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To: Cllr Aaron Shotton (Chairman)

Councillors: Haydn Bateman, Adele Davies-Cooke, Ray Hughes and Ralph Small

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

6 June 2019

Dear Councillor

You are invited to attend a meeting of the Clwyd Pension Fund Committee which will be held at 9.30 am on Wednesday, 12th June, 2019 in the Delyn Committee Room, County Hall, Mold CH7 6NA to consider the following items

A G E N D A

1 **APOLOGIES**

Purpose: To receive any apologies.

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

Purpose: To receive any Declarations and advise Members accordingly.

3 **APPOINTMENT OF VICE CHAIR AND NOTE THAT THE CHAIR AND VICE CHAIR ARE THEREFORE APPOINTED AS MEMBER AND DEPUTY RESPECTIVELY OF THE JOINT GOVERNANCE COMMITTEE FOR THE WALES PENSION PARTNERSHIP.**

4 **MINUTES** (Pages 5 - 18)

Purpose: To confirm as a correct record the minutes of the last meeting held on the 20 February 2019

GOVERNANCE

5 **2018/19 FINANCIAL STATEMENTS AND ANNUAL GOVERNANCE STATEMENT** (Pages 19 - 78)

Purpose: To provide Committee Members with the Draft Clwyd Pension Fund Financial Statements for approval.

6 **RESPONSIBLE INVESTMENTS – CLWYD PENSION FUND BELIEFS** (Pages 79 - 196)

Purpose: To provide Committee Members with an update on the Clwyd Pension Fund Responsible Investments Policy

7 **POOLING INVESTMENTS IN WALES** (Pages 197 - 222)

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

8 **GOVERNANCE UPDATE** (Pages 223 - 260)

Purpose: To provide Committee Members with an update on governance related matters

ADMINISTRATION AND COMMUNICATIONS

9 **COMMUNICATION AND ADMINISTRATION STRATEGIES** (Pages 261 - 312)

Purpose: To provide Committee Members with updated Administration and Communication Strategies for approval.

10 **LGPS UPDATE** (Pages 313 - 328)

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

11 **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE** (Pages 329 - 414)

Purpose: To update Committee Members on administration and communication matters for the Clwyd Pension Fund.

12 **EMPLOYER CARE PAY** (Pages 415 - 422)

Purpose: To provide Committee Members with the final update on this project.

INVESTMENTS AND FUNDING

13 **INVESTMENT AND FUNDING UPDATE** (Pages 423 - 442)

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

14 **ECONOMIC AND MARKET UPDATE** (Pages 443 - 458)

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

15 **INVESTMENT STRATEGY AND MANAGER SUMMARY** (Pages 459 - 474)

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

16 **FUNDING AND FLIGHT PATH UPDATE** (Pages 475 - 492)

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

17 **2019 ACTUARIAL VALUATION** (Pages 493 - 526)

Purpose: To update Committee Members on the progress of the 2019 Actuarial Valuation

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

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

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

19 **MULTI ASSET CREDIT TRANSITION** (Pages 527 - 570)

Purpose: To provide Committee Members with the progress of the Fixed Income mandate within the Wales Pension Partnership and that the Committee ratify the decision to invest in the WPP Multi Asset Credit Fund which will be funded from the current mandate with Stone Harbor Investment Partners.

Yours sincerely

Robert Robins
Democratic Services Manager

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CLWYD PENSION FUND COMMITTEE
20 FEBRUARY 2019

Minutes of the meeting of the Clwyd Pension Fund Committee of Flintshire County Council, held at County Hall, Mold at 9.30am on Wednesday, 20 February 2019.

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

CO-OPTED MEMBERS: Councillor Huw Jones (Denbighshire County Council), Councillor Andrew Rutherford (Other Scheme Employer Representative), Mr Steve Hibbert (Scheme Member Representative) and Councillor Trevor Bates (Wrexham County Borough Council – substitute for Councillor Nigel Williams).

ALSO PRESENT (AS OBSERVERS): Mr Mark Owen (PFB Employer Representative), Mr Phil Pumford (PFB Scheme Member Representative).

APOLOGIES: Councillor Nigel Williams, Councillor Ted Palmer and Councillor Ralph Small.

IN ATTENDANCE:

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

Officers/Advisers comprising: Debbie Fielder (Deputy Head of the Clwyd Fund), Kath Meacock (Principal Pensions Officer for Communications and Regulations), Kerry Robinson (Employer Liaison Team), Nick Buckland (Fund Investment Consultant – JLT Group), and Nikki Gemmell (Actuarial Consultant – Mercer - taking minutes).

The Chairman welcomed Kath Meacock to the Committee meeting. He also informed the Committee that Helen Burnham would not be returning to her role of Pensions Administration Manager but that Kath Meacock and Kerry Robinson would be available to cover the administration items.

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

The Chairman noted that all of the advisors will leave the room for item 14 due to their conflicting interests. No further declarations were made.

43. **MINUTES**

The minutes of the meeting of the Committee held on 28 November 2018 were submitted.

Mr Hibbert referred to pages 5 and 6 regarding the question he had asked about what would happen in the event of a lose-lose situation. He commented that he didn't believe that an answer was provided and felt that it was needed in order for the Committee to perform their duties. In particular, if the Committee is given a proposal that offers a lower return with a higher fee than under an existing Clwyd Pension Fund manager, what actions can the Committee take bearing in mind the statutory guidance and fiduciary responsibility?

Mr Latham highlighted that one of the main aims of pooling is to implement the Fund's investment strategy in a way that gives better risk adjusted returns with reduced fees compared to investing as a single Fund. However, the fees are not the most important part and there are no guarantees with investments. Mr Latham hoped that they do not get into the lose-lose situation.

Mr Everett confirmed that the decisions on whether to transfer assets would be agreed on a case by case basis, and that he would not support any cases where the balance of risks is not in the best interest of the Fund. He noted the need that if a situation is marginal then it would be appropriate to go with the pool solution.

Mrs Fielder referred to page 6 and confirmed that she had highlighted scheme representation on the JGC with the Officers' Working Group. Mrs Fielder confirmed that they will send a response to the SAB at some point in the future.

Mr Hibbert directed the Committee to item 37 on page 12 and confirmed his question had been whether the issue had affected other Funds not just employers in the Clwyd Fund. Mrs McWilliam said that any other Funds that use that software will probably have the same problem. Mr Everett confirmed that the problem had been escalated with the provider.

The Chairman thanked Miss Fellowes for the quality of the minutes provided.

RESOLVED:

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

44. **BUSINESS PLAN 2019/20 TO 2021/22**

Mr Latham noted that the aim of the business plan is to demonstrate that the Fund is managing its risks (financial and operational) and how this will be resourced. He noted that the majority of the items within the business plan this time are ongoing and were therefore included in last year's plan with the exception of some bespoke projects.

Mr Latham noted that the business plan contains the Fund's mission statement for the Fund and the objectives from the key policies and strategies of the Fund.

Mr Everett recommended that they should add an objective covering a specific risk relating to balancing the needs of the Fund and the pool, noting the positive and negative risks of being within the pool. Mr Latham agreed and commented that the Investment Strategy Statement would also require updating.

Mr Hibbert asked whether working with the Actuary on the valuation would be every four years rather than every three years. Mr Middleman said that this is being discussed and will be subject to a consultation and so can only be updated once the changes in Regulations come into force so it is correct that at the moment the plan refers to three years.

Mr Latham directed the Committee to the four bullet points at the bottom of page 30. He noted that the top and bottom bullet points (relating to transitioning assets to the pool and implementing benefit structure changes as a result of national changes) are external factors that affect the Fund. However, the Fund need to ensure that they still keep on top of the other key areas (e.g. continuing to promote our online facilities and finalising the roll out of improved systems to employers) as there is a risk that the external factors take the resources away from the other areas.

Mr Latham highlighted pages 31 and 32 which show that the Fund still has a positive cashflow but that more work will be done on this as part of the actuarial valuation.

Mr Hibbert asked about the fund manager fees and whether it would be worthwhile including a footnote to explain what proportion of the fees have increased due to manager cost transparency and which are due to additional costs. The footnote could include why the fees are increasing and what the Fund are doing about it, as he knows that there are reasons which are not explained here. Mrs Fielder agreed with this comment. Mrs Fielder confirmed that most of the fee increases are due to manager cost transparency where they declare all costs given that many are now signed up to the transparency code. Mrs Fielder noted that it is difficult to estimate performance fees and that transaction costs tend to be small.

A lot of work goes into these numbers and the figures reflect the increase in the asset size of the Fund. Mr Hibbert noted his view is that the estimates of the Clwyd Pension Fund fees are better than what he normally sees. Mrs McWilliam agreed that a short note would be useful as it would reduce the potential for criticism from third parties if it explained that a significant amount of the increase is due to greater cost transparency from managers.

Cllr Jones queried the budgeted outsourcing numbers on page 32, which have increased from £300,000 to £900,000. Mr Latham confirmed that it is not an increase in cost as such. The main reason is that Project Apple has delayed some work and so some costs will come through in 2019/20 rather than 2018/19. Therefore remainder of the unused 2018/19 budget has therefore been moved to 2019/20, which relates to the GMP reconciliation and backlog outsourced projects.

Mr Latham directed the Committee to page 37 which sets out training and conference dates for their diaries and it is suggested that they attend.

Mr Latham then highlighted some of the key tasks relating to governance. He noted one of which is to develop a business continuity plan on the back of the recent continuity testing carried out by the team. Mr Everett agreed that the pension fund should develop this as part of the Council's work on business continuity.

Mr Latham discussed G6 and noted that the SAB had appointed Hymans to consider effectiveness of governance in LGPS administering authorities, particularly around avoiding conflicts between the pension fund responsibilities and other administering authority responsibilities. It was noted that the project is no longer being referred to as separation. A questionnaire will be sent to funds to collect their views on whether separation is needed.

Mr Hibbert asked about the review of co-opted and local Board members, in particular the scheme member representative for the trade unions and whether they are able to reappoint the existing representative, subject to the usual democratic processes. Mrs McWilliam confirmed that the decision is up to the trade unions who will be asked to nominate an individual, and they can choose to re-nominate and existing representative if they wish.

Mrs Fielder discussed the funding and investment items within the business plan. The Fund are looking to review their responsible investment policy. It was noted that cashflow and liquidity will be considered as part of the valuation process when contributions are reviewed. The actuarial valuation and investment strategy review will take place this year and the asset pooling work is ongoing. Mrs Fielder will continue work on the employer risk management framework. Mrs Fielder summarised by saying it is expected to be another busy year for the Fund and advisors.

Ms Meacock discussed the key administration items; they are developing an under/overpayment policy which is also required as part of the GMP reconciliation and the review of the administration strategy which is planned for approval in June 2019.

Item A6 relates to the amendment regulations from MHCLG which change the entitlements to some partners benefits where a scheme member has died. This is a backdated change and so they need to revisit previous death benefit cases to see if their payment should increase or decrease. This project will be dealt with once Project Apple has been completed.

Item A7 relates to members where the Fund scheme members have moved and the Fund does not know the new address details. They may be reaching retirement and so need to be traced. In addition, the Regulations state that all refunds must be paid within 5 years of the member's leaving date. As the reform took place from 1 April 2014, the 5-year point of new scheme is coming up in April 2019 and so they need to try to trace those members before the period ends.

Item A12 refers to the ongoing implementation of iConnect which now has several employers on it including two of the main Councils. Moving forward Mrs Robinson and the ELT team will be working with Wrexham CBC to go transition onto iConnect.

Mrs Robinson noted that half of the ELT team are currently working on Project Apple and the other half are pushing through the priority cases, for example death cases and retirements which will require a payment. They have also been working on iConnect for Wrexham CBC. Mrs Robinson noted a longer term objective is to consider if any other employers, in addition to Wrexham CBC and Flintshire CC, could benefit taking the services offered by the ELT team.

Mr Hibbert asked if there was a paragraph on stock lending to be included in the Investment Strategy Statement. Mr Latham confirmed that this is already included.

RESOLVED:

(a) That the Committee approved the business plan in Appendix 1 relating to the period 2019/20 to 2021/22 subject to the addition of an objective relating to asset pooling and a note clarifying the increase in investment manager fees.

45. **POOLING INVESTMENTS IN WALES**

Mr Latham presented this item of the agenda which covered four key areas; responsible investment, stock lending, statutory guidance and a general update on pooling:

- Responsible investment – currently the Fund has a sustainability policy within the ISS. There is a training session for the Committee on 20 March to discuss what the Fund currently does in terms of responsible investment and also what best practice was in this area. It will also include a session on what the WPP is doing in this area.

Mr Latham directed the Committee to page 117 and noted that at a national level, more guidance is expected from the SAB on responsible investment. The main purpose is to provide guidance on what the pool's should be doing as they should be able to deliver the responsible investment policies of all funds. This can be tricky as each fund may have its own policy and they could be quite different.

The WPP is developing a Pool responsible investment policy which is being drafted by Hymans as the advisor. Hymans have produced a questionnaire to gather the investment beliefs of the Funds within the pool on responsible investment. Hymans want two responses, one from an officer point of view and one from the Chair of the Committee based on the views of the Committee.

Cllr Jones commented that he would prefer the officers responding by the deadline as they better understand responsible investment, however he suggested that the Committee should respond after the training session on 20th March when they have more understanding. Mr Everett and the Committee agreed with this proposal.

- Stock lending – Mr Latham discussed the recommendation to allow the WPP to participate in stock lending. Either all eight funds within the WPP agree to it or it does not go ahead. Six of the funds have already been through their Committees and they agreed to allow it. The other funds have a lot of equity and stock lending will therefore have a bigger impact. This is low impact for Clwyd Pension Fund as they only have a 4% allocation to global equities, meaning the expected income will be £25,000 p.a from stock lending.

Mr Latham informed the Committee that stock lending is when an investor lends out a stock to a third party so they have ownership over a period of time and in return they pay a fee to the lender. The lender receives collateral in the event of failure of the borrower. The WPP as a whole will get approximately £1m in terms of income. However, the investor loses their voting rights. To partly mitigate this the WPP can hold back 5% of shares in each stock to retain the vote.

Cllr Mullin asked if there are any real risks for the Committee to worry about. Mr Latham noted that there are some risks in extreme circumstances. For example, during a financial crisis or extreme events because it is difficult to recover the stock quickly. However, those that chose not to call back the stocks did not see many losses. Mr Latham confirmed that he is not aware of many other real issues with stock lending.

Cllr Bateman asked what the collateral would be. Mr Latham confirmed that this is usually cash assets or fixed income assets which are paid if they fail to give the stock back.

Mr Hibbert questioned whether this would be low impact for the Fund. Mr Hibbert raised concerns regarding the potential short term fluctuations in assets due to the conscious movement of stocks by investors using stock lending, which could cost a lot more than the potential gain of £25,000 from participating in stock lending within the pool. He agreed that in the long term there could be a positive return but raised concerns about the short to medium term impact on the Fund. Mr Latham highlighted that there is no evidence that taking part will drive down the value of stocks.

Mr Harkin agreed with both points and noted that the pool should have a written policy on how stock lending will work to minimise the chance of the scenario Mr Hibbert had raised.

- Informal consultation on statutory guidance – Mr Latham confirmed that a response was drafted to the consultation, taking on board views from the advisors and Mr Everett. The overall tone is that the Committee agree with pooling and would like to gain from the benefits but that pooling may not always be the answer. The consultation closes on 28th March 2019 but Mr Latham asked the Committee to agree to the consultation response at today's meeting.

- General update on the WPP – Mr Latham, confirmed that they have now transitioned the global assets into the pool and can now measure the cost or saving of this using figures from the transition manager. Mr Latham noted that the last JGC meeting was deferred due to bad weather and the next meeting will now be 27th March 2019. Therefore, the fixed income recommendation will not be included until the June committee now. The transition will now be post June 2019.

- Mrs McWilliam highlighted that the Fund will need to ensure that appropriate reporting is received from the pool in relation to any assets that are transitioned and it is important this provides the level of detail officers and the Committee need and are currently used to receiving from JLT.

RESOLVED:

(a) That the Committee noted the report and discuss progress being made by the Wales Pension Partnership.

(b) The Committee agreed that the WPP can participate in Stock Lending following a vote where five out of seven members agreed with the recommendation. It was further resolved that the concerns of the Committee are fed back to the WPP with the requirement that the stock lending should be closely monitored.

(c) The Committee discussed the informal consultation response and delegated agreed changes to be made by the Clwyd Pension Fund Manager.

46. **GOVERNANCE UPDATE**

Mr Latham confirmed that they are making progress on item 1.01 and that interviews for the Accountant and Governance Support Officer are tomorrow, they will be advertised through the graduate post shortly. Mr Everett commented that they have been working hard on the staffing restructure and posts.

Mr Latham highlighted page 117 and the work that the Scheme Advisory Board are undertaking and its importance as it impacts on the Fund.

Mr Middleman gave an update on Fair Deal, highlighting that there has been a consultation and that there is a draft response in the papers for agreement in principle. Mr Middleman gave an overview of the background on Fair Deal, noting that it is about protecting the rights of employees who are outsourced from a public sector to a private sector employer. Currently they remain in the LGPS or transfer to a scheme which offers benefits that are "broadly comparable" to the LGPS as certified by an actuary. Under New Fair Deal the broadly comparable route will disappear.

The questions asked and answered are set out from page 134. The second question discusses the definition of a Fair Deal employer, which is all public bodies with the exception of further and higher education employers. In the response, the Fund has commented that this seems reasonable but there is a potential inconsistency which needs to be clarified if it's the intention.

Question 3 relates to transitional arrangements, for example what happens to those that were in a broadly comparable scheme when the contract ends. Their pensions and rights will be compulsorily transferred back to the LGPS, which potentially increases risks and costs to employers as they will be transferred across on an individual transfer basis which can be generous for individuals due to the assumptions used versus the transfer offered. Previously they would be transferred on a "bulk basis" in a way that usually protected the employer but gave a fair outcome to the members also. Mr Middleman commented that there are not many broadly comparable schemes so in the overall scheme of things for the LGPS it may be something that can be lived with to make it simple to operate.

Mr Middleman noted that the key element of the consultation is on page 136 which discusses the introduction of "deemed employer status". If the Council outsourced services, then the Council could be the "deemed employer" and the outsourced employer would not require an admission agreement or bond.

Whilst the admitted body route would still be available, this would simplify the process in cases where the Council agrees to take all the risk. This would mean that an exit debt calculation is not required. However, Mr Middleman noted that the new employer's relationship with the Fund should be fully documented as they still need to pay contributions to the Fund. This makes it critical for employers in the Fund to have clear policies so that all parties understand their obligations and this should be part of the process for any contract between the employer and the contractor (or other entity admitted in this way).

Mr Middleman commented that the most effective route would be that employers need to compulsorily make pension considerations part of the procurement process to ensure it is dealt with immediately and fully understood. Whilst the ideal would be for the procurement Regulations to change to achieve this, it would be difficult to implement that route. Mr Everett agreed but noted that it can still be implemented through a Council's policy on transfer of services. Mr Middleman agreed whilst noting that it can be difficult to ensure this is the case.

Mr Middleman noted that the proposed consultation also includes some points about the process of merging employers. He highlighted that there should be some sort of consent for a receiving authority. For example if an employer transfers from another Fund to the Clwyd Pension Fund; if it fails then the risk has been transferred to the Clwyd taxpayers.

Mr Hibbert asked for the definition of a broadly comparable scheme and whether it could mean a defined contribution scheme with small contributions (e.g. 1%) paid by the employer and employee. Mr Middleman explained that broadly comparable could be a private sector scheme that provides benefits that replicate completely the LGPS benefit structure but not backed by taxpayers. It could also be a Defined Benefit scheme with benefits of equivalent actuarial value to ensure that the benefits are "broadly equivalent". It required actuarial certification of broad comparability. This could not be a DC scheme.

Mr Latham noted that the introduction on page 149 mentions accounting requirements. Employers have to include pension debts in their accounts which can cause them issues bidding for contracts. The deemed employer route could mean that they don't have to show this liability on their balance sheet so it is right to ask this question. However, he expects that the answer will be that they do need to include them.

Miss Gemmell talked the Committee through the cost management slides. It was noted that the cost management process is now on hold due to the McCloud judgement which is a case brought against the Government on age discrimination grounds in relation to protections given to members when public sector schemes changed their benefit structures in 2014 or 2015. The challenge was in relation to the Judges and Firefighters Schemes. The outcome was that the protections were found to be discriminatory. The Government are considering an appeal which could take more than 12 months to resolve. If Government accept the judgement or are unsuccessful in the appeal it would mean additional costs for the LGPS, backdated to 1 April 2014 at least, and a reassessment of the cost management outcomes. If Government win an appeal the cost management process would recommence and any changes could be backdated to 1 April 2019 which is far from ideal from an administration viewpoint.

Administering Authorities have been asked how it should be dealt with in the 2019 valuation. In particular, whether they would prefer to make their own judgements about how to allow for the McCloud judgement (for example, in the actuarial valuation, in exit calculations etc.) or whether they would prefer central guidance that all funds should follow consistently. A response should be sent from Funds by 1 March 2019. Mr Middleman's view is that the guidance approach would be better to give consistency across the Funds but that he does not want the guidance to be too prescriptive as each Fund needs to take into account local circumstances. Mr Middleman also noted that the costs of the McCloud judgement could well be higher than the initial cost management impact for employers and that the benefit is more valuable to the younger members.

Mrs McWilliam commented that this will be confusing for members and employers, especially if the benefits are backdated. The impact on the administration team will also be large. Mr Middleman agreed and noted that implementing the backdated employee contribution changes will be complicated. He commented that the cost management process is less of a burden than the implications of the McCloud case, if they are deemed to be unlawful.

Mr Jones asked whether this was included in the risk register. Mrs McWilliam confirmed that whilst the risk register has been intentionally kept high level, one of the sections relates to national risks and so this is therefore covered.

RESOLVED:

(a) That the Committee considered the update and provided comments.

(b) That the Committee agreed to the extension of the existing Custodian contract until it is no longer required due to asset pooling.

(c) The Committee considered the proposed response to the Fair Deal consultation, highlighting any changes they would like to make and agreed to the response being submitted to MHCLG, subject to delegating incorporating any further changes agreed to the Clwyd Pension Fund Manager.

47. **LGPS UPDATE**

Miss Gemmell noted that as the key points within the update were covered within the Governance items under the previous agenda item, it was not necessary to discuss the remainder of the updates within the meeting.

RESOLVED:

(a) That all Committee members noted this report and made themselves aware of the various current issues affecting the LGPS, some of which are significant to the operation of the Fund.

48. **PENSION ADMINISTRATION/COMMUNICATIONS UPDATE**

Ms Meacock introduced herself to the Committee and explained that she now is the Principal Pensions Officer for regulations and communications. Ms Meacock gave an update on the main points in this item of the agenda. The aggregation project has been extended due to Project Apple and the movement of resources. The technical team have been working on 980 queries from Mercer intended to improve data quality in advance of the 2019 actuarial valuation. The work on iConnect is ongoing. Mrs Williams is on the CIPFA benchmarking group and the reporting on KPIs has been discussed and over time, the KPIs will evolve in line with discussions in the group.

Ms Meacock noted that the communications officer post has now been filled and an internal candidate has been appointed, resulting in a further vacancy within the team. One of the part-time payroll officers has retired and so there is now also a vacancy in the technical team to fill. The Principal Pension Officers will concentrate on filling these vacancies in the coming weeks.

Mr Hibbert queried the pink line in the KPIs and whether this relates to the number of jobs coming in. Mrs McWilliam confirmed that the pink line relates to the number of cases completed within the month rather than the number of new cases. For example, 340 leaver cases were completed and 63% were within the legal timescales.

Cllr Jones asked what the 24.92% relates to on page 223 as it does not tie in with the number of records in the Fund. Ms Meacock confirmed that as there are multiple records for some members, for example where they have multiple jobs, but this measure relates to the number of actual members, rather than records, that have signed up for the member self-service.

The Chairman thanked all of the officers for continuing to step into the Manager's role and keeping things moving during challenging times.

RESOLVED:

(a) That the Committee considered the update and provided any comments.

49. **INVESTMENTS AND FUNDING UPDATE**

Mrs Fielder highlighted the main areas which are the delegated responsibilities and the transition of assets into the pool. There were cashflow requirements in December 2018 and so the Fund have redeemed £10m back from the collateral within the Insight mandate. Cashflow continues to be monitored.

Mrs Fielder also noted the Committee to the 2019 actuarial valuation plan and timescales.

The Chairman thanked Mrs Fielder and her team for continuing to manage the section whilst they have ongoing vacancies.

RESOLVED:

(a) That the Committee considered and noted the update for delegated responsibilities and provided any comments.

(b) The Committee noted the timescales for the 2019 valuation plan and understand the areas that will require Committee approval.

50. **ECONOMIC AND MARKET UPDATE**

Mr Harkin gave a brief update on this item of the agenda. He commented on page 257 which showed the level of volatility seen in Q4 of 2018, particularly in October and December. The US markets have been affected by contagion and some fears surrounding the end of quantitative easing plus the markets have been affected by ongoing Brexit concerns. Since 31 December, the markets have nearly recovered to the position before December. Gilt yields have fallen in this current quarter which is an issue for the UK. Mr Harkin noted that volatility is likely to continue for some time.

Cllr Jones commented on page 262 with regard to Japan becoming a target for the Trump Administration in 2019 due to the imbalance in the Autos sector. He noted the recent news regarding the Honda plant in Swindon which aligned with this.

Mr Everett noted that the growth rate for the UK has been downgraded by the Bank of England for the three years to 2022.

Mr Harkin commented that the delay on Brexit has meant that decisions have already been taken by companies on how to deal with it, despite not knowing the outcome. This itself is creating uncertainty in the economy and therefore the markets.

RESOLVED:

(a) To note and discuss the Economic and Market Update 31 December 2018.

(b) To note how the information in the report effectively “sets the scene” for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund’s asset portfolio.

51. **INVESTMENT STRATEGY AND MANAGER SUMMARY**

Mr Buckland gave a brief update on this item of the agenda before taking questions. The first thing he highlighted was that it was a poor quarter to 31 December 2018. However, the year to 31 December was reasonably flat which shows the continued volatility in the markets. He talked through page 277, noting that private credit is a new investment which will take time to be fully committed and that the Fund Risk Management Group, made up of JLT, Mercers and Fund officers, are currently looking at the management of the collateral of the LDI portfolio managed by Insight. In-house private markets are performing ahead of target whereas hedge funds and diversified growth are underperforming versus benchmark. Mr Buckland noted that the quarterly returns over 2018 had been particularly volatile but highlighted that the Fund is a long term investor and the three-year performance was positive at 8.8% p.a. He also noted that the returns since 31 December have been positive and that assets increased from £1,784m to £1,821m at the end of January 2019.

Mr Everett commented on the volatility in the run up to the actuarial valuation which could be a concern given the difficulties for employers' budgets, although he noted that discussions on this have assisted in the planning. He reminded the Committee that they should remember their pension fund role when making decisions at this Committee relating to this.

RESOLVED:

(a) To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 31 December 2018.

(b) That the Committee considered the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

52. **FUNDING AND FLIGHTPATH UPDATE**

Mr Middleman noted the level of volatility in the markets recently and how it had affected funding positions. The funding level was 86% at the end of December 2018, increased to 89% at the end of January 2019 and is currently up to 91%. Whilst the funding level is volatile, he noted that the key thing is the future outlook and what Brexit will do to the economy and returns above inflation. It is important to note that the flightpath framework is working and that equity protection contributed positively when markets fell.

Mr Middleman talked through the collateral waterfall which is about making the framework operate as efficiently as possible. They identified £100m of collateral that could be released and used more efficiently to increase expected returns. All documents were signed and it is expected that the waterfall will be implemented by the end of the month. Page 288 sets out the reasons why the Fund are doing this, which is to maintain the same level of risk control in the LDI mandate but restructure it to maximise returns. The approach is expected to generate an additional yield of £3m per year.

The report does not cover the impact of Brexit and how resilient the Fund is when thinking about what could happen. The Fund is well diversified and has protections in place which deals as well as possible with most risks except currency. However, this has been discussed at the FRMG and Steering Group and it has been provisionally agreed to implement currency hedging at a level of 50%. This will "bank" some of the gains already made. The outcome of this will be reported in more detail at future meetings.

Mr Everett asked where the term collateral waterfall comes from. Mr Middleman confirmed that the waterfall relates to holding different types of assets (the three tiers referred to in the report) which are used at different points so the highest returning assets are used last thereby increasing the overall returns.

Mr Everett asked for further information regarding what this actually is and Mr Middleman confirmed that more information will be included in future reports.

It has also been agreed that c. £30m will be removed from the Insight QIAIF to be invested in infrastructure as directed by JLT in due course.

RESOLVED:

(a) That the Committee noted the updated funding and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.

(b) That the Committee noted that the Officers have been working with their advisers in order to implement a collateral waterfall process at Insight to better manage collateral requirements. Insight are in the process of implementing the collateral waterfall which will be in place by end February 2019. It has also been agreed that c. £30m will be removed from the Insight QIAIF to be invested in infrastructure as directed by JLT in due course.

53. **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 remainder of the meeting for the following item by virtue of exempt information under paragraph(s) 14 of Part 4 of Schedule 12A of the Local Government Act 1972 (as amended).

54. **EMPLOYER CARE PAY ISSUE**

Mr Latham presented this item of the agenda but noted that Ms Robinson is leading the project. There has been good progress on the calculations and a significant number of letters have already been sent to members. They have not received any formal complaints which is a positive sign and have only received five queries from scheme members.

Mr Latham highlighted that low overall financial impact but stressed the key objective is to ensure that the scheme members are dealt with as positively as possible given the sensitivity of the issue. Mr Latham confirmed the project group have had ongoing contact with the Pensions Regulator who seems satisfied with the resolution. Mr Latham expects it to take until the end of February to complete the majority of the calculations and communications, with a small number of complex cases probably taking to the end of March. They have a call with the Pensions Regulator on 6th March and are hoping to close off the case with the TPR at that point.

Mr Latham noted a fix has been added to the payroll software which is currently being tested and they are continuing to work with the Council's payroll team on this.

Mr Everett commented that he appreciates all the work that has been completed so far and noted that the unions have been very helpful in helping the process and communication with the members.

Mrs McWilliam highlighted the latest information to the Committee. She confirmed that there are only 52 cases left to be calculated and that approximately 1,200 cases have been completed so far. They are now at the checking phase so that communications can be issued where required. She confirmed that the largest gross reduction to an annual pension was £99 per annum .

The Chairman thanked the team involved in this major project as it is on top of their day to day job. The Chairman noted the clear excellent progress has been made since the last update and that he was comforted by the fact that no complaints have been received.

RESOLVED:

(a) That the Committee noted this report.

55. **APPOINTMENT OF AN ACTUARIAL AND BENEFITS PROVIDER**

Mr Middleman, Mr Harkin, Mr Buckland, Mrs McWilliam and Miss Gemmell left the Committee room on this item of the agenda.

Mrs Fielder presented the report and discussed the process followed for the procurement of an Actuarial and Benefits provider for the Pension Fund. This included the scoring criteria and final scores for the tenders received.

RESOLVED:

(a) Based on the scoring set out in the report, the Committee agreed to reappoint Mercer to undertake the role of actuary and benefit consultant to the Clwyd Pension Fund for the period 1 April 2019 to 31 March 2025 (with the option to extend for a further 12 months to 31 March 2026).

The Chairman thanked everyone for their attendance and updates at the Committee meeting and noted that the next Committee meeting is on 20th March. The meeting finished at 12:45pm.

……………………………………

Chairman

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12 June 2019
Report Subject	Draft Pension Fund Accounts 2018/19
Report Author	Pension Fund Accountant

EXECUTIVE SUMMARY

This report explains the governance arrangements in respect of the approval of the pension fund accounts, and presents the draft unaudited accounts for the consideration of members.

The report also explains that the Pension Fund requires a separate Annual Governance Statement (AGS), and presents a draft version for the consideration of members.

The report also includes the Wales Audit Office (WAO) Audit Plan for 2018/19 for members' information.

The audited Pension Fund accounts and the AGS will be submitted to members as part of the annual report on 4th September 2019.

RECOMMENDATIONS	
1	That Members consider the draft accounts and AGS and note the WAO Audit Plan. .

