Contact Officer:
Janet Kelly 01352 702301
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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

15 February 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, 21st February, 2018 in the Delyn Committee Room, County Hall, Mold CH7 6NA to consider the following items

A G E N D A

1 **APOLOGIES**

To receive any apologies.

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

To receive any Declarations and advise Members accordingly.

3 **MINUTES** (Pages 3 - 12)

To confirm as a correct record the minutes of the last meeting held on the 29th November 2017.

4 **LGPS INVESTMENT PERFORMANCE**

To receive a presentation from PIRC looking at investment performance across the LGPS universe.

5 **CLWYD PENSION FUND INVESTMENT RISK AND PERFORMANCE**

To receive a presentation from CEM Benchmarking on the investments performance of the Clwyd Pension Fund

6 **WALES PENSION PARTNERSHIP ASSET POOLING**

To receive a presentation from the Wales Pension Partnership Operator on the implementation of the Pool and Fund assets.

7 **CLWYD PENSION FUND UPDATE** (Pages 13 - 76)

To provide Committee Members with a high level summary of issues across the Fund and an update on the use of delegations since the last Committee meeting.

Yours sincerely

Robert Robins
Democratic Services Manager

CLWYD PENSION FUND COMMITTEE
29 November 2017

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold on Wednesday 29 November 2017.

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

CO-OPTED MEMBERS: Councillor Huw Llewelyn Jones (Denbighshire County Council), Councillor Nigel Williams, Mr Steve Hibbert (Scheme Member Representative), Councillor Andrew Rutherford (Other Scheme Employer Representative)

APOLOGIES: None

ALSO PRESENT (AS OBSERVERS): Phil Pumford (Member representative Clwyd Pension Fund Board)

IN ATTENDANCE:

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

Officers/Advisers comprising: Debbie Fielder (Pensions Finance Manager), Alwyn Hughes (Pensions Finance Manager), Helen Burnham (Pension Administration Manager) and Megan Fellowes (Apprentice – Mercer - taking minutes), Richard Lloyd (Communications Manager) (Item 94 only)

Prior to the start of the meeting the Chair asked everyone to introduce themselves and welcome the member of the Pension Board. The Chair also shared the sad news of the death of Anthony Kershaw from JLT at the beginning of November. Mr Latham attended the funeral to represent the Fund and condolences were passed on to his family and colleagues at JLT.

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

Councillors Dave Hughes, Huw Llewelyn-Jones, Haydn Bateman, Nigel Williams and Billy Mullin declared a personal interest as being a member of the Clwyd Pension Fund for all items.

Karen McWilliam (Independent Advisor - Aon Hewitt), Paul Middleman (Fund Actuary – Mercer) and Megan Fellowes (Apprentice – Mercer) declared a personal interest to item 90 (Pooling Investments in Wales) as employees of Aon Hewitt/Mercer respectively with each firm having submitted a tender response to be the operator of the Wales Pool.

The Chairman declared a personal interest under item 91 (Committee and Board Allowances).

88. **MINUTES**

The minutes of the meeting of the Committee held on 20 September 2017 were submitted.

RESOLVED:

It was agreed that the minutes could be received, approved and signed by the Chairman as a correct record.

Councillor Bateman wanted to address the item under item 80 whether it was possible for members to get hard copies of the papers for member. Mr Everett stated that paperless was in line with the policy of the Council generally but if a member really needs hard copy papers, they can be provided on request but there are costs in doing so.

Requests should be directed to Mrs Fielder.

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

RESOLVED:

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

90. **POOLING INVESTMENTS IN WALES**

The Chairman stated that at the last Joint Governance Committee of the Wales Pension Partnership it was agreed that Bidder 1 be recommended to each Pension Fund Committee for appointment and that it was also further agreed that the identity of Bidder 1 would not be disclosed to the Joint Governance Committee at this stage.

Mr Latham provided a background of the appointment process whilst confirming that the decision making for the Funds investment strategy remains with the Committee. Mrs Fielder detailed the overall procurement process leading to the recommendation for appointing Bidder 1.

The Committee had a detailed discussion around the process and appointment of Bidder 1 before voting 7 for and 1 against the appointment.

The Committee were then advised that Bidder 1 was Link Fund Solutions.

RESOLVED:

1. The Committee agreed to the appointment of Bidder 1 as the preferred bidder for the Wales Pension Partnership, and
2. Subject to the completion of the standstill period and the finalisation of the Operator Agreement, appoint Bidder 1 as the Operator under the Operator Agreement.

3. The Committee noted and discussed the Wales Pension Partnership Progress Report.

91. **COMMITTEE AND BOARD ALLOWANCES**

Mr Everett recommended that £8,700 be paid per year to the Chair of the Committee for the reasons set out in the report. Mr Everett highlighted that they all have a conflict of interest in this area and suggested that the debate should bear this in mind.

The Chairman declared a personal interest and left the room.

After discussion on the issues the Committee members agreed to the proposal to pay the allowance to the Chair. It was also agreed that the allowance would be effective from May 2017 and also backdated to that date.

Following discussions it was also agreed that Mr Everett would discuss within the Council the payment of allowances for other members.

RESOLVED:

1. The Committee recommended to the Council that an allowance of £8,700 be paid to the Chairman each year and this be included in the schedule of member remuneration. The Committee considered and recommended that the additional payment commence from May 2017.

2. It was agreed that allowances for other members should also be considered'

92. **GOVERNANCE UPDATE**

Mr Hughes highlighted section 1.01 where the Committee is required to express a preference for its meeting pattern and hence whether they should take place in the morning or afternoon.

Councillor Bateman suggested starting at 9:30am rather than 10am. The remaining Committee members agreed to the proposal.

Mrs McWilliam highlighted the training needs analysis referenced in the papers and noted that these would be provided to Members during the following week. All Members were asked to highlight on the training needs analysis where they considered they needed any additional training. This will be a requirement on a regular basis to assist in the scheduling of training sessions.

Mrs Burnham explained how the breaches are updated on a regular basis and that at this point none will be reported to the Pensions Regulator, although this position will be reviewed in January 2018.

RESOLVED

1. Members considered the update.

2. The Committee expressed a preference for meetings to be held at 9:30am and this preference will be given to Constitution and Democratic Services to schedule future meetings.

93. **LGPS UPDATE**

Mr Middleman discussed the LGPS current issues update provided.

He commented specifically on the April 2018 pension increase (based on the September 2017 annual CPI figure) and the impact on liabilities. He also highlighted that there are a number of consultations in the pipeline in particular the exit cap consultation due imminently. Mr Middleman confirmed it is expected in early 2018 but it has slipped before.

The Chairman queried whether the pension increase of 3% is high in comparison to recent years and will this have an impact on the Fund. Mr Middleman informed the Committee that as part of the Actuarial Valuation it was assumed that pension increases would be a long term average of 2.2% per annum and so anything above this level would lead to an increase in liabilities. However, the effect would be relatively small versus other factors (less than 0.5% reduction in the funding level).

Mr Latham asked whether the exit cap would impact on the assumptions made for pension strain calculations.

Mr Middleman responded to say that it is partly related to what happens on the exit cap and whether it was implemented in Wales. He would expect that the LGPS would move to a common set of factors which has been something discussed for a number of years.

Mr Middleman also noted that Mercer have separately reviewed the life expectancy assumptions for the existing factors as this had not been done for a period of time. He stated that strain costs will go up around 5% due to this and that this will have an impact on employers. A possible implementation date would be April 2018. This will be discussed with the administration team.

RESOLVED:

1. The PFC members noted this report and made themselves aware of the various issues affecting the LGPS.
2. Members noted the April 2018 Pension Increase; the latest updates on current Regulations and Consultations; and the taxation issues update

94. **PENSIONS ADMINISTRATION/COMMUNICATIONS UPDATE**

Mrs Burnham referred to page 105 and highlighted that in July and September/October 2017 there were over 2,000 new administration tasks. She also noted that there was an increase from September to October of over 100 cases (i.e. from 2,469 to 2,578). This was due to an outsourcing of staff from the Council to new arrangements which whilst a one off, illustrates the additional spike in work required.

Mrs Burnham also referred to page 107 and stated that the KPI percentages in respect of TPR legal requirements have improved but there is still further improvement to be made. She also explained that she would be implementing training plans to highlight areas where the Fund needs to prioritise e.g. in respect of death cases. Mrs McWilliam stated that in the future, charts will be provided rather than tables as these are easier to identify trends.

Mr Lloyd demonstrated the new website and Member Self Service (MSS) where members can gain understanding/information regarding their LGPS benefits in the Fund and update their details online. The website has been made as simple as possible to make it easier to navigate and understand.

Mr Lloyd informed the Committee that the website included various areas of interest such as the Governance area which includes details of how the Fund operates and membership of the Committee and the Pension Board. He noted that the website also highlights the changes to the Scheme; and includes member and retirement guides throughout.

It was commented generally that the website looked impressive and another positive step forward (along with MSS) in how the Fund communicates with members.

Mr Hibbert asked whether it was possible to request documentation online to be posted to their home address, in situations where people require paper copies. Mr Lloyd responded by claiming that if people don't want to get documents via MSS or the website they can contact the Fund and request the continuation of paper documentation.

It was asked what statistical information is available regarding the use of the website and member self-service. Mr Lloyd stated that that on the website it is possible to check who has registered and they can see when and where someone has logged on and there is specific information on who has visited the website.

The Chairman thanked Mr Lloyd for his presentation and congratulated him on his development of the website and MSS. Mr Everett also commented that he is very encouraged by the progress in these areas

RESOLVED:

1. The Committee considered the update and provided comments.

95. **INVESTMENT AND FUNDING UPDATE**

Mrs Fielder introduced this section; she noted that the Fund had received three additional requests from managers for updated documentation in relation to MIFID II but the expectation is that all opt-ups will be completed by the deadline of 3rd January.

Mrs Fielder summarised the key points in the report and highlighted that there are no issues with liquidity requirements to pay benefits and it is being monitored carefully.

Mr Hibbert asked Mrs Fielder whether it would be possible to have a graphical interpretation of the cash movements in relation to the cash held.

Mrs Fielder highlighted page 61 contained details of the 3 year cashflow monitoring and projections. It was noted that the cashflow has been skewed for 2017 as some employers had paid 3 years of deficit contribution payments in April 2017.

It was also noted that Mr Hibbert and Mrs Fielder has attended a seminar on cost transparency. Mr Hibbert was grateful for the opportunity to input on this.

The issue of infrastructure investment was discussed and in particular the opportunities in Wales. Mr Everett highlighted the discussion across North Wales and that the opportunities need to be discussed with the Pension Funds. As noted in the report the Fund has been actively looking at opportunities for some time subject to a strong business case for the investment.

RESOLVED:

1. The Committee considered and noted the update including the delegated responsibilities and progress.

96. **ECONOMIC AND MARKET UPDATE**

Mr Harkin noted that Mr Buckland is now the nominated alternate investment advisor and will be supporting the officers and committee going forward.

Mr Harkin directed the room to the market statistic on page 131 which showed the continued strong performance in equities in the quarter. High energy prices resulted in a positive return on commodities but could give some concern for inflation if the trend continues.

The Chairman asked Mr Harkin whether he had any thoughts on the impact of the budget and how it might affect the economic growth. Mr Harkin responded by stating that it was a budget with very little surprises versus the speculation. The Office of Budget

Responsibility forecasts on growth and the Government focus on infrastructure investment and innovation in new technology was clear.

It is also important to note that whilst the liabilities are centred in the UK and affected by inflation, the asset allocation is not and has exposure to the global economy which generally has a better outlook so the effect on assets will be dampened. The markets seemed fairly benign in their reaction to the budget on the day.

Councillor Bateman raised the issue of gas prices and the expected increase in costs. Mr Harkin noted that crucially this will depend on supply to the market and relates to wholesale prices but there is an expectation of an increase. It was noted that the effect this will have is hard to predict on markets but it could lead to increased UK inflation if passed onto customers as would affect the CPI measure.

RESOLVED:

1. The Committee noted and discussed the update.

2. The Committee noted how the information effectively "sets the scene" for the next agenda item

97. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Buckland highlighted the positive investment returns over the period to 30 September 2017 and the longer term. Over all periods shown all have been above expectations in the funding assumption which is positive and contributed to the improved funding positon.

There was mixed performance across the managers and those that did not meet their target on page 155 (highlighted in red). It was noted that some of the managers shown would move under the pooling structure in 2018.

The Chairman stated that the market values have made an increase (over £1.75 billion at the end of September). The Chairman asked if the figures for October are available yet. Mr Buckland confirmed that the figures are available. He confirmed that they have continued to rise and are close to £1.8 billion. Mr Middleman noted that as of close yesterday now likely to have passed the £1.8bn level.

RESOLVED:

1. The Committee noted and discussed the investment strategy and manager performance over the quarter.

2. The Committee considered this in light of the Economic and Market update report.

98. **FUNDING AND FLIGHT PATH UPDATE**

Mr Middleman summarised the basics of funding a pension scheme:-

- The benefits (i.e. the liabilities) are essentially inflation linked cashflows payable over a very long period. This means that the level of inflation is a major factor in the cost e.g. higher inflation = higher liabilities = higher cost.

- You finance the benefits paid through a balance of investment return (versus inflation) earned and contributions paid e.g. the higher the return versus inflation earned over the long term the less contributions are needed and vice versa.

Essentially the Flighpath strategy is to give more certainty to the returns (over inflation) and also provide protection against changes in expected inflation levels. Central to this is the “hedging” strategy which essentially is investing in assets which more closely “match” changes in liabilities - therefore providing more stability in the level of deficit. This leads to more certainty/stability of contributions for employers which is a key objective of the strategy.

The key relationship is the investment return versus inflation and if inflation increases you want your investment return to increase also by at least the same amount to keep costs stable.

Currently the hedging levels are still 20% in relation to interest rate and 40% in relation to inflation protection (with 100% being fully hedged). The funding level was significantly ahead of target at 91% (12% ahead) at 31 October 2017.

Furthermore it is important to do this in the most efficient/timely manner in terms of the structure and financing of the strategy. This means the timing of any changes and the market level at which you do it is important as you want to do it in the most cost effective manner The example of the restructuring of the hedging mandate in 2017 is an example of this where this is expected to deliver gains of £36.5m over the long term.

