deficit of £153m at 30 April. In absolute terms the relative funding position is 12% ahead of the expected position at the end of April 2018 when measured relative to the 2016 valuation expected funding plan. Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by 4% to 88% with a corresponding increase in deficit of £91m to £244m.
1.03	None of the interest rate triggers have been satisfied since they were re-structured in September 2017.

1.04	The level of hedging was around 20% for interest rates and 40% for inflation at 31 December 2017. The hedging implemented to date provides access to a lower risk investment strategy but maintaining a sufficiently high real yield expectation to achieve the funding targets.
1.05	Based on data from Insight, our 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 strategic risk advisors. The only amber rating was given to the Libor plus fund due to the temporary limit on future investments into the fund. This should not affect the operation of the mandate but it will be kept under watch.
1.06	***Update on Risk Management framework*** (i) Restructuring the Insight Portfolio As reported previously, in 2017 Insight and Mercer identified an opportunity to restructure Insight’s mandate that will be more efficient for the Fund. This involved buying assets with a higher yield/return and selling an equivalent asset with a lower yield/return. Insight implemented the trade subject to achieving a minimum level of benefit (net of transaction costs) of £25m. The net long-term gain achieved would be £36.5m over the lifetime of the trade of c50 years (made up of a yield gain of £38m net of transaction costs of £1.5m) which was a very positive result and lower trading costs than expected. The Fund’s hedge ratios remain at 20% for interest rates and 40% for inflation. The mark-to-market of the relative value trade is monitored to see if a gain can be crystallised earlier if market conditions allow. Since inception, there is currently a mark-to-market gain of around £13.6m. A soft trigger of a mark-to-market gain of £25m was imposed, however, given current market conditions, Mercer along with Insight will be investigating whether there represents a good opportunity to potentially realise some of this value at the upcoming healthcheck of the flightpath mandate as set out in the business plan.
1.07	(ii) Equity protection on the Insight mandate It was previously approved by Committee that, subject to fair market pricing, protection against potential falls in the equity markets via the use of Equity Options should be implemented. This was to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality. A static protection structure (akin to an insurance policy) was implemented on 24th April 2017 and ended on 24th April 2018. The static strategy protected against falls of more than 15% from market levels at the time of implementation, and an insurance “premium” was paid. This premium manifested as a slight reduction in return over the year. Over the 12 months, markets continued to increase, meaning that the protection level

was further away from current market levels.

Once the equity protection expired on 24th April 2018, in order to continue to protect employer contributions, it was agreed that the strategy should be "rolled on" for a further month until a new strategy could be implemented on 24th May 2018. During this period, the Officers worked alongside its advisors (Mercer and JLT) to implement a long term, dynamic equity protection strategy to cover £360m of equity exposure in the Insight mandate.

It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets especially given the long period of strong equity returns that we have seen. In addition, the increased security allows the Actuary to include less prudence in the actuarial valuation assumptions; this would translate into lower deficit contributions at the 2019 valuation. This will be quantified in the 2018 interim review.

A dynamic strategy, even though relatively more complex to set up, addresses some of the key issues with a static strategy where protection is fixed or static for a given time period. Namely, in upward trending markets, the dynamic strategy ensures that the protection remains at 15% below the average market level in the preceding 12 months. The protection was to be rolled on a daily basis to ensure optimum efficiency.

In summary the dynamic strategy has the following benefits:

- **Adjusting the protection in upward trending markets** to improve protection over time.
- **Greater upside return potential –** potential to provide better risk adjusted returns (net of costs) versus the static structures except in certain volatile markets.
- **Governance benefits** - In principle the strategy remains 'live' until it is turned off (not the case with a static strategy which expires once the term is over). It therefore becomes part of the overall risk management strategy and flightpath allowing the strategy to be easily adjusted to reflect the current position and desired level of protection.

Further, it was decided that the downside protection should be financed through giving up a portion of potential upside participation. That is, the Fund participates in the first 5% of market rises on a <u>monthly basis</u> but is then capped for rises above 5% over a month. Whilst some of the upside return is capped there is still the potential to achieve a return of up to 60% a year if markets rose steadily (i.e. 5% each month for a year).

After rigorous analysis and discussion on different approaches (including variants on both a static and dynamic structure) it was concluded that the strategy should be delivered through the Insight mandate using a single counterparty investment bank. Investment banks have the infrastructure and experience to efficiently implement the structure on a daily rolling basis.