REPORT DETAILS

1.00	**Annual Accounts**
	Governance
1.01	With effect from the financial year 2017/18 the Accounts and Audit (Wales) 2018 Regulations removed the requirement for the pension fund accounts to be reported as part of the Flintshire County Council Accounts. The 6th June 2018 meeting of the Audit Committee approved delegation to approve the Pension Fund accounts to the Clwyd Pension Fund Committee. The Pension Fund accounts are now reported as part of the Pension Fund

	Annual Report. The LGPS Regulations 2013, as amended, require the Fund to publish an Annual Report before 1st December. This is later than the deadlines for the Council's statement of accounts which are 15th June for the draft accounts to be certified by the Section 151 Officer and 15th September for the final accounts to be published. However, in practice, it is intended that the timetable for the completion of the Pension Fund accounts will be broadly similar to the Council's accounts The draft Pension Fund accounts for 2018/19 are attached at Appendix 1 and are scheduled to be audited by Wales Audit Office during the summer. They were certified by the Corporate Finance Manager on 6th June 2019. A draft will also be considered by the Council's Audit Committee on 10th July 2019. The audited Pension Fund accounts will be submitted to the Clwyd Pension Fund Committee for approval on 4th September 2019 as part of the Pension Fund Annual Report. Because the Pension Fund accounts are now considered separately from the Council's accounts, the Pension Fund is required to have a separate AGS. However, because the Council supplies services and shared systems to the Pension Fund, the Pension Fund AGS should be considered in the context of Council's own AGS. A draft Pension Fund AGS is attached as Appendix 2 to the report for consideration. A final version will be submitted with the Annual Report in September for approval.
1.02	**Pension Fund Accounts** Members will recall that the accounts for 2017/18 were subject to considerable updating. There have been no significant changes to the format of the accounts in 2018/19. Key messages from the accounts are: - Deficit contributions decreased by around £34m as a result of employers paying three year deficit contributions in 2017/18 - Transaction costs increased by around £1.3m, which reflects the cost transparency initiative. - Growth in net assets remained broadly similar in 2018-19 to the level of 2017/18. The actuary reported an increase in gross pension liabilities from £2,629m on 31st March 2018 to £2,870m on 31st March 2019 when valued in accordance with accounting standards (IAS 26). This was due to a decrease in corporate bond yield, resulting in the use of a lower discount rate at the end of the year than had been the case at the beginning of the year. In addition, the expected long term rate of CPI inflation increased during the year.

1.03	**Wales Audit Office Plan 2018/19** The Wales Audit Office plan for their audit, which describes the approach the auditors take, their statutory functions, the audit fee, the make-up of the audit team and the audit timetable, is attached at Appendix 3.

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

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

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

5.00	**APPENDICES**
5.01	Appendix 1 – Draft Clwyd Pension Fund Accounts 2018/19 Appendix 2 – Draft Clwyd Pension Fund AGS 2018/19 Appendix 3 – WAO Audit Plan 2018/19

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None **Contact Officer:** Paul Vaughan, Pension Accountant **Telephone:** 01352 702219 **E-mail:** paul.vaughan@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by

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

Appendix 1

CLWYD PENSION FUND ACCOUNTS
for the year ended 31st March 2019

FUND ACCOUNT

2017/18 £000		Note	2018/19 £000
	Dealings with members, employers and others directly involved in the Fund		
(105,079)	Contributions	**7**	(74,327)
(4,839)	Transfers in		(4,379)
(109,918)			**(78,706)**
	Benefits payable :		
56,739	Pensions	**8**	59,825
12,058	Lump sums (retirement)		11,910
1,800	Lump sums (death grants)		1,891
70,597			**73,626**
5,689	Payments to and on account of leavers	**9**	6,625
76,286			**80,251**
(33,632)	**Net (additions)/withdrawals from dealings with members**		**1,545**
23,538	Management expenses	**10**	25,208
(10,094)	**Net (additions)/withdrawals including fund management expenses**		**26,753**
	Returns on Investments		
(10,060)	Investment income	**11**	(13,357)
0	Tax on investment income		
(77,179)	Change in market value of investments	**12**	(94,672)
(87,239)	**Net return on investments**		**(108,029)**
(97,333)	**Net (increase)/decrease in the net assets available for benefits during the year**		**(81,276)**
(1,688,166)	**Opening net assets of the scheme**		(1,785,499)
(1,785,499)	**Closing net assets of the scheme**		**(1,866,775)**

NET ASSETS STATEMENT

2017/18 £000s		Note	2018/19 £000s
1,781,826	**Investment Assets**	**13**	1,862,743
1,781,826	**Net Investment Assets**		**1,862,743**
29	**Long-term debtors**	**18**	29
6,225	**Debtors due within 12 months**	**18**	5,817
(2,581)	**Creditors**	**19**	(1,814)
1,785,499	**Net assets of the fund available to fund benefits at the end of the reporting period**		**1,866,775**

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the actuary's report at page 31.

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

General

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

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

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

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

The Fund is financed by contributions and investment earnings from the Fund's investments. Contributions are made by active members in accordance with the LGPS Regulations 2013, as amended, and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2019. Employers also pay contributions to the Fund based on triennial funding valuations. The last valuation was at 31st March 2016, the findings of which became effective on 1st April 2017. The valuation showed that the funding level increased from the previous valuation (31st March 2013) from 68% to 76%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over a 14 year period from April 2018. Currently employer contribution rates range from 8.0% to 30.5% of pensionable pay.

Benefits

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

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

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

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

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

Governance

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

In accordance with the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance of the Pension Fund. The Board met three times in 2018/19 and has its own Terms of Reference. Board members are independent of the Pension Fund Committee.

Investment Strategy

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

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

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. Organisations participating in the Clwyd Pension Fund include:

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

There are 42 employer bodies within the Fund with active members (including Flintshire County Council) and over 48,000 members are detailed below.

2017/18 No.		2018/19 No.
43	Number of employers with active members	**42**
16,543	Active members	16,528
12,296	Pensioners receiving benefits	12,981
17,822	Deferred Pensioners	18,583
46,661		**48,092**

The scheduled bodies which contributed to the Fund during 2018/19 are:

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

The admitted bodies contributing to the Fund are:

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

NOTE 2 - BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year end as at 31st March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 26 basis, is disclosed in the actuary's report at page 31 of these accounts.

The accounts have been prepared on a going concern basis.

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

- Amendments to IAS 40 Investment Property - provides further explanation of the instances in which a property can be reclassified as investment property.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration - clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering goods or services.
- IFRIC 23 Uncertainty over Income Tax Treatments - provides additional guidance on income tax treatment where there is uncertainty.
- Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation - amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest.
- IFRS 16 Leases - will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

These changes are unlikely to have any material impact on the Fund's financial statements.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In summary, accounting policies adopted are detailed as follows:

Fund Account – Revenue recognition

Contribution income

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

Transfers to and from other schemes

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

Foreign currency transactions

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

Investment income

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

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

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

Fund Account – expense items

Benefits payable

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

Taxation

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

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

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

Management expenses

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

Administration, oversight and governance expenses are also accounted for on an accruals basis. All Flintshire County Council staff costs are charged direct to the Fund and management, accommodation and other support service costs are apportioned to the Fund in accordance with Council policy.

Investment management expenses are accounted for on an accruals basis and include the fees paid and due to the fund managers and custodian, actuarial, performance measurement and investment consultant fees.

Net Assets Statement

Financial instruments

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

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

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

Cash and cash equivalents

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

Actuarial present value of promised future retirement benefits

The actuarial value of promised future retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the Code and IAS 26. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a report from the actuary (see page 31).

Additional Voluntary Contributions (AVCs)

The Clwyd Pension Fund provides an AVC scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016, but are disclosed as a Note only (see Note 20).

NOTE 4 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net pension fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and set out in the actuary's report at page 31. These actuarial re-valuations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items in the Net Assets Statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (see page 31)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 10% decrease in future investment returns would reduce the current funding level of 76% to 68%. A 10% increase in the current valuation of estimated future pension liabilities would reduce the funding level to 70%, and a combination of the two would reduce the funding level to 60%.
Value of investments at level 3	The Pension Fund contains investments in private equity, hedge funds and pooled funds including property, infrastructure, timber and agriculture, that are classified within the financial statements as level 3 investments in note 15 to these accounts. The fair value of these investments is estimated using a variety of techniques which involve some degree of tolerance around the values reported in the Net Assets Statement	Note 15 summarises the techniques used, the key sensitivities underpinning the valuations and the sensitivity or tolerance around the values reported.

NOTE 6 - POST BALANCE SHEET EVENTS

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2019. Performance of global financial markets since this date may have affected the financial value of pension fund investments as reported in the Net Asset Statement, but do not affect the ability of the Fund to pay its pensioners.

NOTE 7 - ANALYSIS OF CONTRIBUTIONS RECEIVABLE

By employer

2017/18 £000s		2018/19 £000s
(27,479)	Administering Authority - Flintshire County Council	(27,244)
(74,495)	Scheduled bodies	(43,575)
(3,105)	Admitted bodies	(3,508)
(105,079)	**Total**	**(74,327)**

By type

2017/18 £000s		2018/19 £000s
(14,829)	**Employees contributions**	(15,519)
	Employers contributions:	
(36,175)	Normal contributions	(38,370)
(52,570)	Deficit contributions	(18,885)
(1,505)	Augmentation contributions	(1,553)
(90,250)	**Total employers' contributions**	**(58,808)**
(105,079)		**(74,327)**

The decrease in deficit contributions was a result of three employers paying three year deficit contributions in full in 2017/18.

NOTE 8 – BENEFITS PAYABLE

By employer

2017/18 £000s		2018/19 £000s
27,066	Administering Authority - Flintshire County Council	26,877
42,330	Scheduled bodies	45,611
1,201	Admitted bodies	1,138
70,597		**73,626**

By type

2017/18 £000s		2018/19 £000s
56,739	Pensions	59,825
12,058	Lump sums (retirement)	11,910
1,800	Lump sums (death grants)	1,891
70,597		**73,626**

NOTE 9 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18 £000s		2018/19 £000s
5,316	Transfer values paid (individual)	6,257
101	Refunds of contributions	149
272	Other	219
5,689	Total	**6,625**

NOTE 10 – MANAGEMENT EXPENSES

2017/18 £000s		2018/19 £000s
1,399	Oversight and Governance	2,020
20,570	Investment Management Expenses (see Note 10A)	21,249
1,569	Administration costs	1,939
23,538	**Total**	**25,208**

The Oversight and Governance costs include the fees payable to the Wales Audit Office for the external audit of the Fund of £39k for 2018/19 (£39k in 2017/18).

Note 10A – INVESTMENT MANAGEMENT EXPENSES

2017/18 £000s		2018/19 £000s
941	Transaction costs	2,265
15,761	Fund Management Fees	14,048
31	Custody Fees	31
3,837	Performance related fees	4,905
20,570	**Total**	**21,249**

The increase in transaction costs are due to the cost transparency initiative.

NOTE 11 - INVESTMENT INCOME

2017/18 £000s		2018/19 £000s
(4,593)	Private equity income	(3,865)
(2,509)	Pooled Investments	(7,906)
(2,540)	Pooled property investments	(1,047)
(17)	Interest on cash deposits	(38)
(401)	Other income	(501)
(10,060)	**Total**	**(13,357)**

NOTE 12 – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 1 April 2018 £000s	Purchases £000s	Sales £000s	Change in market value £000s	Market Value 31 March 2019 £000s
Bonds	204,372	0	0	(582)	203,790
Pooled investment vehicles	1,033,560	92,730	(100,334)	63,949	1,089,905
Pooled Property Funds	115,522	11,469	(12,208)	8,052	122,836
Infrastructure	42,125	23,630	(6,628)	7,476	66,604
Timber and agriculture	25,772	0	(3,874)	1,376	23,274
Private equity	188,399	39,137	(41,309)	25,356	211,584
Hedge Fund	150,885	0	(943)	(10,957)	138,985
	1,760,635	**166,967**	**(165,296)**	**94,672**	**1,856,978**
Other investment balances:					
Cash	21,191			0	5,765
Net investment assets	**1,781,826**			**94,672**	**1,862,743**

	Market Value 1 April 2017 £000s	Purchases £000s	Sales £000s	Change in market value £000s	Market Value 31 March 2018 £000s
Bonds	198,621	0	0	5,751	204,372
Pooled investment vehicles	980,438	470,807	(459,470)	41,785	1,033,560
Pooled Property Funds	114,714	4,701	(12,174)	8,281	115,522
Infrastructure	31,761	13,428	(2,691)	(373)	42,125
Timber and agriculture	29,103	173	(1,908)	(1,596)	25,772
Private equity	170,389	40,675	(41,418)	18,753	188,399
Hedge Fund	127,279	20,000	(972)	4,578	150,885
	1,652,305	**549,784**	**(518,633)**	**77,179**	**1,760,635**
Other investment balances:					
Cash	33,623			0	21,191
Net investment assets	**1,685,928**			**77,179**	**1,781,826**

NOTE 13A – ANALYSIS OF INVESTMENTS

2017/18 £000		2018/19 £000
	Bonds - overseas	
204,372	Corporate unquoted	203,790
	Pooled investment vehicles:	
25,772	Timber and agriculture - unquoted LLP	23,274
117,023	Managed equity funds - quoted overseas	268,550
146,973	Managed equity funds - unquoted	0
	Infrastructure	
11,764	Limited liability partnerships quoted	15,133
30,361	Limited Liability Partnershiips - unquoted	51,471
0	Liability driven investments - quoted UK	0
400,005	Liability driven investments - unquoted	422,854
80,751	Multi strategy investments - quoted	83,524
273,431	Multi strategy investments - unquoted	282,233
15,378	Fixed income funds - unquoted	32,744
	Pooled property investment vehicles	
42,578	Open-ended unquoted	43,748
72,944	Closed-ended unquoted	79,088
	Private equity	
	Limited liability partnerships	
30,647	Unquoted - Opportunistic funds	46,840
0	Quoted private equity funds	0
157,751	Unquoted private equity funds	164,744
	Hedge Funds	
150,885	Quoted private equity funds	138,985
1,760,635		**1,856,978**
21,191	**Cash**	5,765
1,781,826	**NET INVESTMENT ASSETS**	**1,862,743**

NOTE 13B – ANALYSIS BY FUND MANAGER

2017/18 £000	%		2018/19 £000	%
400,005	22.7	Insight	422,854	22.8
204,372	11.6	Stone Harbor	203,790	11.0
188,710	10.7	Mobius	198,871	10.7
159,306	9.0	Investec	83,362	4.5
	0.0	Russell Investments	78,672	4.2
150,885	8.6	MAN FRM	138,985	7.5
122,182	6.9	Wellington	118,828	6.4
80,751	4.6	Pyrford	83,524	4.5
67,228	3.8	Blackrock	77,034	4.1
15,378	0.9	Private Debt	26,760	1.4
157,752	9.0	Private Equity	164,744	8.9
115,522	6.6	Property	122,836	6.6
42,125	2.4	Infrastructure	66,604	3.6
30,647	1.7	Opportunistic	46,840	2.5
25,772	1.5	Timber/Agriculture	23,274	1.3
1,760,635	**100**	**Total**	**1,856,978**	**100**

The UK holdings as at 31st March 2019 account for 33% of total investments at market value.

2017/18 £000	%		2018/19 £000	%
554,152	31	UK	616,724	33
1,206,483	69	Overseas	1,240,254	67
1,760,635	**100**	**Total**	**1,856,978**	**100**

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

2017/18 £000	%	Manager	Holding	2018/19 £000	%
400,005	22.4	Insight	LDI Active 22 Fund	422,854	22.7
132,224	7.4	Stone Harbour	SHI LIBOR Multi Strategy No2 Portfolio	131,656	7.1

NOTE 14 – DERIVATIVES

No derivative instruments were held by Clwyd Pension Fund at 31 March 2019 or 31 March 2018.

NOTE 15 - FAIR VALUE OF INVESTMENTS

Fair Value – Basis of valuation

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

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

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

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

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

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

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

	Assessed Valuation Range (+/-) %	Market at 31 March 2019 £000	Value on Increase £000	Value on Decrease £000
Pooled investment vehicles (incl LDI)	10%	32,744	36,018	29,470
Pooled Property Funds	10%	56,165	61,781	50,548
Infrastructure	10%	51,471	56,618	46,324
Timber and agriculture	7%	23,274	24,904	21,645
Private equity (incl Opportunistic Funds	10%	211,584	232,743	190,426
Hedge Fund	10%	5,656	6,222	5,090
Total		**380,894**	**418,286**	**343,503**

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

The following tables show the position of the Fund's assets at 31st March 2019 based on the Fair Value hierarchy:

2018/19	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Bonds	0	203,790	0	203,790
Pooled investment vehicles	198,217	858,944	32,744	1,089,905
Pooled Property Funds	0	66,671	56,165	122,836
Infrastructure	15,133	0	51,471	66,604
Timber and agriculture	0	0	23,274	23,274
Private equity	0	0	211,584	211,584
Hedge Fund	0	133,329	5,656	138,985
Total	**213,350**	**1,262,734**	**380,894**	**1,856,978**

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

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

	Market Value 1 April 2018	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Realised gains/ (losses)	Unrealised gains/ (losses)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI)	15,378	17,643	0			0	(277)	32,744
Pooled Property Funds	51,529	11,469	(11,662)			2,877	1,951	56,165
Infrastructure	30,361	23,341	(5,815)			3,456	128	51,471
Timber and agriculture	25,772	0	(3,291)			2,418	(1,624)	23,274
Private equity (incl Opportunistic Func	188,399	39,137	(37,577)			8,095	13,530	211,584
Hedge Fund	6,645	0	0			0	(989)	5,656
Net investment assets	**318,084**	**91,590**	**(58,345)**	**0**	**0**	**16,846**	**12,719**	**380,894**

The Fund holds no other assets or liabilities at fair value. There were no transfers between levels during 2018/19.

	Market Value 1 April 2017	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Realised gains/ (losses)	Unrealised gains/ (losses)	Market Value 31 March 2018
	£000	£000	£000	£000	£000	£000	£000	£000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI)	12,768	14,914			(12,768)		464	15,378
Pooled Property Funds	74,795	4,701	(12,174)		(21,415)	734	4,888	51,529
Infrastructure	18,718	13,059	(2,691)			1,989	(714)	30,361
Timber and agriculture	29,103	173	(1,908)			164	(1,760)	25,772
Private equity (incl Opportunistic Func	169,376	40,675	(41,418)			9,142	10,624	188,399
Hedge Fund	9,634						(2,989)	6,645
Net investment assets	**314,394**	**73,522**	**(58,191)**	**0**	**(34,183)**	**12,029**	**10,513**	**318,084**

NOTE 16 - FINANCIAL INSTRUMENTS

NOTE 16A - CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

2017/18				2018/19		
Fair Value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Fair Value through profit and loss £000	Loans and receivables £000	lia a
			Financial assets:			
204,372			Bonds	203,790		
1,033,560			Pooled investment vehicles	1,089,905		
115,552			Property	122,836		
42,125			Infrastructure	66,604		
25,772			Timber and agriculture	23,274		
188,399			Private equity	211,584		
150,885			Hedge Fund	138,985		
	21,191		Other investment assets - cash		5,765	
	314		Debtors		373	
1,760,665	**21,505**	**0**		**1,856,978**	**6,138**	
			Financial liabilities:			
		(760)	Creditors		(513)	
0	**0**	**(760)**		**0**	**(513)**	
1,760,665	**21,505**	**(760)**	**Total**	**1,856,978**	**5,625**	

NOTE 16B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

2017/18 £000		2018/19 £000
	Financial assets:	
77,179	Designated at fair value through profit and loss	94,672
0	Loans and receivables	0
	Financial liabilities:	
0	Designated at fair value through profit and loss	0
0	Financial liabilities at amortised cost	0
77,179	**Total**	**94,672**

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

Procedures for Managing Risk

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

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

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

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

The current strategy is to hold:

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

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

Market Risk

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

Market risk is also managed through manager diversification with no single manager managing more than 23% of the fund's assets. Currently the maximum holding within any one fund manager is 22.8% with Insight managing the LDI mandate, which is within this limit.

Price risk

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

The fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments. The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by an average of 6.66%, which is the three-year price volatility as advised by the Fund's consultants for the fund's investment strategy.

Assets exposed to price risk	Value £000s	3 year volatility range %	Value on increase £000s	Value on decrease £000s
As at 31 March 2018	1,781,826	8.00%	1,902,970	1,618,300
As at 31 March 2019	**1,862,743**	**6.66%**	**1,986,728**	**1,738,758**

Interest Rate Risk

The fund invests in cash-based financial instruments for the primary purpose of obtaining a return on investments. Bonds and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The table below demonstrates the change in value of these assets had interest rates varied by 1%. It should be noted that the value of bonds varies inversely to interest rates.

Assets exposed to interest rate risk	Value £000s	Value on 1% increase £000s	Value on 1% decrease £000s
As at 31 March 2018	225,563	223,731	227,395
As at 31 March 2019	**209,554**	**207,574**	**211,535**

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The fund is exposed to currency risk because some of the fund's investments are held in overseas markets through pooled vehicles. The following table sets out the fund's potential currency exposure as at 31st March 2019:

Assets exposed to currency risk	Value £000s	Percentage change %	Value on increase £000s	Value on decrease £000s
As at 31 March 2018	**1,204,394**	**8.85%**	**1,310,981**	**1,097,808**
As at 31 March 2019	**1,240,254**	**8.20%**	**1,341,923**	**1,138,585**

Credit Risk

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

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

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

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

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

Liquidity Risk

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

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2019, liquid assets were £1,476m representing 80% of total fund assets (£1,462m at 31 March 2018 representing 82% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

NOTE 18 – DEBTORS

2017/18 £000s		2018/19 £000s
29	**Long-term debtors**	29
	Short-term debtors	
1,172	Contributions due - Employees	1,264
4,721	Contributions due - Employers	4,140
303	Prepayments	339
29	Sundry debtors	74
6,225	**Total Short-term debtors**	**5,817**
6,254	**Total**	**5,846**

NOTE 19 – CREDITORS

2017/18 £000		2018/19 £000
(18)	Contributions received in advance	(130)
(1,708)	Benefits payable	(1,082)
(531)	Administering authority	(98)
(324)	Sundry creditors	(504)
(2,581)	**Total**	**(1,814)**

NOTE 20 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

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

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

2017/18 £000		2018/19 £000
922	Contributions in the year	**1,270**
	Value of AVC funds at 31 March:	
5,213	Prudential	5,395
420	Equitable Life	408
5,633	**Total**	**5,803**

NOTE 21 – AGENCY SERVICES

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

2017/18 £000s		2018/19 £000s
534	Conwy County Borough Council	519
1,778	Denbighshire County Council	1,733
3,136	Flintshire County Council	3,088
21	Powys County Council	20
2,190	Wrexham County Borough Council	2,150
57	Coleg Cambria	55
58	Other employers	49
7,774	**Total**	**7,614**

NOTE 22 - RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2019, four Members of the Clwyd Pension Fund Committee had taken this option.

The four Co-opted Members of the Pension Fund Committee receive fees in relation to their specific responsibilities as members of the Committee in the form of an attendance allowance that is in line with that adopted by Flintshire County Council.

Flintshire County Council

During the year Flintshire County Council incurred costs of £1.8m (£1.6m in 2017/18) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The costs have been included within Oversight & Governance costs and administration expenses at Note 10.

Key Management Personnel

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

2017/18 £000s		2018/19 £000s
26	Short-term benefits	26
6	Post-employment benefits	23
32	**Total**	**49**

NOTE 23 MATERIAL ITEMS OF INCOME AND EXPENSE

For the purpose of this Note, the Council considers material items of income and expense to be those exceeding £19m. During the year the Fund incurred the following material transactions:

- Sold £20m from the Insight LDI
- Sold £74m from the Investec Global Equities Fund
- Invested £74m in the Wales Pension Partnership (Russell Investment Global Equities).

NOTE 24 - CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31 March 2019, the Fund has contractual commitments of £1,009m (£760m in 2017/18) in private equity, infrastructure, timber and agriculture, and property funds, of which £685m (£523m in 2017/18) has been deployed, leaving an outstanding commitment of £324m (£237m at 31 March 2018).

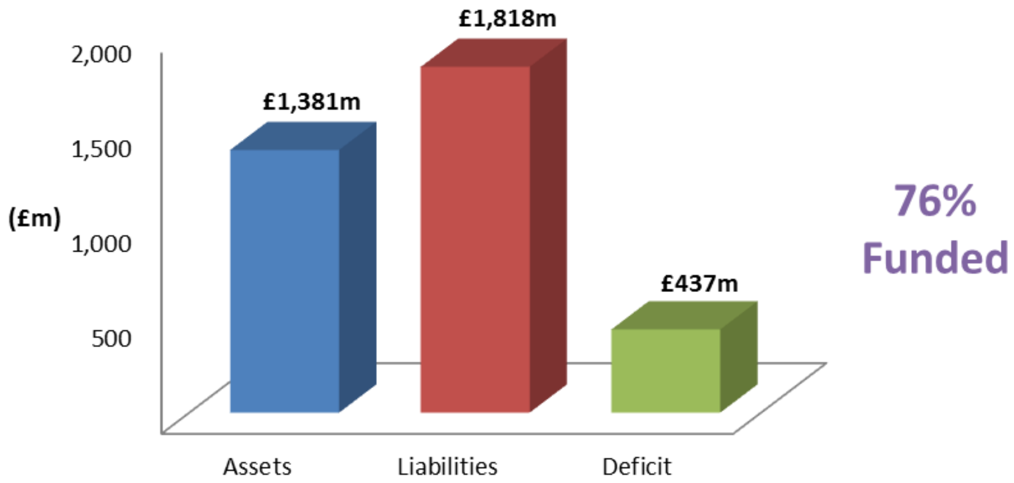
CLWYD PENSION FUND

- ## ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 - STATEMENT BY THE CONSULTING ACTUARY

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

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

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



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

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

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

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

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

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

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

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

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

The assets were assessed at market value.

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of CPI Inflation / CARE revaluation	2.1% per annum	2.2% per annum
Rate of pay increases*	3.35% per annum	3.45% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.2% per annum	2.3% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £2,629 million. Interest over the year increased the liabilities by c£69 million, and net benefits accrued/paid over the period also increased the liabilities by c£21 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was also an increase in liabilities of £151 million due to "actuarial losses" (i.e. the effect of changes in the assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £2,870 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government is attempting to appeal the cases, but it is not known at this stage whether an appeal will even be possible. If the Government ultimately loses these cases then remedial action in the form of increases in benefits for some members is likely to be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

The LGPS Scheme Advisory Board has commissioned the Government Actuary's Department (GAD) to calculate some indicative costs on an LGPS-wide basis so that Funds can give some consideration to the overall issue and form a view on whether any more detailed work is required. Whilst GAD have not yet reported on their findings, initial indications are that the impact on liabilities could be of the order of 0.5% to 1% of liabilities. This is well within the approximations inherent in the liability calculation shown above, which is based on a "roll-forward" of the 2016 actuarial valuation results rather than being a full recalculation, and in any case is within normal acceptable tolerances for this type of work given the general approximations which need to be made. We have therefore not included a specific provision for the potential additional liabilities arising from the McCloud case.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

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

June 2019

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

Appendix 2

CLWYD PENSION FUND

Draft Annual Governance Statement 2018/19

Roles and Responsibilities

Flintshire County Council (the Council) is responsible for administering the Clwyd Pension Fund (the Fund), on its own behalf and on behalf of two other local authorities (Wrexham and Denbighshire) and 40 other large and small employers in North East Wales.

The main activities involved in managing the Fund are to make and manage investments and to administer the payment of scheme benefits. This is carried out in accordance with the requirements of the Local Government Pension Scheme (LGPS) Regulations and the Public Service Pensions Act 2013.

The Council is responsible for ensuring that all its business, including that of the Fund, is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and that there are proper arrangements to use money economically, effectively and efficiently. The Council is also required to ensure that the Fund is managed to deliver best value.

Delegation

The Council discharges its duty as administering authority by delegation to the Pension Fund Committee. The committee is made up of five of the Council’s own councillors and four coopted members, representing the other two local authorities, other employers and the scheme members. There is further delegation for day to day management to the Council’s Chief Executive and for proper financial administration to the Council’s Section 151 Officer.

In addition under an inter-authority agreement there is delegation to the Wales Pension Partnership Joint Governance Committee to reflect the move to the pooling of pension fund assets across the eight Welsh LGPS pension funds.

Governance arrangements

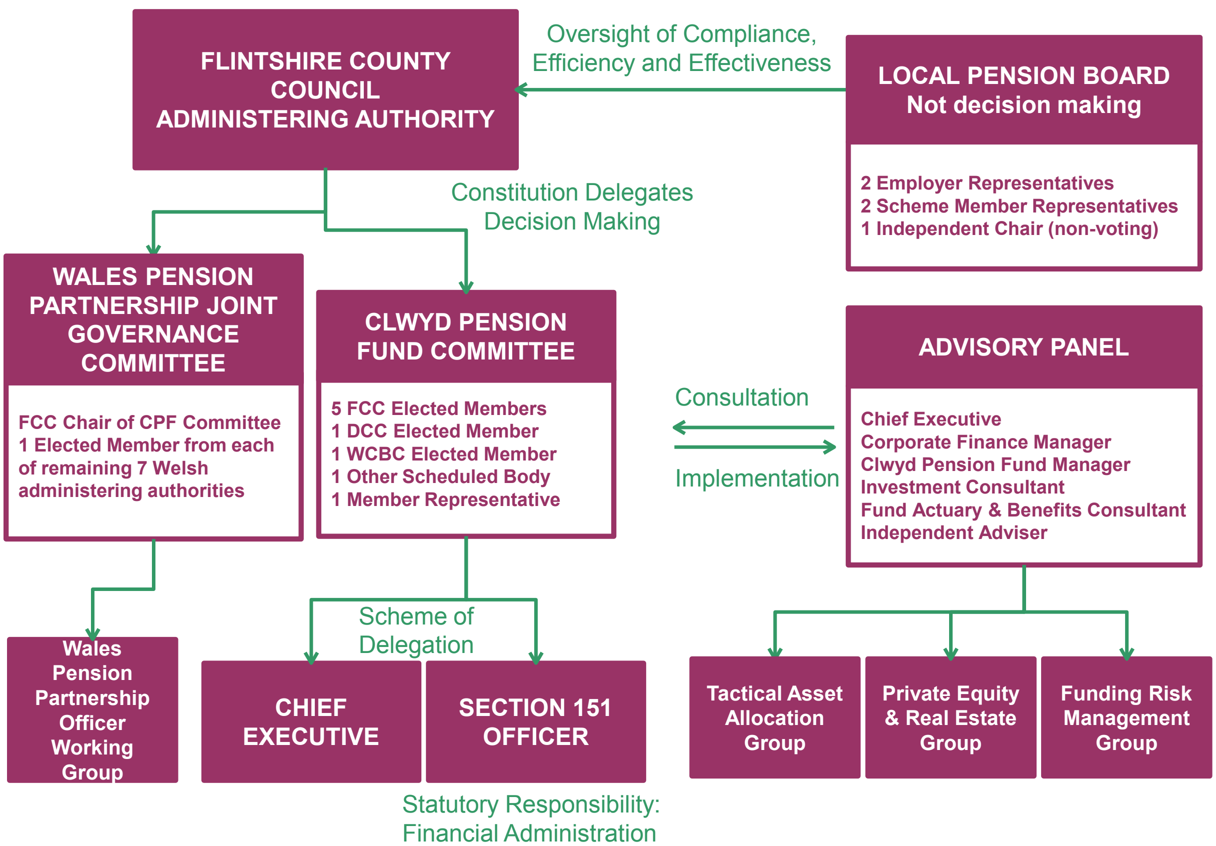
The governance framework of the Council comprises an underlying set of legislative requirements, good practice principles and management processes, which supports the philosophy of the Council’s operations, the standards it sets itself, the behaviours it expects of itself and the principles it follows.

To help ensure that the governance framework is robust, the Council has developed a Local Code of Corporate Governance (the Code) which defines the principles that underpin the governance of the organisation and is consistent with the principles of the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives Framework: Delivering Good Governance in Local

Government. The Code forms part of the Council's constitution and is available on the Council's website. The operation of the Fund is governed by this code. The Council produces its own Annual Governance Statement which review the effectiveness of its control environment.

In accordance with the requirements of the Public Services Pensions Act 2013, the Fund has established a pension board to act as a partner in assisting the Fund to meet its statutory and regulatory requirements and in administering the fund effectively.

The Governance Structure for the Fund is shown below. The bodies to which responsibility is formally delegated are supported by the Local Pension Board, and also an advisory panel and a number of working groups.



The Council's Chief Executive is responsible for the day to day management of the Fund. This includes ensuring that the arrangements for the investment of assets, the receipt of contributions and the payment of benefits are properly managed. In addition the Chief Executive is responsible for establishing and chairing the Clwyd Pension Fund Advisory Panel, which includes officers of the Council and advisors to the Fund. The Panel advises the Pensions Committee and carries out matters delegated to it by the Pensions Committee from time to time.

The Council's Corporate Finance Manager as Section 151 Officer is responsible for arranging the proper administration of the financial affairs of the Fund. He is CIPFA qualified and is suitably experienced to lead the finance function.

The LGPS regulations require the Fund to maintain a number of strategy and policy documents which are available on its website. Key amongst these are the Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement and Communication Strategy Statement. These documents describe the Fund's objectives together with the main risks facing the Fund and the key controls which mitigate them.