This detailed work is delegated to officers and is implemented on the advice provided by the Actuary and Investment Consultant via the Funding and Risk Management Group (FRMG). The next key part of this is to revisit the equity protection element of the strategy before April 2018 when the current contract expires. The outcome will be reported at a future committee.

Taking into account all the above it has proved a successful strategy to date versus the cost of the governance which surrounds it. Since inception in 2014 it has reduced deficit by c£140m all other things equal.

Councillor Llewelyn-Jones had previously raised a question as to why the costs are so sensitive to changes in future investment returns as measured by the discount rate e.g., a 0.25% p.a. fall in investment return would reduce the funding level by 4% and increase the deficit by £91m.

Mr Middleman explained that it is due to the timeframe discussed. The benefits are paid over relatively a long period, on average about 17-18 years across the total Fund for existing benefits. A fall of 0.25% per year gives you a loss of about 4% over that period as there is a cumulative year on year compounding effect.

Mrs Fielder referred to a recent comment at a CIPFA event in Cardiff that if a Fund's funding position has improved materially or it is 100% funded or over, thought should be given to protecting the position and taking risk off the table. This is essentially the concept of the flightpath strategy.

The Chairman highlighted that that the Budget had reaffirmed the potential removal of the public sector pay cap and asked what would happen to the Fund if it was removed?

Mr Middleman noted at the last actuarial valuation the pay progression was assumed to be capped at 1% up to 2020 which was built into the contribution plan.

If the cap is removed, the impact would depend on what was awarded and this can affect employers differently. As an example if the average increase was now 2% p.a. up to the year 2020, the impact on funding would be an increase the deficit of £15-20 million across the Fund. This could mean an increase in deficit contributions of c£1.5m per annum. In addition what is often forgotten is that the ongoing benefit accrual costs (15.3% of pay for the Fund) also increase in £'s terms as payroll increases more than previously budgeted for.

Mr Everett stated that no one had any protection against the pay cap removal in budgets so this would be need to be considered in the discussions moving into the next valuation.

The Chair thanked Mr Middleman for the positive update on the progress and the background to the Flightpath strategy for Committee members.

RESOLVED:

1. That the Committee noted the updated funding and hedging position of the Fund and progress being made in the Risk Management Framework.

The Chairman wished a special farewell to Mr Hughes who is retiring at the end of 2017 and thanked him for all of his hard work over the years.

The next meeting will be in either on 21 February (special meeting) or 21 March.2018 (scheduled meeting).

The meeting finished at 1:30pm.

……………………………………

Chairman

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 21st February 2018
Report Subject	Clwyd Pension Fund Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

This monitoring report provides a high level summary of the main priorities and issues across the Fund and LGPS, complies with any specific reporting requirements and records delegations undertaken by officers since the last Committee. It also asks the Committee to agree to changes to the Delegations of Functions to Officer documents.

The Business Plan and Risk Register will be updated for the next Committee on 21st March 2018.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee agrees the proposed changes to the Delegations of Functions to Officer document in Appendix 6.

REPORT DETAILS

1.00	**CLWYD PENSION FUND SUMMARY**
	Clwyd Pension Fund Governance
1.01	The Fund's Training Policy requires Committee Members to undertake training needs analysis to comply with best practice guidance. A self-assessment training needs analysis was completed by all members of the Committee and Board in December and January and these have now been analysed to understand the priorities in relation to training. It should be noted that the 100% completion rate is a very positive reflection of members'

	commitment. The analysis of the self-assessments highlights the need for some degree of training in all areas of the CIPFA competencies. This is the result that was expected given the majority of the Committee members were new appointees in May 2018. Some of the high priority areas are being covered as part of the previous agenda item on pooling. The majority of the other areas are planned to be covered through, initially, a further two days' training as follows: • one day on investment matters • half day on administration and governance matters • half day on funding matters. This will also provide initial induction training for the new Committee member and new Board member, but further training will be provided as required for those members. It is hoped that the training days can be scheduled for March and members will be asked for availability during the meeting.
1.02	The Clwyd Pension Fund Board met on 2nd November 2017. As previously agreed, to keep Committee informed of the work of the Board, the minutes are attached as Appendix 1. Members will see from the "Any Other Business" item that Mrs Brookes has confirmed she will not be standing for a further term when her term of appointment ends in the summer of 2018. At the meeting Pension Board members noted that they would be extremely sad to have Mrs Brookes leave the Board as she had been such a valuable contributor. A replacement for Mrs Brookes will shortly be advertised via the Fund's website and various scheme member newsletters.
1.03	Following the retirement of a Pension Finance Manager work on the resourcing of the pension finance function continues. As an interim solution, Worth Technical Accounting Solutions Limited has been appointed to assist with the closure and audit of the 2017/18 pension fund accounts.
	LGPS Governance
1.04	As a result of recent Government changes, the Department of Communities and Local Government (DCLG) has been changed to the Ministry of Housing, Communities and Local Government (MHCLG). This is the department that is responsible for making legislation relating to the LGPS. This change also involves the appointment of a new Minister (Rishi Sunak MP). This change is on the back of an almost 100% change in senior officials within the pensions division of DCLG in the last two years which has resulted in delays to legislative changes. Although there is not expected to be any move to change the Government's priorities as a result of the change in Minister, such as the need to pool assets, the impact of this change is as yet unknown. The Clwyd Pension Fund Manager in his position on the PLSA Local Authority Committee will be meeting with MHCLG officials.
1.05	The national LGPS Scheme Advisory Board (SAB) sub-committees - Investment, Governance and Engagement Sub Committee and Cost Management, Benefit Design and Administration Sub Committee - have each

	met since the last Committee meeting. The agendas, actions and agreements can be found at www.lgpsboard.org. Some of the items currently on the agendas are: • March 27th Cross Pool Forum – SAB are staging a one day forum on the scheme's asset pools for the Chairs of LGPS pension committees and local pension boards. The intention is to give the Chairs of pension committees and local pension boards an update on progress and to give them the opportunity to discuss issues and concerns with a range of expert speakers. The attendees from Clwyd Pension Fund will be confirmed at the Committee. • Cross Pool Forum - there is also going to be a regular forum for a limited number of pension committee representatives from each pool area. The details are still to be confirmed but this is likely to meet at least twice a year, will probably involve two or three representatives from each asset pool's Joint Governance Committee (or equivalent) and some scheme member representation. • 50:50 Scheme – the take up of the 50:50 Scheme has been much lower than originally anticipated. SAB wish to consider ways to increase the use of the 50:50 Scheme for those who would otherwise opt out of the LGPS. • Tier 3 Employers – A project is underway identifying 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). Aon has been appointed to carry out this work and then a range of options will be developed and considered by SAB in relation to the issues identified. • Pension Boards – SAB carried out a survey on the effectiveness of pension boards last year. Recommendations are due to be put to the SAB shortly as a result of the findings. • Cost Transparency – ongoing work is being carried out to extend the reach and robustness of the cost transparency framework to provide greater transparency on investment fund manager costs and fees. Updates on any outcomes will be provided but Members are also encouraged to visit the web-site.
1.06	The Welsh Assembly Government has very recently changed legislation to enable Councils in Wales who are also administering authorities to exclude the pension fund accounts from their Council Statement of Accounts. We understand the intention of this change is to separate the Pension Fund accounts from the main Council's accounts, but the implications of this decision, which applies to the 2017/18 accounts, is being considered.
  1.07	**Funding and Investments** The estimated funding position as at 31st December 2017 was 92% which is 13% ahead of the expected position at this point based on the assumptions set at the 2016 Actuarial Valuation. The report from the advisor is attached as Appendix 2.
1.08	The investment returns for the Fund as at 31st December 2017 are shown in the table below and compared with various benchmarks and targets. Global financial markets have been favourable over recent years which are reflected in the strong returns and the improvement in the funding position. Further

	details are provided in the investment consultant's quarterly reports on the Economic and Market update (Appendix 3) and the Investment Strategy and Manager Summary (Appendix 4). At the time of writing there is significant market volatility which is having a negative impact on investment returns and funding position. The Investment Consultant will provide a verbal update at Committee.

	3 months %		12 months %		3 years % p.a.	
	Fund	B'mk	Fund	B'mk	Fund	B'mk
TOTAL CLWYD PENSION FUND	3.9	2.9	9.9	8.4	10.0	8.9
Strategic Target (CPI +4.1%)	1.6		6.2		6.2	
Actuarial Target (CPI +2.0%)	1.0		4.1		4.1	

1.09 The Funding & Risk Management Group, Tactical Asset Allocation Group and Private Equity and Real Asset Group continue to actively manage the implementation of the Investment Strategy Statement. Appendix 5 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, 3 further commitments have been made in the Real Asset portfolio each totalling a sterling equivalent of £8 million. These commitments follows the strategy agreed by the AP for these asset classes.

The Fund is continuing due diligence in two specific areas.

- Development Bank of Wales Management Succession Fund
- GLIL, an Infrastructure vehicle currently investing in UK Infrastructure and managed be several Local Authority Pension Funds.

1.10 In undertaking the MiFID II "Opt Up" process, the Fund provided supporting documentation to 60 organisations comprising current managers, consultants and platform operator who have all confirmed the status of the Fund as "professional "investors.

In addition, since the January 3rd deadline, the Fund continues to provide documentation to other interested parties including the newly appointed platform operator Link Fund Solutions and the sub contracted discretionary manager, Russell Investments.

1.11 The project to pool investments across the eight LGPS funds in Wales continues. It is planned for the Joint Governance Committee to approve the first sub fund in March which leaves a current expectation, after the necessary Financial Conduct Authority (FCA) approvals for assets to be able to be transferred into this sub fund during August or September 2018. The actual transfer of assets is a reserved matter for administering authorities in the Inter-Authority Agreement so a recommendation will be made to this Committee later in the year. From a Clwyd Fund point of view this sub fund potentially relates to 4% (circa £80m) of the Fund's assets. The presentation from the WPP operator on this agenda will provide more detail.

	The Clwyd Fund's officers and advisors have met with the Operator to discuss how the Fund's investment strategy can be delivered through the pool. The Clwyd Fund Pension Finance Manager continues to represent the WPP on the cross pool infrastructure and responsible investment groups. The MHCLG (formerly DCLG) continue to monitor progress of all the pooling projects The next WPP Joint Governance Committee is 28th March at County Hall, Mold. It is a Council meeting, and therefore open to the public, and so everyone is welcome to attend.
1.12	**Administration & Communication** One of the functions that is currently delegated to officers, is the approval of the Fund's discretionary policies, which in the main relate to technical and detailed aspects involving day to day management of the fund (e.g. whether to charge interest on the late payment of employer contributions, or who decides the recipient of a death grant). Due to recent changes, it is now beneficial for the Fund to also have two further policies that are closely related to these discretionary provisions: • a Voluntary Scheme Pays Policy – this relates to whether the administering authority will permit scheme members who become liable to annual allowance and/or lifetime allowance tax charges to repay this via a reduction in their pension paid from the Fund, and • Under and Overpayments Policy – this outlines the treatment of situations where a scheme member's benefits are found to be underpaid or overpaid. This might include situations such as where the pension has been overpaid and that has only been highlighted due to the ongoing Scheme/GMP reconciliation exercise, or where a pensioner dies near the end of a calendar month, and the full month's pension has already been paid (resulting in an overpayment). For a number of reasons, including administrative ease and potential distress to scheme members, it may be reasonable to write off overpayments or claim them back over an extended period of time. Given the detailed and technical nature of these policies, the Committee are asked to confirm that they are in agreement that the approval of these two policies is also delegated to officers, as part of the agreement of the administering authority discretionary policies. As a result, these would be agreed by the Chief Executive and Corporate Finance Manager, having regard to the advice of the Advisory Panel. Copies of the agreed policies would be circulated to all Committee members once approved. The Delegation of Functions to Officers is attached in Appendix 6, within which the proposed amendments are highlighted.
1.13	The Pensions Administration Team continue to progress a number of areas to improve services in line with the Administration and Communication Strategies. An update of the performance statistics membership numbers, Internal Dispute Resolution Procedures (IDRP) and communications issued will be included in March 2018 Committee reports.
1.14	The number of employing bodies in the Fund has increased to 42. The new employing body admitted to the Fund under delegated powers since the last

	Committee is HFT (consisting of approximately 60 members) which has been established and therefore admitted to the Fund as a result of an alternative delivery model by Flintshire County Council for day care services.

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 risk register covers risks across the Fund and will be updated for the 21st March Committee.

5.00	**APPENDICES**
5.01	Appendix 1 – Pension Board Minutes Appendix 2 - Risk Management Framework Monthly Monitoring Report Appendix 3 – Economic and Market Update Appendix 4 – Investment Strategy and Internal Audit Report Appendix 5 – Delegations Appendix 6 – Officer Delegations

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Clwyd Pension Fund: Business Plan 2017/18 to 2019/20 Training Policy Governance Policy Statement. Risk Register Investment Strategy Statement Funding Strategy Statement Administration Strategy Statement Communication Strategy Statement **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) **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) **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. (i) **MiFID II- Markets in Financial Instruments Directive II** - the EU legislation that regulates firms who provide services to clients linked to “financial instruments” (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

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

CLWYD PENSION FUND BOARD

Minutes of the meeting of the Clwyd Pension Fund Board of Flintshire County Council (as Lead Authority for the Clwyd Pension Fund), held at County Hall, Mold, on Thursday, 2 November 2017 at 9.30am.

THE BOARD:

Present:

Chair: Mrs Karen McWilliam (Independent Member)

Member Representatives: Mrs Gaynor Brooks, Mr Phil Pumford

Employer Representatives: Mr Mark Owen, Mr Steve Jackson

IN ATTENDANCE

Mr Philip Latham (Clwyd Pension Fund Manager and Secretary to the Board)
Mr Alwyn Hughes (Pension Finance Manager)
Mrs Helen Burnham (Pensions Administration Manager)

		Actions
1.	**APOLOGIES/ WELCOME**	
	There were no apologies. The Chair welcomed Mr Phil Pumford (Member Representative) as a new member of the Board.	
2.	**DECLARATIONS OF INTEREST**	
	As an employee of Aon, Mrs McWilliam reminded the group of the ongoing procurement of an operator by the Wales Pension Partnership and highlighted her interest on the basis that Aon has submitted a bid for the tender.	
	Mr Pumford confirmed that he had completed a declaration of interest form.	
3.	**MINUTES AND MATTERS ARISING**	
	The minutes of the meeting held on the 2 November 2017 had previously been confirmed as a correct record by all Board members via e-mail.	