As part of the advice, Mercer assessed which counterparty bank would be the most appropriate to provide the protection strategy. This involved

	holding discussions with the bank to assess their suitability and Mercer considered three key criteria when deciding which bank would be best placed to implement the protection: - Value for money - Flexibility and exit costs - Capability and speed of implementation Based on the results of this analysis, Mercer recommended JP Morgan as part of the advice. The protection will be monitored on an ongoing basis and this will be included in future committee papers as part of the reporting. More detailed information will be supplied as part of these reports and also at future training events for the Committee. The impact on employer contributions will be considered as part of the 2018 interim funding review.

2.00	**RESOURCE IMPLICATIONS**
2.01	None directly as a result of this report but significant resources was taken for officers and advisors to implement it in a short timescale.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None required

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 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. The Equity option strategy will provide protection against market falls for the synthetic equity exposure in the Insight mandate only.

5.00	**APPENDICES**
5.01	Appendix 1 - Monthly monitoring report – April 2018

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**

6.01	Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016.
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) **The Fund – 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) **The Committee – 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 (e) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (f) **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. (g) **ISS – Investment Strategy Statement** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund Further terms are defined in the Glossary in the report in Appendix 1.

HEALTH WEALTH CAREER

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT

May 2018

Paul Middleman FIA
Nick Page FIA CERA

MAKE TOMORROW, TODAY MERCER

OVERRIDING OBJECTIVES

Stable and affordable contribution rate

versus

Achieve returns in excess of CPI required under funding arrangements

Page 222

Objectives are two-fold but conflicting

- Risk needs to be taken in order to achieve returns, but risk does not guarantee returns

Need to ensure a reasonable balance between the two objectives

- Do you need to take the same level of risk when 70% funded (say) as when 110% funded?

EXECUTIVE SUMMARY

= as per or above expectations = to be kept under review = action required

Overall funding position

- Ahead of existing recovery plan
- Funding level below the first soft trigger
- Possible action will be discussed at FRMG following trigger breach

In absolute terms the funding position is c.11% ahead of target. However there is continuing uncertainty in the outlook for future returns which could impact on the future funding requirements.

Liability hedging mandate

- Insight in compliance with investment guidelines
- Outperformed the benchmark over the quarter and since inception
- Hedge ratios marginally below target levels

No action required.

Synthetic equity mandate

- Insight in compliance with investment guidelines
- Outperformed the benchmark over the quarter
- Maturity constraints as expected

No action. We are currently working towards a replacement equity protection strategy ahead of the expiry of the current options structure at the end of the month.

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 and a 0.5% increase in z-spreads without eliminating all collateral

Collateral adequacy to be monitored quarterly. Potential to release c.£55m as at 31 December 2017, based on the agreed collateral guidelines.