Financial data is used and managed by the Fund in a number of different ways:

- There is a triennial actuarial valuation which determines long term cash flows, fund liabilities and contributions. In addition monthly funding projections are also produced by the actuary to help the Fund keep abreast of its funding position.
- Detailed investment records are held and maintained by external partner investment managers and the Fund's global custodian. There is quarterly performance reporting to the Fund of the position on investments.
- The Fund uses the Altair management system to manage the payment of benefits to beneficiaries. Payments to beneficiaries are made through the Council's bank account. Financial monitoring reports are prepared using the Council's Masterpiece financial ledger system.

Annual audit reports and Statements of Internal Control are obtained from the investment managers by the Fund and are reviewed by officers to provide assurance that the investments are managed in an adequate control environment. Any significant issues that these reports disclose are reported to the Pension Committee on an exception basis.

Risk Management

The Fund recognises that effective risk management is an essential element of good governance. By identifying and managing risk through an effective policy and risk management strategy the Fund

- demonstrates best practice,
- improves financial management
- minimise the effect of adverse conditions
- identify and maximize opportunities that might arise
- minimise threats

Risks relating to pension funds are often outside the Fund's control. The Fund's risk management focusses on measuring the current risk against the Fund's agreed target risk and identifying further controls and actions that can be put in place. These actions are then included in the Fund's business plan.

The risks currently identified as amber (defined as moderate consequence considered a possible occurrence) and higher are shown in Appendix 1.

Review of effectiveness

The Pensions Committee is responsible for ensuring the continued effectiveness of the governance framework and system of internal control within which the Fund operates. In discharging this responsibility it relies on the assurances of officers, financial monitoring and other reports, the work of internal audit and the work of the external auditors.

The Fund completes a governance policy and compliance statement as part of its annual report. This measures the extent to which the Fund's governance arrangements comply with best practice.

As part of his duties, the Corporate Finance Manager ensures that the Council receives an internal audit of the control environment of the Council and the Fund. The audit coverage reviews the control environment within which the Fund operates and helps to ensure that robust arrangements are in place to:

- Safeguard the contributions made by employees and employers used to fund the pension liabilities
- Ensure control is maintained over partner investment managers who are responsible for ensuring that funds are maximised in order to meet liabilities
- Ensure that accurate and timely payment is made to retired members of the fund.

Update on significant governance issues previously reported.

There were no significant governance issues in 2017/18 specific to the Fund.

Significant governance issues

The Head of Internal Audit has confirmed that there are no significant governance issues which need to be reported as a result of the work undertaken by Internal Audit on the control systems of either the Council or the Fund.

Internal Audit Opinion.

Based on the audit work undertaken for the Council and the assurances provided by the Chief Executive, the Corporate Finance Manager and the Clwyd Pension Fund Manager, it is the Head of Audit's opinion that reasonable assurance can be placed on the adequacy and effectiveness of the governance and control environment which operated during 2018/19.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance which operate on the Clwyd Pension Fund. Work undertaken by Internal Audit has shown that the arrangements in place are operating as planned. We consider the governance and internal control environment operating during 2018/19 to provide reasonable and objective assurance that any significant risks impacting the Fund's ability to achieve its objectives will be identified and actions taken to avoid or mitigate their impact.

Colin Everett	Councillor Aaron Shotton
Chief Executive	Chair Clwyd Pension Fund Committee
XX September 2019	XX September 2019

Appendix 1

KEY RISKS

Governance

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
Externally led influence and change such scheme change, national reorganisation and asset pooling	The Fund's objectives/legal responsibilities are not met or are compromised - external factors			1 - Regular ongoing monitoring by AP to consider if any action is necessary 2 - Ensure Board requests to JGC/OWG are responded to 3 - Regular consideration of impact national reorganisation at APs
Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	Services are not being delivered to meet legal and policy objectives			1 - Complete and implement Finance team restructure, including fundamental review of future service requirements 2 - Ongoing consideration of succession planning 3 - Implement the agreed outcome of the admin staff structure review 4 - Recruit to vacant Pensions Administration Manager post

Funding & Investment

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
An appropriate funding strategy cannot be set	Employer contributions are unaffordable and/or unstable			1 - Finalise employer covenant monitoring and ill health captive
Movements in assets and/or liabilities (as described in 3,4,5) in combination	Funding level reduces, increasing deficit			1 - Revised Equity Protection Strategy to be put in place 2 - See also actions below that will impact this
-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	Investment targets are not achieved therefore reducing solvency / increasing contributions			1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG)
Market factors impact on inflation and interest rates	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions			1 -The level of hedging will be monitored and reported regularly via FRMG
Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit and other funding and investment related requirements - ultimately this could increase employer costs	Investment and/or funding objectives and/or strategies are no longer fit for purpose			1 - Ensure proactive responses to consultations etc.

Administration & Communication

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues			1 - Ongoing training 2 - Ongoing bedding in of aggregation team and use of Mercers with backlogs 3 - Ongoing monitoring of ELT and Ops resource/workload for backlogs 4 - Recruitment to new posts 5 - Ongoing consideration of resource levels post recruitment of new posts
Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues			1 - Ongoing roll out I-connect 2 - Ongoing monitoring of ELT resource/workload 3 - Implement further APP data checks to identify issues 4 - Develop and roll out APP training - in house and employers 5 - Update Admin Strategy to include a compliance declaration and focus on availability of payroll system/information 5 - Identify other employer data issues and engage directly with employers on these
Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	Unable to meet legal and performance expectations due to external factors			1 - Recruitment to new posts 2 - Ongoing consideration of resource levels post recruitment of new posts
Communications are inaccurate, poorly drafted or insufficient	Scheme members do not understand or appreciate their benefits			1 -Ongoing promotion of member self service 2 - Ongoing identification of data issues and data improvement plan 3 - Review of effectiveness of new website/iConnect planned for 2019/20 4 - Recruitment of Comms Officer

Systems are not kept up to date or not utilised appropriately, or other processes inefficient	High administration costs and/or errors			1 - Ongoing roll out of iConnect 2 - Ongoing identification of data issues and data improvement plan 3- Review of effectiveness of new website/iConnect planned for 2019/20 4 - Implementation of other Altair modules in 2018/19 business plan 5 - Increased engagement with Heywood about change in their business model

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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

2019 Audit Plan – **Clwyd Pension Fund**

Audit year: 2018-19

Date issued: March 2019

Document reference: 1167A2019-20

This document has been prepared as part of work performed/to be performed in accordance with statutory functions. Further information on this is provided in Appendix 1.

No responsibility is taken by the Auditor General, the staff of the Wales Audit Office or auditors acting on behalf of the Auditor General in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

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

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Contents

2019 Audit Plan

Summary

1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice to examine and certify whether Clwyd Pension Fund (the Pension Fund) accounting statements are 'true and fair'.

2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.

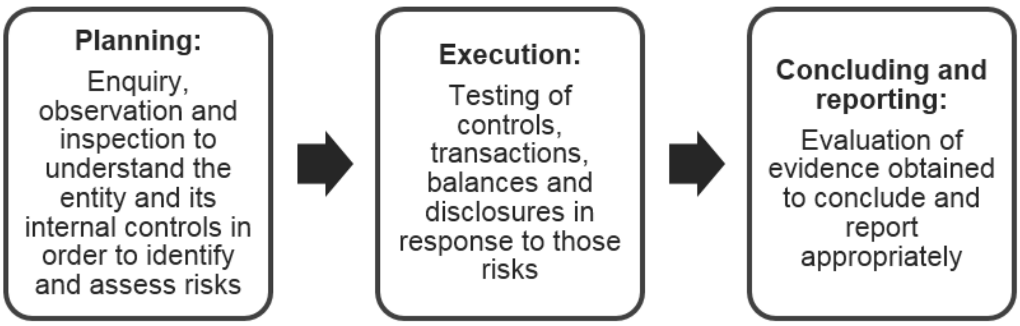
3 There have been no limitations imposed on me in planning the scope of this audit.

4 My responsibilities, along with those of management and those charged with governance, are set out in Appendix 1.

Audit of Pension Fund accounts

5 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund accounts as a whole. My audit approach consists of three phases as set out in Exhibit 1.

Exhibit 1: my audit approach



6 The risks of material misstatement which I consider to be significant and which therefore require special audit consideration, are set out in Exhibit 2 along with the work I intend to undertake to address them. Also included are other key areas of audit attention my team will be focusing on.

Exhibit 2: Financial audit risks

Financial audit risks	Proposed audit response
Significant Risks	
Management override. The risk of management override of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].	My audit team will: • test the appropriateness of journal entries and other adjustments made in preparing the financial statements; • review accounting estimates for biases; • evaluate the rationale for any significant transactions outside the normal course of business;
Other areas of audit attention	
Risks related to the financial statements: • As part of its portfolio, the Pension Fund has substantial holdings in unquoted investments. They are accounted for at fair value determined by valuations provided by fund managers. • External investment managers are appointed to manage the investment portfolio. Their own systems and records will generate account entries made to the Pension Fund account and net assets statement. • In year, the Pension Fund is making its first transfer of assets to the Welsh Pension Partnership. Separate disclosures are required within the financial statements to show the values and movements on investments the fund has in the Pool.	My audit team will: • assess whether the information provided by fund managers and their auditors support the year-end valuation. • obtain direct confirmation from the fund managers of year-end investment balances and consider whether investment managers' internal control reports indicate specific risks to these balances. • obtain direct confirmation from the Fund Manager of the Pool for the values and transactions involved. We will review the corresponding disinvestment to ensure the completeness of transfers.
New accounting standard. IFRS 9 financial instruments applies from 1 April 2018 and brings in a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier recognition of expected credit losses.	My audit team will assess the likely impacts of IFRS 9 and undertake work to respond to any identified risks of material misstatement.

7 I do not seek to obtain absolute assurance that the Pension Fund accounting statements are true and fair but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the accounts being misled. The levels at which I judge such misstatements to be material will be reported to the Pension Committee and to those charged with governance for Flintshire County Council (the Council), as the administering authority of the Pension Fund as a whole, prior to completion of the audit.

8 For reporting purposes, I will treat any misstatements below a trivial level (set at 5% of materiality as not requiring consideration by those charged with governance and therefore I will not report them.

9 My fees and planned timescales for completion of the audit are based on the following assumptions

- the financial statements are provided in accordance with the agreed timescales, to the quality expected and have been subject to a robust quality assurance review;
- information provided to support the financial statements is timely, to the quality expected, complete and has been subject to quality assurance review;
- all appropriate officials will be available during the audit;
- you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me;
- Internal Audit's planned programme of work is complete, and management has responded to issues that may have affected the financial statements.

Statutory audit functions

10 In addition to the audit of the accounts, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:

- Section 30 Inspection of documents and questions at audit; and
- Section 31 Right to make objections at audit.

11 Audit fees will be chargeable for work undertaken in dealing with electors' questions and objections. Because audit work will depend upon the number and nature of any questions and objections, it is not possible to estimate an audit fee for this work.

12 If I do receive questions or objections, I will discuss potential audit fees at the time.

Fee, audit team and timetable

Fee

13 Your estimated fee for 2019 is set out in Exhibit 3. There have been some small changes to my fee rates for 2019 however my audit teams will continue to drive efficiency in their audits to ensure any resulting increases will not be passed onto you.

Exhibit 3: audit fee

	Proposed fee for 2019 (£)[1]	Actual fee for 2018 (£)
Audit of pension fund accounts	£39,281	£39,281

14 The fee for the financial audit is driven by the skill mix required to deliver the work, together with the daily charge rate for each grade of staff member.

15 Further information on my fee scales and fee setting can be found on our website.

Audit team

16 The main members of my team, together with their contact details, are summarised in Exhibit 4.

Exhibit 4: my audit team

This table lists the members of the local audit team and their contact details.

Name	Role	Contact number	E-mail address
Richard Harries	Engagement Lead – Financial Audit	02920 320640	richard.harries@audit.wales
Michelle Phoenix	Financial Audit Manager	07966 073281	michelle.phoenix@audit.wales
David Catherall	Financial Audit Team Leader	02920 829339	David.catherall@audit.wales

17 I can confirm that my team members are all independent of the Pension Fund and its officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

[1] The fees shown in this document are exclusive of VAT, which is not charged to you.

Timetable

18 I will provide reports, or other outputs as agreed, to the Pension Committee covering the areas of work identified in this document. My key milestones are set out in Exhibit 6.

Exhibit 6: timetable

Planned output	Work undertaken	Report finalised
2019 Audit Plan	January to February 2019	March 2019
Financial accounts work: • Audit of Financial Statements Report • Opinion on Financial Statements	 June to September 2019 September 2019	 September 2019 September 2019
2020 Audit Plan	January to February 2019	March 2020

Future developments to my audit work

19 Details of other future developments including the Wales Audit Office's Good Practice Exchange (GPX) seminars and my planned work on the readiness of the Welsh public sector for Brexit are set out in Appendix 2.

Appendix 1

Respective responsibilities

The Council is the administering authority of the Pension Fund. This Audit Plan has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the Pension Fund accounts.

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the Pension Fund accounting statements which includes an opinion on their 'truth and fairness', providing assurance that they:

- are free from material misstatement, whether caused by fraud or error;
- comply with the statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the authority from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.

Appendix 2

Other future developments

A. Good Practice Exchange

The Wales Audit Office's GPX helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face to face and resources shared online. The main areas of work are regarding financial management, public-sector staff and governance. Further information, including details of forthcoming GPX events and outputs from past seminars can be found on the GPX section of the Wales Audit Office website.

B. Brexit: preparations for the United Kingdom's departure from membership of the European Union

In accordance with Article 50 of the Treaty of Rome, on 29 March 2019 the United Kingdom will cease to be a member of the European Union. Negotiations are continuing, and it currently remains unclear whether agreement will be reached on a transition period to 31 December 2020, or whether a 'no deal' immediate exit will take place next March.

The Auditor General has commenced a programme of work looking at the arrangements that the devolved public sector in Wales, including all NHS bodies, is putting in place to prepare for, and respond to, Britain's exit from the European Union. This will take the form of a high-level overview to establish what is being put in place across the Welsh public sector, and what the key issues are from the perspectives of different parts of the Welsh public service.

The Auditor General intends to carry out this initial work in two tranches. In autumn 2018, he will compile a baseline summary of arrangements being put in place. This will be followed up by further audit fieldwork in spring 2019.

The aim is to produce a report in summer 2019. The report's key messages and recommendations will be framed in the context of the UK moving to a new relationship with the European Union by the end of the planned transition period.

However, if it becomes clear that the UK is likely to leave the European Union without a Withdrawal Agreement (the 'no deal' scenario), we will publish a report as early as possible in 2019, ahead of the UK leaving the European Union on 29 March.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12 June 2019
Report Subject	Responsible Investment
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

In recent years Responsible Investment (RI) has moved into the mainstream, and investors are now seriously considering the Environmental, Social and Governance (ESG) risks associated with investments as a matter of course. The Clwyd Pension Fund has long held beliefs as a Responsible Investor and these together with the Fund's Sustainability Policy are reported within the Investment Strategy Statement (ISS).

It is important to review the Fund's beliefs and refresh the policies on a regular basis, and the Business Plan for 2019 flags a review is due.

With this background the Committee had a training session on 20 March 2019. The session was split into three sections:

1. Why consider ESG factors and how to implement?
2. The current RI policy and approach of the Clwyd Pension Fund
3. Responsible investment in a pooling environment

The training sessions were designed to inform the Committee of the latest thinking in the RI area, and to give background and support in the review of the Fund's policy later in the year.

The purpose of this session is to refresh the Committee of the issues discussed at the training day in March, and set out the plans for reviewing the Clwyd Pension Fund's policy.

RECOMMENDATIONS	
1	To note and comment on the presentation, and to agree the process for the review of the Fund's policy.

REPORT DETAILS

1.00	RESPONSIBLE INVESTMENT
1.01	**Background** In recent years Responsible Investment (RI) has moved into the mainstream, and investors are now seriously considering the Environmental, Social and Governance (ESG) risks associated with investments as a matter of course. The Clwyd Pension Fund has long held beliefs as a Responsible Investor and these, together with the Fund's Sustainability Policy, are reported within the Investment Strategy Statement (ISS). It is important to review the Fund's beliefs and refresh the policy on a regular basis, and the Business Plan for 2019 flags a review is due. This report sets out the proposed process for this review.
1.02	**Review** As part of the presentation of this report the Fund's Investment Consultant will remind the Committee of some of the key points arising from March's training session. There are also two documents attached as Appendices to this report to give the Committee more background information on ESG and the impact of Climate Change on investors. After the meeting a survey will be issued to Committee members, which is designed to seek views on a number of ESG areas at a high level. Committee members will be given two weeks to complete this survey which should take no more than 15 minutes to complete. After the surveys are completed the Investment Consultant will compile the results, and discuss with the officers to inform the review of the Fund's policy. This work will run concurrently with the review of the Investment Strategy to ensure that any strong views are reflected appropriately. The results will be presented at the Committee meeting in September and any headline views expressed and discussed after which an overall approach will be agreed and fed into the formal review of the Fund's policy. As a result of this work, the updated policy will be presented to the Committee for approval at the meeting in November.

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	It is now commonly accepted that ESG risks and the consideration of such should be embedded with consideration of any investment. The CPF has an RI policy, and it is appropriate to review and refresh on a regular basis. The training session will give the Committee an opportunity to hear the latest thinking and understand the risks and benefits from considering ESG factors.

5.00	**APPENDICES**
5.01	Appendix 1 - ABC of ESG Appendix 2 - Investing in a time of Climate Change

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Presentations to Committee Training Day on 20 March 2019. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

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HEALTH WEALTH CAREER

THE ABC OF ESG

2018

MAKE TOMORROW, TODAY

MERCER

CONTENTS

INTRODUCTION

1.1

At Mercer, we define responsible investment (RI) as an investment approach that includes environmental, social and corporate governance (ESG) factors and broader systemic issues — for example, climate change and sustainable development — along with active ownership (stewardship). These considerations can have a material impact on financial performance, and their inclusion is more likely to lead to sustainable investment outcomes, such as a greater ability to sustain pension payments in the future.

Mercer's own investment beliefs state that ESG factors can have a material impact on long-term risk and return outcomes. We also believe:

1. Taking a broader and longer-term perspective on risk will lead to improved risk management and new investment opportunities.

2. Climate change poses a systemic risk given the low-carbon transition and physical impacts of different climate outcomes.

3. Active ownership provides opportunities for investors to enhance the value of companies and the market.

RI is distinguished from ethical, norms-driven investing, an investment philosophy dating to the 1800s guided by moral values, ethical codes or religious beliefs and originally rooted in negative screening of investments in sensitive sectors, such as slavery-derived goods, alcohol, tobacco, pornography and firearms. Under this approach, ensuring investment was limited to companies that met the investor's moral criteria was the focus. Socially responsible investing (SRI) is another approach, intended to balance an investor's ideals with performance considerations, and typically seeks to achieve a trade-off between social and financial objectives.

That said, proponents of RI, SRI and ethical, norms-driven investment may share many underlying beliefs, and there is often overlap in the strategies implemented in pursuit of these investment approaches. Mercer's RI advice prioritizes risk and return implications, but we also help many clients balance their reputation considerations and align both *value* and *values*.

1.2

In recent years, RI has attracted significant attention among institutional investors around the world. Drivers behind this increased focus include the following:

- A general acceptance that ESG factors are relevant to companies and investors facing related risks and opportunities in aligning their capital allocations with the interests of their clients and beneficiaries is reflected in the increasing number of signatories to the UN Principles for Responsible Investment (PRI).[1] This increase represented more than US$80 trillion in 2018 — equal to the size of assets managed by the global asset management industry — compared to approximately US$12 trillion in assets 10 years earlier.

- Awareness of the growing array of social inequalities, environmental impacts and negative externalities affecting companies is increasing. Unprecedented environmental and social pressures, driven by population growth and consumption-pattern pressures on food, water and energy security; access to natural resources; climate change; human rights; and supply-chain labor standards, are creating material issues for business and the corporate world.
- The impact of poor corporate governance practices on shareholder value — accentuated by direct examples of individual company financials and the indirect impacts of the global financial crisis — has also brought issues such as transparency, corruption, board structure, shareholder rights, business ethics, risk management and executive compensation to the top of the investor agenda.

- ESG integration has increased along with the applicability of integration techniques in asset classes other than listed equity, including bonds, emerging markets and alternative asset classes.

- Changes are occurring in global legislation and legislative guidance that either require or encourage consideration of RI as part of a statement of investment principles or similar in an investor's investment strategy documentation. Changes in normative and best-practice expectations that stipulate RI considerations are also a factor.

- In some cases, stakeholders and beneficiaries are putting pressure on investment decision makers to adopt an RI investment approach or consider particular issues.

1.3

No definitive list of ESG issues exists, but they typically display one or more of the following characteristics:

- Have a medium- to long-term time horizon with a forward-looking perspective

- Are often qualitative and not always readily quantifiable in monetary terms

- Represent externalities (costs borne by other firms or by society at large) not captured by market mechanisms

- Result from normative shifts and changing regulatory or policy frameworks

- Represent former "event risks" that are becoming more predictable

The table on the next page highlights some of the issues considered as E, S or G factors, which can have financial impacts for operational and/or reputational reasons.

[1] Principles for Responsible Investment (PRI). "About the PRI," available at https://www.unpri.org/pri/about-the-pri.

WHAT IS ESG?

ESG issues to consider

ENVIRONMENTAL CONCERNS	SOCIAL CONCERNS	CORPORATE GOVERNANCE CONCERNS
• Climate change	• Health and safety	• Audit quality
• Energy efficiency	• Stakeholder concerns	• Board structure
• Waste and pollution	• Demographics	• Remuneration
• Water and resource scarcity	• Labor and supply	• Shareholder rights

1.4

This paper provides a brief introduction to RI implementation.

Section 2 discusses the four main approaches:

1. **Integration** — ESG factors incorporated into the investment process for risk/return reasons

2. **Stewardship** — voting and engagement with underlying companies and/or investment managers and engagement with policymakers for risk/return reasons

3. **Investment:**
   - Themed investing — funds that focus on the risk and return opportunities in ESG themes, typically related to sustainability solution trends
   - Impact investing — investments that seek to balance financial returns with a positive impact on society and/or the environment, including investments in companies that meet such criteria

4. **Screening** — typically implemented by excluding investments in companies that are perceived to have a negative impact on society, where investors do not want to profit from the product or activity for reputational and/or ethical reasons

Section 3 addresses historical concerns related to RI and fiduciary duty.

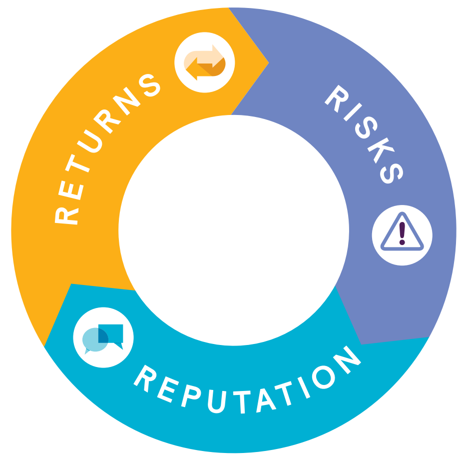
Section 4 discusses the relationship between RI and investment performance.

Section 5 provides some suggestions for next steps and a potential action plan.

INVESTMENT APPROACHES

There are many ways in which institutional investors approach RI and applicable ethical considerations — aiming to balance the risk/return requirements for investors (particularly those with fiduciary duties) and reputational considerations with the needs of beneficiaries and other stakeholders.

In this section, we describe the main approaches that can be implemented individually or in combination. The majority of investors employing a comprehensive RI program would have elements of most if not all of these.



FOUR APPROACHES TO RI

INTEGRATION

Include ESG factors in investment decisions, with an explicit approach to climate change transition and physical risks, which are portfolio-wide.

AIM:
Financial objectives
+ risk management improvement

STEWARDSHIP

Exercise active ownership/stewardship through voting and engagement with underlying companies and by engaging with policymakers.

AIM:
Financial objectives
+ financial system improvement

INVESTMENT

Allocate to sustainability themes or impact investments for new opportunities — for example, renewable energy, water and social housing.

AIM:
Financial objectives
+ positive social and environmental impact

SCREENING

Screen out sectors or companies deemed to be irresponsible or not acceptable to profit from.

AIM:
Alignment with values/reputation/risk management or longer-term financial expectations

Include ESG factors in investment decisions, with an explicit approach to climate change transition and physical risks, which are portfolio-wide.

AIM:
Financial objectives
+ risk management improvement

2.1 ESG INTEGRATION

At the forefront of recent developments in RI is an integration approach to considering ESG factors as part of the investment process. Managers adopting this approach are typically traditional fund management companies that have begun to actively take ESG issues and themes into account in their fundamental research, analysis and decision-making processes. Typically, no sector or investment opportunity is automatically excluded from a portfolio. Integration determines the ESG "traits of a security that may not have been taken into account by that security's price but which may affect its desirability"[2] as an investment.

The rationale is twofold:

1. Managers believe investors that do not consider these issues are ignoring significant extra-financial factors that may materially impact the value of their holdings, either negatively or positively.

2. Companies that ignore sustainability issues expose themselves to a range of risks, including physical, regulatory, competitive, litigation and reputational risks that will impact their long-term corporate performance, and that by ignoring these issues, they will miss out on associated opportunities.

Some investors utilize ESG indicators purely for risk-management purposes, whereas others consider these indicators fundamental to idea generation and portfolio construction for alpha generation. Some approach ESG integration with a "best in class" focus, investing in those companies that display the most positive ESG indicators within their respective sectors. Such integration considerations can typically lead investors to make buy/hold/sell or overweight/underweight decisions.

Integration can be applied, to different extents, in all asset classes. The most well-developed public market examples are found in listed equities, and, often, the private market examples with the greatest level of ESG integration can be found in real estate. Strategies are likely to share the investment characteristics of traditional strategies in the same asset class; typically, they should also be expected to display a longer-term outlook to investing and a responsible approach to stewardship. Placing financial considerations as a driver, this approach overcomes any question of whether incorporating ESG is aligned with fiduciary responsibility.

Furthermore, significant financial regulators as well as educational bodies, such as the CFA, have clarified their stances and indicated that financially material ESG factors should be considered in investment decision-making. (The global regulatory regime will be covered in more detail in section 3.) Integration is therefore being embraced by the broadest set of mainstream investors.

[2] AIMA and CAIS. *From Niche to Mainstream: Responsible Investment and Hedge Funds*, (2017).

Exercise active ownership/stewardship through voting and engagement with underlying companies and by engaging with policymakers.

AIM:
Financial objectives
+ financial system improvement

2.2 STEWARDSHIP

Also referred to as active ownership, and often interchangeably, stewardship is an approach whereby investors seek to use their positions as owners — or, lately, also as creditors — to influence the activity or behavior of investees. The aim is usually to bring a corporation in line with best practice in a particular area, to better understand fundamental business drivers related to ESG issues, and, most commonly, to improve standards of corporate governance.
In combination with other responsible investment approaches, stewardship should better align the time horizon and interests of the corporation with that of its long-term investors.

Stewardship is an integral part of RI. Tools range from using proxy-voting rights and undertaking engagement with companies (through verbal and written communication on specific topics) to collaborative engagement with other shareholders to promote systemic change within a certain sector.

For example: Climate Action 100+ is a multiyear initiative coordinated by global investors with US$30 trillion in assets under management "to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures."[3]

Stewardship is exercised differently in each asset class. For listed equities, voting and engagement are typical, whereas in asset classes where voting rights do not exist (such as fixed income), variations in engagement practices are emerging.

These tools are increasingly being pursued in an effort to reduce risk and enhance long-term financial value. Studies have shown that companies with good corporate citizenship practices on ESG issues are better-managed overall and therefore more likely to outperform in the long term. The view that stewardship is needed and legitimate[4] has been strengthened by various instances of high-profile corporate governance failings leading to disastrous investment outcomes. Active ownership is clearly encouraged by regulators, which see the systemic value of stewardship in protecting and strengthening investments.

Engagement can be on any issue the investment community believes will protect or enhance shareholder/stakeholder value. Topics may include environmental management, labor standards, director remuneration, corruption and bribery. Engagement activity is often supported by specific research and analysis. The ability to engage and/or vote will vary depending on the specific regulatory processes in place in the location of the holdings.

[3] Climate Action 100. "About Us," available at http://www.climateaction100.org.
[4] Financial Reporting Council. *The UK Stewardship Code,* 2012, available at https://www.frc.org.uk/investors/uk-stewardship-code.

Options for stewardship include the following:

- **Direct voting**: Voting can be coordinated in house by institutional investors. Typically, proxy-voting policies and procedures are developed. The development and implementation of these policies and procedures are often assisted by the use of a third-party proxy-voting researcher (as discussed below).

- **Third-party proxy voting**: If investors conduct voting in house, they may wish to use an external research firm to inform their decisions. Often, these service providers can also offer their own proxy-voting policies or customize voting policies for clients, thereby automating much of the process, including casting their votes.

- **Direct engagement**: Engagement can be carried out by investors directly. This can be either one-to-one (that is, the investor enters into dialogue with individual companies) or collaborative (that is, joining with other investors on a specific issue or joining investor initiatives seeking to influence public policy).

- **Third-party engagement service**: Investors can employ a third-party provider offering a standalone engagement overlay service. These providers offer long-term engagement with target companies on strategic issues to enhance shareholder value. Typically, such providers use the combined influence of assets held by several clients. The majority of engagement overlay service providers also offer a voting service.

- **Delegation of voting and engagement to fund managers**: Given its natural fit with the investment process, some investors will also delegate their stewardship and engagement activities to their fund managers as part of the investment mandate. Capacity and capabilities vary considerably between fund managers. Fund managers can then also choose to use direct or delegated routes and research provision for their engagement/stewardship activities.

Allocate to sustainability themes or impact investments for new opportunities — for example, renewable energy, water and social housing.

AIM:
Financial objectives
+ positive social and environmental impact

2.3 INVESTMENT

THEMED FUNDS

The vast majority of themed funds have a sustainability/environmental focus. These funds have proliferated in recent years with the emergence of sustainability as a key societal and investment trend driving long-term growth and returns. Focus funds or activist funds can be seen as themed funds within the governance area. Funds with a social theme can be found in microfinance, urban regeneration, property and social infrastructure projects (these could also be viewed as impact investment approaches).

Sustainability-themed funds can be found most often in:

Listed Equities

Many funds in this category may use positive/negative screening, engagement, integration or best-in-sector approaches to investment. They may also have quite wide investment universes.

As an example, one such equity fund aims to invest exclusively in global companies providing solutions to sustainability challenges in health, waste and public transport. Other, more-focused examples exist in fields such as renewable energy and water.

Fixed Income

Green-bond investment can be seen as a thematic and/or impact investment. The product was created to fund projects with positive environmental benefits with the use of proceeds linked to a specific project or asset. Green-bond funds have emerged as an option for investors to tap into the growth in this market.

Property

A smaller number of specific sustainability-themed funds are emerging in the property sector as high environmental standards become mainstream in real estate investments, reducing the ability to market specialized funds.

Alternatives

Unlisted equity funds have emerged to capture the investment opportunities associated with a broad sustainability theme. Some of these funds may have a venture-capital focus as new technologies emerge to provide solutions to the global environmental challenges. Infrastructure funds can be sustainability-themed or demonstrate a high level of understanding of ESG trends to satisfy end investors' needs. Other funds include pure-play funds focused on natural resources, such as sustainable forestry or agriculture.

IMPACT INVESTING

The meaning of this term has evolved over time; however, the Global Impact Investing Network (GIIN) defines impact investments as "investments made into companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return." In the context of investment strategies, impact investing has historically referred to private equity, private debt and other alternatives.[5]

A wide variety of potential approaches exist, but a common "traditional" type of impact fund supports small businesses in emerging or underserved markets, either directly or through loans to intermediaries, such as microfinance institutions. Typically, funds investing directly seek companies that are solutions-oriented in terms of directly addressing environmental or social issues. Other strategies may focus on environmental or social themes, such as sustainable agricultural development or affordable housing.

As a recent development, several providers of investment products and data have also started to isolate universes of public securities that are linked to positive impacts, such as a company's percentage of revenues that could be considered "green." These products can also be developed with explicit references to applicable United Nations Sustainable Development Goals (SDGs) that they intend to impact.

Measuring the impacts of these investments has become increasingly important as demand from asset owners to understand the impact created by their investments has increased. The Global Impact Investing Rating System (GIIRS)[6] and IRIS[7] are prime examples of the ongoing work in this field, in which a multitude of competing methodologies exist. Mercer observes that investment managers in this space are increasingly self-reporting, as clients request detailed information on the impacts they support.

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[5] Global Impact Investing Network (GIIN). "History (Global Impact Investing Initiative)," available at https://thegiin.org/impact-investing/need-to-know/.
[6] GIIN. "B Impact Assessment (and GIIRS Rating)," available at https://iris.thegiin.org/b-impact-assessment-metrics.
[7] GIIN. "IRIS Metrics," available at https://iris.thegiin.org/metrics.

2.4 SCREENING

Screen out sectors or companies deemed to be irresponsible or not acceptable to profit from.