Actions

There were no matters arising.

Completed and/or outstanding actions were considered as part of agenda item 4 Action Tracker.

4. ACTION TRACKER

The Chair introduced this item explaining that the document was designed to track all action points identified by the Board, identify completed or outstanding actions and also ensure that none are overlooked.

The contents of the Action Tracker were discussed. As previously discussed, it was agreed that completed actions should be removed from the Action Tracker once reported as completed to the Board.

The following points were made in relation to the Action Tracker:

- The Chair asked the Secretary to add a new column numbering the rows for easier reference.
- 3rd action (Cost transparency for Wales Pensions Partnership) – The Board Secretary confirmed he would ensure this was picked up.
- 4th action (Cost transparency in the Annual Report) – although the fund manager names were not included, there was narrative about how the Fund adheres to cost transparency. Agreed to mark as complete.
- 10th action (TPR – evidence of on-line modules) – now complete.
- 14th action (asset pooling business plan) – although the action is now complete, it was agreed we should monitor to ensure the business plan is prepared and so a new action should be added.

RESOLVED:

The Board noted the ***action tracker which is to be updated*** as agreed. — **Board Secretary**

5. ADMINISTRATION UPDATE

Mrs Burnham shared the latest key performance indicators

Actions

(KPIs) and highlighted the impact of annual leave and new staff on performance. Additional training to alleviate the bottleneck around Death Benefits was being undertaken. Mr Owen requested clarification on the number of deaths and what were Mrs Burnham's main areas of concern. Mrs Burnham responded that the death case numbers had increased overall and that her concerns were death and retirement cases. The concerns are being addressed by additional training and changing the balance of work undertaken between teams.

The Chair noted the increase in caseload which was causing further pressures but noted she was pleased with the improvements implemented and the progress being made. Work is to be undertaken around legal timescales to see if further improvements can be made. The Chair noted that some legal timescales would not be met which might then be reported to The Pensions Regulator. Mr Jackson asked whether the increase in volume of cases was manageable. Mrs Burnham responded that there was sufficient staff but there was a significant training impact. Mrs Burnham also explained that some caseload peaks were seasonal but others were due to changes within the employers such as transfers of staff to new companies. The work undertaken to implement iConnect within Flintshire CC and Wrexham CBC would help. They had been able to fast track some Flintshire CC paid employers onto iConnect which would be extremely beneficial when transitioning Flintshire CC itself.

Mrs Burnham shared the new on-line workload dashboard with the Board which summarises cases depending on whether overdue, due today or open. She also highlighted the large proportion of tasks belonging to the Employer Liaison Team (ELT). Mrs Burnham also gave an update on the aggregation and GMP projects together with their likely impact on caseload. Mr Jackson commented that this appeared to be a powerful tool and asked whether it was used for monitoring at a more detailed level. Mrs Burnham replied that the dashboard did not have the facility to drill down into more detail, however teams do have detailed task lists showing tasks due, outstanding etc. Mrs Burnham also commented that Mrs Kerry Robinson and Mrs Sandra Beales had attended the last all Wales meeting and shared the Fund's progress on, for example, KPIs, monitoring timescales against regulations and work on aggregation. They were able to report back that the Fund was praised by the LGA for the quality of their processes.

Mr Richard Lloyd was then invited into the meeting and gave a presentation on the Fund's new website and the Member Self Service (MSS) facility. Mr Pulford asked about the safeguards in

	Actions
place for preventing fraudulent changes to member details. Mr Lloyd explained the safeguards undertaken which include the logging of all changes and strict log in security. Mr Latham added that this will be a success only if widely used. Mr Lloyd explained the work undertaken and planned for promoting both the website and MSS. Mrs Burnham added that a further development would be the move to electronic benefit statements from 2018.	
Board members were asked to ***feed back any changes*** that they wished made to the Pension Board page on the website.	**Board members**
The Board Secretary was also asked to ***create an email address for the Pension Board*** which could be used by scheme members and employers wishing to feed into the Pension Board and for contact with national organisations. ***This should be added to the website too.***	**Board Secretary** **Mr Lloyd**
The Board were very supportive of the work undertaken and Mr Owen suggested that the ***KPIs would benefit being shown graphically***. This was agreed.	**Mrs Burnham**
6. DISASTER RECOVERY UPDATE	
Mrs Burnham briefed the Board on the additional disaster recovery test undertaken since the last Board meeting. Overall, this had proven useful and highlighted some issues that were readily remedied. However, the test also highlighted our continued reliance on Flintshire for key systems such as Outlook, creditor payments, payroll and access to hot-desks. The current procedure where all staff take a laptop home will also be reviewed.	
Mr Owen was pleased that the test had been undertaken and that it had produced useful information to guide future actions. Mr Owen also asked about future plans. Mrs Burnham replied that if laptops are taken home whether it could be done for specific teams, also the possibility of having a laptop permanently at home for key staff would be considered. ICT's overall concern was regarding security hence their insistence regarding the use of FCC laptops. Mr Latham added that this was a wider Corporate issue and we needed to understand their view regarding these issues. The Chair asked that ***further feedback be provided to the Board on the outstanding issues at the next and future meetings*** which include the interrelationship with non-pension teams and wider Corporate views.	**Mrs Burnham**
It was agreed that disaster recovery should be ***added to the Board agenda annually*** to get updates on further tests.	**Board Secretary**

	Actions
7. CYBERCRIME/ IT SECURITY/ GDPR	
The Chair asked Mrs Burnham to lead on this item. Mrs Burnham shared the GDPR plan that had been drafted. She explained the requirements of GDPR and the approach taken within the Fund, noting that the requirements related to the Fund as a whole, not just the administration element. Stage 1 was the completion of an information register detailing what information was being held; Stage 2 looked at how long information was kept and what was held. Data Protection training had been undertaken although guidance was awaited on GDPR and areas such as IT. The Heywood Altair system allowed for restricted access and this was used e.g. staff are unable to access their own records. GDPR would allow a member to write in requesting restricted access to their records. A review is also being undertaken to determine the impact on third party contracts.	
The Chair commented that additional work was required around cybercrime and the approach taken. It was agreed that ***a further report would be made to the Board at the next meeting regarding cybercrime***.	**Board Secretary**
Mr Pumford asked about the issue regarding third parties. Mrs Burnham explained that the contracts stipulated how data was held. Discussions had also taken place with key contractors such as Mercer and Equiniti. Mrs Burnham asked whether it would be useful if someone from FCC and Heywood's presented to the Board on Cybercrime and what they were doing to manage the risk. It was agreed that ***Mrs Burnham would arrange for a presentation from both***.	**Mrs Burnham**
8. TPR CODE OF PRACTICE – COMPLIANCE CHECK	
Mrs McWilliam opened this agenda item by explaining that the intention was to thoroughly review the TPR Code of Practice compliance checklist. This was done and the resulting comments and or action points are listed below.	
• *A3 Annual Return to the Scheme Advisory Board* This has been updated to include Mr Pumford as a Board member. • *C2 Understanding of Pension Board role.* **Note included under Action to be moved to Evidence.** • *C3 Declarations of Interest.* **One declaration remains outstanding** (SJ). • *D2 Pension Board information*. Agreed that **job titles and**	**Any checklist updates to be actioned by Board Secretary**

Actions

employer would be published on the Fund's website as well as Board Protocol and Terms of Reference.

- *D4 Publicise information regarding Board.* Board minutes are included within the Committee papers but need **linking to the Board page on the website as does the Fund Annual Report**.
- *E Managing risk and internal control*. **Board Secretary to contact Internal Audit Manager** to discuss incorporating a compliance check (E1 – E8) into the Internal Audit plan.
- *F Maintaining accurate member data*. This will never be fully compliant until backlog is fully addressed.
  - *F1 Member records*. **Update evidence and delete Action**.
  - *F9 Data improvement plan*. **Approach/ Evidence needs to be updated. Additional action required**.
- *G1 Maintaining contributions (procedures and processes).* This will be compliant when procedure notes are finalised.
- *G7 Provision of information by employers.* The main issue relates to one employer. **Report back to the Board on progress with resolving this issue**.
- *H1 ABS sent within timescale.* This was achieved for 2017.
- *H4 Deferred statement format.* This is done on an all Wales basis and MSS will alleviate issues. Chair commented that legal requirements not updated and whether remain appropriate.
- *H7 Scheme information provision to new members.* The employee contracts to include wording regarding LGPS. **Wording to be provided to employers**.
- *H10 Is information provided in required format/ methods?* An update was provided (HB) on changes regarding the Prudential AVC and necessary communication with members.
- *H11 Tracing.* An update provided (HB) and the market was being tested for likely cost. Mr Owen commented that there may be some merit in looking at what Housing Benefit/ Council Tax teams were doing as they are likely to be out to procurement and there may be a contract the Fund could be included on. Mr Latham confirmed that we could go to each Authority and ask. Mrs Burnham added that the Fund uses Atmos for mortality/tracing searches. Following a question by the Chair it was **agreed to add this item to the Fund's business plan**.
- *J Reporting breaches of law.* Mr Latham and the Chair are

	Actions
meeting to review. It was **agreed that the outcome would be reported to the Board**. • *K7 Training needs assessment for Board members.* Already on action plan for Board. • *K12 Training on FOI.* Already on action plan for Board. In summary Mr Owen commented that the overall position was very positive and that it had been beneficial, as well as necessary, that the Board had reviewed the checklist in detail. The Chair suggested that the actions identified on the checklist should be ***summarised into an action plan*** for the Officers to work through and for the Board to review on an ongoing basis.	**Board Secretary**

9. RESULTS OF SAB PENSION BOARD SURVEY AND EFFECTIVENESS OF PENSION BOARD

The Chair introduced the preliminary results of the SAB's survey. A general discussion ensued.

This was followed by a discussion on how the Board viewed their effectiveness which was led by the Chair who asked over twenty questions to probe on areas including the scope of the Board's role, the suitability of information provided and the value added by the Board. On the whole the feedback demonstrated that the Board members felt the Board was extremely effective and was operating well. The Board felt that their role was unusual but they had now very much found their feet and considered they had added value in a number of areas including developing of the KPIs and the formation of the Employer Liaison Team. The Board Secretary (Mr Latham) highlighted how he had appreciated the Board's guidance and advice. The Board also highlighted the value in having an independent and professional Chair.

A small number of areas were highlighted for ongoing consideration:

- There had been a lot of detailed discussion on Administration matters but perhaps this could be cut back in the future as the existing challenges are being dealt with
- There could be more use of graphs or looking for better ways to present detailed information, with any key points highlighted underneath
- There can be a perceived blurring between what are Board issues and management issues.
- Mrs Brooks had concerns that as a scheme member representative she had felt 'out of the loop' at the beginning

of her tenure and this wasn't helped by the gap between meetings. As time progressed this was not an issue.	**Actions**
These areas would ***continue to be reviewed by the Chair and Board Secretary***.	**Chair/ Board Secretary**
It was agreed that the Board's effectiveness should be reviewed every 18 months and added to the work plan. ***The Secretary agreed to update the work plan.***	**Board Secretary**
10. ASSET POOLING	
An update was given by Mr Latham highlighting the current focus was on the Operator procurement and he outlined the planned timescale for this.	
The Chair acknowledged the amount of work undertaken to date but that the Board should be challenging where needed to ensure that the requirements listed in the IAA were being achieved, for example, ensuring that the Business Plan was developed. Mr Latham agreed with this and stated that the IAA was a good foundation to work from. Mr Owen stated that he supported some focus on ensuring that the pool will be operating as required. The Board agreed that the ***Chair would speak to the Chair of the Pension Fund Committee to highlight this point***.	**Chair**
Mr Latham highlighted that a Wales infrastructure potential investment is being investigated as part of the Partnership and due diligence is being carried out by two officers of Welsh LGPS Funds. The Board highlighted some concern about this and the Secretary highlighted that the main focus is on the Operator procurement and appointment. The Board supported that the focus should be on getting the Operator up and running.	
The Board asked for clarification on the costs of the Partnership and specifically highlighted that the current year costs should be coming through on the budget monitoring and 2018/19 budget should include all potential costs including the Host Authority, advisers and the Operator. The Secretary agreed to ***ensure this information was provided in all future budget monitoring and setting***.	***Board Secretary***
11. CONSIDERATION OF 20th SEPTEMBER 2017 PENSION FUND COMMITTEE MEETING PAPERS	
The Chair opened this item up to the Pension Board. Mr Owen commented that the last meeting had been a challenging one	

	Actions
and perhaps it was not as focussed as it might have been due to some items overrunning. He highlighted that it was important that the focus was on the recommendations in reports, particularly where there was a matter for approval. The Chair highlighted that Mr Latham and he were considering developing further notes to assist the Chair of the Pension Fund Committee in managing the meeting.	
12. INPUT INTO ADVISORY PANEL AND CPF COMMITTEE	
The Chair opened this item up to the Pension Board by providing an overview of AP and their link to the Committee and also how the Board links in. Mr Owen suggested that the ***AP discuss the Wales Pension Partnership matters highlighted*** previously i.e. infrastructure investment and appropriateness of its governance. The Chair agreed to ensure this happened.	**Chair**
13. COMPLIMENTS AND COMPLAINTS	
An anonymised log of the latest compliments and complaints had been circulated to the Board with the agenda. Only one complaint had been received since the last Board meeting. Whilst the fault lay with a number of parties Mrs Burnham stated that she had apologised and was able to resolve the matter.	
Mrs Brookes asked whether any trends were identifiable or whether complaints tended to be one-off. Mrs Burnham replied that they do tend to be one-off and resolvable. Mr Latham asked whether any had been IDRP. Mrs Burnham replied that they were not included, however, there was one case at Stage 1 and a further case at Stage 2 that had been referred back to the employer. There had only been one IDRP against the Fund in the last six months and it had, as part of the IDRP, then been rejected.	
14. FUTURE WORK PLAN	
The Chair presented the future work plan and initiated discussion. The Board agreed they would like feedback on the success of the Member Self Service at future meetings.	
The Board Secretary agreed to update the work plan.	**Board Secretary**

Actions

15. PENSION BOARD BUDGET MONITORING

Mr Hughes provided an update report to the Board regarding the 2017/18 budget. The Board agreed that the Chair should carry on having quarterly meetings with the Pension Administration Managers for the foreseeable future.