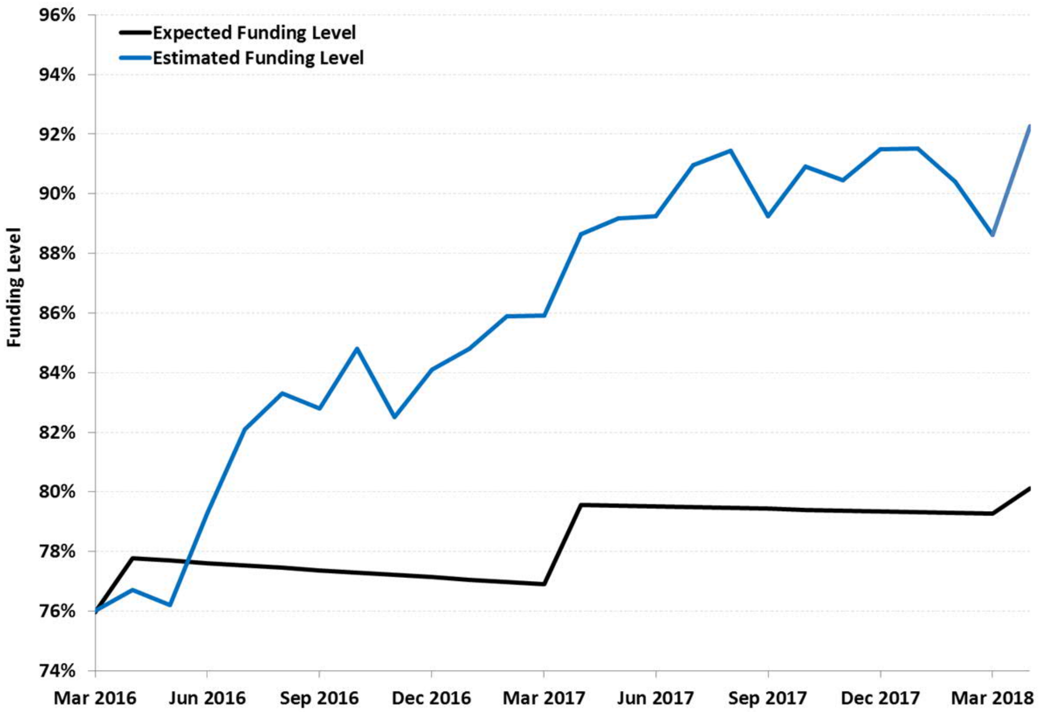
LIBOR Plus Fund

- Fund has outperformed its target over the quarter and since inception
- Management team stable and no change in manager rating
- Allocation of £50m remains appropriate

No action required. Insight have placed a temporary limit on future investments into the Fund at any weekly dealing point - to be kept under review.

FUNDING LEVEL MONITORING TO 30 APRIL 2018

Estimated funding position since 31 March 2016



Page 224

Funding Level Triggers

It was concluded at the FRMG on 20 June 2017 that the funding level is not currently sufficiently high to warrant de-risking in a traditional sense via a change in long term strategy.

It was agreed that a "soft" trigger will be put in place to prompt FRMG discussions regarding potential actions as the funding level approaches 100% on the current funding basis. This funding level will be monitored approximately by Mercer on a daily basis.

Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2016 valuation based on the assumptions (and contributions) outlined in the 2016 actuarial valuation. The *expected* funding level at 30 April 2018 was around 80%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 30 April 2018.

At 30 April 2018, we estimate the funding level and deficit to be:

92% (£153m*)

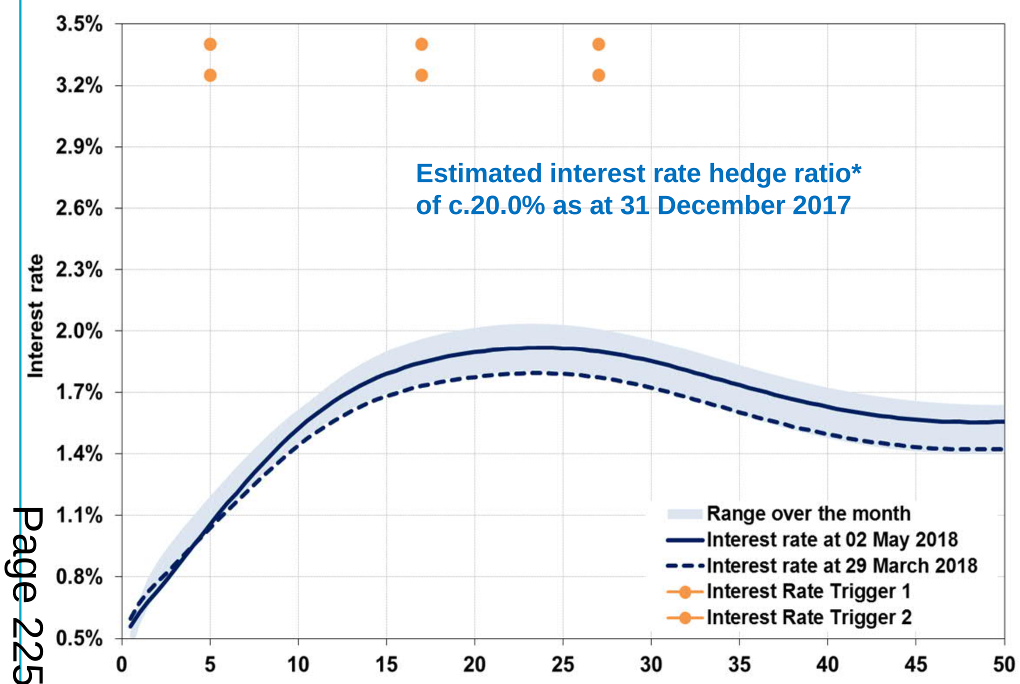
This shows that the Fund's position was ahead of the expected funding level at 30 April 2018 by around 12% on the current funding basis.

Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. This could mean that the likelihood of achieving the assumed real returns going forward has fallen. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c.4% to c.88% with a corresponding increase in deficit of £91m to £244m.