AIM:
Alignment with values/reputation/risk management or longer-term financial expectations

Investors that apply screening typically use one or a combination of the following screens:

Negative screen **Positive screen**

Negative screening: This refers to the exclusion of companies involved in activities or products with a perceived negative impact on society, such as armaments manufacturing, tobacco production, gambling, alcohol, and animal testing, or companies with poor records of ESG performance. Although these decisions are most often driven by ethical/ moral considerations, in some cases, a more financial perspective to exclusions is emerging. Some investors argue, for example, that the construction of coal-free and/or fossil-fuel-free portfolios — and more recently, tobacco-free portfolios — will, over the long run, deliver the best investment outcomes, due to shifts in legislative practices and technology.

Positive screening: This refers to the inclusion of stocks/ bonds based on whether the company has a positive ESG trait, such as a high overall ESG score, belonging to a certain industry sector or displaying other favorable characteristics desirable to the investor or its beneficiaries.

A screened approach can be achieved either by investing in a separate investment product or through a segregated account with a manager able to implement customized screens. Usually, the rationale for using a screened approach will be to align the portfolio with an organization's values or its views on stocks that are unacceptable (negative screening) or favored (positive screening) for ethical or reputational purposes.

Highlight on "Ethical"

Negative screening has traditionally been associated with "ethical" funds, particularly those that offer an SRI/ethical version of a mainstream investment strategy. However, even among investors that do not come from a particular ethical perspective, most would support some element of negative screening; that is, based on generally accepted behavioral and legal norms. For example, a strong normative basis exists for the exclusion of companies involved in production of cluster bombs or landmines, nuclear weapons, or the use of child labor or modern slavery. As noted, however, negative screening may also be undertaken for financial reasons. Positive screening can be implemented in a range of ways, such as passive overweighting of high-scoring stocks according to some predetermined criteria or as a defined starting point to establish a universe for themed or ESG-integrated funds.

RESPONSIBLE INVESTMENT, REGULATORY DIRECTION OF TRAVEL AND FIDUCIARY DUTY

3.1

Historically, a key barrier to broader implementation of RI was the assumption that it contradicted fiduciary responsibility, based on the belief that RI reduced the investable universe, defying a "theoretically optimal" solution. As we have outlined in this paper, that belief does not reflect modern reality. RI implementation methods do not necessarily exclude any stocks from consideration (see: integration, stewardship, investment and positive screening).

3.2

From time to time, concerns are still raised regarding the scope of fiduciaries to embrace RI. These concerns typically arise from a failure to distinguish between ethically driven investing and financially driven integration of ESG issues. In practice, RI is often simply a more-comprehensive approach to identifying investment risks and opportunities and is therefore aligned with fiduciary duty.

3.3

A key early development in establishing the legitimacy of RI from a fiduciary perspective was the "Freshfields report"[8] (2005). This report examined the legal implications of integrating ESG issues into institutional investment for those with fiduciary duty. The report found that integrating ESG considerations into investment analysis so as to more reliably predict financial performance is not only permissible but is arguably required. The legal situation continues to evolve on ESG, and key global regulators have, in turn, either regulated and/or provided guidance on the validity of the original Freshfields report. The Pensions Regulator[9] and Department of Work and Pensions[10] in the UK, the Department of Labor[11] in the US, the EU Commission[12] in the EU (with strong support from local regulators like the AMF[13] in France and the DNB[14] in Netherlands) and the APRA[15] in Australia have all actively weighed in on the dialogue. The PRI has provided global research on the fiduciary duty topics for eight jurisdictions,[16] helping to clarify the issue.

[8] Freshfields Bruckhaus Deringer and UNEP Finance Initiative Asset Management Working Group. *A Legal Framework for the Integration of Environmental, Social and Governance Issues Into Institutional Investment*, 2005.
[9] The Pensions Regulator (TPR). "Investment Strategy Guidance," available at http://www.thepensionsregulator.gov.uk/guidance/db-investment-two-strategy.aspx.
[10] Department for Work and Pensions. *Government Response: Clarifying and Strengthening Trustees' Investment Duties*, 2018, available at https://www.gov.uk/government/consultations/pension-trustees-clarifying-and-strengthening-investment-duties.
[11] US Department of Labor. *Field Assistance Bulletin No. 2018-01*, available at https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2018-01.
[12] EU Commission. "Sustainable Finance: Commission's Action Plan for a Greener and Cleaner Economy," available at https://ec.europa.eu/clima/news/sustainable-finance-commissions-action-plan-greener-and-cleaner-economy_en.
[13] AMF. *The AMF Affirms Its Commitment to Sustainable Finance on Climate Finance Day* [press release], 2017.
[14] De Nederlandsche Bank. "Sustainable Finance Platform," available at https://www.dnb.nl/en/about-dnb/co-operation/platform-voor-duurzame-financiering/.
[15] PRI. "Fiduciary Duty in the 21st Century: Australia Roadmap" (2016), available at https://www.unpri.org/fiduciary-duty/fiduciary-duty-in-the-21st-century-australia-roadmap/258.article.
[16] UNEP Finance Initiative. "Fiduciary Duty in the 21st Century," 2015–2017, available at http://www.unepfi.org/investment/fiduciary-duty/.

3.4

An increasing number of market participants (brokers, managers, consultants, investment banks) are integrating RI and evolving their processes accordingly. As a result, fiduciaries now have greater scope to ensure that ESG risks are being managed and associated opportunities pursued.

3.5

RI regulation is currently on policymakers' and civil society's agenda worldwide, and the pace of regulatory intervention is increasing. The PRI identified 300 policy instruments in its survey of the 50 largest economies in the world. All instruments supported long-term investment decision-making, including consideration of ESG factors, and more than half were created between 2013 and 2016.

[17] PRI. "Responsible Investment Regulation Map," available at https://www.unpri.org/.

RELATIONSHIP BETWEEN RESPONSIBLE INVESTMENT AND PERFORMANCE

A growing body of evidence and supporting documentation is turning the tables on common misconceptions in the industry, namely, that RI restricts the investable universe and therefore must hurt returns. More practitioners today are seeking to integrate ESG to add rigor and depth to their investment processes and risk management.

A number of ESG/sustainability indices from providers such as FTSE/Russell,[18] MSCI[19] and S&P/DJI[20] now have substantial track records. Sustainability indices cover a range of potential goals and uses. Indices range from a focus on narrow themes (for example, low carbon or climate indices, water, ESG factors, gender equality, etc.) to core allocations, such as broad ESG indices. Indices may seek to attain impact, express values, seek risk/return outperformance or track parent indices while embedding ESG considerations. In construction, screening continues to be the main method, although reweighting companies based on ESG factors has increased in recent years. Performance differs considerably, as is the case for any other index construct; however, at the broadest level, there is evidence that performance compares favorably to unconstrained portfolios.

4.1

There is now a significant body of work that supports the financial benefits of ESG integration and active ownership. Academic and practitioner research now also covers asset classes beyond listed equities.

4.2

Research into the impact of incorporating ESG factors into investment decision-making has traditionally focused on screening approaches. Although such research is not directly relevant to the merits of morebroadly focused integrated RI approaches, it does provide some insights. It is also notable that much research is carried out at a corporate level, finding links between strong ESG practices and corporate financial performance. Although informative, such research is not directly applicable at the portfolio level in all investment situations.

4.3

In general, the academic literature continues to confirm our belief that the consideration of ESG factors at the company level can lead to outperformance, especially over the longer term. ESG integration into investment decision-making and portfolios requires manager skill, a clearly defined investment style and consideration of appropriate time periods to achieve desired outcomes — as would be the case with any mainstream investment strategy.

[18] FTSE Russell. “ESG Ratings,” available at http://www.ftse.com/products/indices/f4g-esg-ratings.
[19] MSCI. “ESG Integration,” available at https://www.msci.com/esg-integration.
[20] S&P Dow Jones Indices. “ESG,” available at https://us.spindices.com/theme/esg/.

A sample of academic and practitioner research papers is included below:

Ambachtsheer J, Fuller R, Hindocha D. "Behaving Like an Owner: Plugging Investment Chain Leakages," *Rotman International Journal of Pension Management,* Volume 6, Issue 2 (Fall 2013), available at https://www.mercer.com/content/dam/mercer/attachments/global/investments/responsible-investment/Behaving-Like-an-Owner.pdf.

Dimson E, Karakaş O, Li X. "Active Ownership," *The Review of Financial Studies*, Volume 28, Issue 12 (2015), pp. 3225–3268, available at https://academic.oup.com/rfs/article/28/12/3225/1573572.

Friede G, Busch T, Bassen A. "ESG and Financial Performance: Aggregated Evidence From More Than 2000 Empirical Studies," *Journal of Sustainable Finance & Investment*, Volume 5, Number 4 (2015), available at https://www.tandfonline.com/doi/pdf/10.1080/20430795.2015.1118917.

Khan M, Serafeim G, Yoon A. "Corporate Sustainability: First Evidence on Materiality," *The Accounting Review*, Volume 91, Number 6 (2016), pp. 1697–1724, available at https://ssrn.com/abstract=2575912.

Kiose D and Keen S. "Understanding the Relationships Between Environmental and Social Risk Factors and Financial Performance of Global Infrastructure Projects," *Scientific Research Publishing* (2017), available at http://www.scirp.org/journal/PaperInformation.aspx?paperID=80890.

Allianz Global Investors. *ESG in Investment Grade Corporate Bonds and Financial Materiality of ESG Factors for Sovereign Bond Portfolios,* 2017.

MSCI. *Foundations of ESG Investing*, 2017, available at http://info.msci.com/foundations-of-ESG-investing-part1.

CFA Institute and PRI. *ESG Integration in the Americas: Markets, Practices, and Data*, 2018, available at https://www.cfainstitute.org/en/research/survey-reports/esg-integration-americas-survey-report, and *Guidance and Case Studies for ESG Integration: Equities and Fixed Income* (2018), available at https://www.unpri.org/investor-tools/guidance-and-case-studies-for-esg-integration-equities-and-fixed-income/3622.article.

Moody's Investor Service. *Heat Map: 11 Sectors With $2.2 Trillion Debt Have Elevated Environmental Risk Exposure*, 2018.

NEXT STEPS AND POTENTIAL ACTION PLAN

5.1

We trust that this paper serves as a worthwhile first step in beginning to consider responsible investment concepts and developing a position on RI. Investors should consider a number of further actions, as outlined in a separate Mercer document, *An Investment Framework for Sustainable Growth*.

A summary of the framework approach for integrating ESG considerations throughout the investment process is shown below. Different approaches can be taken for those at an initial stage of integration compared to those at an advanced stage. Mercer would be happy to discuss the most appropriate bespoke plan and approach with you.

The framework below identifies where ESG and sustainability considerations sit within the typical **"Beliefs, Policy, Process, Portfolio"** approach.

We recommend that you follow a three-step process:

1. Review and, where necessary, update your beliefs on each of the four approaches — Integration, Stewardship, Investment and Screening.

2. Update your investment policy to reflect your institution's beliefs and legal minimum requirements (in jurisdictions where ESG integration is legislated), and embed that policy within your processes.

3. Create a work plan that incorporates selected approaches into portfolio decisions, particularly research, strategy, manager selection and monitoring.

Each investor's approach will be unique, reflecting priorities based on the requirements of stakeholders (including regulators), investment structure and approach, available resources and governance budget. We can help you review your beliefs, policies and processes to capture this additional perspective and develop an implementation approach that suits your requirements.

A more-detailed reference guide on integrating ESG and sustainability-themed investment drivers and opportunities by asset class is also available. Please contact your Mercer consultant or local representative to receive a copy and to discuss how you could implement these approaches within your portfolio.

For further information, visit https://www.mercer.com/our-thinking/wealth/responsible-investment.html or contact your local Mercer representative.

IMPORTANT NOTICES

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GLOBAL WEALTH

Investing in a Time of Climate Change

The Sequel 2019

MAKE TOMORROW, TODAY

MERCER

Contents

Foreword

In 2011, Mercer published its first major global research report on climate change and its implications for strategic asset allocation, in partnership with a number of our institutional investment clients. In June 2015, we released a major update, *Investing in a Time of Climate Change* ("the 2015 Report"), another client collaboration. We are now publishing *Investing in a Time of Climate Change — The Sequel* ("the Sequel").

Following our 2015 Report, major developments in late 2015 included two global agreements: The Paris Climate Change Agreement and the UN Sustainable Development Goals. The Paris Agreement reflects a collective goal to hold the increase in the climate's global mean surface temperature to "well below 2ºC above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5ºC."[1] The current aggregate commitments, as measured by each country's nationally determined contributions (NDCs) will not, however, meet the agreed global ambitions unless commitments are significantly improved in the relatively near term.[2]

Since 2015, there have been many environmental, scientific, political and technological developments that continue to evolve our understanding of the climate-change-related investment context. In response to these developments and client demand, Mercer has now updated its climate scenario model and is proud to publish the Sequel. Mercer is recognized globally for its contribution to the investment industry's growing attention to and action on climate change. The Sequel provides practical advice for clients as well as case studies on what peers are doing. Our focus is on what is new and the "why, how and what" for investors as well as providing clients with the flexibility to undertake stress testing.

The Sequel is intended to help investors understand how climate change can influence their investment performance in both the short and long term and what steps they should take to protect and position portfolio assets. Given climate-related physical damages under higher-warming scenarios, we encourage investors to adopt a "Future Maker" approach, a term coined in the 2015 Report. Advocating for and creating the investment conditions that support a "well-below 2ºC scenario" outcome through investment decisions and engagement activities is most likely to provide the economic and investment environment necessary to pay pensions, endowment grants and insurance claims over the timeframes required by beneficiaries. We look forward to engaging directly with our clients to ensure their portfolios are well-positioned for and resilient to the impacts of climate change in the future.

Deb Clarke
Global Head of Investment Research

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Mercer's Actions to Date on Climate Change

Mercer is working to ensure that climate change is integral to our advice and solutions for clients on a global basis, as championed by our industry-leading global Responsible Investment business.[3]

Mercer has evolved internal investment processes to include:

- Specific references to climate change in our global investment beliefs as a "systemic risk" and encouraging investors to "consider the potential financial impacts of both the associated transition to a low-carbon economy and the physical impacts under different climate outcomes"[4]
- Updated global manager research guidance by asset class to incorporate relevant climate change considerations
- Commitments on the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[5] reporting, through the regional sustainable investment policies[6] governing Mercer's assets under management (along with other market-leading practices)
- Formal allocations to sustainability-themed equity, private equity and real assets (infrastructure and natural resources) in Mercer's global reference portfolios[7]
- Issuing a first "impact report" in 2018 quantifying the positive environmental contributions of our private markets Sustainable Opportunities strategy[8]

Mercer collaborates with industry groups, including:

- Actively participating in the TCFD as a Task Force member and signing the statement of support[9]
- Signing all G20 investor letters on climate change since 2014[10]
- Producing an in-depth study with Ceres on addressing climate-related considerations for insurers[11]
- Producing an in-depth study on the implications of climate change for public defined benefit plans in the US in collaboration with CIEL[12]
- Focusing on the critical theme of mobilizing private-sector investment in sustainable infrastructure in emerging markets through partnerships with the Inter-American Development Bank Group (IDBG)[13] and the Mobilizing Institutional Investors for the Development of African Infrastructure initiative (MiDA)[14]
- Supporting our sister company Oliver Wyman in 2017/2018 in their climate risk tool development to assess credit risk in bank-lending portfolios[15]

Our parent company, Marsh & McLennan Companies, created Marsh & McLennan Insights (previously the Global Risk Center). This group plays a key role in the World Economic Forum *Global Risks Report* each year and has established Climate Resilience as a key theme[16] and published a handbook on the topic.[17] It has also released a report in collaboration with CDP[18] and recently appointed its first Director of Climate Resilience.

Executive Summary

Humans have never lived in a world much warmer than today; yet the current trajectory of at least 3°C above the preindustrial average by 2100 could put us beyond the realm of human experience sometime in the next 30 years.

Why Is Climate Change Important to Investors?

Investors such as pension funds, insurers, wealth managers, and endowments and foundations typically have multidecade time horizons, with portfolio exposure across the global economy. The implications of climate change are systemic and are already apparent.[19] We have already experienced around 1°C of average warming above preindustrial levels,[20] and extraordinary weather events with significant financial and human consequences are increasing in frequency.[21] Humans have never lived in a world much warmer than today; yet the current trajectory of at least 3°C above the preindustrial average by 2100 could put us beyond the realm of human experience sometime in the next 30 years.[22] Investors need to consider both climate-related mitigation and adaptation in an active way to develop climate resilience in their portfolios. Financial regulators, particularly for pension funds, are increasingly reinforcing this message by formalizing the expectation that investors should consider the materiality of climate-related risks and manage them accordingly, consistent with their fiduciary duties.

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How Can Client Scenario Modeling Help Investors?

Investors often use scenario analysis to support strategic asset allocation decisions, as it helps to test portfolio resilience under multiple potential future outcomes. Climate scenario analysis was a key element of the TCFD[23] recommendations released in 2017.

Mercer's latest climate scenario model draws on third-party data that integrates the treatment of economics, energy systems and the environment to capture linkages and feedbacks. The model helps investors analyze the impact of climate-related physical damages (physical risks) and the transition to a low-carbon economy (transition risks) on their expected investment return outlook.

The model assists investors in analyzing the impact of climate-related physical damages (physical risks) and the transition to a low-carbon economy (transition risks) on their expected investment return outlook.

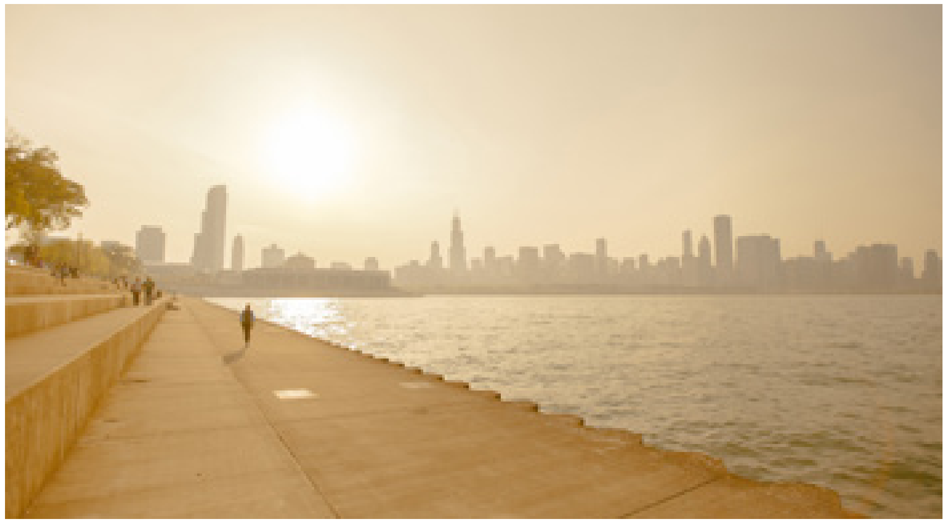
Mercer's three climate scenarios provide investors with analysis of asset-class and industry-sector sensitivities to climate risk factors to quantify a forward-looking "climate impact on return." In addition to calculating long-term annualized impacts, the model also contains a short-term stress-testing component, which enables an assessment of present-value impacts for sudden market repricing events, allowing for changes in view on scenario probability, physical damages likelihood and market awareness.

What's New?

The Sequel builds on the 2015 climate scenario model and approach but evolves it in a number of ways to capture developments over the past three years. New features include:

- **New economic underpinnings:** The 2019 model uses an established econometric model, maintained by Cambridge Econometrics, based primarily on empirical evidence rather than assumptions regarding optimization. This results in a very different treatment of transition risk impacts and a more positive view on the investment opportunity presented by a low-carbon transition than the 2015 model.
- **Updated climate scenarios:** These scenarios use the Cambridge Econometrics transition-risk climate model, which has applied recent econometric research across multiple economic variables to consider three scenarios, 2ºC, 3ºC and 4ºC temperature increases, with evolved pathways and magnitude.[i]
- **Updated climate risk factors approach:** This approach evolves the four risk factors from 2015 — policy and technology to capture transition and resource availability and impact of catastrophes to capture physical damages. In the updated model, the interactions between policy and technology are represented together as "transition" and the rate of investment spending isolated as "spending," better identifying the difference between 2ºC and 3ºC scenario transitions.
- **Physical damages:** Damages are assessed with results extending to 2100 (rather than 2050 as in the 2015 Report) under the different climate scenarios. Many institutional investors and their beneficiaries have multidecade time horizons that reach beyond 2050. Alternative physical damages views in academic literature are also presented, given the many data gaps and uncertainties in this area, allowing model users to test different assumptions regarding the potential physical damage impact on asset returns.
- **Additional asset classes:** New asset classes have been incorporated, including additional regional flexibility and several sustainability-themed options — for example, sustainable global equity, sustainable private equity and sustainable infrastructure — to improve the mapping of investor portfolios transitioning to low-carbon, resilient exposures.
- **A stress-test component:** This has been introduced to better compare potential climate-related repricing events in the short term (for example, over one year) to other, more "traditional" events tested in strategic asset allocation reviews. These market-pricing events could come from changes in views relating to:
  - Physical damage impact on GDP — the likelihood of physical risk
  - Scenario probabilities — a change in the likelihood of the 2ºC scenario occurring
  - Market awareness — the extent to which climate-related impacts are "priced in" by the markets

[i] In October 2018, the Intergovernmental Panel on Climate Change (IPCC) released a new report on 1.5ºC and the difference between that and 2ºC to illustrate the additional impact that 0.5ºC is expected to have, why the Paris Agreement ambition is for "well below" 2ºC and how close we are to that window of opportunity closing. Further detail is provided in Appendix 2: Methodology on the scenarios, including the logic for applying a 2ºC rather than 1.5ºC scenario in the Sequel. However, when 2ºC is referenced as an ambition throughout, please take this to mean "well below" 2ºC and, ultimately, 1.5ºC as the preferred 2100 ambition for the climate.



What Does the Sequel Modeling Tell Investors?

The modeling results have evolved from the 2015 Report given there have been many environmental, scientific, political and technological developments that continue to evolve both our understanding and the climate change modeling data. However, the headline messages remain consistent, reinforce the recommendations made at that time and support greater urgency for action to achieve a well-below 2°C scenario. The relative impacts across asset classes and sectors convey a number of key signals for investors to consider in portfolio construction and asset allocation decisions. Stress-test modeling is also beneficial to demonstrate the potential magnitude of return impacts in the shorter term if changes in policy, market pricing or physical damages are more sudden than currently anticipated.

A key conclusion is that investing for a 2°C scenario is both an imperative and an opportunity:

- **An imperative, since, for nearly all asset classes, regions and timeframes, a 2°C scenario leads to enhanced projected returns versus 3°C or 4°C and therefore a better outcome for investors**
- **An opportunity, since, although incumbent industries can suffer losses in a 2°C scenario, there are many notable investment opportunities enabled in a low-carbon transition**

[ii] In the Sequel, two sample asset allocations were used to illustrate the key findings: 1) the same diversified growth asset allocation introduced in the 2015 Report and 2) a 2019 portfolio that is equivalent to the 2015 portfolio but with explicit allocations to sustainability-themed investments in multiple asset classes. Current limitations in data and methodology available for modeling physical damages, together with the myriad of factors not yet captured and multidecade timeframes, mean the resulting magnitudes are likely to be significantly underestimated and invariably relatively small in absolute terms. The Sequel outlines more on these additional considerations when assessing quantitative results.

The Sequel's highlights include the following:[ii]

1. **The results emphasize the physical damages risks and why a below 2°C scenario is most beneficial**, and the 4°C and 3°C scenarios are to be avoided, from a long-term investor perspective. In the two sample portfolios, there is a return opportunity to 2030 of between 0.10% p.a. and 0.30% p.a. in a 2°C scenario compared to -0.07% p.a. in a 4°C scenario. To 2100, a 4°C scenario leaves each portfolio down more than 0.10% p.a. compared to a 2°C scenario.

2. **Transition opportunities emerge from a 2°C scenario, with transition now expected to be a benefit from a macroeconomic perspective**,[24] including the potential to capture a "low-carbon transition (LCT) premium."[25] Although a 2°C scenario definitely still presents transition risk (especially for portfolios aligned to a 3°C or 4°C+ world), opportunistic investors can target investment in the many mitigation and adaptation solutions required for a transformative transition. In the two sample portfolios, the sustainability-themed version is nearly 0.20% p.a. better off to 2030.

3. **Expected annual return impacts remain most visible at an industry-sector level, with significant variations by scenario**, particularly for energy, utilities, consumer staples and telecoms. Asset class returns can also vary significantly by scenario, with infrastructure, property and equities being the most notable. Variations in results between asset classes and across regions, cumulative impacts, and the emphasis on sustainable opportunities provide multiple portfolio construction possibilities for investors.

Example industry sectors and asset classes	% p.a. to 2030 in 2°C scenario	% p.a. to 2050 in 2°C scenario	% cumulative impact to 2030 in 2°C scenario	% cumulative impact to 2050 in 2°C scenario
Coal	-7.1	-8.9	-58.9	-100.0*
Oil and gas	-4.5	-8.9	-42.1	-95.1
Renewables	+6.2	+3.3	+105.9	+177.9
Electric utilities	-4.1	-3.3	-39.2	-65.7
Developed market equities	0.0	-0.2	-0.5	-5.6
Emerging market equities	+0.2	-0.1	+1.8	-4.0
All world equities — sustainability themed	+1.6	+0.9	+21.2	+32.0
Infrastructure	+2.0	+1.0	+26.4	+39.4
Infrastructure — sustainability themed	+3.0	+1.6	+42.3	+67.1
All world real estate	0.0	-0.2	-0.1	-4.7

* Effective absolute loss of value is expected to occur in 2041 under a scenario in which global warming is limited to 2°C by 2100.

In a 2°C scenario by 2050, there are minor positives as well for materials, telecoms and consumer staples sectors. In 3°C and 4°C scenarios, all sectors, apart from renewables, have negative return impacts, to 2030, 2050 and 2100, with return impacts varying between 0.1% p.a.and 7.7% p.a.[iii]

Real estate is expected to be flat to 2030 under a 2°C scenario, but a 4°C scenario, even in the near term, starts to impact negatively. A 4°C scenario to 2050 sees infrastructure and property down 0.4% p.a. and 0.2% p.a., respectively, developed market equities are down 0.1% p.a. and emerging markets are down 0.3% p.a. In a 4°C scenario, India and China equities are down 0.4% p.a. and 0.3% p.a., respectively. Sovereign debt provides a safe haven and marginally positive results, with fixed income continuing to remain relatively muted overall, with some variations within the asset class.

4. **In reality, sudden changes in return impacts are more likely than neat, annual averages, so stress testing is an important tool in preparing for this eventuality.** Stress testing portfolios for changes in view on scenario probability, market awareness and physical damage impacts can help investors to consider how longer-term return impacts that may appear small on an annual basis could emerge as more-meaningful shorter-term market repricing events.

   Testing an increased probability of a 2°C scenario with increased market awareness can result in sector-level returns where renewables increase by more than 100% and coal decreases by nearly 50%. Positive asset class impacts include infrastructure at almost 23% and sustainable equity at more than 5%. Testing an increased probability of a 2°C scenario or a 4°C scenario with greater market awareness, even for the modeled diversified portfolios, results in +3% to -3% return impacts in less than a year.

What's Next for Investors?

The findings strengthen the argument for investor action on climate change and suggest greater attention is required on how investors will actively support the transition to a 2°C scenario — as Future Makers as opposed to Future Takers.[26]

The recommended Investor Actions from the 2015 Report remain valid — to incorporate climate change considerations as part of good governance and investment decision-making — and are consistent with the 2017 TCFD recommendations. We include several investor case studies, which reinforce how scenario analysis helps prioritize the portfolio risks for some and opportunities for others. The case studies also demonstrate the pace of change by peers.

Consistent with Mercer's thinking on the best way to incorporate ESG and climate change considerations into the investment process, we continue to recommend an integrated approach when setting investment beliefs, policies and processes, and when constructing and managing portfolios, as set out in Mercer's *Responsible Investment Pathway.* This enables climate-related risks and opportunities to be included alongside other investment considerations and for processes and portfolios to evolve over time — grounded in agreed-upon beliefs and policies.

[iii] The strongly negative impacts reflect sectors that are required to essentially discontinue by 2050. Therefore, return would be driven more by the income received within that time period, and this income is not allowed for in these figures.

Why Is Climate Change Important to Investors?

Long-term investors typically have multidecade time horizons, often 50 years or more, with exposure across the global economy. With this time horizon in mind, it is essential to address in the short term both the potential impacts of a low-carbon transition and physical damages associated with climate change to better prepare portfolios for the future.

The Big Picture

The world's climate is already, on average, 1°C warmer than in preindustrial times. The vast majority of climate scientists anticipate that with current action on climate change, by 2100, the world will be between 2°C and 4°C warmer (current commitments made as part of the Paris Agreement, if implemented, put the trajectory at 3°C), noting that averages mask the differences that will be felt regionally.[27] Humans have never lived in a world much warmer than today, and experiencing such a material temperature change in less than a century will have substantial and damaging effects on society and nature.[28]

The recent Intergovernmental Panel on Climate Change (IPCC) report, which compares the expected physical damages under both a 1.5°C and 2°C scenario, demonstrates the impacts associated with a warming climate, even in the "best-case" scenarios.[29] The scenarios modeled in the Sequel are outlined in Appendix 1: Sample Asset Allocations and include physical damages indicators for each warming scenario, all of which have social and economic implications.

As an example, for a 2°C scenario by 2100, the expected physical damages include[30]:

- Increase in average sea level of 50 cm
- Increase in annual maximum daily temperature of 2.6°C; 25% increase in number of hot days
- 36% increase in frequency of rainfall extremes over land

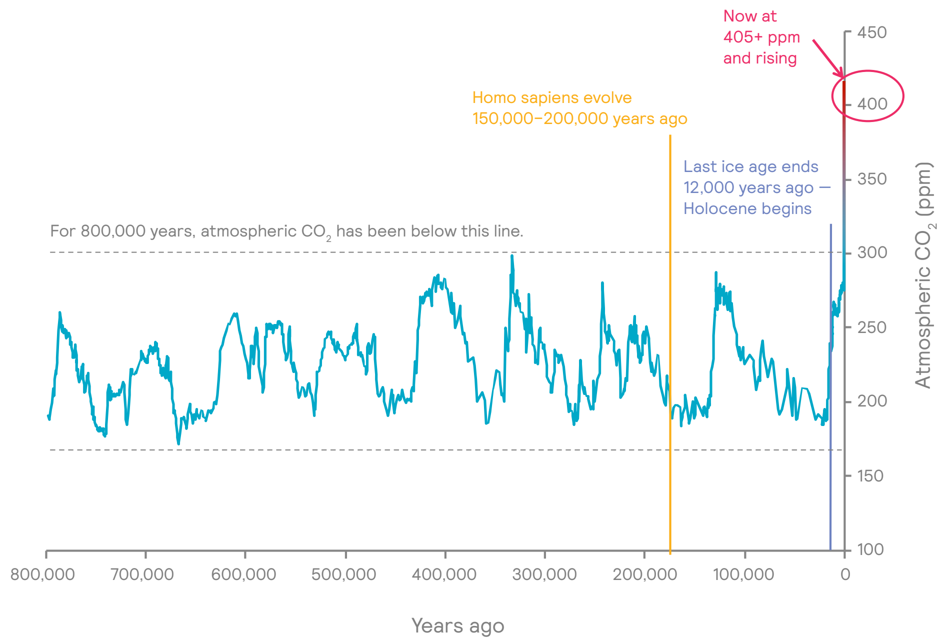
There is scientific consensus[31] that greenhouse gas (GHG) emissions from human activity are being trapped in the atmosphere and creating a "greenhouse effect," which is causing the increase in global mean surface temperature and the consequent effects on underlying weather patterns. Fossil-fuel use is the principal source of GHG emissions, primarily carbon dioxide (CO_2). The second-largest contributor to GHG emissions is methane, primarily related to agricultural activities, fossil fuel production and waste/landfills. Agriculture and the built environment are the principle drivers behind deforestation, which not only reduces CO_2 absorption capacity but also is a major source of emissions as the carbon stored in vegetation and soils is released into the atmosphere.[32]

The last time the global mean surface temperature was comparable to today was more than 100,000 years ago. The last time CO_2 concentrations were as high as today (over 400 ppm) was three to four million years ago, and the last time the world was 4°C warmer was more than 10 million years ago. It is currently possible that we could reach 4°C of warming by the end of the century.[33]

The current trajectory could put us beyond a temperature that humans have ever experienced sometime in the next 30 years. The last time the global mean surface temperature was comparable to today was more than 100,000 years ago. The last time CO_2 concentrations were as high as today (over 400 ppm) was three to four million years ago, and the last time the world was 4°C warmer was more than 10 million years ago. It is currently possible that we could reach 4°C of warming by the end of the century.[33]

The earth's climate has experienced many natural variations over millions of years, including ice ages and periods of warming with much higher sea levels. Humans have flourished in the past 12,000 years (when the current geological epoch, the Holocene, began after the last glacial period ended), and today's societies reflect the benefits of agriculture over the past 8,000 years,[34] thanks in part to the levels of CO_2 in the atmosphere. However, the scale and pace of change poses serious concerns for human adaptation given our dependency on the natural environment for water and food, a growing population with resource-intensive consumption practices and the exposure of our built environment to severe environmental damage. Changes in technology, system design and consumption patterns will be central to human adaptation in a climate-changed world.