Resolved – The Board accepted the budget monitoring update and were happy with the new summarised format.

16. FUTURE DATES

The Board Members were reminded of the future Board meeting dates already agreed, namely 27/02/18 and 28/06/18 as well as the forthcoming AJCM on the 14/11/17. The Chair asked the Board to advise her if there was an issue with any of these dates. Mr Owen gave his apologies regarding the AJCM.

Both Mrs Brookes and Mr Pumford would be attending the CIPFA/ Barnett Waddingham seminar in Liverpool on behalf of the Board.

17. ANY OTHER BUSINESS

The Chair mentioned the Welsh Chair event that she was unable to attend. No other Board member could attend and therefore Alwyn Hughes had attended instead. Alwyn confirmed the event had been useful and particularly the update from the Pensions Regulator.

Mrs Brookes added that when her term of appointment ended during 2018 she would not be standing for a further term. The Board agreed that they would be extremely sad to have Mrs Brookes leave the Board as she had been such a valuable contributor. ***The Chair and Secretary would commence the process for arranging a replacement scheme member representative.***

Chair/Board Secretary

The Chair highlighted that Mr Hughes was retiring at the end of the year. The Board thanked Mr Hughes for his valuable contribution to and administration of the meetings and they wished him a happy retirement.

No further business was raised. It was agreed that the ***draft minutes would be circulated***.

Board Secretary

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT

January 2018

Paul Middleman
Adam Lane

MAKE TOMORROW, TODAY MERCER

OVERRIDING OBJECTIVES

Stable and affordable contribution rate

versus

Achieve returns in excess of CPI required under funding arrangements

Page 32

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

Page 33

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

In absolute terms the funding position is c.13% 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
- Performance ahead of the benchmark since inception

No action required.

Synthetic equity mandate
- Insight in compliance with investment guidelines
- Outperformed the benchmark over Q3 2017
- Maturity constraints as expected

No action. Insight implemented an equity option strategy to provide protection on the equity TRS exposure in April.

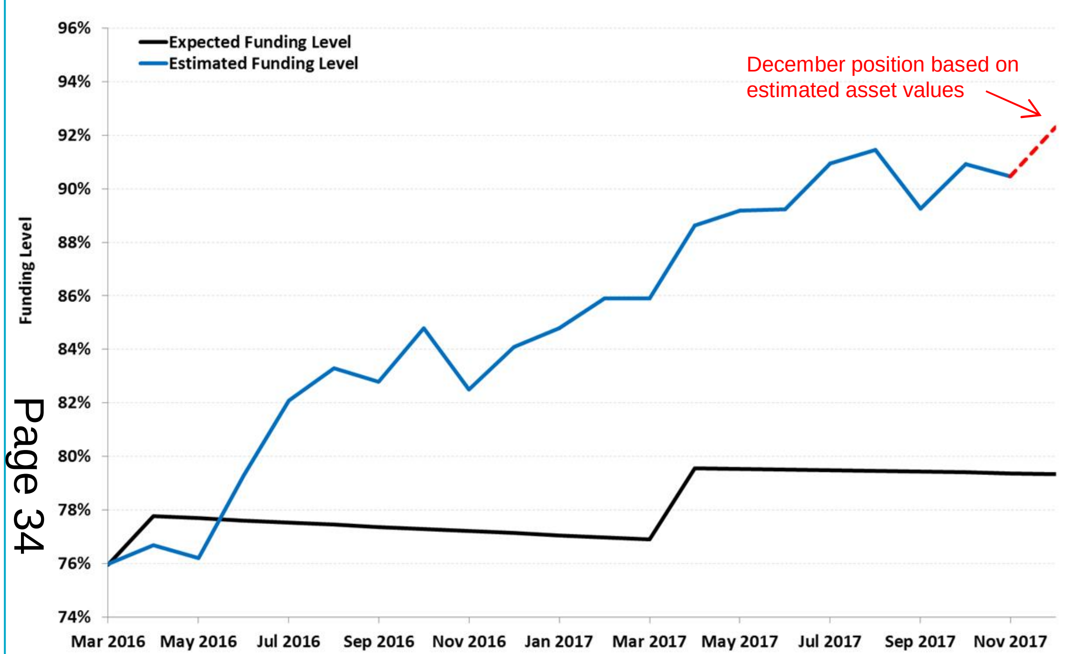
Collateral and counterparty position
- Collateral within agreed constraints
- The Insight QIF can sustain at least a 1.25% rise in interest rates and inflation in combination with a 35% fall in equity markets and a 0.5% increase in z-spreads before requiring further collateral

Collateral adequacy to be monitored quarterly. Potential to release a further c.£43m (as at 30 September 2017) based on the agreed collateral guidelines.

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

No action required.

Estimated funding position since 31 March 2016



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 31 December 2017 was around 79%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 30 November 2017. The **red line** shows the progression of the estimated funding level over December 2017. At 31 December 2017, we estimate the funding level and deficit to be:

92% (£153m*)

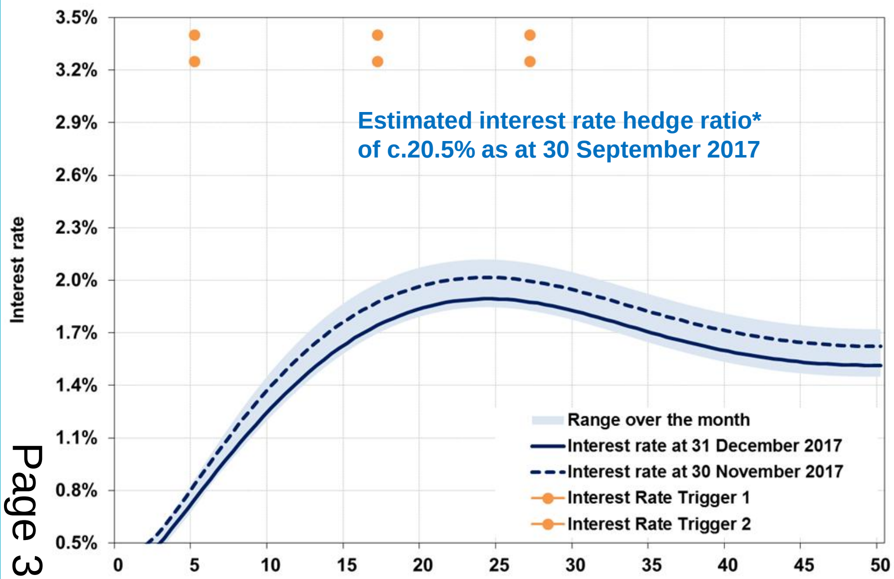
This shows that the Fund's position was ahead of the expected funding level at 31 December 2017 by around 13% on the current funding basis.

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 £92m to £245m.

This will be kept under review in light of changing market conditions.

*Asset values estimated based on market indices and an estimate of performance of the Insight liability hedging mandate from 30 November 2017 to 31 December 2017. We will monitor this estimate over time against the actual position once final asset values are available, and update the asset values on a monthly basis.

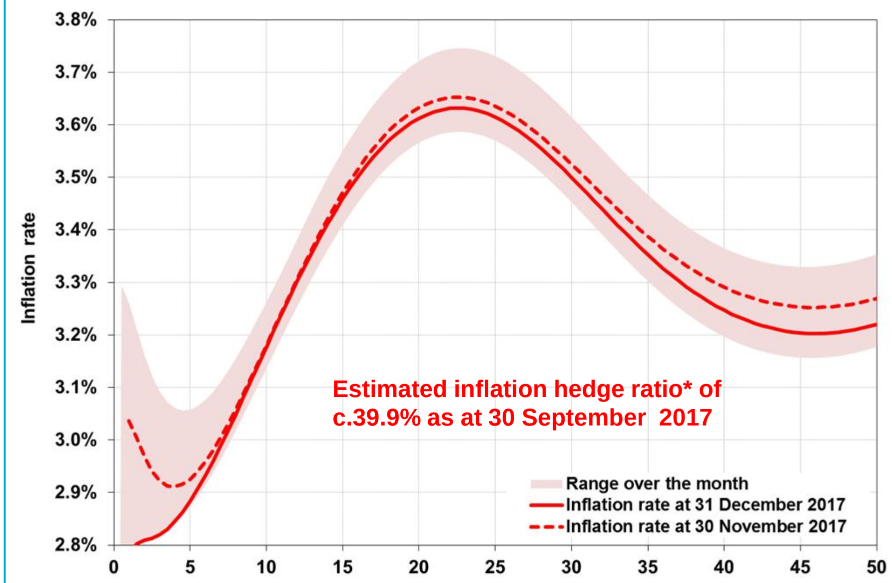
Change in interest rates



Page 35

Date	Band 1	Band 2	Band 3	Band 4	Actual
30 September 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
30 September 2017	40.0%	40.0%	40.0%	40.0%	40.0%

Comments

Interest rates fell at all durations over December 2017, with average falls of c.0.1% observed across the curve.

Based on market conditions as at 31 December 2017, yields would need to rise by c.1.4% before the Fund would hit any of the revised interest rate triggers implemented by Insight in September 2017.

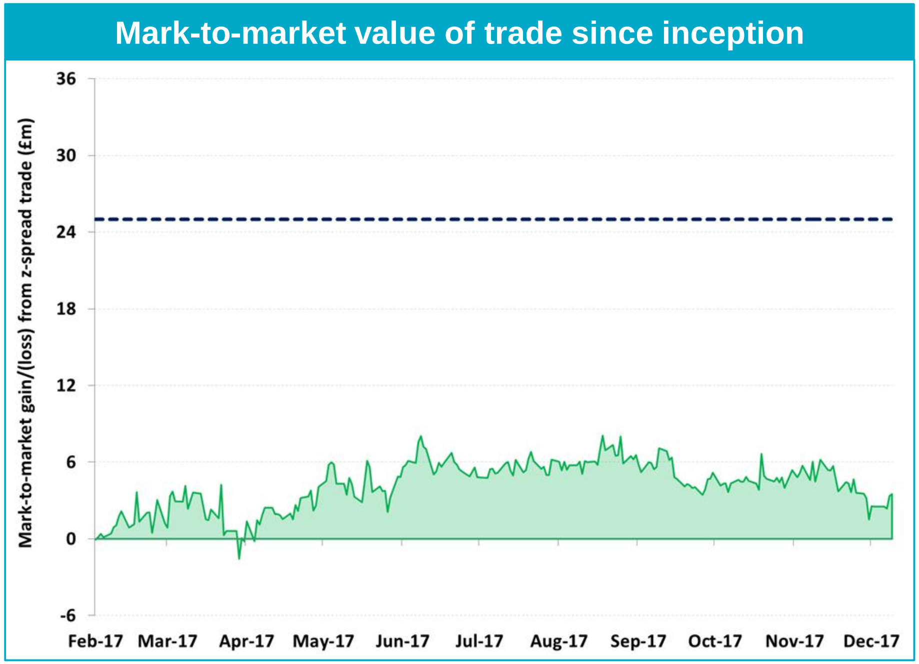
Comments

Inflation expectations remained stable at medium durations over December 2017, but fell at all other points on the curve.

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



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.

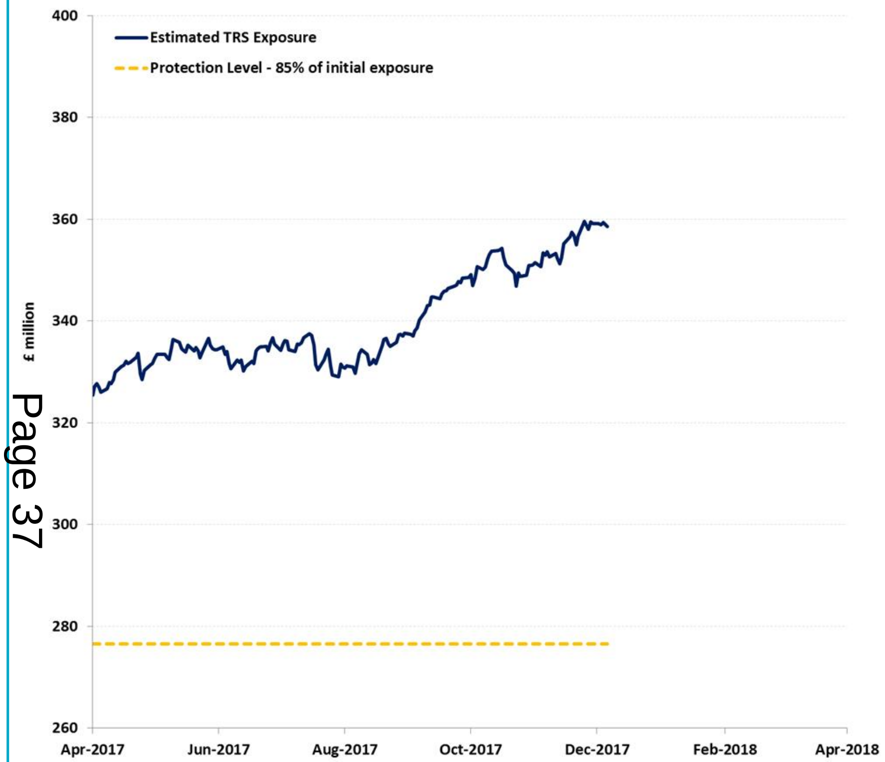
The relative value trade (i.e. holding gilts and “selling” interest rate swaps) will experience a mark-to-market gain if the difference between gilt and swap yields (“z-spread”) falls over time. The mark-to-market gain fell by £1.8m over the month, given that z-spreads rose on average over the month. The estimated gain was c.£3.5m as at 31 December 2017. This position will be monitored 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.