** Asset value of £1,822m as at 30 April 2018 provided by JLT on 29 May 2018.*

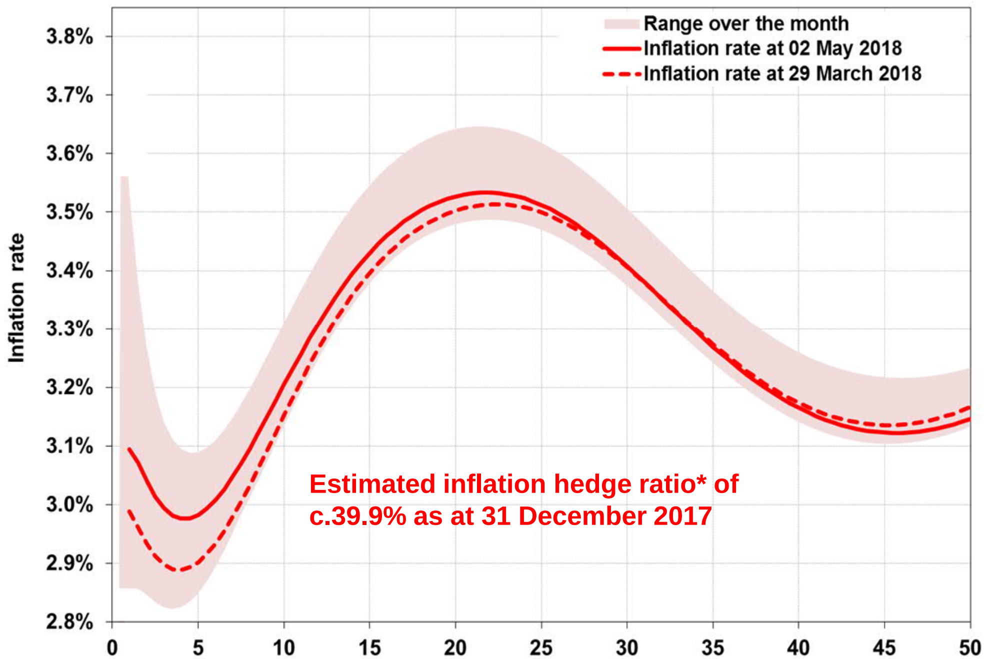
UPDATE ON MARKET CONDITIONS AND TRIGGERS

Change in interest rates



Date	Band 1	Band 2	Band 3	Band 4	Actual
31 December 2017	20.0%	20.0%	20.0%	20.0%	20.0%

Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4	Actual
31 December 2017	40.0%	40.0%	40.0%	40.0%	40.0%

Comments

Interest rates rose over April 2018, with increases of up to c.0.1% observed at medium and long durations.

Based on market conditions as at 30 April 2018, yields would need to rise by c.1.4% p.a. before the Fund would hit any of the revised interest rate triggers implemented by Insight in September 2017.

Comments

Overall, inflation expectations were fairly stable over April 2018, but with falls of up to 0.1% observed at the shortest durations.

It has been agreed that Insight will not resume monitoring of the level of inflation hedging until the interest rate and inflation hedge ratios have been aligned.

** Hedge ratios calculated with reference to 2016 valuation cashflow analysis and relying on a discount rate of gilts + 2.0% p.a..*

UPDATE ON RELATIVE VALUE TRADE

Page 226

Mark-to-market value of trade since inception

Note: no allowance made for yield improvement from the inflation trade.

Comments

Insight estimated the potential net gain of the LDI restructure - implemented in Q1 2017 - to be c.£36.5m. This gain will be accrued incrementally over the lifetime of the trade, assuming repo and swap funding costs offset one another.