Figure 1. Atmospheric CO_2 Levels Over Time



Source: NASA, available at https://climate.nasa.gov/climate_resources/24/graphic-the-relentless-rise-of-carbon-dioxide/

Data: National Oceanic and Atmospheric Administration. Some description adapted from the Scripps CO2 Program website, "Keeling Curve Lessons."

The Global Risk Landscape

Dedicated global institutions were formally established in 1992 to focus on climate change, and since then, awareness of the associated risks has been growing.[35] Acknowledgement of the risks posed by climate change among business and government leaders is reflected in the recent World Economic Forum *Global Risks Report*,[36] which displays the heightened focus on environmental and social risks over time as compared to economic, geopolitical or technological risks. (Note the higher incidence of red and green boxes in recent years in Figure 2, next page.)

Figure 2. Evolving Global Risk Landscape (2009–2019)

Top Five Global Risks in Terms of Likelihood

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	Asset price collapse	Asset price collapse	Storms and cyclones	Income disparity	Income disparity	Income disparity	Interstate conflict	Involuntary migration	Extreme weather	Extreme weather	Extreme weather
2	Slowing Chinese economy	Slowing Chinese economy	Flooding	Fiscal imbalances	Fiscal imbalances	Extreme weather	Extreme weather	Extreme weather	Involuntary migration	Natural catastrophes	Climate change mitigation and adaptation failure
3	Chronic disease	Chronic disease	Corruption	Greenhouse gas emissions	Greenhouse gas emissions	Unemployment/ under-employment	National governance failures	Weak climate change response	Natural catastrophes	Cyberattacks	Natural catastrophes
4	Global governance gaps	Fiscal crises	Biodiversity loss	Cyberattacks	Water supply crises	Climate change	State collapse	Interstate conflict	Terrorist attacks	Data fraud	Data fraud
5	Retrenchment from globalization	Global governance gaps	Climate change	Water supply crises	Aging population	Cyberattacks	High unemployment	Natural catastrophes	Data fraud	Climate change adaptation failure	Cyberattacks

Top Five Global Risks in Terms of Impact

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1	Asset price collapse	Asset price collapse	Fiscal crises	Systematic financial failure	Systematic financial failure	Fiscal crises	Water crises	Weak climate change response	WMDs	WMDs	WMDs
2	Retrenchment from globalization	Retrenchment from globalization	Climate change	Water supply crises	Water supply crises	Climate change	Infectious diseases	WMDs	Extreme weather	Extreme weather	Climate change mitigation and adaptation failure
3	Oil and gas price spike	Oil price spike	Geopolitical conflict	Food crises	Fiscal imbalances	Water crises	WMDs	Water crises	Natural catastrophes	Natural catastrophes	Extreme weather
4	Chronic disease	Chronic disease	Asset price collapse	Fiscal imbalances	WMDs	Unemployment/ under-employment	Interstate conflict	Involuntary migration	Water crises	Climate change adaptation failure	Water crises
5	Fiscal crises	Fiscal crises	Extreme energy price volatility	Volatility in energy and agri-cultural prices	Weak climate change response	Critical ICT systems breakdown	Weak climate change response	Energy price shock	Weak climate change response	Water crises	Natural catastrophes

Economic
Geopolitical
Technological
Environmental
Societal

Source: World Economic Forum. Global Risks Report 2019.

Figure 2 outlines the top perceived risks by likelihood of the risk occurring globally within the next 10 years and its negative impact for several countries or industries over the same timeframe. Environmental risks, particularly on climate change, now dominate concerns in terms of likelihood and impact. Many of the risks are also interconnected. For example, survey participants believe weak climate change mitigation exposes business and government to extreme weather, natural catastrophes and water crises. These issues, in turn, are more likely to lead to involuntary migration and conflict. Considering the interconnectedness of these issues will be increasingly important in anticipating and preparing for a changing investor context.

Economic risks are not represented in the top five risks in recently published *Global Risks Reports*. However, another asset price collapse in the short term could significantly distract from the current focus on addressing environmental and social risks or could even be caused by such risks. Current debt levels are also a concern because of the spending potentially required on climate-related mitigation and adaptation. The global economic context and outlook remain fundamental influences for investors, and it is for this reason that some of the foundational inputs to Mercer's climate scenario modeling are economic indicators, such as the overall view on growth, as currently measured by GDP,[37] industry profitability and interest rates.

Climate Change — A Fiduciary Issue

Mercer advises a variety of investors, including those with responsibility for paying pensions, making endowment and foundation grants, paying insurance claims and providing wealth management products. These investors have varying objectives and portfolio allocations and function within different regulatory requirements and contexts.

Typically, though, they are all aiming to deliver substantial returns to members, beneficiaries and stakeholders over many years and even decades. They are true long-term investors, invested across the global economy and collectively managing trillions of dollars.

As the evidence grows that there are climate-related financial implications for investors, financial regulators are increasingly formalizing the expectation that investors should consider the materiality of these risks and manage them accordingly as part of their fiduciary duties — particularly for pension funds.

Two key elements support this fiduciary duty alignment:

1. **Financial materiality of transition and physical damages risks/opportunities:** Transition risk consists of the technology and policy changes necessary (and to some extent, already underway) to transform the economy away from fossil fuels as the primary energy source and to mitigate additional temperature increases. The financial implications most naturally point to the energy sector, but transformative change will invariably have significant implications for all energy-dependent and high-emitting sectors of the economy.

   Physical risk captures the damages that come with temperature increases that we have failed to avoid. The frequency of storms, wildfires and floods will shift as will the availability of natural resources like food and water. The willingness of and ability for society to adapt to these changes is uncertain. Investors with real asset exposures, such as property, directly or indirectly, will need to increasingly review insurance coverage and uninsured loss implications together with additional capital expenditure requirements. Physical damages are also expected to negatively impact consumer staples and telecoms, as two equity-sector examples.

   The expected financial materiality of these risks is evidenced in the 2015 Report and the Sequel and supported in reports by The Bank of England,[38] the G20 Financial Stability Board[39] and The Economist Intelligence Unit[40] as well as an increasing number of other investment-industry participant reports on recommended actions.[41] The findings in the Sequel show that it is in investors' best interests and therefore consistent with fiduciary duty to actively support the low-carbon transition to avoid the worst physical damages

scenarios, which will have almost entirely negative impacts across sectors and asset classes.

2. **Growing legal and regulatory consensus that material climate-related factors must be considered and managed by fiduciaries:** As awareness of the financial materiality of climate-related factors has increased, financial regulators in a number of jurisdictions have indicated that many investors will need to consider and manage climate-related risks in order to comply with their existing fiduciary duties. In the UK, for example, a 2018 paper by law firm Pinsent Masons neatly summarizes the fiduciary duty debate in recent years given an absence of legislation and case law.[42] However, the conclusion now is that "in cases where climate change has the potential to impact on long-term investment performance, pension scheme trustees have a fiduciary duty to consider climate change risk when making their investment decisions."[43]

   The legal argument has been strengthened by recent pension-fund guidance and legislation, particularly in Europe, which recognizes at least the potential for financial materiality and requires climate change to be considered in investment decision-making processes, consistent with the timeframes of beneficiaries; for example, the 2016 EU Directive on Institutions for Occupational Retirement Provision (IORP)[44] and the UK's Department for Work and Pensions.[45] Regulatory activity has also extended across the Atlantic, with the provincial government in Ontario, Canada, requiring pensions to disclose in their statements of investment policies and procedures whether environmental, social and governance (ESG) factors are considered and, if so, how[46] and the insurance regulator in California requiring insurers to disclose their fossil-fuel-related holdings.[47] In a number of other countries, particularly in Europe, laws are also being changed to explicitly require investors to consider and disclose management of climate-change-related risks (for example, the French Energy Transition Law, Article 173). The China Securities and Regulatory Commission issued guidelines requiring listed heavy polluters to give more-specific information on emissions, with all listed firms to disclose environmental impact information by the end of 2020.[48]

   Laws and litigation related to climate change also continue to develop.[49] Litigation is primarily being targeted at companies for failure to mitigate, adapt or disclose, but there are examples of litigation against governments[50] and, most recently, pension funds.[51] ClientEarth, a legal advocacy organization, has also been developing legal challenges against pension funds and investors that fail to consider climate-change-related risks.[52] As signals from regulators become stronger and/or more investors take action, those that fail to consider, manage and disclose their potential portfolio-specific risks may be susceptible to legal challenges in the future.

How Can Mercer's Climate Scenario Modeling Help Investors?

The Mercer climate scenario model draws on an integrated assessment model (IAM)[53] for climate change (which combines climate science and economic data) to analyze the return outlook in investor portfolios across asset classes and industry sectors. Three different climate scenarios provide the basis for this analysis of sensitivities to climate risk factors, enabling investors to quantify a forward-looking "climate impact on return." A new aspect of the Mercer model is the ability to "stress test" the impact of sudden changes in scenario probabilities and market valuations in the short term or shifts in the magnitude of physical damages in the long term.

Investors often use scenario analysis to support strategic asset allocation decisions, as they help to model risk and return outcomes under different future scenarios and identify the most resilient portfolios.

In addition to typical scenarios, such as extreme inflation or energy price spikes, investors have been aiming to understand how different climate scenarios could impact the performance of different asset classes, regions, sectors and companies. Challenges include the limited relevance of historical data for modeling future climate-change-related impacts and, therefore, the greater uncertainties in forward-looking climate change scenarios compared with other traditional scenarios that rely on historical data.

Mercer's climate scenario model supplements the traditional investor asset-allocation process, which typically relies to a significant extent on the use of historical data to model the expected risk and return of different asset classes within portfolios. Mercer's model is based on a forward-looking approach that allows investors to consider the effects of both the transition to a low-carbon economy and the anticipated physical damages of climate change. The outputs can be used to report against the recommendations of the TCFD in the "Strategy" component of its four-part framework, covered further in the Investor Actions section on page 65.

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Appendices — pages 83–100

"Part of the process of isolating risks for investors is to identify the factors that signpost drivers of change." (page 27)

"Scenarios provide helpful guides for prioritizing actions when faced with uncertainty." (page 8)

"As noted by the Intergovernmental Panel on Climate Change (IPCC), the 'warming of the climate system' is 'unequivocal.' The extensive uncertainties that still exist include just how much our current practices will contribute to this unequivocal warming by way of emissions, what level of warming will be sustainable and what damages investors need to prepare for, whatever the level of warming." (page 35)

The key benefit of Mercer's climate scenario model is that it can be applied as part of strategic decision-making in relation to asset allocation and/or portfolio construction. This top-down, portfolio-wide scenario analysis can then be combined with further insights from bottom-up analytical tools that assess climate exposures of sectors and companies. For example, carbon footprinting is a bottom-up way of assessing historical carbon emissions volume/intensity relative to benchmarks and targets and is now commonly undertaken (in equities and fixed income).

The methodology for Mercer's climate scenario model is outlined in brief below. Further detail on the inputs behind this update — the climate models, scenarios and risk factors — are included in Appendix 2: Methodology.[iv]

Methodology — Overview

The Mercer climate scenario model isolates transition and physical risk factors and maps the relative impact of those risk factors under three climate scenarios.

Scenarios

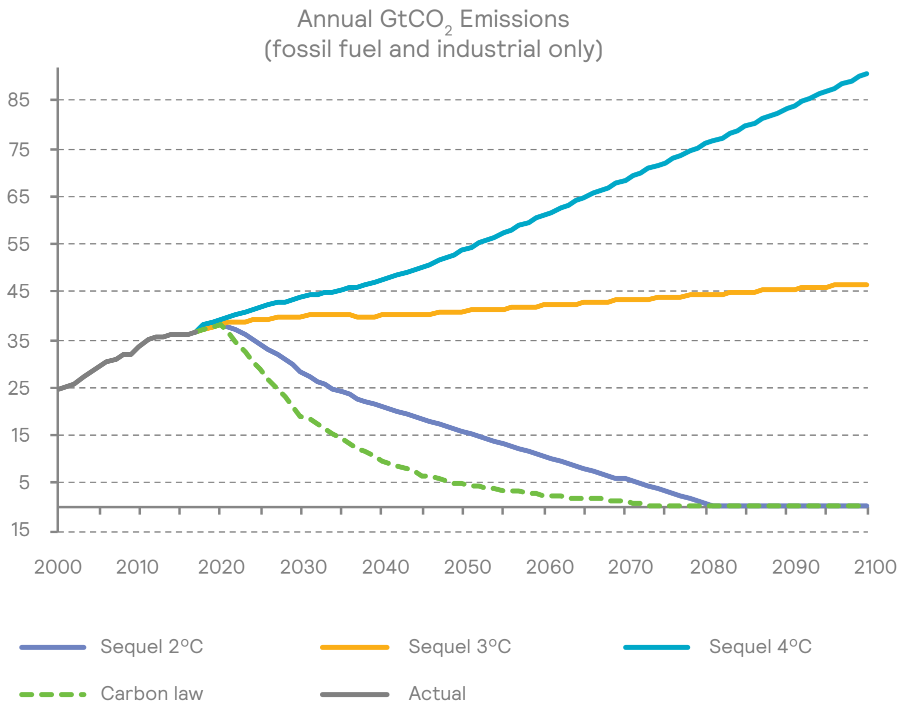
2°C	a low-carbon economy transformation most closely aligned with both successful implementation of the Paris Agreement's ambitions and the greatest chance of lessening physical damages
3°C	some climate action but a failure both to meet the Paris Agreement 2°C objective and meaningfully alleviate anticipated physical damages
4°C	reflecting a fragmented policy pathway where current commitments are not implemented and there is a serious failure to alleviate anticipated physical damages

Note there were two 4°C scenarios in the 2015 Report, differentiated only by the range of physical damages. This range is now being addressed through the stress-testing approach, which includes multiple physical damages pathway options.

In the 2019 model, we kept the same three scenarios, but the construction (for example, emissions trajectory/mix) was modified based on third-party input (Cambridge Econometrics). Figure 3 on the following page illustrates the emissions trajectory for the three Sequel scenarios.

[iv] Mercer clients undertaking climate scenario modeling also have access to a Technical Addendum, which is not public, that provides more detail on the methodology, assumptions and modeling decisions.

Figure 3. Emissions Pathways for Climate Scenarios



Cumulative Carbon Emissions (2018–2100)

Scenario	$GtCO_2$
Sequel 2°C	1,100
Sequel 3°C	3,500
Sequel 4°C	5,100
Global carbon law	650

Emissions in the last decade: 350 $GtCO_2$
Emissions in 2010: 49 GtCO2eq.

NOTE: The CO_2 emissions shown on the graph and above do not include land-use-related emissions, which are currently about five $GtCO_2$ annually, which must also reach net-zero or below, nor does it include the CO_2 equivalent of other GHGs.

Cambridge Econometrics did not model land-use CO_2 emissions and other GHG emissions.

Source: Mercer

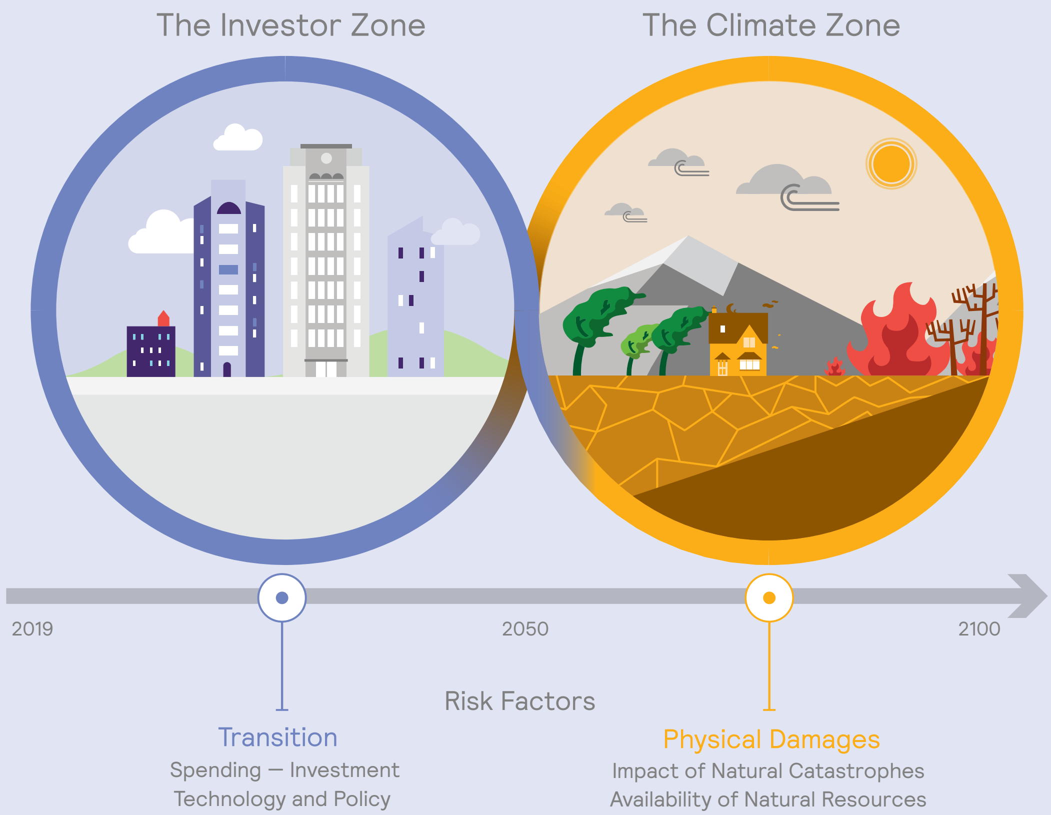
The longer policymakers, companies and investors delay, either a) the less likely we will stay below the 2°C target or b) the more rapid the transition to a low-carbon economy and, ultimately, a zero-carbon economy will need to be. Sudden changes are more likely to be disruptive than an "orderly" transition. A delayed "catch up" to achieve a carbon budget would also require the removal of carbon from the atmosphere, which would require significant areas of land and water to implement afforestation (new forests), reforestation (replacement forests), and carbon capture and storage (CCS), which requires technologies/processes that have not yet been fully commercialized.

The Sequel 2°C scenario represents a 50% chance of staying below 2°C. Given the physical risks associated with warming above 2°C, this is not the preferred target. To have a 66% chance of staying below 2°C, emissions would have to decline more rapidly; for example, in a trajectory known as the global carbon law,[54] which would see emissions peaking in 2020 and halving every decade thereafter. The "carbon law" concept is based on Moore's Law in the computer industry, applied to cities, nations and industrial sectors that would ensure the greatest efforts to reduce emissions happen sooner not later and reduces the risk of exceeding the remaining global carbon budget to stay well below 2°C.

Risk Factors

The climate risk factors identified in the 2015 Report were deemed to be the most climate-change-specific factors relevant for investors. This approach was reinforced by the TCFD recommendations in 2017 that also emphasized the differential nature of transition and physical damages risks.

Figure 4. Climate Change Risk Factors Over Time



Scenarios

1°C+	2°C	Outside of human experience and meaningful physical damages
	3°C	Not seen for three million years, highly disruptive physical damages
	4°C	Not seen for tens of millions of years, severe physical damages

Source: Mercer

Note: The world's climate is already, on average, 1°C warmer than in preindustrial times. The Mercer scenarios of 2°C, 3°C and 4°C represent total warming by 2100 relative to preindustrial times.

Figure 4 compares the timeframe of a typical investor with the timeframe of this study and the horizon of climate change impacts. The "STIR" risk factors for the Sequel are founded in the 2015 "TRIP" factors, with an evolved approach to the transition.

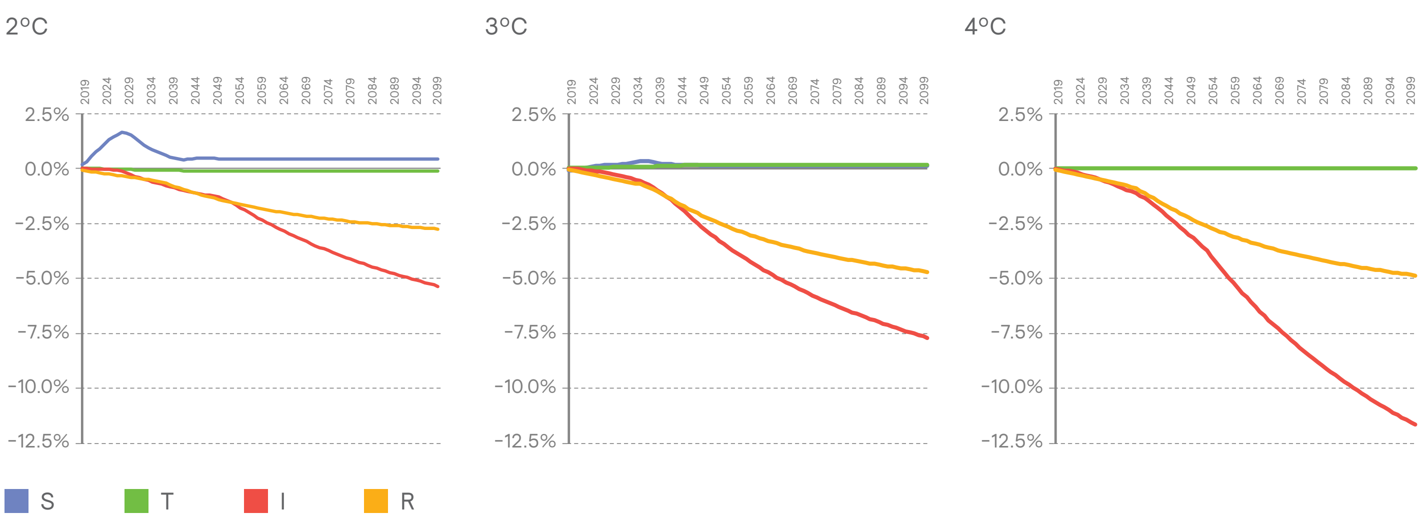
STIR Risk Factors

1. **Spending:** rate of investment spending to catalyze the transition
2. **Transition:** development of technology and low-carbon solutions and the international, national and subnational policy targets, legislation and regulations aiming to reduce the risk of further human-induced climate change
3. **Impact of natural catastrophes:** physical damages due to acute weather incidence/severity — for example, extreme or catastrophic events
4. **Resource availability:** long-term weather pattern changes — for example, in temperature or precipitation — impacting the availability of natural resources like water

In the final 2019 modeling, the policy and technology interactions were captured as a single transition risk factor, with different asset sensitivities in a 2°C and a 3°C scenario. This is an important distinction, because sectors will respond differently to alternate policy pathways (for example, the extent to which coal is replaced and/or the role of gas as a transition fuel). A key difference between the 2°C and 3°C scenarios is captured as spending, the "S" risk factor, highlighting the impact of public and private spending to catalyze the transition and the positive investment implication in the near term under a 2°C scenario.

The relative overall cumulative impact on global GDP for each scenario for each risk factor is shown below, with S = spending, T= transition (2°C and 3°C versions — T2 and T3), I = impact of natural catastrophes and R= resource availability.

Figure 5. Risk Factor Pathways — Cumulative GDP Impacts by Scenario



Source: Mercer

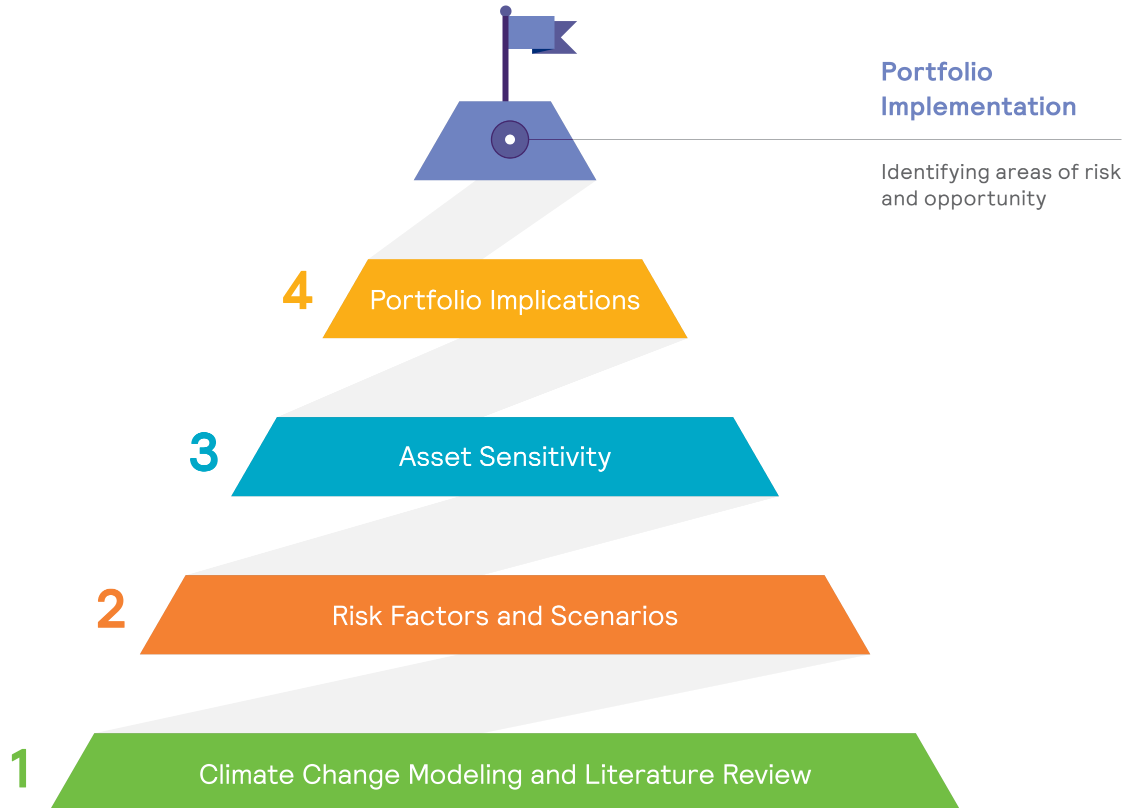
More detail is provided on the scenarios in Appendix 2: Methodology on pages 76–83.

Calculating the Climate Impact on Return

The diagram on page 24 summarizes how the various inputs fit together. The IAM forms the foundation for the work, along with a qualitative literature review, which, in turn, informs the magnitude of physical damages risk in the macroeconomic modeling. The IAM is used to develop the scenario pathways and the climate risk factor sensitivities that are the two key inputs to the Mercer climate scenario model. The relative impacts of each input and their interaction enables the additional climate impact on return to be calculated.

The longer policymakers, companies and investors delay, either a) the less likely we will stay below the 2°C target or b) the more rapid the transition to a low-carbon economy and, ultimately, a zero-carbon economy will need to be.

Figure 6. Illustrative Approach for Modeling the Investment Impacts of Climate Change



Climate Change Modeling and Literature Review

The modeling foundations are provided by a third-party macroeconomic model, E3ME, which draws upon the "GENIE" integrated assessment model (IAM). IAMs combine climate science and economic data to estimate the costs of mitigation, adaptation and physical damages.

Risk Factors and Scenarios

Three climate change scenarios provide a framework for the relative impacts for identified climate change risk factors over time.

Asset Sensitivity

The sensitivity to the climate change risk factors is determined for different asset classes and industry sectors.

Portfolio Implications

The sensitivity and scenarios are integrated into Mercer's investment modeling tool to estimate the impact of climate change on investment portfolio returns.

Source: Mercer

The scenarios modeled are deterministic, which is necessary given the gaps in scientific research and our current understanding of climate change (not to mention the complexity of conducting investment analysis 80 years into the future). However, the interactions are likely to be much more complex than we can ever model.

The two modeling approaches on the following page are used to calculate climate impact on return.

Modeling Approach 1: Long-Term Return Impact Analysis

Portfolio implications are generated by calculating the average annual climate impact on return for different asset classes and industry sectors across the three scenarios over different time periods (for example, over 10 years, to 2050 and to 2100).

Figure 7. Annual Return Impact Analysis Inputs and Outputs

Annual Return Impacts				
Scenario Pathways		**Asset Sensitivity**		**Annual Return Impacts**
• How will each risk factor change over time for each scenario? • A quantitative pathway is developed for each risk factor and scenario.	x	• How sensitive is each sector and asset class to each risk factor on a relative basis?	=	• How are different sectors or asset classes impacted on an annual, average basis over multi-year time periods? • What are the risk and opportunity priorities?

Source: Mercer

Modeling Approach 2: Short-Term Stress-Testing Analysis

Many clients requested that we consider how longer-term return impacts could manifest as shorter-term climate-related market repricing events (for example, reflecting short-term changes in how the market prices climate change risks and opportunities, including changing views on the probabilities of different climate scenarios).

As a result, we have developed a climate stress-testing addition to the model, which immediately capitalizes expected future impacts in present-value terms using a dividend discount modeling (DDM) approach, driven by a change in view on scenario probabilities, market awareness and/or physical damages.

Figure 8. Stress Test Inputs and Outputs

Stress Tests				
Scenario Probability Change		**Market Pricing Change**		**Capitalized Pricing Event**
• What might the probability be for changes in either transition risk or physical damages risks becoming more likely?	x	• How likely is it that the market has the same view or is under- or overpricing?	=	• This describes the percentage impact on valuation if market pricing changed to a) account for a different view on the more likely climate scenario and b) account for climate change to a different extent.

Source: Mercer

Quantitative Models — A Cautionary Note

Mercer continues to believe that climate scenario modeling for assessing the potential investment impacts of climate change is a valuable exercise, notwithstanding the shortcomings mentioned below. However, quantitative modeling in itself is limited when assessing climate-related risk and opportunity and requires qualitative judgment to also be applied, along with stress testing. As with other forms of investment modeling, the climate scenario modeling featured in this report is subject to uncertainty introduced at several levels, including a) the overall construct of our modeling approach, b) the specific assumptions made and c) the time horizon over which the analysis is performed. The approach and assumptions are all documented in more detail in a Technical Addendum made available for Mercer clients undertaking comprehensive climate scenario modeling.

Forecasting is notoriously difficult: As former US Federal Reserve Chair Alan Greenspan reflected in 2013 when looking back on the financial crisis, "The whole period upset my view of how the world worked — the models failed at a time when we needed them most … and the failure was uniform."

Although we typically focus on what is modeled, it is just as important to recognize what is not modeled. The points below are intended to highlight known shortcomings in climate scenario modeling, both in the IAMs and in economic modeling generally, to encourage additional discussions in decision-making.

In summary, know the limitations regarding the current data and methodology available for climate scenario modeling:

- The magnitude of results — particularly related to physical damages — is likely underestimated.
- When you combine the above with multidecade timeframes, the annual investment impacts are invariably relatively small in absolute terms. Focusing on the relativities rather than the actual magnitude will thus be more-informative.
- The scenarios we have used reflect a single pathway for each factor and temperature outcome, when the range of potential pathways is actually quite broad, especially later in the century.
- Similarly, we have used each scenario to modify the expected (mean) return impact on asset classes and portfolios. For want of available probabilistic data on the range of potential temperature and economic outcomes, the impact of climate on asset class and portfolio risk (for example, in terms of standard deviation or credit value at risk [CVAR] of returns) has not been estimated, though this could be significant.

The additional points below are intended to highlight known shortcomings in climate scenario modeling, both in the IAMs and in economic modeling generally, to encourage additional discussions in decision-making.

Physical Impacts of Climate Change

Top down, economy-wide damage functions, which are most often used to estimate the long-term physical impacts of climate change, arguably grossly underestimate the speed/magnitude of physical damages given the way models tend to treat uncertainty, narrowing down wide dispersions and "tail risks" to a more-central thesis, where scientific consensus can be reached. IPCC reports on the physical damages typically exclude the high-uncertainty "feedback loops" that can create climate tipping points, such as permafrost melting and releasing methane.[55] For the Mercer model, in 2019, a bottom-up approach was taken to supplement existing top-down physical impact estimates. Although a bottom-up approach carries benefits (for example, transparency into the peril/region-specific drivers of damage), it also carries drawbacks (for example, very few peril-specific damage functions exist with global consistency, meaning any bottom-up approach is likely to have gaps; also, more research would be needed into the interactions between perils to avoid double counting).

Financial Stability and Insurance "Breakdown"

Estimating physical damage impacts is very important for insurers, and insurance is a central feature of our global economy. Regulators responsible for financial stability are increasingly raising the alarm that there could be systemic failure of the financial system without addressing climate change, with a 4ºC world described by one of the world's leading insurers as "uninsurable,"[56] but this is not yet captured in the IAMs.

Costs of Adaptation and Planned Resilience

To date, the focus has been on mitigation actions, but, increasingly, adaptation activities are becoming a reality. Planning to ensure resilience with manageable adaptation costs is already underway, yet the IAMs generally assume adaptation costs come later and outside the typical investor timeframe.