Page 36

EQUITY TRS PROTECTION

Equity protection



Comments

An equity option strategy has been implemented to protect the Fund against falls in equity market values over a one-year period to 24 April 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 April 2018.

The chart illustrates the value of the equity TRS over the period from 24 April 2017 to 31 December 2017 (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 is relatively higher as at 31 December 2017 when compared with the 30 November 2017 position - this is largely due to positive performance of the underlying US and UK equity indices over the month.

We will continue to monitor this position 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.

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This analysis is TAS 100 compliant.

CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE
PERIOD ENDING 31 DECEMBER 2017

TABLE OF CONTENTS

1 MARKET BACKGROUND
PERIOD ENDING 31 DECEMBER 2017

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	5.0	13.1	10.1
Global Developed Equities	4.8	12.4	15.4
USA	5.7	11.5	16.7
Europe	0.5	16.9	14.3
Japan	7.9	14.4	18.2
Asia Pacific (ex Japan)	7.5	23.4	15.3
Emerging Markets	6.6	25.8	12.1
Frontier Markets	4.8	20.9	10.6
Property	3.4	11.2	9.1
Hedge Funds	1.8	-0.8	9.3
Commodities	9.0	-3.4	-3.0
High Yield	-0.1	0.6	11.8
Emerging Market Debt	-1.5	5.4	6.7
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)	3.6	3.3	7.0
Index-Linked Gilts (>5 yrs)	3.9	2.5	8.9
Corporate Bonds (>15 yrs AA)	2.9	4.5	7.6
Non-Gilts (>15 yrs)	3.1	5.9	7.4

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	0.8	9.5	-4.6
Against Euro	-0.7	-3.8	-4.4
Against Yen	0.9	5.7	-6.6

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	1.1	4.1	2.6
Price Inflation – CPI	0.8	3.0	1.6
Earnings Inflation*	0.4	2.4	2.5

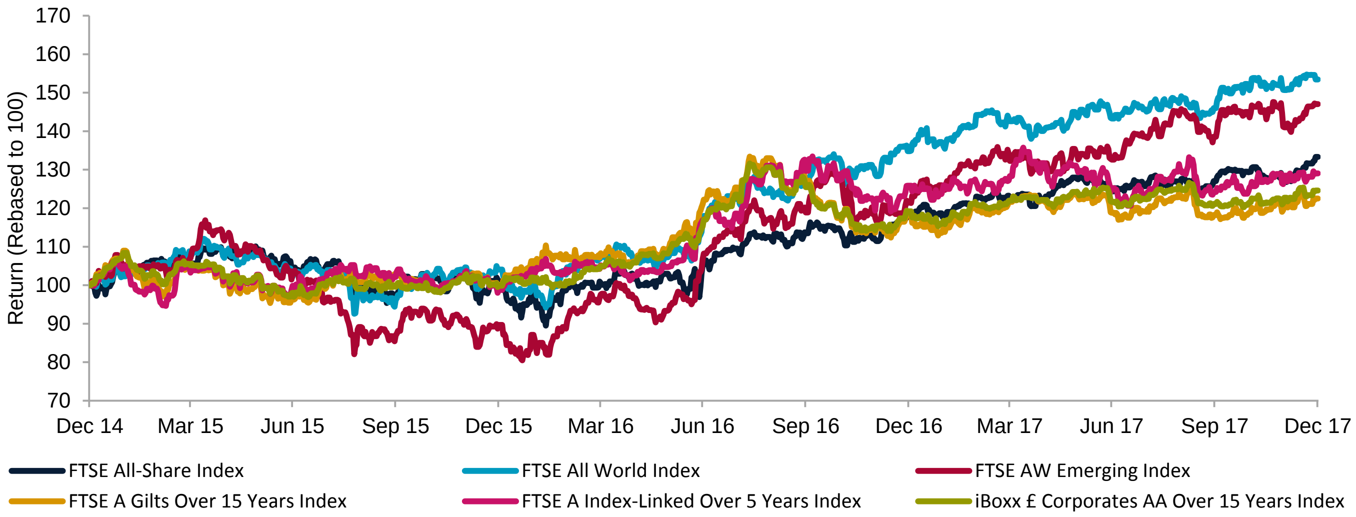
Yields as at 31 December 2017	% p.a.
UK Equities	3.59
UK Gilts (>15 yrs)	1.68
Real Yield (>5 yrs ILG)	-1.67
Corporate Bonds (>15 yrs AA)	2.44
Non-Gilts (>15 yrs)	2.90

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.09	0.12	0.22
UK Gilts (>15 yrs)	-0.16	-0.08	-0.74
Real Yield (>5 yrs ILG)	-0.15	0.00	-0.90
Corporate Bonds (>15 yrs AA)	-0.20	-0.18	-0.98
Non-Gilts (>15 yrs)	-0.15	-0.11	-0.84

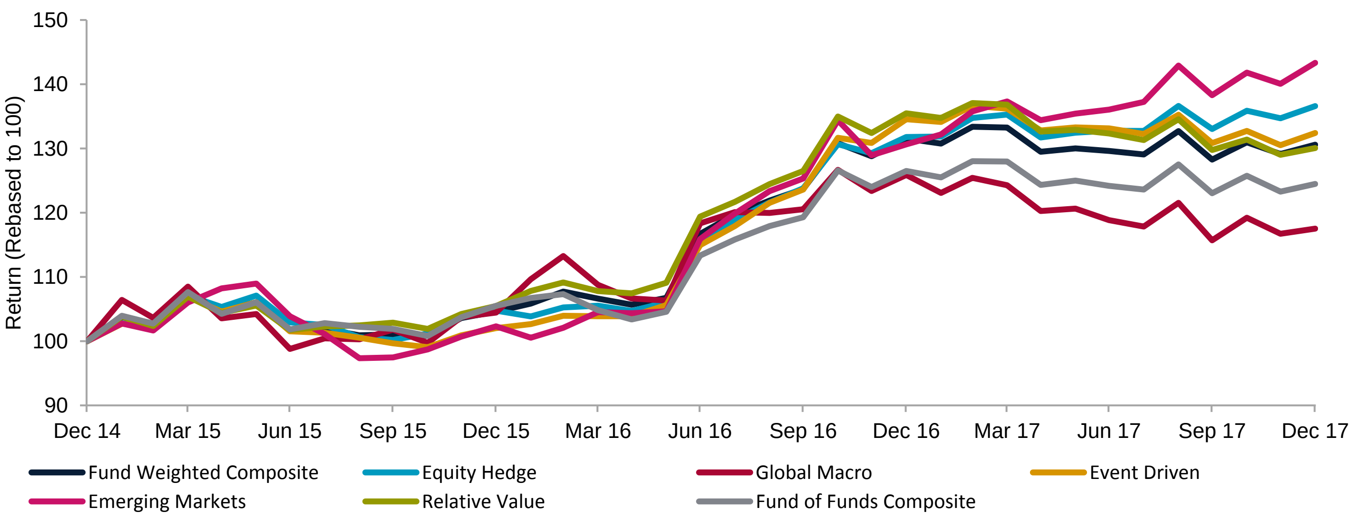
Source: Thomson Reuters and Bloomberg
Note: * Subject to 1 month lag

MARKET SUMMARY CHARTS

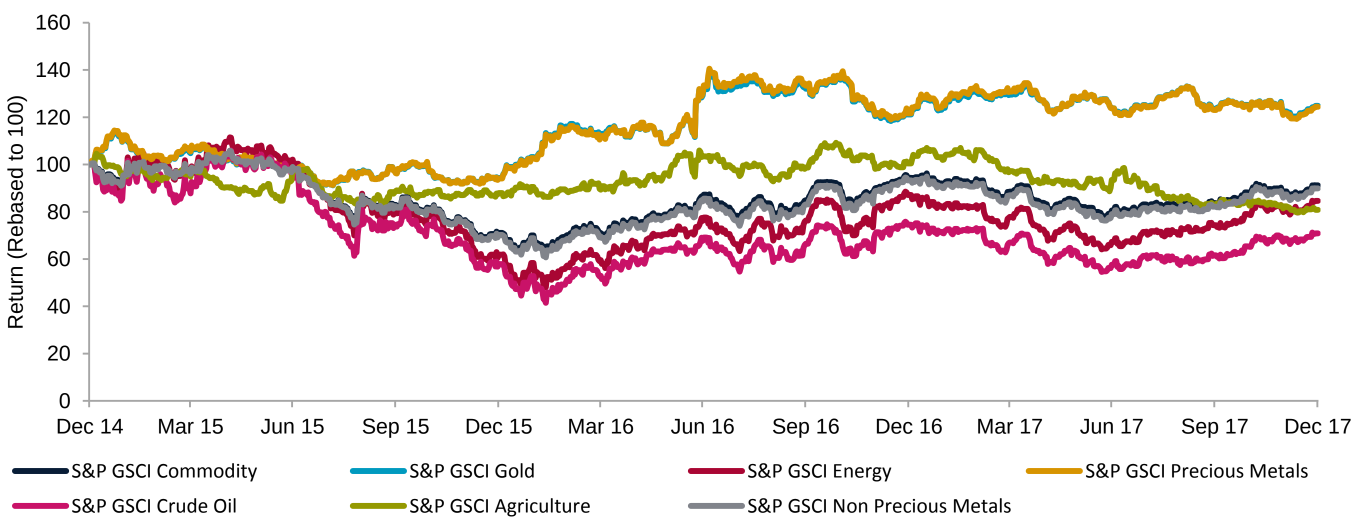
Market performance – 3 years to 31 December 2017