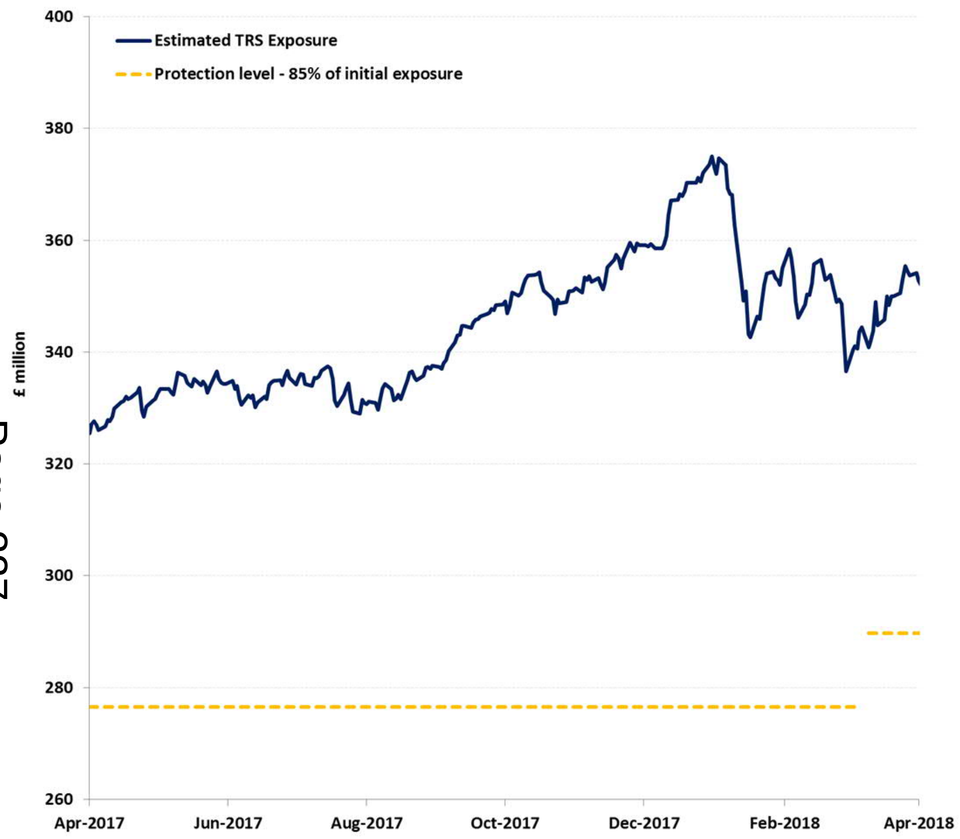
The relative value trade (i.e. holding gilts and "selling" interest rate swaps) will experience a mark-to-market gain if the difference between gilt and swap yields ("z-spread") falls over time. The mark-to-market gain rose by £0.8m over the month as z-spreads fell at longer durations of the curve over April 2018. The estimated gain was c.£13.6m as at 30 April 2018. We will continue to monitor this position over time.

At the FRMG on 20 June 2017, it was agreed that Mercer would monitor a "soft" trigger to prompt discussions around closing out the trade to "bank" the gain if the mark-to-market gain exceeds £25m.

EQUITY TRS PROTECTION

Page 227

Equity protection



Comments

An equity option strategy was implemented to protect the Fund against falls in equity market values over a one-year period to 24 April 2018, however this has now been extended to expire on 24 May 2018.

In particular, put options were purchased to protect the value of the current equity TRS exposure beyond 15% market falls over the period to late April 2018. The extension of the put options was updated for protection beyond 15% of the market level at 24 April 2018. We are currently working towards a replacement protection structure ahead of the expiry of the current options mandate.

The chart illustrates the value of the equity TRS over the period from 24 April 2017 to 30 April 2018 (the **dark blue line**) and the **yellow dotted line** shows the level at which the protection will start to take effect.

Overall, the value of the Fund's TRS exposure rose over April 2018. Equity markets have rebounded somewhat in recent weeks but have not fully recovered amid ongoing concerns around the global economy.

We will continue to monitor the protection on a monthly basis.

GLOSSARY

- Actuarial Valuation - The formal valuation assessment of the Fund detailing the solvency position and determining 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.
- Collateral – Liquid assets held by the Fund as security which may be used to offset the potential loss to a counterparty.
- Counterparty – Commonly an investment bank on the opposite side of a financial transaction (e.g. swaps).
- Deficit - The extent to which the value of the Fund's liabilities exceeds the value of the Fund's assets.
- Equity option – A financial contract in which the Fund can define the return it receives for movements in equity values.
- Equity TRS (Equity Total Return Swap) – A financial contract in which the Fund receives the return on an equity index. In return the Fund must pay a regular financing fee to a counterparty bank.
- 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.
- Funding level - The difference between the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.
- Funding & Risk Management Group (FRMG) - A subgroup of Pension Fund officers and advisers set up to discuss and implement any changes to the Risk Management framework as delegated by the committee. It is made up of the Clwyd Pension Fund Manager, Pension Finance Manager, Fund Actuary, Strategic Risk Adviser and Investment Advisor.
- Hedging - A strategy aiming to invest in low risk assets when asset yields are deemed attractive. Achieved by investing in government backed assets (or equivalent) with similar characteristics to the Fund future CPI linked benefit payments.
- Hedge ratio – The level of hedging in place in the range from 0% to 100%.
- 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.
- London Interbank Offer Rate (LIBOR) - An interest rate at which banks can borrow funds from other banks in the London interbank market.
- Z-spread – The difference between the yield on gilts and swaps.

IMPORTANT NOTICES

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualized investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend.

For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see www.mercer.com/conflictsofinterest.

This analysis is subject to and compliant with TAS 100 regulations.

This page is intentionally left blank