Economic Damages Simplified Into GDP

IAMs generally capture economic damages by focusing on impacts to GDP. The flaws in GDP as a simplistic measure of economic growth and progress are widely discussed in the financial community, with all economic activity, "positive" and "negative" to society, being captured as one figure and therefore masking impacts experienced in reality. It also ignores human well-being, unpaid contributions to society (for example, caregiving), income/wealth distribution and the negative impact of economic growth on the environment.[57]

And then there are the social factors, which are typically difficult to quantify but could exacerbate currently modeled climate change implications:

The impact on population and workforce health — Regional capacity and ability to adapt to changing weather patterns and healthcare needs are key. Many infectious diseases are highly sensitive to climate conditions. Climate change also extends the transmission seasons and expands the geographical extent of many diseases, like malaria and dengue fever. Climate change could also create greater heat stress, making working conditions unbearable in a number of regions.[58]

Migration — Situations caused or heightened by energy, food or water shortages lead to accompanying social and economic impacts and potential political implications or conflicts. The UN Global Compact for Migration, which was adopted by more than 160 countries in December 2018, specifically references climate change as an underlying risk of forced and unsafe migration.[59]

The Mercer climate scenario modeling analyzes climate change in isolation, but these scenarios are not necessarily independent of other economic scenarios and could minimize or exacerbate them. For example, technology and policy developments aiming to reduce air and plastics pollution and establishing "sustainable finance" guidelines will also drive the low-carbon transition but aren't driven by climate change per se. Litigation risks are another consideration not captured in the modeling. Litigation is primarily being targeted at companies for failures to mitigate, adapt or disclose, but there are examples of litigation against governments[60] and, most recently, pension funds.[61]

We have also focused on estimating mean return impacts, whereas the variance around these mean return impacts is likely wide, with a particularly significant negative tail in the hypothetical distribution around the 3ºC and 4ºC outputs. The scenarios modeled are deterministic, which is necessary given the gaps in scientific research and our current understanding of climate change (not to mention the complexity of conducting investment analysis 80 years into the future). However, the interactions are likely to be much more complex than we can ever model.

The financial and scientific community continues to seek to improve upon the models available, using the most recent data points possible. Improved transparency and disclosure will be critical to this endeavor and reinforces the objective of the global Financial Stability Board in establishing the TCFD.

In the interim, acknowledging what cannot yet be quantified is an important part of the thinking needed on climate change. Investors need to consider and prepare for multiple eventualities, rather than relying on a single scenario as most likely or "correct."

What Are the Portfolio Impact Results?

The modeling results have evolved from the 2015 Report; however, the headline messages remain consistent, reinforce the recommendations made at that time and support greater urgency for action to achieve a well-below 2°C scenario. The relative impacts across asset classes and sectors convey a number of key signals for investors to consider in portfolio construction and asset-allocation decisions. Stress-test modeling is also beneficial to demonstrate the potential magnitude of return impacts in the shorter term if changes in policy, market pricing or physical damages are more sudden than currently anticipated.

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A key conclusion is that investing for a 2°C scenario is both an imperative and an opportunity:

- An imperative, since, for nearly all asset classes, regions and timeframes, a 2°C scenario leads to enhanced projected returns versus 3°C or 4°C and therefore a better outcome for investors
- An opportunity, since, although incumbent industries can suffer losses in a 2°C scenario, there are many notable investment opportunities enabled in a low-carbon transition

[iv] In the Sequel, two sample asset allocations were used to illustrate the key findings: 1) the same diversified growth asset allocation introduced in the 2015 Report and 2) a 2019 portfolio that is equivalent to the 2015 portfolio but with explicit allocations to sustainability-themed investments in multiple asset classes. Current limitations in data and methodology available for modeling physical damages, together with the myriad of factors not yet captured and multidecade timeframes, mean the resulting magnitudes are likely to be significantly underestimated and invariably relatively small in absolute terms. The Sequel outlines more on these additional considerations when assessing quantitative results.

The Sequel's highlights include the following:[iv]

1. **The results emphasize the physical damages risks and why a below 2°C scenario is most beneficial**, and the 4°C and 3°C scenarios are to be avoided, from a long-term investor perspective. In the two sample portfolios, there is a return opportunity to 2030 of between 0.10% p.a. and 0.30% p.a. in a 2°C scenario compared to −0.07% p.a. in a 4°C scenario. To 2100, a 4°C scenario leaves each portfolio down more than 0.10% p.a. compared to a 2°C scenario.

2. **Transition opportunities emerge from a 2°C scenario, with transition now expected to be a benefit from a macroeconomic perspective**,[62] including the potential to capture a "low-carbon transition (LCT) premium."[63] Although a 2°C scenario definitely still presents transition risk (especially for portfolios aligned to a 3°C or 4°C+ world), opportunistic investors can target investment in the many mitigation and adaptation solutions required for a transformative transition. In the two sample portfolios, the sustainability-themed version is nearly 0.20% p.a. better off to 2030.

3. **Expected annual return impacts remain most visible at an industry-sector level, with significant variations by scenario**, particularly for energy, utilities, consumer staples and telecoms. Asset class returns can also vary significantly by scenario, with infrastructure, property and equities being the most notable. Variations in results between asset classes and across regions, cumulative impacts, and the emphasis on sustainable opportunities provide multiple portfolio construction possibilities for investors.

Example industry sectors and asset classes	% p.a. to 2030 in 2°C scenario	% p.a. to 2050 in 2°C scenario	% cumulative impact to 2030 in 2°C scenario	% cumulative impact to 2050 in 2°C scenario
Coal	-7.1	-8.9	-58.9	-100.0*
Oil and gas	-4.5	-8.9	-42.1	-95.1
Renewables	+6.2	+3.3	+105.9	+177.9
Electric utilities	-4.1	-3.3	-39.2	-65.7
Developed market equities	0.0	-0.2	-0.5	-5.6
Emerging market equities	+0.2	-0.1	+1.8	-4.0
All world equities — sustainability themed	+1.6	+0.9	+21.2	+32.0
Infrastructure	+2.0	+1.0	+26.4	+39.4
Infrastructure — sustainability themed	+3.0	+1.6	+42.3	+67.1
All world real estate	0.0	-0.2	-0.1	-4.7

* Effective absolute loss of value is expected to occur in 2041 under a scenario in which global warming is limited to 2°C by 2100.

In a 2°C scenario by 2050, there are minor positives as well for materials, telecoms and consumer staples sectors. In 3°C and 4°C scenarios, all sectors, apart from renewables, have negative return impacts, to 2030, 2050 and 2100, with return impacts varying between 0.1% p.a.and 7.7% p.a.[v]

Real estate is expected to be flat to 2030 under a 2°C scenario, but a 4°C scenario, even in the near term, starts to impact negatively. A 4°C scenario to 2050 sees infrastructure and property down 0.4% p.a. and 0.2% p.a., respectively, developed market equities are down 0.1% p.a. and emerging markets are down 0.3% p.a. In a 4°C scenario, India and China equities are down 0.4% p.a. and 0.3% p.a., respectively. Sovereign debt provides a safe haven and marginally positive results, with fixed income continuing to remain relatively muted overall, with some variations within the asset class.

4. **In reality, sudden changes in return impacts are more likely than neat, annual averages, so stress testing is an important tool in preparing for this eventuality**. Stress testing portfolios for changes in view on scenario probability, market awareness and physical damage impacts can help investors to consider how longer-term return impacts that may appear small on an annual basis could emerge as more-meaningful shorter-term market repricing events.

   Testing an increased probability of a 2°C scenario with increased market awareness can result in sector-level returns where renewables increase by more than 100% and coal decreases by nearly 50%. Positive asset class impacts include infrastructure at almost 23% and sustainable equity at more than 5%. Testing an increased probability of a 2°C scenario or a 4°C scenario with greater market awareness, even for the modeled diversified portfolios, results in +3% to -3% return impacts in less than a year.

What's Next for Investors?

The findings strengthen the argument for investor action on climate change and suggest greater attention is required on how investors will actively support the transition to a 2°C scenario — as Future Makers as opposed to Future Takers.

The recommended Investor Actions from the 2015 Report remain valid — to incorporate climate change considerations as part of good governance and investment decision-making — and are consistent with the 2017 TCFD recommendations. We include several investor case studies, which reinforce how scenario analysis helps prioritize the portfolio risks for some and opportunities for others. The case studies also demonstrate the pace of change by peers.

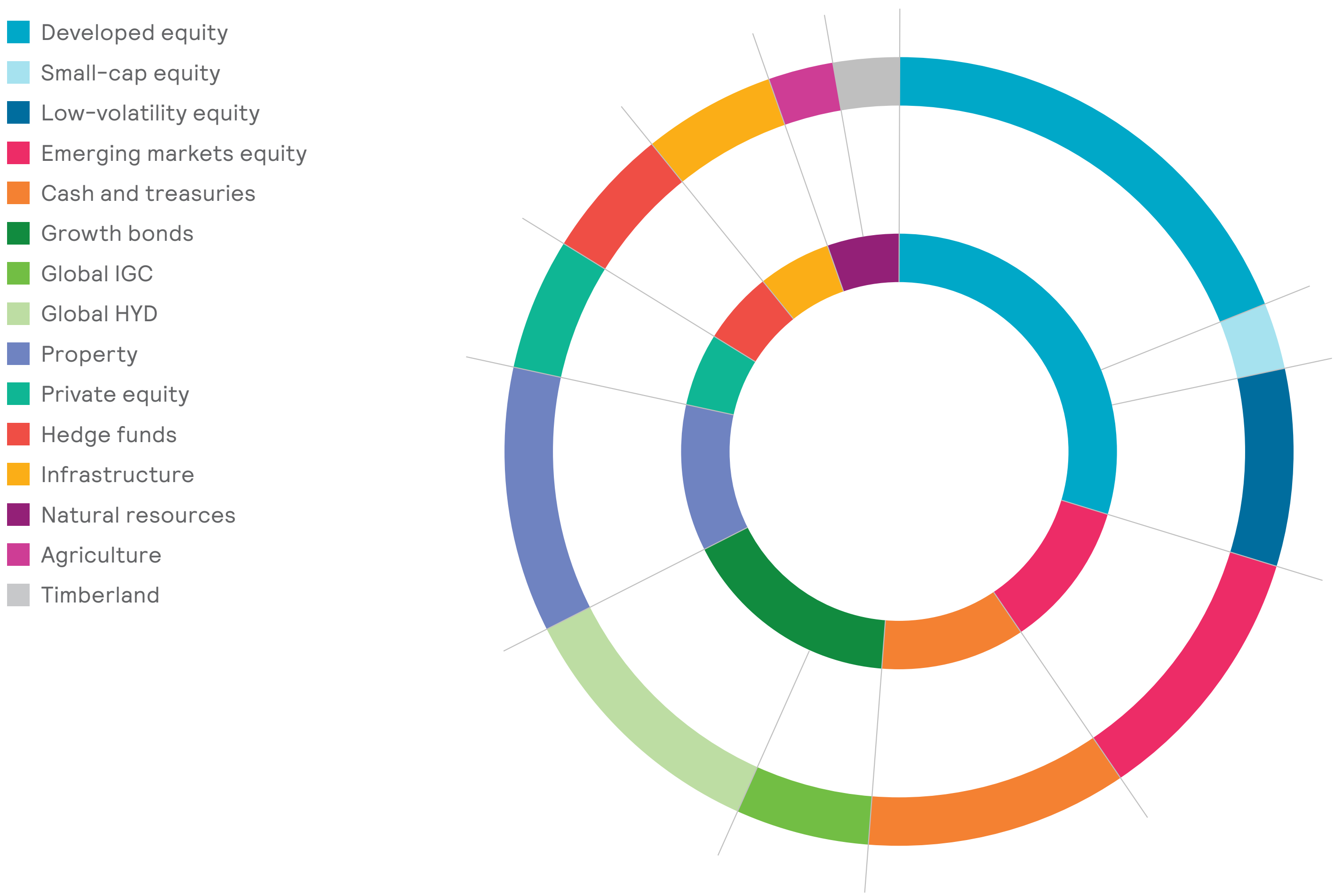
Consistent with Mercer's thinking on the best way to incorporate ESG and climate change considerations into the investment process, we continue to recommend an integrated approach when setting investment beliefs, policies and processes, and when constructing and managing portfolios, as set out in Mercer's *Responsible Investment Pathway.* This enables climate-related risks and opportunities to be included alongside other investment considerations and for processes and portfolios to evolve over time — grounded in agreed-upon beliefs and policies.

[v] The strongly negative impacts reflect sectors that are required to essentially discontinue by 2050. Therefore, return would be driven more by the income received within that time period, and this income is not allowed for in these figures.

Results Case Studies

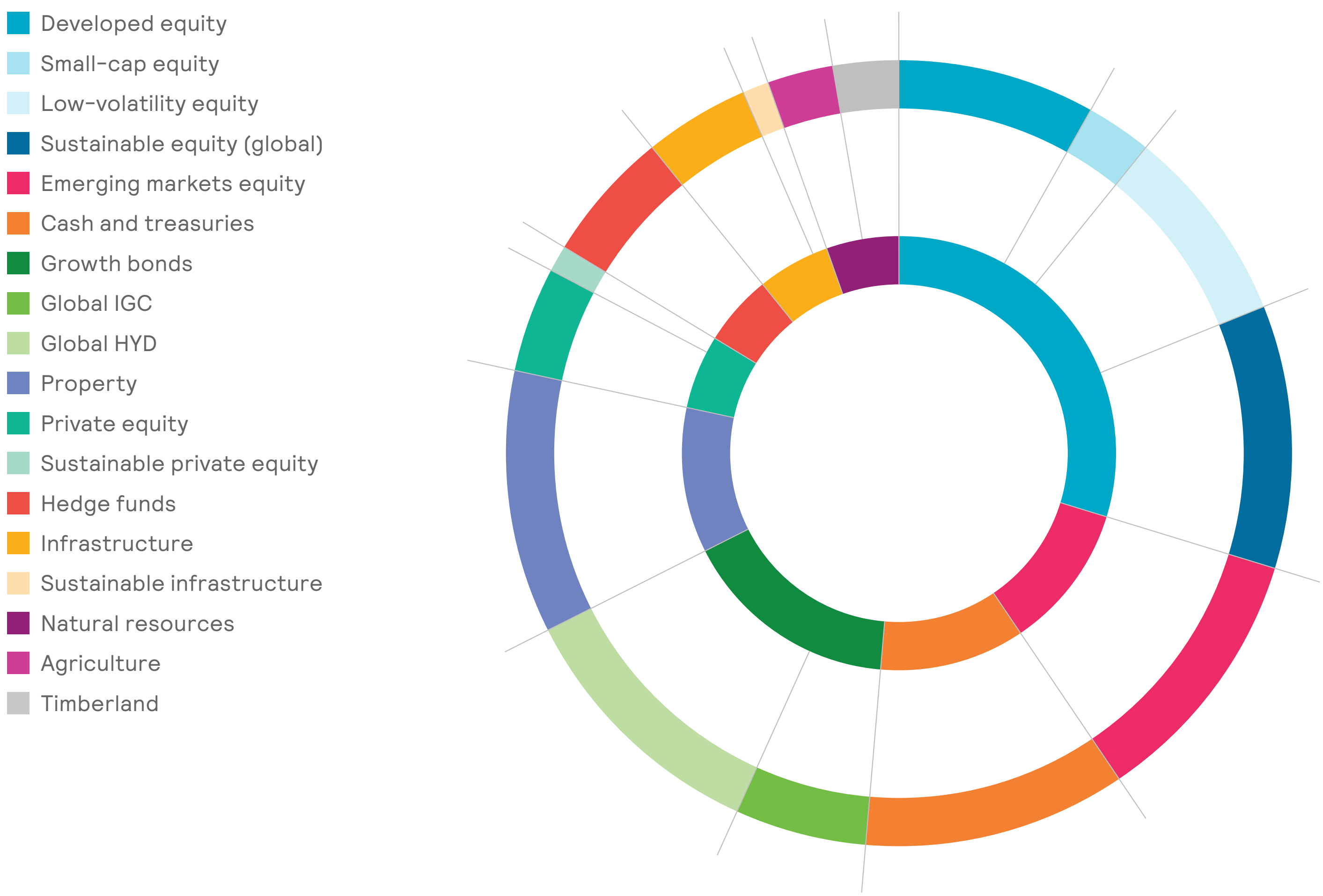
The results in this section show the outcomes of the scenario modeling approaches using two sample asset allocations: 1) the same diversified growth asset allocation introduced in the 2015 Report and 2) a 2019 portfolio that is equivalent to the 2015 portfolio but with explicit allocations to sustainability-themed investments in multiple asset classes.

Figure 9. #1 Portfolio — Growth



Source: Mercer

Figure 10. #2 Portfolio — Sustainable Growth



Source: Mercer

Recognizing the many challenges to long-term investment, we believe it is important that post-2030 climate implications be considered, recognizing the physical damage impacts to come. The stress-testing analysis assesses how longer-term return impacts could manifest as market-pricing events.

Total Portfolio Results

The expected annual climate impact on return for both sample portfolios is shown below over three climate scenarios and three time periods (nine results per portfolio). The aim is to extend investment decision-making to include factors regularly outside the investment time horizon with 2100 and 2050 observations and reflect those against the more-strategic investment horizon to 2030.

Recognizing the many challenges to long-term investment, we believe it is important that post-2030 climate implications be considered, recognizing the physical damage impacts to come. The stress-testing analysis assesses how longer-term return impacts could manifest as market-pricing events.

Figure 11. Annualized Total Portfolio Results

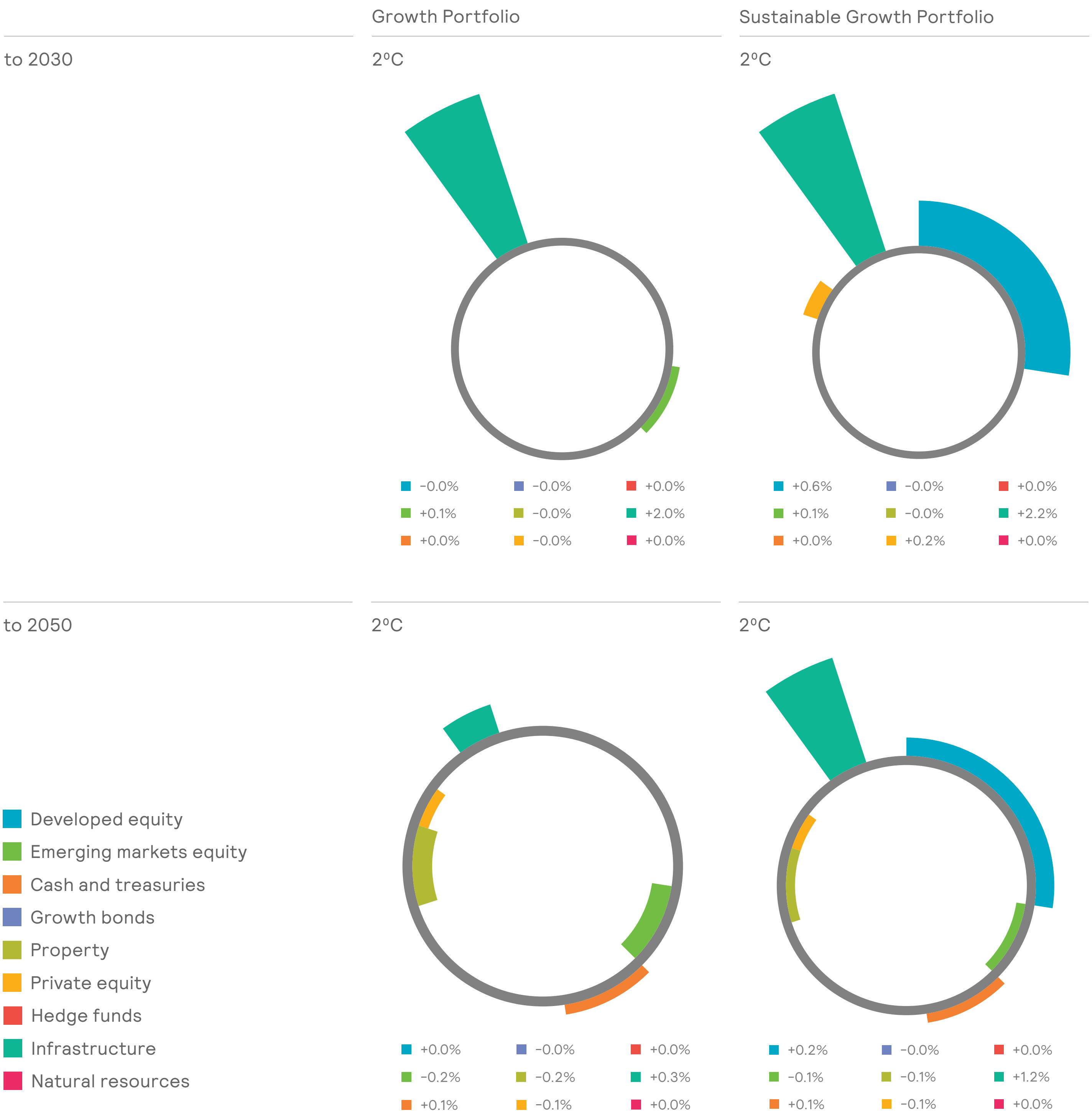
Source: Mercer

For both portfolios, the 2ºC scenario has the best outcome, and the 4ºC has the worst outcome across all three timeframes evaluated. The allocation to sustainability-themed asset classes enhances the return outcome of the 2019 portfolio in the 2ºC and 3ºC scenarios but has no noticeable effect in 4ºC. This poor hedging benefit from sustainability allocations in 4°C speaks to the challenge of adapting to significant changes in weather patterns and the lack of adaptation-focused investment opportunities in the market today.[64]

Asset Class Results

In the "circle charts" in Figures 12 and 13 on the following pages, each circle represents the total asset allocation, with the sizes of each asset class section equivalent to the weighting in the portfolio. If the asset class section is within the circle, it represents a negative impact on return, whereas if the asset class section is sitting outside the circle, it represents a positive impact on expected returns. Note, some of the sub-asset classes (for example, within equities) have been grouped to simplify visual representation.

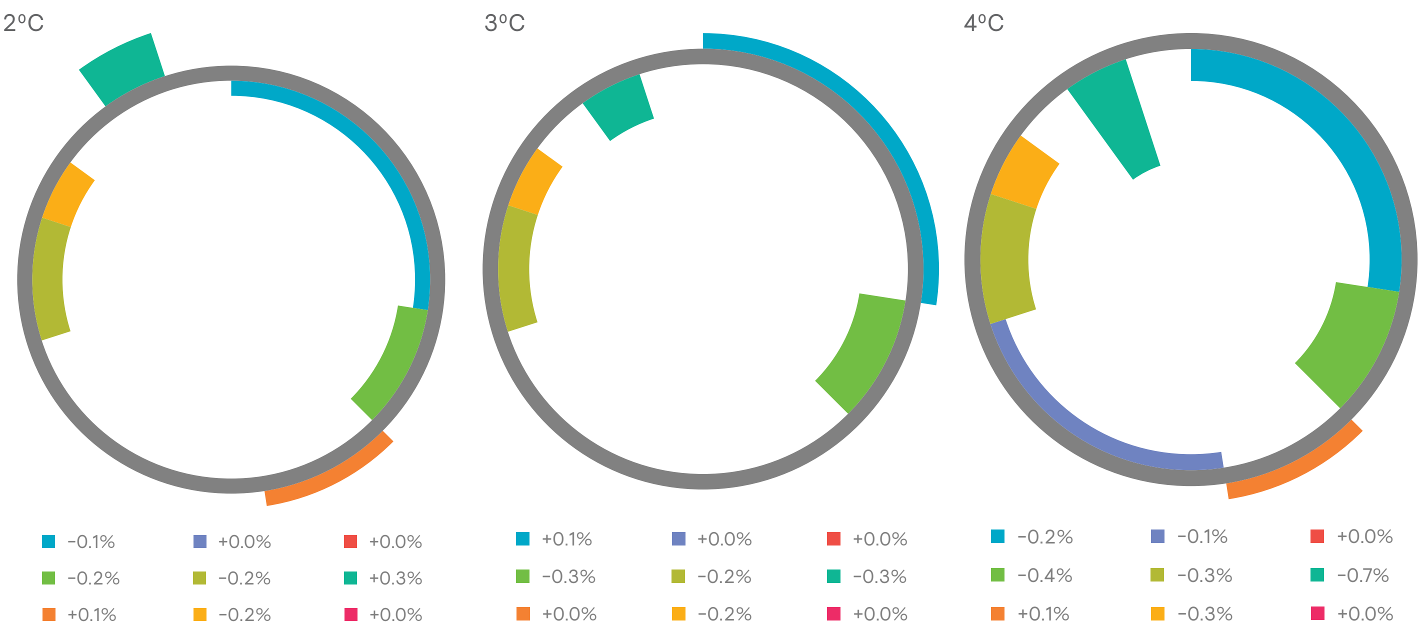
Figure 12. Asset Class Return Impacts to 2030 and 2050 in the 2°C Scenario



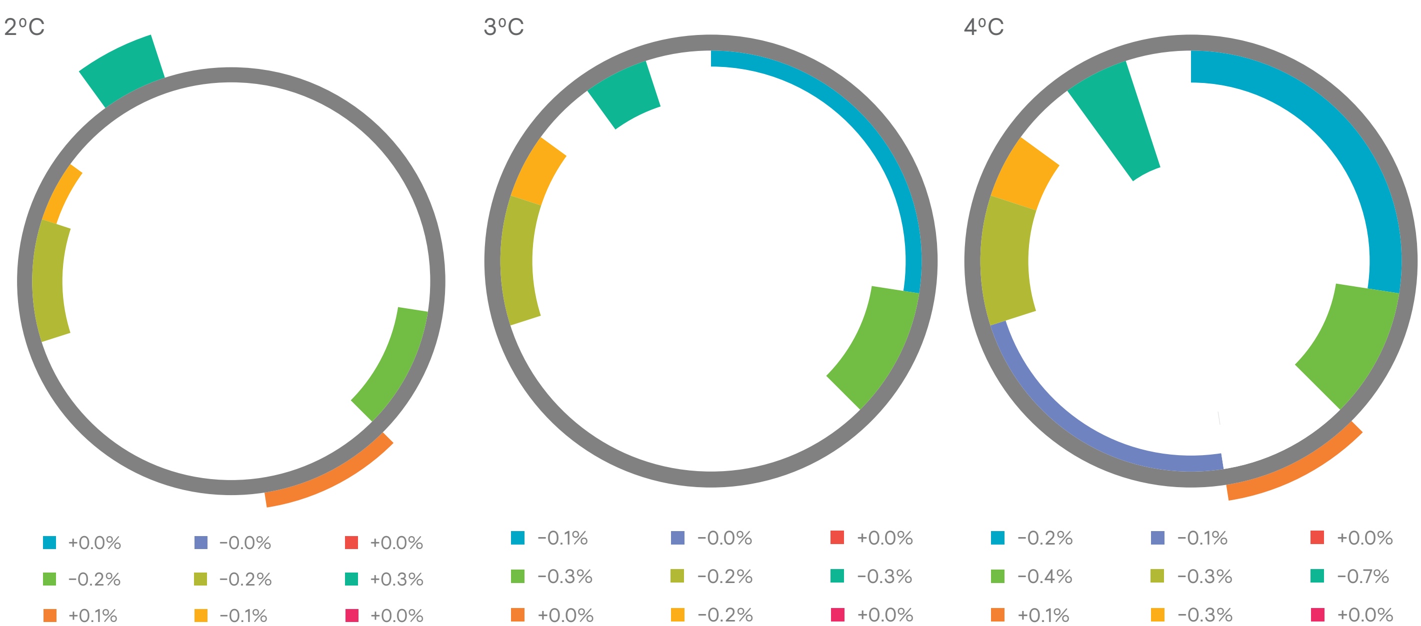
Source: Mercer

Figure 13. Asset Class Return Impacts to 2100 Across All Scenarios

Growth Portfolio



Sustainable Growth Portfolio



Developed equity
Emerging markets equity
Cash and treasuries
Growth bonds
Property
Private equity
Hedge funds
Infrastructure
Natural resources

Source: Mercer

The risk factors as acronyms symbolize the following: S = spending, T2= 2°C transition, T3 = 3°C transition, I = impact of natural catastrophes and R= resource availability. This table is over the 2100 timeframe. Over a shorter timeframe, the S would be more sensitive and the I and the R would be less sensitive. The relative ranges are applied to the asset classes included within this table only and are not designed to be directly compared with relative ranges in other similar tables.

Figure 14. Relative Sensitivities — Asset Classes

Asset class	**S**	**T2**	**T3**	**I**	**R**
Developed market global equity					
Emerging market equity					
Developed market sovereign bonds					
Investment-grade credit					
Emerging market debt (sovereign)					
High-yield debt					
Real estate					
Private equity					
Infrastructure					
Timberland					
Agriculture					
Hedge funds					

Most negative	No sensitivity	Most positive

Source: Mercer

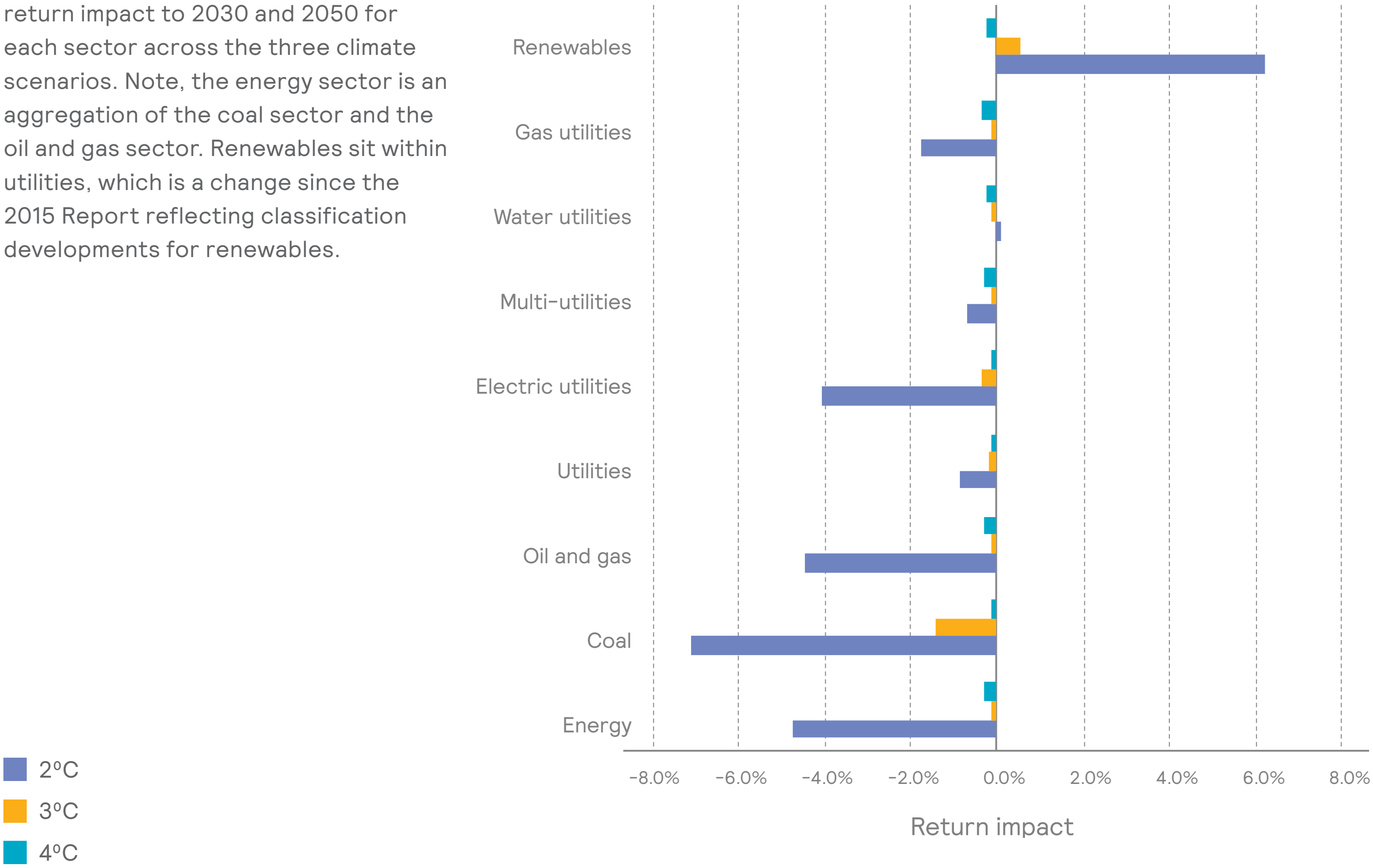
The highlights, in summary, are:

- **Equities:** At an aggregate level, global developed market equities are now expected to be much less negatively impacted by the low-carbon transition than anticipated in 2015. The government stimulus required to achieve a 2ºC scenario creates an opportunistic investment environment in the near term balanced out over time by the requirement to service stimulative debt. That said, on a relative basis, sustainability-themed equity is expected to benefit even further from a low-carbon transition, and emerging market equities are still expected to benefit from additional climate-finance support from developed countries, as established in the Paris Agreement and reinforced in subsequent United Nations meetings.
- **Bonds:** Emerging market debt and high-yield debt are most sensitive to the climate change risk factors within global fixed income as an asset class. Although, in contrast to 2015, we now expect the depressive macroeconomic effect of climate change to lead to interest-rate decreases and therefore price and return increases in most debt asset classes irrespective of scenario. We do not expect developed market sovereign bonds to be sensitive to the climate change risk factors at an aggregate level, but there are some sovereigns that we would expect to be more sensitive to the impact of physical damages and resource scarcity, such as Australia and New Zealand.
- **Real assets:** Real estate, infrastructure, agriculture and timberland have the greatest negative sensitivity to the impact of physical damages and resource availability, but infrastructure has a high positive exposure to transition risk, due primarily to expected exposure to renewable assets in most infrastructure allocations. We note that the sensitivity to the climate change risk factors will vary by underlying sector. More-stringent climate change policy (and investment in technology) is likely to reduce the value of some assets that are less-advanced or unable to adapt, whereas others will benefit strongly. Overall, we would expect more-stringent climate change policy to be a net positive for infrastructure, as policy changes should drive an extended period of significant economic transformation and investment globally.
- **Liquid alternatives:** We do not expect hedge funds, in aggregate, to be sensitive to the climate change risk factors, but long/short equity funds, commodities and insurance-linked securities (ILS) will not be immune.