Hedge Funds: Sub-strategies performance – 3 years to 31 December 2017

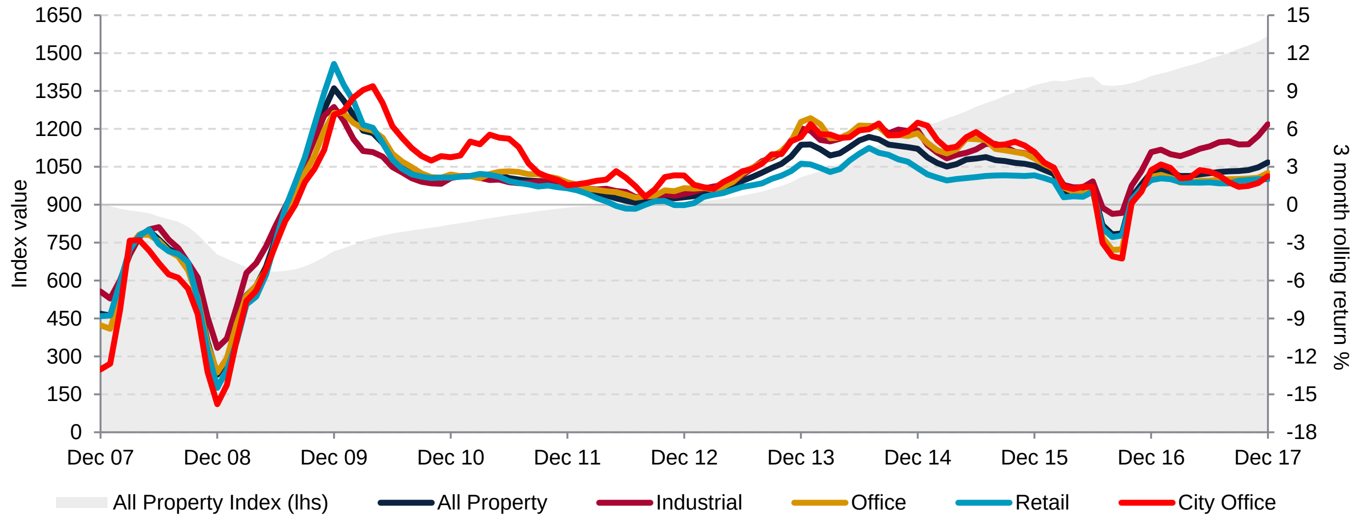


Commodities: Sector performance – 3 years to 31 December 2017

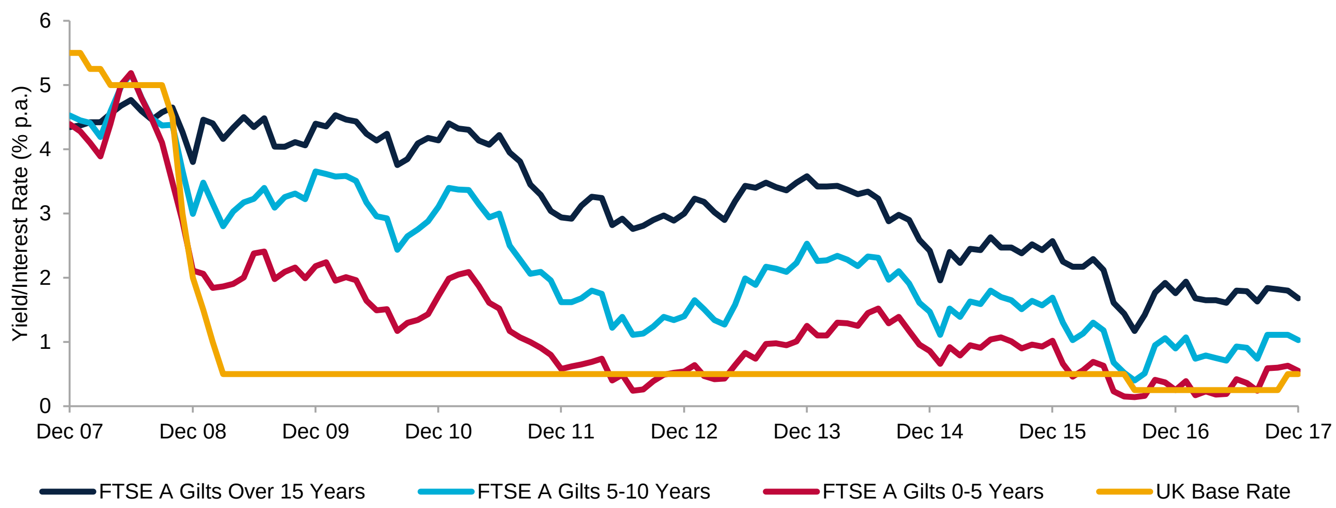


Source: Thomson Reuters

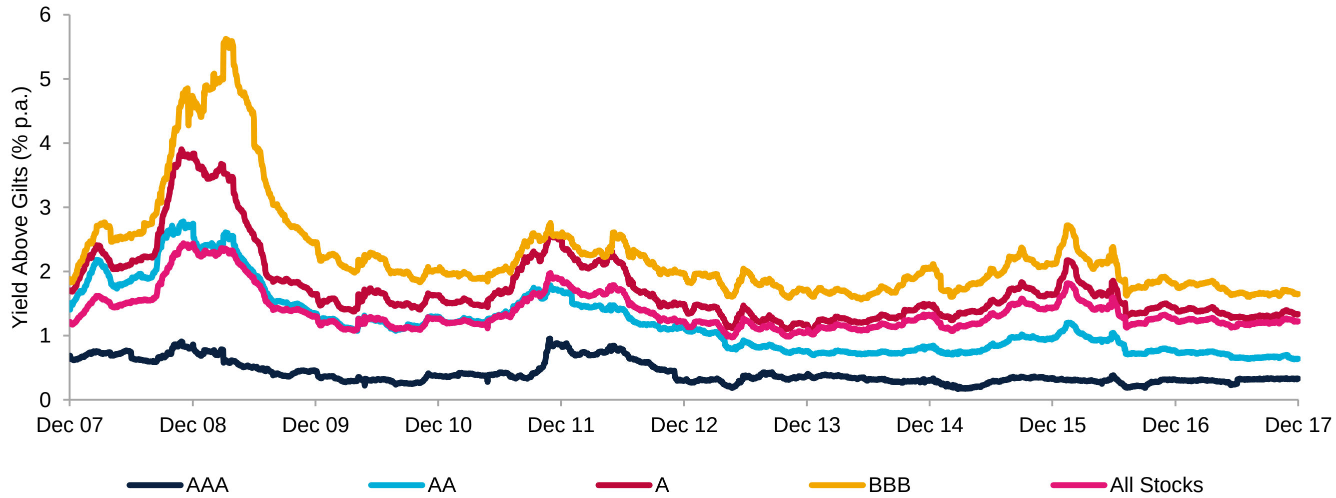
Property: Sector performance – 10 years to 31 December 2017



UK government bond yields – 10 years to 31 December 2017



Corporate bond spreads above government bonds – 10 years to 31 December 2017



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	31 December 2017			30 September 2017			31 December 2016		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	1.7%	4.1%	2.3%	1.9%	3.6%	2.2%	2.0%	2.4%	1.5%
Annual Inflation Rate[3]	3.0%	1.4%	2.1%	3.0%	1.5%	2.2%	1.6%	1.1%	2.1%
Unemployment Rate[4]	4.3%	8.7%	4.1%	4.3%	9.0%	4.3%	4.8%	9.8%	4.7%
Manufacturing PMI[5]	56.2	60.6	55.1	56.0	58.1	53.1	55.8	54.9	54.3

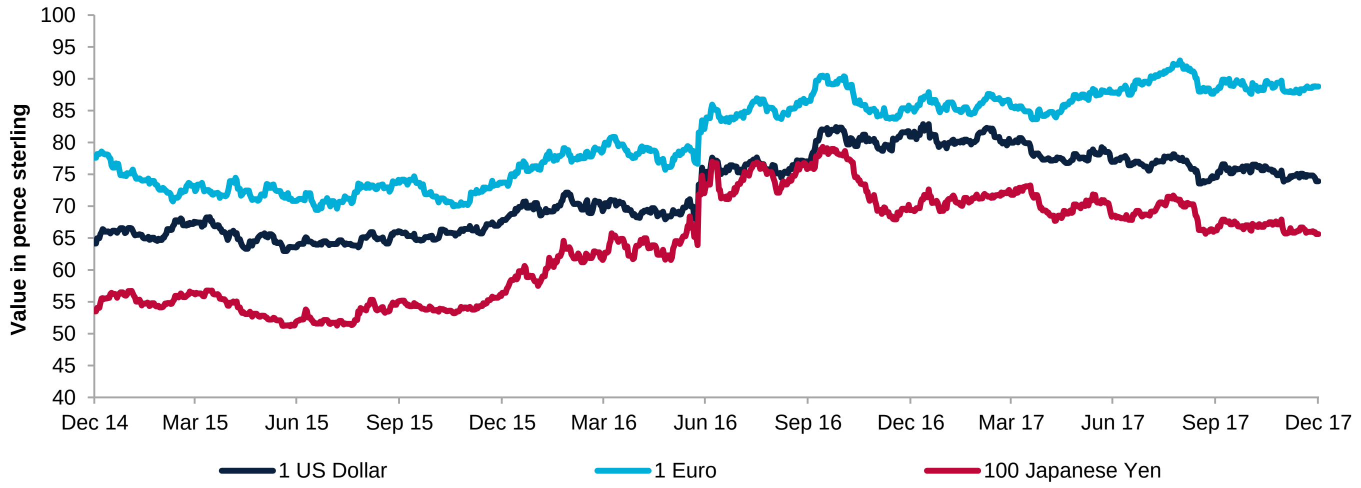
Change over periods ending:	3 months			12 months		
31 December 2017	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	-0.2%	0.5%	0.1%	-0.3%	1.7%	0.8%
Annual Inflation Rate[3]	0.0%	-0.1%	-0.1%	1.4%	0.3%	0.0%
Unemployment Rate[4]	0.0%	-0.3%	-0.2%	-0.5%	-1.1%	-0.6%
Manufacturing PMI[5]	0.2	2.5	2.0	0.4	5.7	0.8

Notes: 1. Euro Area 19 Countries. 2. GDP is lagged by one quarter. 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 Dec 17	30 Sept 17	31 Dec 16	3 months	12 months
1 US Dollar is worth	73.92p	74.54p	80.93p	0.8%	9.5%
1 Euro is worth	88.77p	88.11p	85.36p	-0.7%	-3.8%
100 Japanese Yen is worth	65.62p	66.22p	69.39p	0.9%	5.7%

Exchange rate movements – 3 years to 31 December 2017



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

3 MARKET COMMENTARY

INTRODUCTION

2017 turned into the second consecutive positive year for growth investors, with strong returns having been delivered across a broad range of asset classes and investment strategies. It is worth noting that returns were concentrated at the beginning and end of the year, with relatively unexciting second and third quarters in between.

Many economists were somewhat surprised by the positive outcome of equity markets for 2017. At the start of the year, numerous investment professionals were concerned that the combination of political instability and economic uncertainty would lead to increased financial market volatility and disappointing investment returns. However, the year did not work out that way.

The current market cycle has been a long and gradual economic expansion and despite the frequently occurring low market volatility across asset classes, investors have found themselves preoccupied by external factors.

At the start of 2017, market participants were distracted by a seemingly populist political outlook and although ultimately, neither global growth worries nor political fears materialised, the market continued its upward momentum in the face of these concerns.

UNITED KINGDOM

- The UK economy was resilient over the final quarter of 2017 but uncertainty remains surrounding its future relationship with the European Union.
- As anticipated, inflation has moved higher, which could add downward pressure on household spending in the coming months.
- Without a tailwind from sterling weakness, the market appears to be lacking the momentum in earnings to drive outperformance.
- However, valuations are reasonable compared with other equity markets and corporate results have been broadly in line with expectations.

EUROPE EX UK

- European equities had a flat quarter. Economic data in the euro-zone continues to paint a positive picture, including higher business confidence readings, strong PMI’s and an up-tick in GDP growth.
- However, the investment market failed to follow this trend in the final quarter, although the full year numbers for 2017 are encouraging.
- 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 with monetary policy remaining supportive and global demand in good health.

NORTH AMERICA

- US equities experienced a good final quarter. The proposed tax reforms, lower taxes and a reduced regulatory burden are likely to provide a substantial boost to corporate earnings.
- However, implementation and detailed plans are both proving difficult.
- Investors have low expectations on the ability of the Trump administration to push through these policies and therefore upside surprises on the fiscal front are a real possibility.

JAPAN

- Japanese equities were the sterling outperformer of the quarter.
- Japan is showing strong earnings growth and benefitting from solid growth momentum behind the economy.
- From a valuation perspective, these are attractive compared to historical averages and other markets.
- Yen weakness, as a result of the Bank of Japan retaining ultra-accommodative monetary policy, will also provide a boost to the region.

ASIA PACIFIC EX JAPAN / EMERGING MARKETS

- Over the course of the year, momentum for economic growth has been passed from the advanced economies to emerging markets, and global trade continues to grow strongly, which creates a supportive backdrop.
- Specifically in Asia, the improving fundamentals of emerging markets has had, and should continue to have, a positive impact on the economies in this region because of the trade linkage.
- Resilient domestic demand, which is being driven by public spending initiatives, stable commodity prices and accommodative monetary polices are supporting most of the regions.
- Headwinds for this region in 2018 include US policy normalisation and a more protectionist stance from President Trump, however, there are many positive factors attracting investors to this region.
- Broader emerging market equity has performed well over the quarter as the risk of a sharp US Dollar rally has faded and growth is broadening out.
- Relative to their developed market peers, emerging 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.
- However, the outlook for Asia is dependent on US trade policies and the degree of monetary tightening.
- Emerging economies as a whole have been successful in improving their economies, using measures to spur economic activities.
- Broadly speaking, there are reasons to be confident about the outlook for emerging market economies.
- However, a central worry has been the build-up of leverage, especially dollar debts, in many emerging economies. This remains a key vulnerability and a critical issue to track.
- For the time being, decent growth trends imply that the outlook remains reasonable, but the build-up in total economy leverage over the last ten years in many emerging markets (especially markets like China, Brazil, Turkey, Mexico, and Russia) is an important economic risk factor that investors need to watch. Any deterioration in global conditions, or the realisation of a much more aggressive US Federal Reserve tightening cycle, could trigger some adverse dynamics – even if, in most instances, we still believe that policymakers have sufficient tools (monetary, fiscal, exchange rate) to manage against shocks.

FIXED INCOME

- Within US government bonds, the key driver of returns has been the US employment market – which continues to tighten whilst economic growth remains robust.
- The outlook for US fiscal policy remains a key source of concern for monetary policy makers while significant uncertainty exists about President Trump's legislative program and its timetable.
- The Federal Reserve also raised interest rates once over the quarter, bringing the total to three during 2017.
- Within European bonds, robust economic growth is expected to continue in the Eurozone, which should reduce any spare capacity and support a gradual recovery in inflation.
- The European Central Bank has maintained its forward guidance on interest rates and they are expected to remain at current levels until 2019. The reduction in the asset purchase program was interpreted as continuing a loose fiscal policy program by markets, because it was kept open-ended in order to preserve policy flexibility.
- In Japan, government bonds have been driven by the Bank of Japan's bond-buying program and negative interest rate policy which has put valuations into expensive territory.
- Action by the Bank of Japan, including a pledge to aim for an overshoot of its inflation objective and adopting a 0% target for 10-year bond yields, appears to have had a short-lived effect, which has left the big picture unchanged.
- In the UK, there has been a sustained and substantial overshoot of the Bank of England's 2% inflation target and this remains a concern. The ongoing economic resilience and above-target inflation caused the Bank of England to raise rates in October back to the pre Brexit level.
- The uncertainties surrounding the UK's political backdrop, together with Brexit, could reduce the probability of any further tightening anytime soon but if capacity constraints continue to build, the Bank of England may well be obliged to raise rates again.
- UK corporate bonds have been delivering returns, company balance sheets remain in relatively good shape and default levels are not an issue currently. A lack of new issuance means that order books are over subscribed as investors continue their appetite for yield.
- In addition, quantitative easing from the European Central Bank has driven European yields to unattractive levels making sterling corporate bonds relatively appealing for investors. Concerns are building, amongst bond investors, that spreads have tightened to such a degree that further upside to price, looks challenging and that the risks are skewed to the downside.
- Potential policy error, in the form of aggressive rate rises, will add to downward pressures. A slowdown in consumer spending and higher inflation could also consequently increase the yield spread over government bonds.
- The outlook for global credits is trickier. Fundamentally, a regime of good growth and relatively low inflation points to a benign credit outlook.
- It is likely that credit defaults and downgrades will remain low for now. Yet a lot of this good news is already priced in and the pay-off and potential reward for taking credit risk seems limited.
- Current market pricing indicates that even a slight deterioration in the data, or an inflationary spike, could create difficult trading conditions and meaningful price movements.

ALTERNATIVES

- Hedge Funds (in Sterling terms) returned 1.8% over the quarter. Emerging Markets was the key driver, returning 3.1% followed by Equity Hedge which posted gains of 2.6%. Global Macro (1.5%), Event Driven (1.2%) and Relative Value (0.4%) also generated positive returns. The performance of hedge funds in US dollar terms was positive (8.7%) over the year, driven by the acceleration of the US economy, performance of global equities and improvement of investor tolerance. However, the depreciation of the US dollar against Sterling over the same period led to a decline of -0.8% in Sterling terms.

- UK commercial property continued its upward trajectory over the quarter, returning 3.4%. Rental income remained unchanged at 1.3%, however, capital values increased by 2.0%. All sectors posted positive returns; Industrials increased by 6.4%, followed by Offices which returned 2.5%. Retail and City Offices sectors grew by 2.0% and 2.3%, respectively. At the end of December, the annual property yield stood at 5.5%.
- Commodity markets gained 9.0% over the quarter, largely driven by strong price rises in the crude oil and energy sectors which returned 15.0% and 13.9%, respectively. In November, crude oil prices surged following a fall in supply. Petroleum prices also gained as Organisation of the Petroleum Exporting Countries (OPEC) and non-OPEC producers agreed to extend production cuts in 2018. Additionally, an explosion of a pipeline in Libya's largest oil port boosted performance as supply was impacted. Agriculture continued to decline as negative returns (in Sterling terms) were posted in October, November and December.

CONCLUSION

Total returns were surprisingly strong across a whole variety of asset classes over the quarter and indeed, 2017. The environment has been one of economic growth, low inflation, and in line with corporate profits.

Looking forward, investors face some key questions. Can this current economic environment continue? Can central banks afford it? What are the growth expectations for economies? Finally, where could the next drivers of growth originate?