Industry Sector Results

Figures 15 and 16 show the annualized return impact to 2030 and 2050 for each sector across the three climate scenarios. Note, the energy sector is an aggregation of the coal sector and the oil and gas sector. Renewables sit within utilities, which is a change since the 2015 Report reflecting classification developments for renewables.

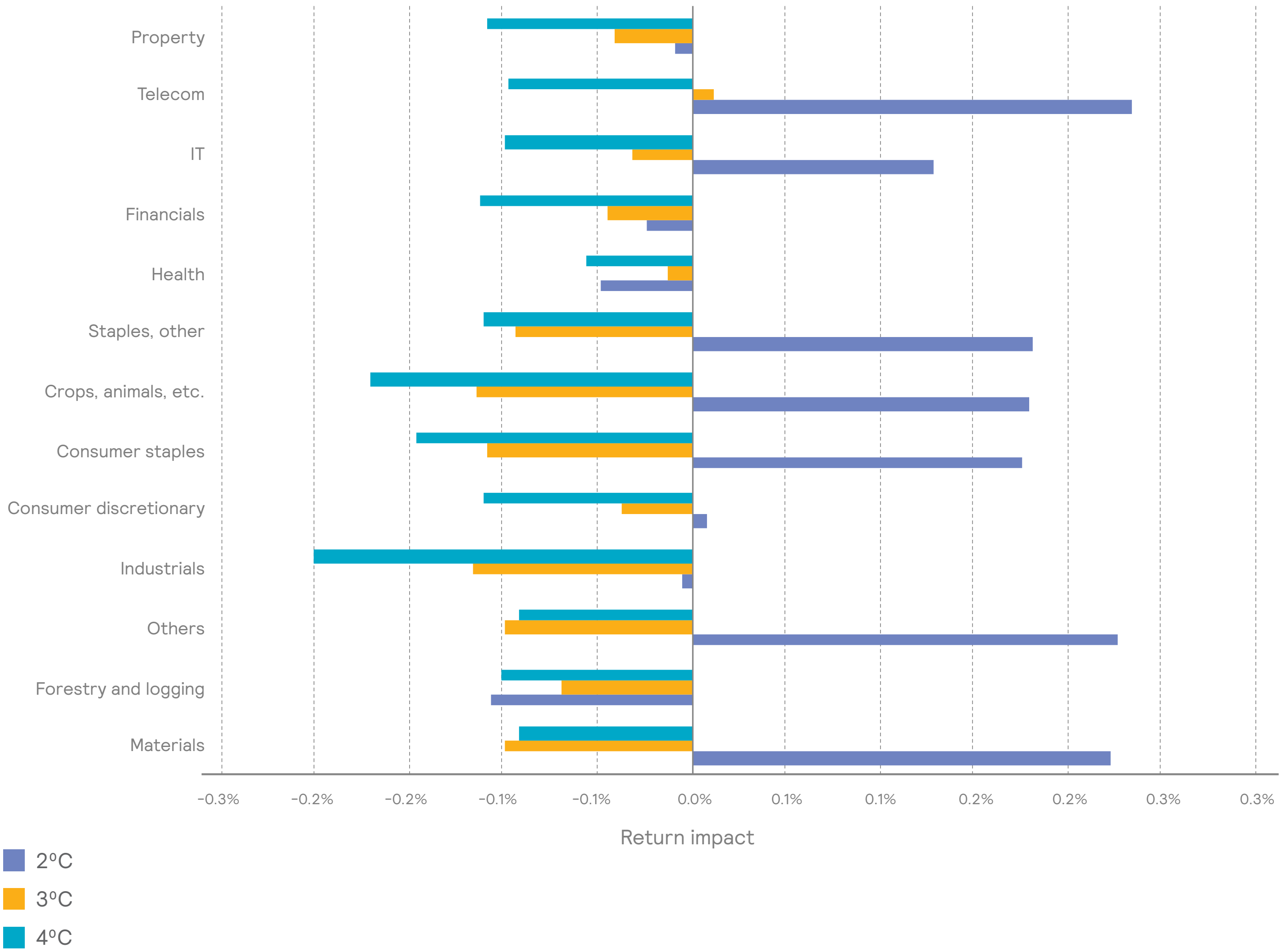
Figure 15. Sector-Level Return Impacts to 2030



Source: Mercer

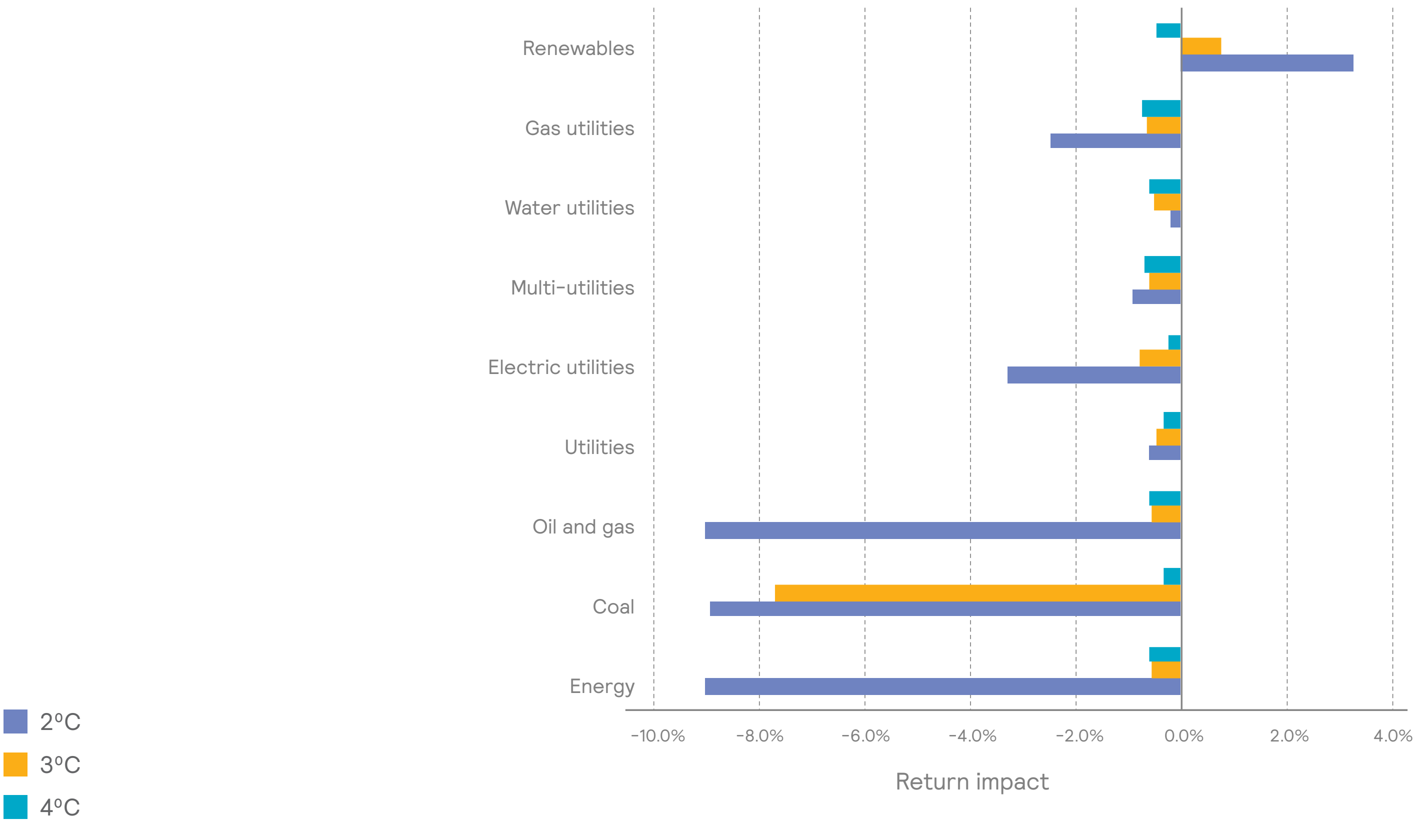
An equivalent chart, with energy and utilities removed, is included below to help illustrate the scale differences of the other sectors more clearly.

Figure 16. Sector-Level Return Impacts to 2030 (Ex Energy and Utilities)



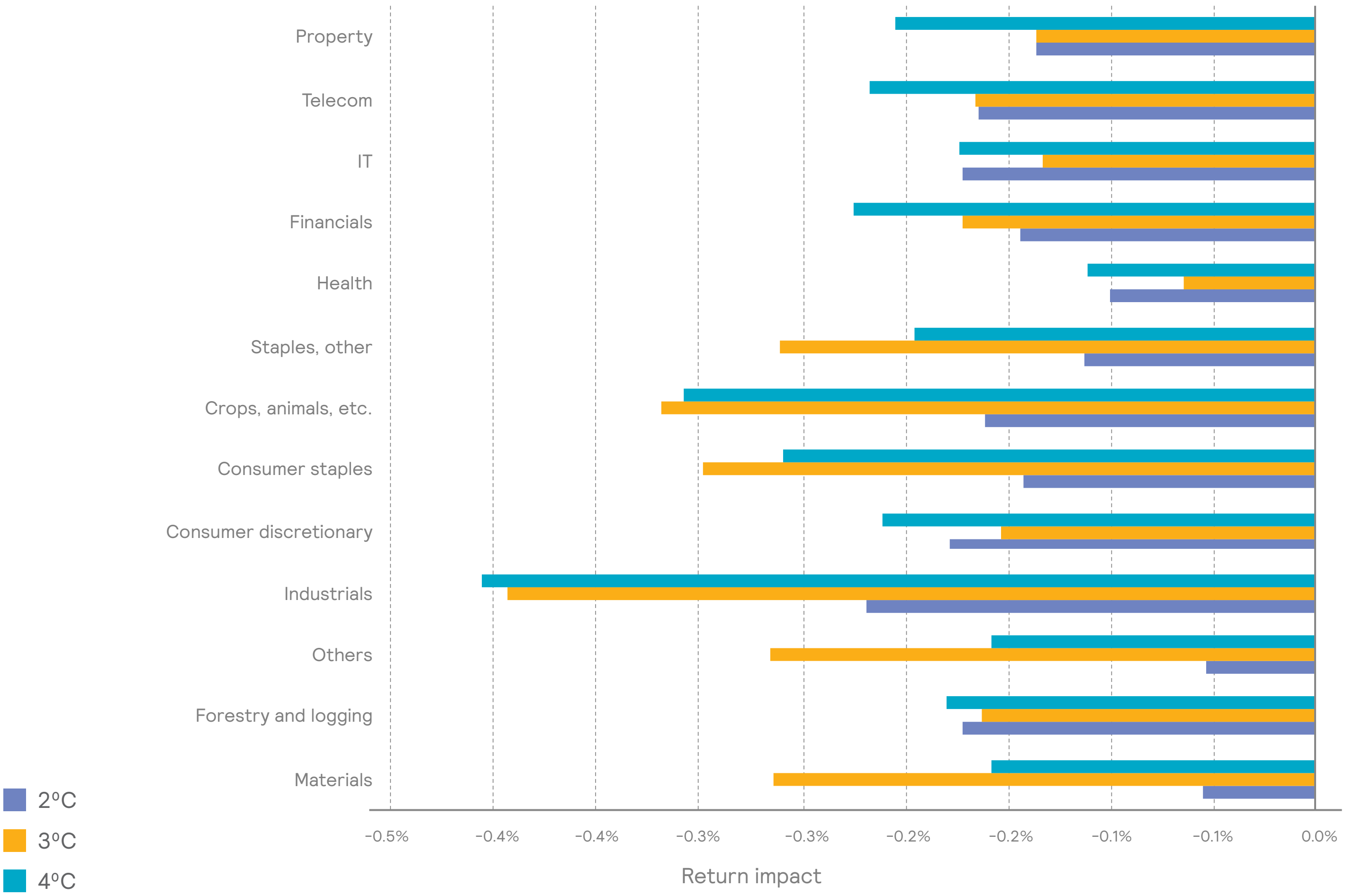
Source: Mercer

Figure 17. Sector-Level Return Impacts to 2050 — Energy and Utilities



Source: Mercer

Figure 18. Sector-Level Return Impacts to 2050 (Ex Energy and Utilities)



Source: Mercer

The risk factors as acronyms symbolize the following: S = spending, T2= 2°C transition, T3 = 3°C transition, I = impact of natural catastrophes and R= resource availability. This table is over the 2100 timeframe. Over a shorter timeframe, the S would be more sensitive and the I and the R would be less sensitive. The relative ranges are applied to the asset classes included within this table only and are not designed to be directly compared with relative ranges in other similar tables.

*The sensitivity to the R factor for water utilities is not directly drawn only from the modeling outputs but reflects the high sensitivity expected to lower water availability.

Figure 19. Relative Sensitivities — Equity Industry Sectors

Equity industry/subsector	S	T2	T3	I	R
Energy					
Oil and gas					
Coal					
Utilities					
Renewables utilities					
Electric utilities					
Gas utilities					
Multi-utilities					
Water utilities*					
Materials					
Forestry and logging					
Industrials					
Consumer discretionary					
Consumer staples					
Crops and animals					
Health					
Financials					
IT					
Telecoms					
Real estate					

Most negative	No sensitivity	Most positive

Source: Mercer

The highlights are:

Unsurprisingly, transition risk sensitivity is most negative for the energy sector, coal more so than oil and gas, and electric and gas utilities. This sensitivity is greatest in a 2°C scenario. Renewables have the most positive transition sensitivity, even in a 3°C scenario.

Physical risk sensitivity is most negative for utilities and energy, but some sensitivity is relatively widespread across sectors, including industrials, telecoms, financials, and consumer staples and consumer discretionary.

Within each sector, there will be “winners and losers” at a stock level, including those sectors where overall sensitivity is expected to be neutral.

Stress-Testing Results

Stress testing considers how longer-term return impacts could manifest as market-pricing events, reflecting how markets may respond to new climate-related information. The key aim of stress testing, by definition, is to put pressure on the average annual impacts and gain insights from outcomes that may deviate from the relatively orderly pathways our scenarios assume.

Mercer's stress tests consider the impact of a short-term market repricing event, where a catalyst of some sort (for example, new regulatory requirements, change of investor focus or a surprise election result) causes the market to change how it incorporates long-term climate change risk in asset pricing. The model can consider changes in:

- Awareness — the degree to which the market allows for expected impacts
- Scenario probabilities — the likelihood the market applies to a given temperature outcome
- Damage function — the impact of different expectations on the extent and shape of physical damages

Mercer does not believe markets are fully pricing in climate change for a variety of reasons, including:

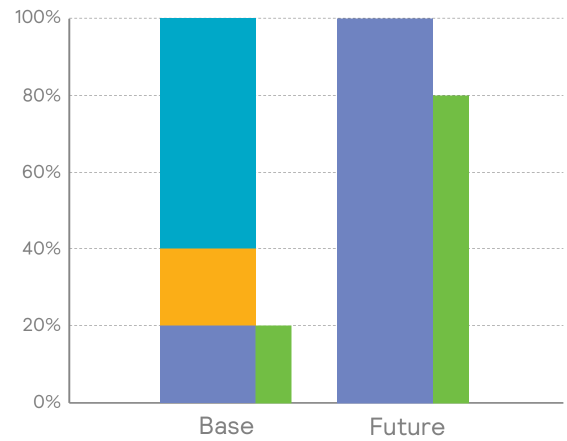
- **The tragedy of horizons:** Time horizon mismatches across the capital markets value chain present long-term asset owners with both a challenge and an opportunity.
- **Complexity and uncertainty:** Uncertainty regarding the global pathway toward a given temperature outcome also causes confusion about which risks are likely to manifest when.
- **Pricing failures:** Carbon pricing is still too low to reflect the full social cost of emissions and send a meaningful signal to the market; therefore, they remain as “externalities” not captured in valuations.
- **Behavioral economics:** Research in behavioral economics points to the inability of humans to properly account for the effects of future risks, especially those that are large and infrequent. This relates to prospect theory, hyperbolic discounting and other behavioral economics concepts that are well-studied.[65]
- **Peer practices:** To date, a low proportion of institutional investors have adopted climate change risk management strategies. As peer practices are a key input for many investors' decisions, this can have a depressive effect on market behavior until norms shift over time.

Figure 20. First Portfolio Stress Test

Stress Test #1

Tests the potential market reaction to a sudden shift (greater awareness) in the likelihood of a 2°C scenario outcome by changing:

- The current pathway of 3.3˚C, as per the Climate Action Tracker, to a 100% probability of 2°C
- The current market awareness of climate-related financial risks from 20% to 80%



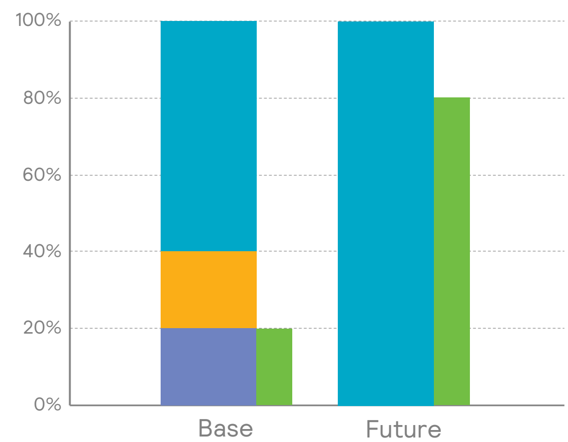
2°C
3°C
4°C
Awareness

Figure 21. Second Portfolio Stress Test

Stress Test #2

Tests the potential market reaction to a sudden shift (greater awareness) in the likelihood of a 4°C scenario outcome by changing:

- The current pathway of 3.3˚C, as per the Climate Action Tracker, to a 100% probability of 4°C
- The current market awareness of climate-related financial risks from 20% to 80%



2°C
3°C
4°C
Awareness

The return figures in this section are not annualized but instead show a single-point-in-time impact over less than a year, illustrating an alternative view of how return impacts could be experienced in practice. Example return results for these two tests are shown for key sectors in Figures 22 and 23 and for the growth and sustainable growth portfolios in Figures 24–27.

Figure 22. Stress Test #1 Key Sectors

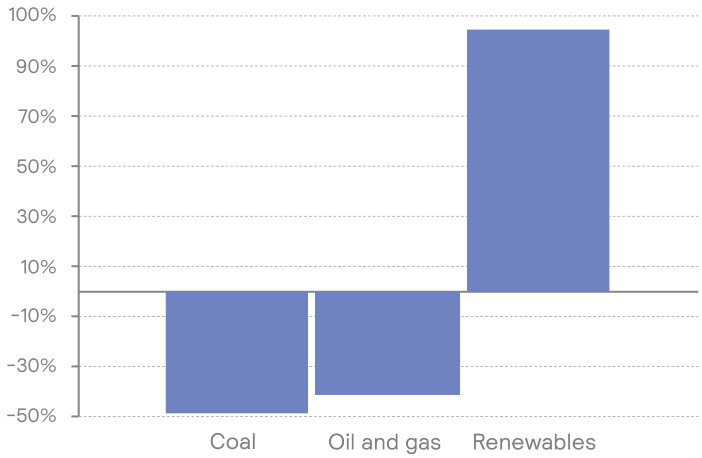
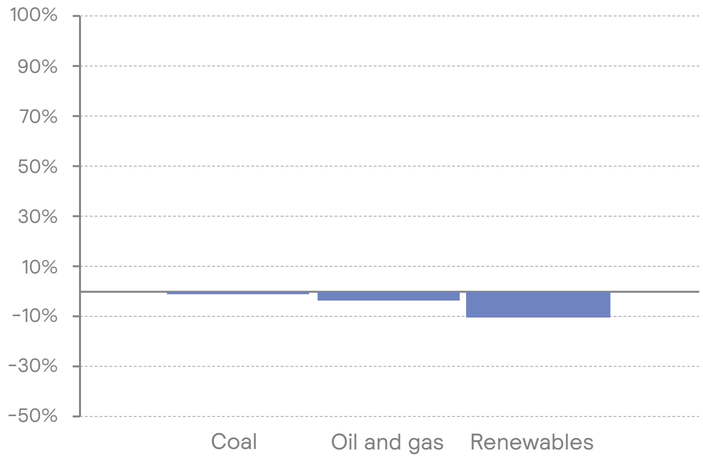


Figure 23. Stress Test #2 Key Sectors



Source: Mercer

Figure 24. Stress Test #1 Growth

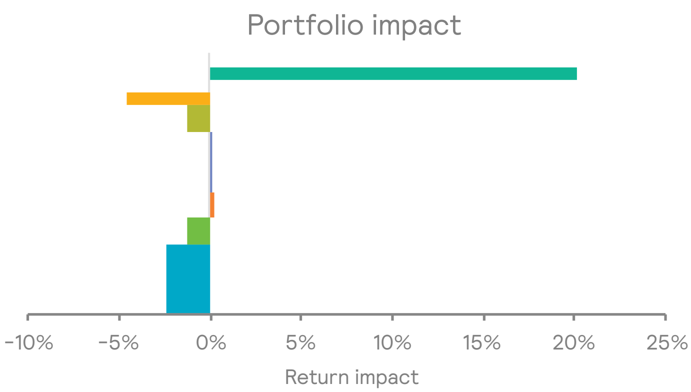


Figure 25. Stress Test #2 Growth

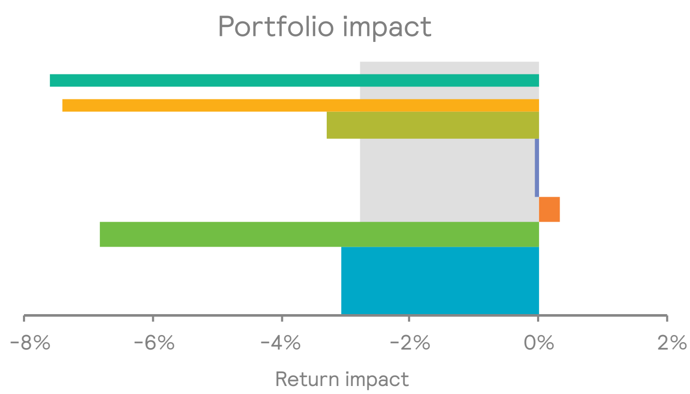


Figure 26. Stress Test #1 Sustainable Growth

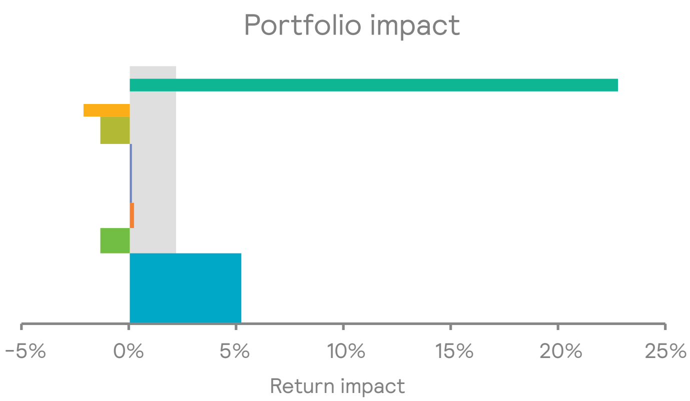
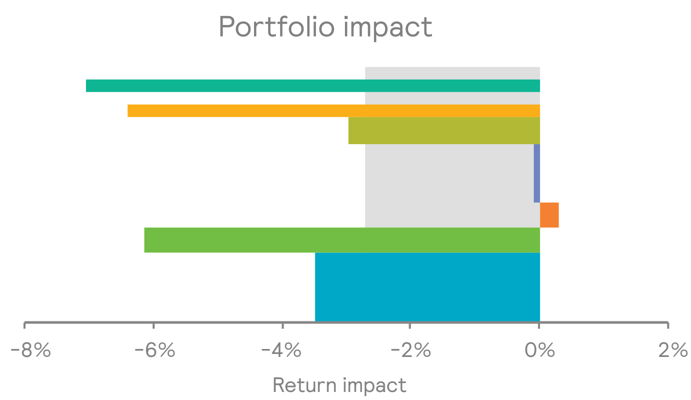


Figure 27. Stress Test #2 Sustainable Growth



Developed equity
Emerging markets equity
Cash and treasuries
Growth bonds
Property
Private equity
Hedge funds
Infrastructure
Natural resources
Total portfolio

Source: Mercer

Mercer expects stress-test analysis will support discussion among decision makers to agree on next steps. For example, decision makers may hold differing views on the relative likelihood of an increase in market awareness, scenario probability and the timing of impacts. A 2ºC scenario will require a strong and coordinated policy response; some consider this response to be inevitable but with uncertain timing.[66] The next flashpoint for such a response could be as early as 2020, when governments are due to resubmit their nationally determined contributions (NDCs) as part of the Paris Agreement, or perhaps 2023, when the first global stocktaking occurs. Over time, policy inertia could, of course, see a drift to a 4ºC scenario and the greater likelihood of physical damage impacts emerging. This may still result in a sudden and disruptive policy response to mitigate future physical damages even if a 2ºC scenario result becomes unlikely to eventuate.

When using stress tests with clients, we often present the impact of opposite changes; for example, increasing or decreasing awareness. This illustrates that for all asset classes, there are potential positive and negative climate-related scenarios. However, overlaying an opinion on the likelihood of those developments gives greater insight. For example, we view increasing climate awareness in market pricing to be more likely than decreasing awareness. This therefore provides support to the concept of an LCT premium.

Asset Class Feature Focus — Sustainability-Themed Allocations

Since the 2015 Report, “sustainable” variants of global equity, private equity, infrastructure and bonds have been added to the modeling options. This enables investors to compare how different portfolio allocations may respond in each climate change scenario and consider portfolio implementation changes. This section provides additional context and clarification on the term “sustainable” and gives some opportunity-set examples.

In its simplest form, sustainability is literally “the ability to sustain.” The most widely accepted definition is that “which meets the needs of current generations without compromising the ability of future generations to meet their own needs,” from the 1987 Brundtland report for the UN on sustainable development.[67] Population growth and consumption patterns are placing unsustainable pressures on the world’s finite resources. Aging infrastructure, pollution levels and environmental damage to human health are also reducing the value of economic activity and raising the importance of sustainability as a topic.

The 2015 UN Sustainable Development Goals for 2030 include 17 goals and 169 Key Performance Indicators. Climate change is a sustainability issue that connects to many other location-specific challenges that aren’t driven by climate change but may be exacerbated by it. Climate change has its own Goal 13 but is also explicitly connected to Goal 7 and implicitly to all other goals.

Figure 28. The Sustainable Development Goals

Source: United Nations Sustainable Development Goals, available at http://www.un.org/sustainabledevelopment/sustainable-development-goals.

At Mercer, we believe an investment approach that includes ESG factors and incorporates consideration of broader systemic issues, such as climate change and sustainable development, along with active ownership (stewardship), is more likely to lead to sustainable investment outcomes and enable stakeholder objectives to be met. In practice, this can mean investors focusing on allocating to Mercer's higher-ESG-rated strategies, using active ownership techniques to support changes in company management practices (for example, voting and engagement) and/or allocating to sustainability-themed strategies.

The Investment Case

The demand being created by the environmental and social challenges we're facing is fundamental to the investment case. As an investment theme, sustainability aims to identify the growth in companies that provide solutions to immediate challenges driven by changes in public sentiment, technology, resource constraints and the evolving policy response.

Following the 2015 Paris Agreement, policy changes expected to ultimately raise carbon prices pose the risk of negative financial outcomes and even the potential for "stranded assets"; that is, the possibility that a proportion of existing fossil fuel reserves will never be utilized due to changes in regulation, demand and technology. Accordingly, investors are increasingly focused on "low-carbon" portfolios specific to climate-related policy risks alongside portfolios more resilient to physical damage impacts and opportunities aligned with anticipated shifts in energy and resource use.

Market participants with a specialist sustainability focus and expertise typically better understand the market and the often-disruptive new dynamics. This is amplified by timeframe biases in the traditional marketplace, which relies on historical models and still assumes sustainability developments are further into the future than is actually the case. We expect these aspects to create a potential information advantage that could generate additional risk-adjusted returns over time.

The sustainability-themed equivalents in the Sequel differ only in terms of their climate change sensitivities, which determine the quantum of the LCT premium we believe exists in the context of a 2°C scenario or a scenario getting meaningfully closer to 2°C than our current trajectory. The underlying asset fundamentals remain the same, and the ongoing risk/return profile of the asset class is not expected to be different. As with all investments, it will still require good asset management skills to identify the "winners."

The LCT premium in lower warming scenarios is not equivalent to other investment-risk factors (for example, inflation, liquidity) that would apply across scenarios. It also cannot be calculated historically, as it is based on forward-looking assumptions. Our assumptions suggest an asymmetric assessment of carbon-risk pricing — either it is priced in or it is mispriced, and fossil-fuel-exposed stocks will underperform over time. This positioning is deliberate, as, on balance, we think it is more likely that carbon risk is underpriced today than either fairly priced or overpriced. However, we recognize there is a lack of consensus on the extent to which markets are pricing long-term risks like climate change in valuations today. We also appreciate that the fixed costs associated with transitioning portfolios need to be factored in and will vary on a case-by-case basis. It can also take time to review the investable products available and execute the portfolio transition.[68]

The risk factors as acronyms symbolize the following: S = spending, T2= 2°C transition, T3 = 3°C transition, I = impact of natural catastrophes and R= resource availability. This table is over the 2100 timeframe. Over a shorter timeframe the S would be more sensitive and the I and the R would be less sensitive. The relative ranges are applied to the asset classes included within this table only, and are not designed to be directly compared with relative ranges in other similar tables.

Figure 29. Relative Sensitivities — Sustainability Themed

Asset classes	S	T2	T3	I	R
Developed market global equity					
Sustainable equity (global)					
Low-carbon equity (global)					
Fossil-fuel-free equity (global)					
Developed market sovereign bonds					
Investment-grade credit					
Global green bonds					
Infrastructure					
Sustainable infrastructure					
Private equity					
Sustainable private equity					

Most negative	No sensitivity	Most positive

Source: Mercer

The Opportunity Set

Private markets typically provide the best access to environmental themes that are all directly connected to climate change, including: renewable and alternative energy, energy efficiency, water infrastructure and technologies, pollution control, waste management and technologies, environmental support services and sustainable resource management. Listed equities can also provide access to some of these, together with broader sustainability themes, including health and financial services as "social" themes. Access via listed or unlisted options will depend on the usual client considerations, such as timeframes, liquidity, fee budgets, current portfolio diversification and accessibility of the themes.

Asset class	Description
Low-carbon equity	Low-carbon equities, active and passive, are expected to insulate portfolios from stranded asset risk in a low-carbon economic transition, with very-low tracking error versus parent indices. They are focused solely on minimizing policy-related risk, typically by reducing exposure to both high-carbon emitters (for example, utilities) and fossil fuel reserve owners (for example, oil and gas majors).
Fossil-fuel-free equity	Fossil-fuel-free (FFF) equities (defined here as excluding fossil fuel reserve owners), active and passive, are also expected to insulate portfolios from stranded asset risk in a low-carbon economic transition, though this risk-protection benefit is expected to be less-reliable than a low-carbon approach, since an FFF portfolio maintains exposure to high-carbon emitters. Tracking error may also be higher depending on the reweighting mechanisms used.
Sustainable public equity	Sustainable equities, primarily accessible in active strategies, are expected to be well-positioned from a policy point of view but also capture upside from a low-carbon transition through greater exposure to solutions providers.
Sustainable private equity	Sustainable private equity is a mixture of venture, growth and buyout funds focused on investments in companies with significant technology risks and exposure primarily to environmental themes. Funds may be generalist sustainability managers or sector-focused (for example, food and agriculture).
Sustainable infrastructure	Sustainable infrastructure consists of a broad range of projects and solutions, including renewable energy, that would be expected to benefit from clean technological innovation and strong policy action to combat emissions. Similarly, sustainable infrastructure would benefit by avoiding exposure to assets that may become stranded in a low-carbon transition and/or focusing on retrofitting assets to be climate-resilient.
Green bonds	The green bond market is currently dominated by government/supranational issuances, but more corporate issuance is expected going forward. Corporate green bonds will be issued by organizations that have, in general, proactive climate risk management practices overall and thus may be less susceptible to climate-related default risk. However, on balance, fundamental risks like credit quality and interest rates are likely to dominate, making our expectations of green bonds the same as for typical global-investment-grade debt.