The forces that have driven the global economy; low inflation, supportive policy, and strong corporate profits appear to be beginning to wane, and the scope for a much better than expected economic environment in 2018 seems more limited.

Growth trends are still continuing across the advanced economies and emerging markets – and recession risk appears low for now. The typical factors that drive recessions, significant monetary tightening, economic imbalances, and geopolitical shocks are not established at the moment and there is no evidence in global leading economic indicators of an imminent downturn.

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.

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CLWYD PENSION FUND

INVESTMENT STRATEGY AND MANAGER SUMMARY PERIOD ENDING 31 DECEMBER 2017

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 December 2017, the Fund's total market value increased by £60.9m to £1,818,322,250.

Over the quarter, total Fund assets returned 3.9%, ahead of its target by 1.0%, attributable to strong stock selection. Total Fund (ex LDI) returned 3.3%, compared with its target of 2.1%.

Total Equities generated returns of 7.3%, followed by Best Ideas which gained 5.0%. In-House assets delivered 2.8%, whilst Managed Account Platform and Total Credit assets returned 2.2% and 0.3%, respectively.

In relative terms, total Fund assets exceeded their target, mainly due to the Best Ideas portfolio which outperformed its target by 3.5%. The portfolio made a contribution of 0.4% to total relative performance.

Equities returned 7.3% against a composite target of 6.1%, and contributed 0.2% to total relative performance.

Total Credit underperformed its target marginally, returning 0.3% against its target of 0.4%. The assets added 0.1% to relative performance, due to the underweight in the Private Credit portfolio which is not yet fully funded.

Managed Futures and Hedge Funds outperformed its target by 1.5% over the quarter, and added 0.1% to total relative performance.

In-House assets returned 2.8% over the quarter, ahead of its target by 1.1% and contributed 0.3% to total relative performance.

Insight’s LDI portfolio rose by 6.0% over the quarter, due to a combination of the fall in yields and strong equity market performance. Overall, the overweight allocation to the LDI portfolio added 0.1% to relative performance.

EQUITIES

Global equity markets ended the year on a high, as positive returns (in Sterling terms) were observed in all major regions over the quarter. Over 2017, all major regions posted double-digit performance figures.

Japanese equities led performance (in Sterling terms), largely driven by resilient economic data market. Additionally, stocks in the region rallied following the re-election of Shinzo Abe’s government in the snap election held in October. US equities performed well, after Congress gathered enough votes to pass the tax reforms, boosting the country’s financial stocks and tech giants with large overseas cash holdings. Within the UK, strong performance in December boosted returns and contributed to UK equities finishing the year at record levels. After strong performance in the first three quarters of the year, European equities lagged in the final quarter, as the region suffered from political uncertainity in Germany and Spain.

In Developed markets, Japan provided the strongest returns, increasing by 7.9%, followed by Asia Pacific (ex Japan) which returned 7.5%. The US and UK posted returns of 5.7% and 5.0%, respectively. In a reversal of last quarter’s performance, Europe delivered the lowest return of the Developed markets, returning 0.5%.

Over the last 12 months, all developed regions posted positive returns, led by Asia Pacific (ex Japan) which posted gains of 23.4%. US equities generated the lowest return over the same period, but still increased by 11.5%.

Emerging Markets and Frontier Markets both rose by 6.6% and 4.8% respectively over the quarter, both markets also saw a strong annual return of 25.8% and 20.9%, respectively.

Total Equity assets returned 7.3%, ahead of the composite target by 1.2%. All funds in the strategy increased; Investec Global Strategic Equity returned 6.2% against its target of 6.7% whilst the Wellington Emerging Markets (Core) and Emerging Markets (Local) funds delivered returns of 6.4% and 8.7%. The Wellington Emerging Markets (Local) Fund was the only fund to outperform its 3 month target and is the only fund to have met its 3 year target.

Global equity exposures to Consumer Staples, Healthcare and IT sectors were the main contributors to returns, due to strong stock selection. Within Consumer Staples, Chinese spirits manufacturer Kweichow Moutai advanced, following continuing strong sales as well as the company’s first price increase in five years. However, the holding in Unilever detracted as the market was disappointed by the level of sales volumes and growth.

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 exposures to South Korea and India. Manager stock selection added the most within the Consumer Discretionary and Financials sectors, but this was partially offset by detractors within Telecommunications and Real Estate.

CREDIT

Global credit markets advanced in the last quarter of 2017, driven by lower yields and tightening credit spreads on the back of strong global economic data, positive earnings trends and continued demands for yield-producing assets. The yield curve flattened across major government bond markets as participants begun to readjust their expectations of inflation and future monetary policy.

The Bank of England’s Monetary Policy Committee (MPC) voted to increase interest rates by 0.25% in November 2017 and the US Federal Reserve (Fed) also increased interest rates by the same amount in December, the third rate hike of the year. The Fed has indicated that three further hikes may take place in 2018.

Fixed interest and index-linked government bonds in the UK saw strong demand from investors over the quarter, as gilt issues by the Debt Management Office (DMO) were oversubscribed.

Over the quarter, Long Dated Fixed Interest Gilts, Long Dated Index-Linked Gilts and Long Dated UK Corporate Bonds produced returns of 3.6%, 3.9% and 2.9% respectively, as yields declined. Emerging Market Debt and Global High Yield posted returns of -1.5% and -0.1%, respectively. Global bonds were flat over the quarter.

Total Credit, which includes an allocation to Private Credit, returned 0.3% over the quarter, behind its target by 0.1%, and added 0.1% to total relative return.

Performance over the quarter was driven by asset allocation and stock selection. In addition, credit beta and duration also added to returns in the case of the Multi-Asset Credit Portfolio.

Within US High Yield, lower quality credits outperformed in December as investors added risk in anticipation of high demand and low supply in January. Meanwhile, European High Yield performance over the same period was flat, due to high interest rates and muted risk appetite amongst investors. Overall, Publishing and Printing, Utilities and Food & Drug Retailers were the best performing sectors. Within Emerging Market Debt, overweight exposure to Argentina, Iraq and the Gabonese Republic were the top contributors to performance. Oil producing countries such as Ecuador, Angola, and Nigeria also generated strong performance as oil prices rose.

HEDGE FUNDS

Hedge Funds (in Sterling terms) returned 1.8% over the quarter. Emerging Markets was the key driver, returning 3.1% followed by Equity Hedge which posted gains of 2.6%. Global Macro (1.5%), Event Driven (1.2%) and Relative Value (0.4%) also generated positive returns.

Over the last 12 months, hedge fund performance in US dollar terms was 8.7%, driven by the acceleration of the US economy, performance of global equities and improvement of investor tolerance. However, the depreciation of the US dollar against Sterling over the same period led to a decline of -0.8% in Sterling terms.

ManFRM's Managed Futures & Hedge Funds strategy posted positive return of 2.4%, outperforming its target by 1.5% and contributing 0.1% to 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 -0.3%.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets returned 1.1% over the quarter, underperforming the target by 1.0%. Overall, this detracted -0.1% from total relative performance.

Pyrford returned 0.5% compared to a target of 2.2%. Performance was largely driven by equities, with currency also contributing positively, albeit to a lesser extent. UK and overseas equity stock selection benefited the strategy as stocks such as Vodafone, British American Tobacco and BP performed notably well. Overseas bond holdings were the major detractors of performance, as bond yields across the globe rose.

Investec generated a return of 1.6% compared to a target of 1.9%. Performance was primarily driven by 'Growth' strategies, due to a broad-based risk-on sentiment across global markets, as well as positive stock selection. 'Defensive' strategies were the primary detractor, as chrrency and Sterling currency hedging positions detracted. ‘Uncorrelated’ strategies added positively, as the infrastructure basket was backed by strong market performance.

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio returned 5.0%, above its target by 3.5%. Overall, this contributed 0.4% to the total Fund relative performance. Over the last 12 months, the Best Ideas Portfolio has delivered a return of 10.7% and outperformed its target of UK CPI +3.0% p.a. by 4.6%.

Over the quarter, positive returns were generated by all funds within the Best Ideas Portfolio. In particular, Investec Global Natural Resources returned 11.7%, as commodity prices, notably oil, rose strongly. Demand for most commodities was supported by increasing optimism about the global economy, and the modest weakness in the US Dollar also helped. On a relative basis, Investec's exposure to base metals and bulks was the main contributor.

F&C's UK Equity-Linked Gilt Fund (7.1%), BlackRock's Emerging Market Equities Fund (7.0%) and LGIM's North American Equities (Hedged) Fund (6.1%) all comfortably outperformed the CPI +3.0% target of 1.5% over the quarter.

Despite the positive returns generated by the BlackRock European Equities Fund (0.9%) and Investec Emerging Markets Debt Fund (0.2%), both funds underperformed their targets by -0.6% and -1.3%, respectively. However, both funds made neutral contributions to relative performance.

During the quarter, £7.0m was disinvested from the BlackRock Emerging Markets Equities with the proceeds being reinvested into the BlackRock European Equities (Hedged) Fund.

Additionally, the position in the Investec Global Natural Resources Fund was reduced by £5.0m, with the proceeds split equally and used to increase exposure to the LGIM Infrastructure Equities Fund and LGIM Global Real Estate Equities Fund.

IN-HOUSE ASSETS

Total In-House assets returned 2.8%, ahead of its composite target by 1.1%. Overall this added 0.2% to total relative performance. The two sub-sections of the In-House assets; the Real Assets Portfolio and the Private Markets Portfolio returned 1.1% and 4.4% respectively.

Opportunistic assets were the strongest sector of the portfolio, returning 6.6% and outperforming its target by 5.3%.

Private Equity assets, which are overweight the strategic allocation, returned 4.1% and outperformed its target by 2.8%.

Infrastructure assets returned 3.1% and outperformed its target by 1.8%. This added 0.1% to relative performance.

Property assets, which are overweight the strategic allocation by 2.4%, gained 2.5% against its target of 3.4%.

Timber/Agriculture declined by -7.1% and underperformed its target by 8.4%. This detracted -0.2% from relative performance.

2 STRATEGIC ASSET ALLOCATION
31 DECEMBER 2017

Allocation by underlying asset class

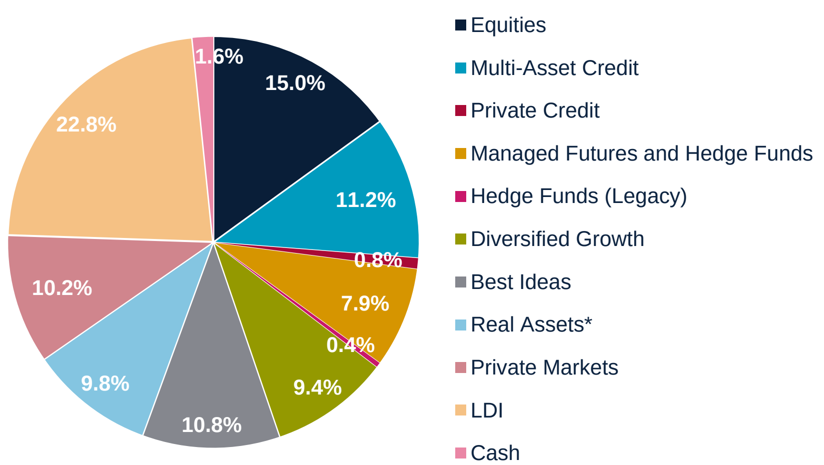
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	148,838,852	8.2	8.0	+0.2	5.0 – 10.0
Emerging Market Equities	124,198,139	6.8	6.0	+0.8	5.0 – 7.5
Multi-Asset Credit	203,874,549	11.2	12.0	-0.8	10.0 – 15.0
Private Credit^	15,044,341	0.8	3.0	-2.2	2.0 – 5.0
Managed Futures and Hedge Funds	144,288,857	7.9	9.0	-1.1	7.0 – 11.0
Hedge Funds (Legacy)*	6,644,847	0.4	0.0	+0.4	–
Diversified Growth	170,973,263	9.4	10.0	-0.6	8.0 – 12.0
Best Ideas	196,857,327	10.8	11.0	-0.2	9.0 – 13.0
Property	115,961,906	6.4	4.0	+2.4	2.0 – 6.0
Infrastructure / Timber / Agriculture	61,799,512	3.4	8.0	-4.6	5.0 – 10.0
Private Equity / Opportunistic	184,861,140	10.2	10.0	+0.2	8.0 – 12.0
LDI & Synthetic Equities	415,364,834	22.8	19.0	+3.8	10.0 – 30.0
Cash	29,614,683	1.6	0.0	+1.6	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**1,818,322,250**	**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.

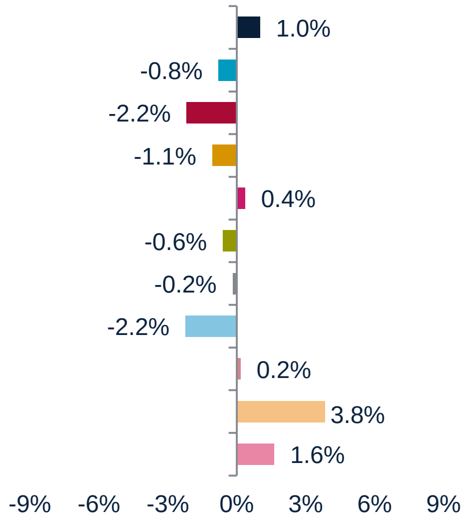
Points to note

- 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 increased by 0.5% over the quarter and is 3.8% overweight relative to its strategic allocation.

Strategic Asset Allocation as at 31 December 2017



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 DECEMBER 2017

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Investec	Global Strategic Equity	78,418,852	4.3	4.0	5.0 – 10.0
BlackRock	World Multifactor Equity Tracker	70,420,000	3.9	4.0	
Wellington	Emerging Markets (Core)#	58,885,510	3.2	3.0	5.0 – 7.5
Wellington	Emerging Markets (Local)#	65,312,628	3.6	3.0	
Total Equity		**273,036,991**	**15.0**	**14.0**	
Stone Harbor	LIBOR Multi-Strategy	131,816,226	7.2	12.0	10.0 – 15.0
Stone Harbor	Multi-Asset Credit	72,058,323	4.0		
Multi-Asset Credit Portfolio		**203,874,549**	**11.2**	**12.0**	**10.0 – 15.0**
Permira	Credit Solutions III	15,044,341	0.8	3.0	2.0 – 5.0
Private Credit Portfolio		**15,044,341**	**0.8**	**3.0**	**2.0 – 5.0(1)**
Total Credit		**218,918,890**	**12.0**	**15.0**	**10.0 – 20.0**
ManFRM	Managed Futures & Hedge Funds	144,288,857	7.9	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	6,644,847	0.4	0.0	–
Managed Account Platform		**150,933,704**	**8.3**	**9.0**	**7.0 – 11.0**
Pyrford	Global Total Return	82,417,145	4.5	5.0	8.0 – 12.0
Investec	Diversified Growth	88,556,119	4.9	5.0	
Diversified Growth Portfolio		**170,973,263**	**9.4**	**10.0**	**8.0 – 12.0**
F&C	UK Equity-Linked Gilts	11,414,809	0.6	11.0	9.0 – 13.0
LGIM	North American Equities (Hedged)	30,546,673	1.7		
BlackRock	US Opportunities	18,609,440	1.0		
BlackRock	European Equities (Hedged)	20,245,558	1.1		
BlackRock	Emerging Markets Equities	47,495,844	2.6		
Investec	Global Natural Resources	20,520,830	1.1		
LGIM	Infrastructure Equities MFG (Hedged)	14,659,820	0.8		
LGIM	Global Real Estate Equities	14,512,517	0.8		
Investec	Emerging Markets Local Debt	18,851,836	1.0		
Best Ideas Portfolio		**196,857,327**	**10.8**	**11.0**	**9.0 – 13.0**
Tactical Allocation Portfolio		**367,830,590**	**20.2**	**21.0**	**15.0 – 25.0**
In-House	Property	115,961,906	6.4	4.0	2.0 – 6.0
In-House	Infrastructure	36,769,637	2.0	8.0	5.0 – 10.0
In-House	Timber / Agriculture	25,029,875	1.4		
Real Assets Portfolio		**177,761,418**	**9.8**	**12.0**	**10.0 – 15.0**
In-House	Private Equity	158,127,299	8.7	10.0	8.0 – 12.0
In-House	Opportunistic	26,733,841	1.5		
Private Markets Portfolio		**184,861,140**	**10.2**	**10.0**	**8.0 – 12.0**
Total In-House Assets		**362,622,558**	**19.9**	**22.0**	
Insight	LDI Portfolio	415,364,834	22.8	19.0	10.0 – 30.0
Total Liability Hedging		**415,364,834**	**22.8**	**19.0**	**10.0 – 30.0**
Trustees	Cash	29,614,683	1.6	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**1,818,322,250**	**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. 1The Private Credit allocation is not yet fully funded.

4 PERFORMANCE SUMMARY
PERIODS ENDING 31 DECEMBER 2017

	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	6.2	6.7	18.6	16.5	15.7	17.6	Target not met
	Wellington	Emerging Markets (Core)[#]	6.4	6.9	25.8	27.0	15.3	15.9	Target not met
	Wellington	Emerging Markets (Local)[#]	8.7	7.1	33.5	28.2	17.1	17.1	Target met
Total Equity			**7.3**	**6.1**	**23.6**	**21.1**	**15.6**	**16.7**	
	Stone Harbor	LIBOR Multi-Strategy	0.4	0.3	3.4	1.3	2.4	1.4	Target met
n/a	Stone Harbor	Multi-Asset Credit	0.4	0.3	n/a	n/a	n/a	n/a	n/a
Multi-Asset Credit Portfolio			**0.4**	**0.3**	**3.9**	**1.3**	**2.7**	**1.4**	
n/a	Permira	Credit Solutions III	-1.6	1.5	n/a	n/a	n/a	n/a	n/a
Private Credit Portfolio			**-1.6**	**1.5**	**n/a**	**n/a**	**n/a**	**n/a**	
Total Credit			**0.3**	**0.4**	**n/a**	**n/a**	**n/a**	**n/a**	
n/a	ManFRM	Managed Futures & Hedge Funds	2.4	0.9	4.5	3.8	n/a	n/a	n/a
n/a	ManFRM	Hedge Funds (Legacy)[*]	-0.3	0.9	-31.0	3.8	-11.1	4.8	n/a
Managed Account Platform			**2.2**	**0.9**	**2.1**	**3.8**	**n/a**	**n/a**	
	Pyrford	Global Total Return	0.5	2.2	1.4	9.0	3.9	7.5	Target not met
n/a	Investec	Diversified Growth	1.6	1.9	9.2	7.9	n/a	n/a	n/a
Total Diversified Growth			**1.1**	**2.1**	**5.3**	**8.5**	**3.9**	**7.1**	
Best Ideas Portfolio			**5.0**	**1.5**	**10.7**	**6.1**	**n/a**	**n/a**	
Tactical Allocation Portfolio			**3.2**	**1.5**	**8.1**	**6.2**	**n/a**	**n/a**	
	In-House	Property	2.5	3.4	6.7	11.2	8.7	9.1	Target not met
	In-House	Infrastructure	3.1	1.3	6.7	5.3	20.1	5.5	Target met
	In-House	Timber / Agriculture	-7.1	1.3	-7.2	5.3	4.9	5.5	Target not met
Real Assets			**1.1**	**2.0**	**4.4**	**7.2**	**n/a**	**n/a**	
	In-House	Private Equity	4.1	1.3	11.6	5.3	14.0	5.5	Target met
	In-House	Opportunistic	6.6	1.3	5.7	5.3	-7.8	5.5	Target not met
Private Markets Portfolio			**4.4**	**1.3**	**10.9**	**5.3**	**n/a**	**n/a**	
Total In-House Assets			**2.8**	**1.7**	**7.6**	**6.4**	**10.8**	**6.4**	
n/a	Insight	LDI Portfolio	6.0	6.0	11.5	11.5	17.9	17.9	n/a
Total (ex LDI)			**3.3**	**2.1**	**9.4**	**7.8**	**7.5**	**7.0**	
TOTAL CLWYD PENSION FUND			**3.9**	**2.9**	**9.9**	**8.4**	**10.0**	**8.9**	
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.

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

5 STRATEGIC ASSET CLASSES
PERFORMANCE TO 31 DEC 2017

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**7.3**	**23.6**	**15.6**
Composite Objective	6.1	21.1	16.7
Composite Benchmark	5.7	18.7	14.4
Multi-Asset Credit Portfolio	**0.4**	**3.9**	**2.7**
Objective	0.3	1.3	1.4
Benchmark	0.1	0.3	0.4
Managed Account Platform	**2.2**	**2.1**	**n/a**
Objective	0.9	3.8	n/a
Benchmark	0.9	3.8	n/a
Total Hedge Funds (Legacy)	**-0.3**	**-31.0**	**-11.1**
Composite Objective	0.9	3.8	4.8
Composite Benchmark	0.9	3.8	4.8
Total Diversified Growth	**1.1**	**5.3**	**3.9**
Composite Objective	2.1	8.5	7.1
Composite Benchmark	2.1	8.5	7.1
Best Ideas Portfolio	**5.0**	**10.7**	**n/a**
Objective	1.5	6.1	n/a
Benchmark	1.5	6.1	n/a
Total In-House Assets	**2.8**	**7.6**	**10.8**
Composite Objective	1.7	6.4	6.4
Composite Benchmark	1.7	6.4	6.4
Total LDI Portfolio	**6.0**	**11.5**	**17.9**
Composite Objective	6.0	11.5	17.9
Composite Benchmark	6.0	11.5	17.9
Total (ex LDI)	**3.3**	**9.4**	**7.5**
Composite Objective	2.1	7.7	7.0
Composite Benchmark	2.0	7.2	6.4
Total Clwyd Pension Fund	**3.9**	**9.9**	**10.0**
Composite Objective	2.9	8.4	8.9
Composite Benchmark	2.8	7.9	8.4

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 Balanced Funds Weighted Average	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.

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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 December 2017, the transition of £70m from the Investec Global Equity mandate to the BlackRock Global Multi Factor mandate was completed. This was as a result of the decision previously agreed with the Committee to allocate 4% of the Fund to a new smart beta allocation as part of the Welsh Pension Partnership arrangements.

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 December 2017 was £29.6m (£43.4m at 30th September 2017). Cash balance as at January 31st 2018 was £26.6m. 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

Background

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.

Action Taken

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

- Full redemption of F & C Equity Linked Bonds - £11.4m (crystallised +45.4%)
- Additional investment of £5.7m in BlackRock Emerging Market Equity
- Additional investment of £5.7m in BlackRock US Opportunities

The current allocations within the portfolio following the transactions are:

- US Equities (3.1%)
- Emerging Market Equities (3.0%)
- European Equities (1.1%)
- Emerging Market Debt (1.1%)
- Commodities (1.1%)
- 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 will be circulated to the Advisory Panel.

As at the end of December 2017, the Best Ideas portfolio has both outperformed its target since inception by 5.1% and added value to the investment return at total Fund level.

	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

Due diligence has been undertaken on a further three Infrastructure investments and the following commitments have been made under delegated authority since the last Committee:

- €9.0 million to Access Co-Investment Fund I (European Infrastructure Fund focusing on Co – Investments and targeting 9 - 11% Net IRR)
- €9.0 million to Arcus Infrastructure Fund II (European Infrastructure Fund and targeting 10 - 15% Net IRR)
- $10.0 million to Pantheon Global Infrastructure Fund III (Global Infrastructure Fund focussing on Secondary and Co –Investment opportunities and targeting 10 - 15% Net IRR)

Arcus is a follow on Fund with an existing manager, whilst Access is an existing manager with the Fund within the Private Equity portfolio, this is a new Infrastructure mandate for the Fund but focussing on co – investments which reduce cost and carry fees. Pantheon, although been known to the Fund for many years, is a new manager appointed to the increasing Infrastructure allocation and focussing on Global secondary and co – investments. To assist with the governance of the Private Markets portfolio, the Funds aim is not to increase the number of fund manager relationships already in place unless absolutely necessary but as the Fund has increased its allocation to Infrastructure, this has in turn resulted in additional managers.

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Appendix 2

Delegation of Functions to Officers by Pension Fund Committee – February 2018

Key:

PFC – Pension Fund Committee
CFM – Corporate Finance Manager
FA – Fund Actuary
PAP - Pension Advisory Panel
CE - Chief Executive
IA – Independent Advisor
CPFM – Pension Fund Manager
IC – Investment Consultant
PFM – Pension Finance Manager

Function delegated to PFC	**Further Delegation to Officer(s)**	**Delegated Officer(s)**	**Communication and Monitoring of Use of Delegation**
Investment strategy - approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite. Monitoring the implementation of these policies and strategies on an ongoing basis.	Rebalancing and cash management Implementation of strategic allocation including use of both rebalancing and conditional ranges Short term tactical decisions relating to the 'best ideas' portfolio Risk Management Framework - Implementation of the agreed market Flightpath triggers and deciding action(s) to be taken when Flightpath funding triggers are reached within the existing constraints of the Investment Strategy.	CPFM (having regard to ongoing advice of the IC and PAP)	High level monitoring at PFC with more detailed monitoring by PAP

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
	Investment into new mandates / emerging opportunities	CPFM and either the CFM or CE (having regard to ongoing advice of the IC)	High level monitoring at PFC with more detailed monitoring by PAP
In relation to Wales Pooling Collaboration arrangements: • Nominating Flintshire County Council's officers to the Officer Working Group.	Members of the Officer Working Group	CPFM and PFM (Debbie Fielder)	High level monitoring at PFC with more detailed monitoring by PAP
In relation to Wales Pooling Collaboration arrangements: • Delegating powers to Flintshire County Council's own officers and the Host Council where required.	All matters included in the Inter Authority Agreement as being responsibilities of officers and the Host Council	Officers – CPFM who may delegate to PFM subject to ongoing advice from CFM Host Council – Carmarthenshire County Council	High level monitoring at PFC with more detailed monitoring by PAP
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers	CPFM, CFM and CE (having regard to ongoing advice of the IC) and subject to ratification by PFC	High level monitoring at PFC with more detailed monitoring by PAP
	Selection, appointment and dismissal of Fund Managers	CPFM, CFM and CE (having regard to ongoing advice of the IC) and subject to ratification by PFC	Notified to PFC via ratification process.

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the terms and payment of bulk transfers into and out of the Fund.	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Exceptions to this would be where there is a dispute over the transfer amount or it relates to significant assets transfers relating to one employer or the Fund as a whole	CPFM and either the CFM or CE after taking appropriate advice from the FA.	Ongoing reporting to PFC for noting
Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.	CPFM and either the CFM or CE after taking appropriate advice from the FA.	Ongoing reporting to PFC for noting

Function delegated to PFC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Discretions – determining how the various administering authority discretions are operated for the Fund.	Approving administering authority discretions policy ***(including the Voluntary Scheme Pays Policy and Over/underpayments Policy)*** other than in relation to: • any key strategy/policies and • matters relating to admission bodies and bulk transfers as included in the preceding two rows.	CFM and CE (having regard to the advice of the rest of the PAP)	Copy of polic***ies*** to be circulated to PFC members once approved.
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PFC.	CPFM and either the CFM or CE, subject to agreement with Chairman and Deputy Chairman (or either, if only one available in timescale)	PFC advised of consultation via e-mail (if not already raised previously at PFC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PFC for noting.
Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice[1]	CE	Regular reports provided to PFC and included in Annual Report and Accounts.

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

Function delegated to PFC	**Further Delegation to Officer(s)**	**Delegated Officer(s)**	**Communication and Monitoring of Use of Delegation**
Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund	Making minor changes to existing strategies, statutory compliance statements, policies and procedures. These will still be required to be considered by the PFC in line with the period stated in that document.	CPFM and either the CFM or CE	Ongoing reporting to PFC for noting
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pension Fund Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pension Fund Committee.	Other urgent matters as they arise	CPFM and either CFM or CE, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	PFC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PFC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PFC and subject to monitoring agreed at that time.

Updates since last version are shown in ***highlighted bold and italics***.

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