Source: Mercer

The table below provides some context on the opportunity set within Mercer's Global Investment Manager Database (GIMD), including the progress on integrating ESG factors and the availability of sustainability-themed strategies. In a number of asset classes, real estate is an example, higher ESG integration can be more "sustainable," but this is not the same as explicitly targeting sustainability themes to drive opportunities. We have labels within GIMD for those explicit strategies, and some guidance on their relative availability compared to mainstream counterparts is summarized below. It is worth highlighting that equities are relative to a very large universe.

Figure 30. Mercer's View on ESG Integration Progress and Availability of Sustainability Strategies by Asset Class

	Manager progress on ESG integration*	Availability of sustainability-themed strategies**
Public equity (active)	Medium/high	Low/medium
Fixed income	Low/medium	Low
Real estate	Medium/high	Low
Private equity and debt	Medium	Low/medium
Infrastructure	High	Medium/high
Natural resources***	Medium	Medium/high
Hedge funds	Low	Low

Note: Low: < 5%; low/medium: 5%–10%; medium: 11%–20%; medium/high: 21%–40%; high: > 40% (as of December 2018).
* Refers to the percent distribution of ESG1- and ESG2-rated strategies in GIMD, where available.
** Refers to the percent distribution of sustainability-themed strategies compared to the asset class universe — noting equities is a large universe, so the low relative number is not actually a low absolute number.
*** Conservative view — research updates in this asset class may result in a more favorable view than is currently held.

Source: Mercer

We are confident there are enough current and new opportunities emerging in sustainability-themed assets globally to increase exposure in portfolios to such assets. "Sustainability Is Gaining Momentum" is one of Mercer's four Themes and Opportunities in 2019 for this very reason. Some examples are highlighted below.

Sustainable Infrastructure

Investment in infrastructure is widely recognized as crucial to promoting economic growth and social stability through the delivery of essential services and assets. As the global population grows and urbanizes, the demand for infrastructure grows with it. The New Climate Economy estimates that from 2015 to 2030, the global requirement for new infrastructure assets will be US$90 trillion, more than the value of the world's existing infrastructure stock.[69] Current infrastructure spending of US$2.5 trillion to US$3.5 trillion per year across both the public and private sectors is only about half the amount needed to meet the estimated US$6 trillion annual infrastructure demand.[70]

To achieve the ambitions of the Paris Agreement and the Sustainable Development Goals, new infrastructure must be sustainable, low-carbon and climate-resilient. Although this could increase upfront capital costs by roughly 5%, sustainable infrastructure can also generate lower operating costs over the life of the investment while also reducing risks and negative externalities and therefore making it more resilient and likely to have a longer life.[71] Since many long-lasting infrastructure assets are being built today, the imperative for incorporating such sustainability considerations into related investment decisions is a current one.

Investor interest in infrastructure is driven by a combination of factors, such as low yields in traditional asset classes, the potential for low correlations to other asset classes, stable cash yield, inflation protection and investment performance throughout the whole economic cycle. Together, these should be positively reinforcing developments. However, many investors still haven't developed a formal approach to sustainable infrastructure.[72]

Low-Carbon Indices

Several significant institutional investors have implemented low-carbon equity index investment strategies, and the general popularity of low-carbon indexing as a climate risk management strategy has grown worldwide. The reasons for the relative success of this strategy are many, though they likely include the following:

- Carbon data, while knowingly flawed in scope and consistency, is nevertheless readily available, widely used and reasonably accurate.
- Low-carbon indices are relatively easy/cost-effective to implement as a replacement for market-cap-weighted index exposures in public equity allocations.
- Low-carbon indices are often designed to minimize tracking error versus market-cap-weighted parent indices, reducing the risk of mismatch and lowering concerns about climate strategy underperformance.

The above factors combine to make low-carbon indices readily implementable in a passive-equity context, with some investors describing the low-carbon tilt as a "free hedge" against climate change transition risk.

Green Bonds

Many of the same factors are at play in the green bond market. Green bonds offer demonstrably similar performance characteristics as standard bonds, with similar credit quality and duration. Indeed, many "environmentally neutral" fixed income investors already own green bonds simply by virtue of their risk/return characteristics. Although it is difficult, given present performance data and the loose linkage between use of proceeds (which determines a bond's "greenness") and issuer credit quality, to demonstrate that green bonds offer investors a "greenium"[73] or provide climate-risk-protection benefits, they do at least offer investors the opportunity to more-readily track their environmental impact in public markets. While outstanding green or climate-aligned bonds remain a relatively small portion of the global bond universe, issuance continues to increase year over year, lessening liquidity concerns, which have surrounded early investments in this space.

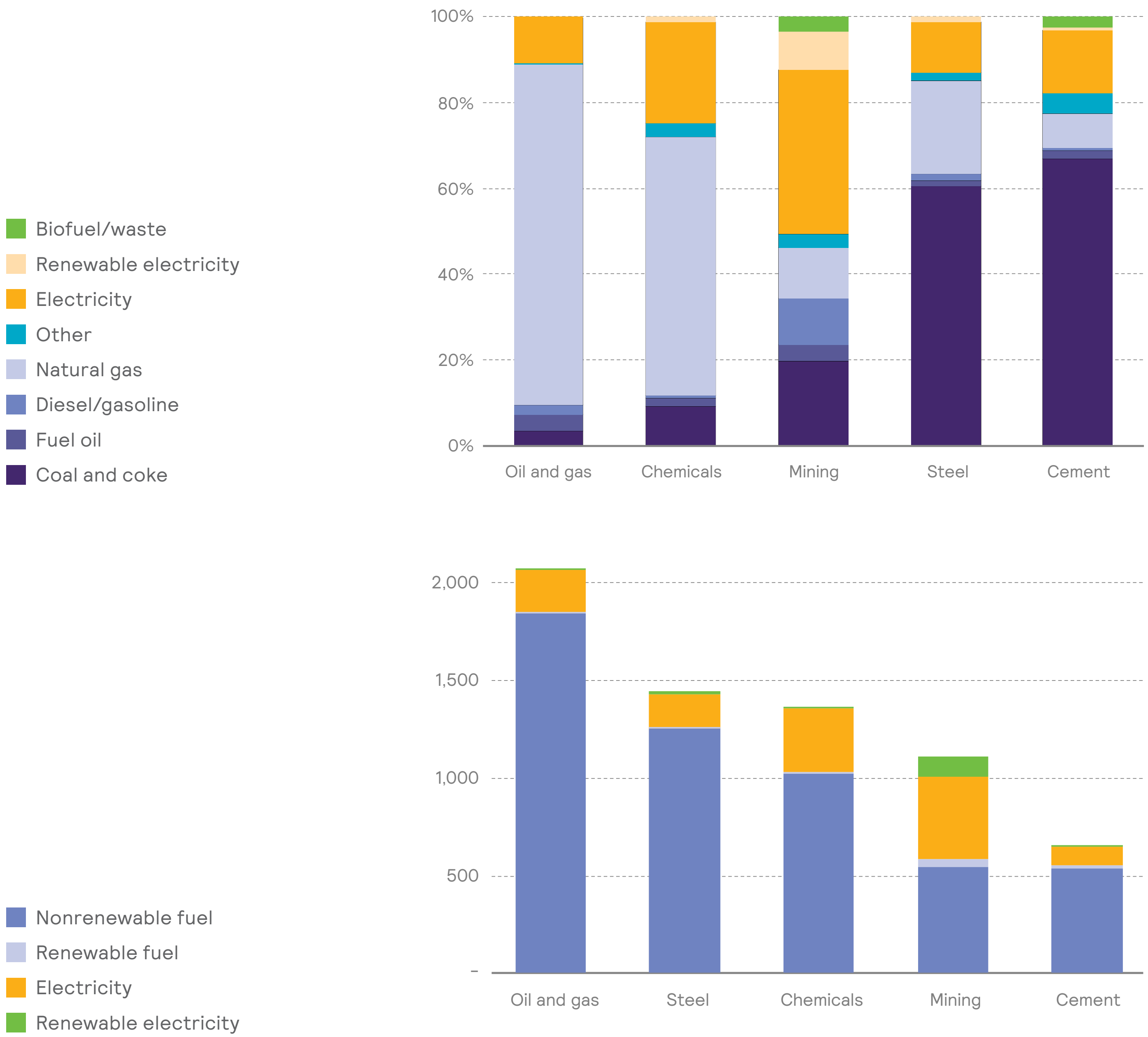
Industry Sectors Feature Focus — Industrials and Renewable Energy

One of the key findings from the 2015 Report and the Sequel is that climate change risks are most significant at an industry and sector level, and asset owners are encouraged to look further than asset-class exposure alone. The 2015 Report highlighted the energy sector. If the well-below 2ºC ambition is going to be achieved, transformative change is required across industry sectors, not just the energy sector. CDP (a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts) was commissioned to consider the current status of renewable energy take-up by heavy users of energy within industrials and where the risks and opportunities lie. This includes analysis on renewable energy production and the utilities sector and the impact of investor engagement on the switch to renewable energy sources.

Uptake of Renewable Energy in Industrials Sectors

Some sectors are currently better-positioned to incorporate renewable energy into their operations than others. In terms of consumption, as shown in Figure 31 on the following page, the mining sector leads the way, performing significantly better than the other subsectors in terms of both absolute and relative share of renewable energy consumption, with 12% of energy consumed coming from renewable sources in 2016. The cement sector follows mining, with 3% of total energy consumption coming from renewables. Chemicals and steel are both positioned third, with renewables comprising just 1% of their total energy consumption. Finally, oil and gas lags at the bottom of the pack, with no material uptake of renewables.

Figure 31. Energy Consumption Breakdown Across Sectors in 2016 (Share and Absolute)



Source: CDP

The following demonstrates where the opportunities lie for future improvements given the significant energy burden for these sectors:

Mining

- Energy expenditure accounts for up to 30% of mining cash costs and up to 75% of operational emissions.
- Operating with the lowest energy intensity offers cost-saving potential, especially against the backdrop of falling ore grades and deeper ore bodies requiring more energy.
- The production of metals such as aluminum is extremely electricity-intensive and therefore, traditionally, metal production sites have been located in close proximity to low-cost hydropower plants (IRENA, 2018).
- Hydro therefore makes up a significant share of the renewable electricity consumed by mining and metals companies.
- Integrating renewable fuels tends to be a more difficult task. Although hydrogen shows promise in some cases, the electrification of traditionally fuel-based equipment, such as haul trucks, may provide a more-cost-effective solution (IEA, 2017).

Cement

- Electricity accounts for around 15% of total energy consumed, depending on plant type, with most of the remaining energy burden coming from thermal energy required to heat the kiln.
- The use of biofuels to heat the kiln therefore presents the most tangible opportunity to increase the uptake of renewable energy in the sector.
- Although this is already being done in many operations, it is limited in scale, and competition for biofuels is likely to present barriers in the future.
- Another opportunity is the use of electric furnaces rather than traditional rotary kilns for the calcination process.
- Although such furnaces are commercially available, they are not manufactured in the dimensions necessary to produce clinker (IEA, 2017).

Steel

- Although the most common form of steel-making uses a basic oxygen furnace that is not electrified, newer plants are increasingly using electric arc furnaces that can be powered by renewables.
- Other opportunities include the electrolysis of iron ore, known as electrowinning, or the use of hydrogen as a reducing agent.
- According to empirical evidence, electrowinning is the most energy- and resource-efficient production route, with 2.6 MWh of energy required per metric ton of crude steel produced, comparative to the current global average of 5.83 MWh/t (Weigel et al, 2016).
- Using hydrogen as a reducing agent, however, is closer to commercialization.

Chemicals

- Ammonia, methanol and high-value chemicals (HVCs) account for almost three-quarters of total final energy use, including feedstocks, in the chemicals and petrochemicals subsector.
- As 95% of the emissions generated from petrochemical production are associated with feedstocks and processes, the scope to reduce emissions through renewable electricity is limited (IEA, 2017).
- Renewables-based electrolysis of water to produce ammonia or methanol is the low-hanging fruit for the chemicals sector in terms of decarbonization potential and cost.
- For high-value chemicals, cellulosic ethanol conversion, based on forestry and agriculture sector residues, provides some promise.
- The deployment of biomass-based methods for producing HVCs may, however, be limited by competition for biofuels.

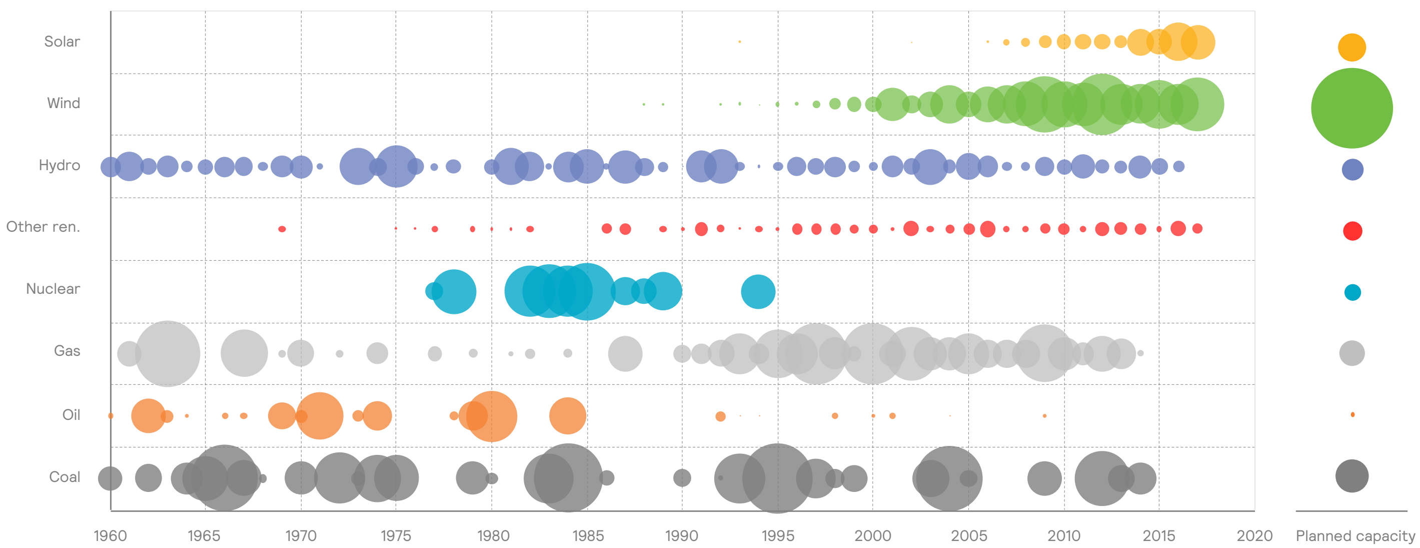
Source: CDP

However, such opportunities to decarbonize do not come without upfront investment and therefore cost. A recent report from McKinsey estimates sector costs out to 2050 and highlights steps that both companies and policymakers can take, noting that "advance planning and timely action could drive technological maturation, lower the cost of industrial decarbonization and ensure the industry energy transition advances in parallel with required changes in energy supply."[74]

Production of Renewable Energy Across Utilities

In 2016, renewable electricity generation grew by 6% globally and represented around 24% of global power output. The largest share of renewable power came from hydro, which accounted for around 70%, followed by wind (16%), bioenergy (9%) and solar photovoltaic (PV) (5%).[75] Solar overtook wind for the first time in terms of capacity additions, with almost 50% higher growth than 2015. This was largely driven by China, which doubled its capacity relative to 2015. Onshore wind capacity, however, represented a 15% reduction since 2015. Hydropower additions are estimated to have decreased for the third consecutive year since 2013, with fewer projects becoming operational in China. According to the International Energy Agency (IEA)'s 2ºC Scenario, by 2060, the decarbonization of the power sector will largely be driven by variable renewable energy, led by wind, which will account for 20% of electricity generation, followed by solar, which will account for 17%.[76]

Figure 32. Energy Capacity Additions Per Technology (1960 to Beyond 2020)*



* Size of bubble represents capacity of plant.
Source: CDP Using Bloomberg New Energy Finance (BNEF) data

Renewable take-up still has strong potential to grow from here, with planned renewable capacity additions continuing to accelerate beyond 2020. This acceleration is led by wind, which accounts for 62% of total future additions.

Investor Engagement on Renewables
We expect global investors to play a significant role in engaging with both companies and policymakers to monitor whether industrials are on track for the transition to the low-carbon economy. Collaborative investor efforts, such as the Transition Pathway Initiative (TPI), an asset-owner-led initiative, are already highlighting trends across industrials, with recent reports focused on the cement and steel producers. Similar to the CDP analysis, the TPI found that there is clear room for transition across the steel industry, with only very few (five out of 22) companies having a long-term, quantified target to reduce their greenhouse gas emissions.[77]

Increasing renewables take-up in heavy industries is an important part of the climate change response but will also likely require a portfolio of measures, including increasing asset recycling (for steel), alternative materials, CCS and better energy efficiency, as per a recent report on the cement sector from the Energy Transition Commission and Chatham House.[78]

See the following section for a more comprehensive outline on investor action, including engagement.

What Actions Can Investors Take?

The portfolio impact findings strengthen the argument for investor action on climate change. The recommended investor actions from the 2015 Report remain valid, and incorporating climate change considerations within investment program governance and in portfolios via ESG integration, stewardship and allocations to sustainability themes is consistent with the 2017 TCFD recommendations. Investor case studies, which reinforce how scenario analysis helps to prioritize the portfolio risks for some and opportunities for others, also demonstrate the pace of change by peers.

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Consistent with Mercer's thinking on the best way to incorporate ESG and climate change considerations into the investment process, we continue to recommend an integrated approach when setting investment beliefs, policy and process, and constructing and managing portfolios.

Mercer encourages investors to bring climate change into their governance by introducing statements about climate change risk and opportunity in investment belief documentation and policy statements. This enables climate risks and opportunities to be included alongside other investment considerations and for processes and portfolios to evolve over time — grounded in agreed-upon beliefs and policies. This governance framework should consider the four key implementation strategies — integration, stewardship, investment and screening.

1	2	3	4
Belief	Policy	Process	Portfolio

Source: Mercer

Integration

Include ESG factors in investment decisions, with an explicit approach to climate change transition and physical risks, which are portfolio-wide.

AIM:
Financial objectives
+ risk management improvement

Stewardship

Exercise active ownership/stewardship through voting and engagement with underlying companies and by engaging with policymakers.

AIM:
Financial objectives
+ financial system improvement

Investment

Allocate to sustainability themes or impact investments for new opportunities — for example, renewable energy, water and social housing.

AIM:
Financial objectives
+ positive social and environmental impact

Screening

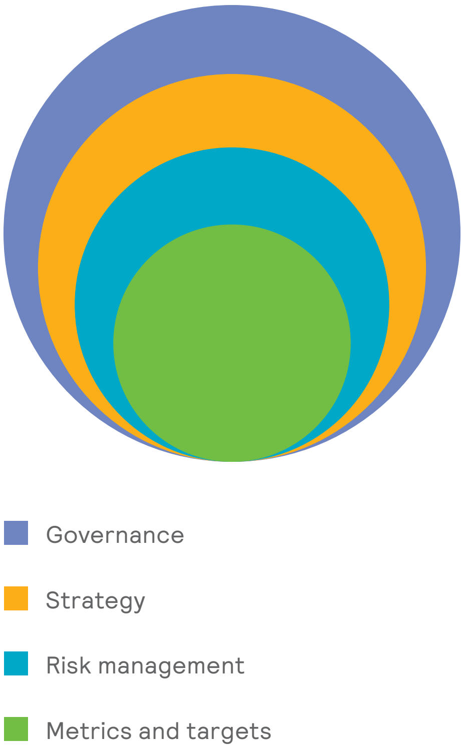
Screen out sectors or companies deemed to be irresponsible or not acceptable to profit from.

AIM:
Alignment with values/reputation/risk management or longer-term financial expectations

Source: Mercer

Scenario analysis can be incorporated as part of the investment process in strategy-setting, informing subsequent portfolio construction and implementation. It highlights where the largest risks and opportunities exist, allowing investors to take appropriate actions (in line with individual portfolio risk and return objectives).

Mercer's recommended approach is aligned with the 2017 asset-owner recommendations from the TCFD.[79]



Source: TCFD, available at http://www.fsb-tcfd.org.

TCFD Recommendations for Asset Owners

Governance: Ensure board and management teams are both educated and engaged on climate change and that agreed-upon beliefs are confirmed in policy documentation and integrated within investment processes.

Strategy: Include climate scenario analysis in portfolio strategy-setting processes (consistent with Mercer's approach set out in this report).

Risk management: Informed by the scenario analysis findings, take action to reduce risk and allocate to opportunities in the low-carbon transition area; for example, altering the allocation to different asset classes and/or the exposures within asset classes. Review and improve the ESG integration and stewardship approach of appointed managers, and increase direct company and regulatory engagement activities as an asset owner.

Metrics and targets: Complement top-down portfolio analysis with bottom-up analysis of underlying companies and assets using metrics such as carbon-emissions intensity (carbon footprinting), forward-looking strategy metrics and green-versus-brown revenue flows.

The Actions Table from the 2015 Report remains relevant today and is consistent with the TCFD framework, noting that specific portfolio considerations and priorities will vary. The Mercer actions to date and the investor case studies in the following supplement give examples and reinforce how scenario analysis helps to both prioritize portfolio risks and opportunities and demonstrate the pace of change.

A separate *Scenario Signposts Reference Guide* has also been created for clients to help investors monitor developments on a regular basis, including suggested considerations and a list of sources to reference. Scenario analysis and stress testing enable investors to incorporate climate-related considerations into the strategy-setting process, which is typically undertaken every three years. In the interim, investors will benefit from monitoring the latest scenario signals on the pace of the low-carbon transition and developments in physical damage impacts.

Where to From Here? Calling all Future Makers

As evidenced by the long-term impact of our 4°C scenario, this would be a very costly pathway for the world to follow. We have also highlighted that these assumptions likely underestimate the potential economic (not to mention social) consequences of high levels of warming. On the other hand, a 2°C (or lower) pathway provides the opportunity to drive economic innovation and protect long-term GDP and investment returns, with associated social benefits. Fiduciaries — motivated by the economic and social interest of their beneficiaries and clients — have the opportunity, and arguably the obligation, to use their portfolios and their influence to help guide us toward this more economically secure outcome.

Since the 2015 Report, there has been a meaningful shift in investor action on climate change, often fueled by a heightened understanding of what a 2ºC —or warmer — scenario could mean for investors over both the short and long term:

- More than 50 investor initiatives have now been established seeking to compel and support investor activity on climate change — whether focused on integration, stewardship, sustainability-themed investment or screening/divestment.[80]
- Mercer is increasingly helping to place billions rather than millions in sustainability-themed assets (through searches for advisory clients and our own delegated solutions).[81]
- There is a regular stream of announcements about investors launching new climate strategies, allocating to low-carbon or low-impact investments, avoiding coal and other high-carbon investments, and ramping up climate-related engagement activities.[82]
- Leadership on climate change is most often displayed by the largest investors, although there is momentum among midsize asset owners, too. For example, Mercer's *2017 European Asset Allocation Survey* found that only 5% of investors had considered climate change as part of their asset-allocation process, whereas this rose to 17% in 2018.[83]

A key characteristic of investor action on climate change is the critical role that collaboration plays, and Mercer has been a global leader in this practice over the past eight years. Since 2015, we have convened an informal network of asset owners that have undertaken Mercer's climate-scenario analysis — the Future Makers Working Group.

Future Makers, a term coined in the 2015 Report, seek to influence a 2ºC-scenario outcome consistent with the best interests of their portfolios over the long term. Future Makers believe that they, individually and collectively, can and should influence the future. Future Makers thus advocate for 2ºC-aligned business plans from companies exposed to transition risk (for example, via the Climate Action 100+[84]) and press governments to take urgent action in implementing the Paris Agreement (for example, via the 2018 Global Investor Statement to Governments on Climate Change[85]), including a "ratcheting-up" of climate commitments.

We have included a number of case studies in the following supplement, which illustrate some of the actions these investors have taken, clearly demonstrating the changes that are underway and the variety of approaches that exist to identify, manage and monitor climate change risk. We expect to see a growing number of Future Makers articulating this belief and acting accordingly, and we look forward to the opportunity to support them as they do so.

Supplement 1: Investor Case Studies

A common experience across the clients we have worked with has been the importance of improving climate-related governance and the critical role scenario analysis has played in supporting this. In the case studies below, written by each organization, the focus is primarily on portfolio-risk-management actions or allocations to new opportunities, supported in some way by the scenario analysis, not an exhaustive list of all activities each organization has undertaken.

Europe

Environment Agency Pension Fund

UK — Pension Assets — > US$4.8 billion

The Environment Agency Pension Fund has been considering the investment implications of climate change for more than a decade. In October 2015, we committed to ensuring that the Fund's investment portfolio and processes are compatible with keeping the global mean surface temperature increase to below 2°C relative to preindustrial levels. Our current approach is set out in the Fund's comprehensive Policy to Address the Impacts of Climate Change, which was updated in October 2017.

We focus on three important goals: invest, decarbonize and engage. Climate change scenario analysis has supported the Fund's investment strategy decision-making, and we aim by 2020 to invest 15% of the Fund in low-carbon, energy-efficient and other climate-mitigation activities, supporting our wider aim to invest at least 25% of the Fund in clean technology and other sustainable opportunities and funds across all asset classes. We trust this will make our portfolio more climate resilient.

We actively collaborate with other asset owners, investment managers, companies, academia and policy makers, recognizing the importance of active stewardship in tackling systemic risk. Priorities include the Transition Pathway Initiative (TPI), which we cofounded with the National Investing Bodies of the Church of England and the Grantham Research Institute at the London School of Economics, as well as our partnership with nine other UK local government pension schemes as part of the Brunel Pension Partnership.

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Europe

The Crop Trust

Europe — Endowment Assets — > US$280 million

The Crop Trust's mission is to ensure the conservation and availability of crop diversity for food security worldwide. We do this by supporting genebanks using income generated by our endowment fund. Clearly, climate change threatens crop diversity — it affects the habitats of some important plants related to our food crops, and extreme weather can affect the way genebanks operate. But it also has financial implications for our endowment assets and therefore our ability to fund future projects.

The Crop Trust's endowment fund is therefore aligned with our belief in the importance of both climate change adaptation and mitigation. We ensure high levels of ESG integration across the portfolio, but our main climate-related focus has been on making sustainability-themed investments in both public equities and private markets, across private equity and infrastructure in particular. Climate scenario modeling has helped support the investment decisions we've made and will continue to help ensure the sustainability and resilience of our endowment fund, maximizing our ability to deliver on our mission now and in the future.

The Church of England National Investing Bodies

Europe — Endowment and Pension Fund Investments — US$16.5 billion

The Church of England National Investing Bodies adopted a comprehensive new policy on climate change in 2015. We no longer invest directly in companies deriving more than 10% of their revenues from the extraction of thermal coal or the production of oil from oil sands and have built up a portfolio of low-carbon assets in excess of US$390 million. These include sustainably certified forestry, thematic listed equities and private markets funds, and renewable energy infrastructure. The three bodies have played a leading role in global investor engagement on climate-related disclosure, seeing shareholder resolutions we co-filed at BP, Shell, ExxonMobil, Anglo American, Glencore and Rio Tinto all pass in the 2015–2017 AGM seasons. Looking ahead, we are focused on promoting climate governance, disclosure and well-below-two-degrees alignment through the US$32 trillion engagement initiative, Climate Action 100+. We will track companies' progress through the Transition Pathway Initiative, which we cofounded alongside the Environment Agency Pension Fund and the Grantham Research Institute at the London School of Economics.

North America

OPTrust

Canada — Pension Fund — > US$15 billion

Climate change is one of the most significant risks we face today. Its effects are complex and wide-ranging and will play out over decades. OPTrust has long recognized that bold steps and new ways of thinking are required to help investors understand the impacts that climate change presents. The pension fund looks at its investments from both a top-down and bottom-up perspective to evaluate its exposure to the risks and opportunities related to the transition to a low-carbon economy. A critical part of OPTrust's investment mandate is to focus on exploring and developing climate change scenarios integrated with its risk-based portfolio construction framework and analyze the impact on the total fund portfolio. The innovative research we undertook on climate change has furthered our industry's understanding of the need for investors to better manage the risks that climate change presents, encouraging increased carbon disclosure from portfolio companies. Evaluating the resilience of OPTrust's total portfolio to four potential climate change scenarios led to our Climate Change Action Plan.

Pacific

QIC

Australia — Pension and Savings Assets — > US$63 billion

We first began reviewing climate change considerations in 2015, and this highlighted the exposure of real asset portfolios in particular to the physical impacts of climate change. Since this time, we've come to recognize that building resilience means understanding potential impacts that could result in a loss of service as well as physical damage to an asset. We've taken a bottom-up approach that started with a high-level climate risk assessment of all assets in Australia that QIC invests in. Through the use of scenario analysis, this facilitated an informed prioritization of projected exposure to natural hazard and physical climate risk. Given the physical impacts of climate risk are highly location-specific, a second phase of work is underway to develop a process to produce detailed quantification of physical climate impacts and adaptation measures that can be applied across our real asset portfolios.

Pacific

The Guardians of New Zealand Super Fund

New Zealand — Pension Assets — > US$27 billion

NZ Super's journey toward a climate change strategy has been a 10-year process, with the first climate change scenario analysis undertaken in 2015. As a result of the scenario analysis, the Guardians have implemented a four-part strategy of carbon reduction, analysis, engagement and searching for new investment opportunities.

The strategy applies across the Fund's entire portfolio. The strategy includes a Guardians-Board-approved commitment to significantly reduce the Fund's exposure to both fossil fuel reserves (40%) and carbon emissions (20%) by 2020. This will be achieved through ongoing engagement with companies, building carbon measures into the Guardians' investment model, targeted divestment of high-risk companies and reduction of other relevant portfolio exposures.

Specific initiatives include:

- Shift to low-carbon benchmark (reference portfolio)
- Active program working with unlisted private market holdings on climate change risk management
- Publishing carbon footprint and setting targets — The US$9.6 billion global passive equity portfolio, 40% of the overall Fund, is now low-carbon. The total Fund's carbon emissions intensity is 19.6% lower, and its exposure to carbon reserves is 21.5% lower than if the changes hadn't been made (June 2018) and goes a long way toward meeting the 2020 target. The Guardians will publicly report on the Fund's carbon footprint annually.
- Engagement and voting program
- Future search for other climate solutions

VicSuper

Australia — Pension Assets — > US$14 billion

VicSuper has, for a number of years, viewed climate change as one of the single-greatest priorities facing our global community. More than 15 years ago, we helped found the Investor Group on Climate Change. Subsequently, we were one of the first super funds in Australia to measure the greenhouse gas emissions intensity of our equities investments and invest in a "Carbon Aware" mandate. Undertaking stress testing of our portfolio in 2017 against a range of climate change scenarios enabled us to take the next step in managing the financial risk due to climate change. Based on the analysis, VicSuper has developed a new Climate Change and Investments Strategy. This has been the foundation for a number of actions taken to support the transition to a low-carbon economy, including:

- A significant update of our responsible investment and climate change beliefs
- Greater engagement with investment managers on climate change
- Producing our first climate change report in line with the TCFD recommendations
- Investing US$700 million in an international equity customized carbon strategy that aims to deliver a 70% reduction in greenhouse gas emissions intensity against its benchmark
- Making additional new investments in renewable energy

The transformative economic transition required to achieve 2ºC and, ideally, 1.5ºC cannot be underestimated. However, the associated physical damages expected under even 0.5ºC of additional warming is a clear motivation for that transformation.

Appendix 1:
Sample Asset Allocations

The two asset allocations used to illustrate the results section are documented below.

Figure 33. Sample Portfolio Asset Allocations

Asset category	Growth portfolio weight %	Sustainable growth portfolio weight %
Developed market equity	17.5	7.5
Emerging market equity	10.0	10.0
Low-volatility equity	7.5	7.5
Small-cap equity	2.5	2.5
Sustainable equity		10.0
Private equity	5.0	4.0
Sustainable private equity		1.0
Real estate	10.0	10.0
Infrastructure	5.0	4.0
Sustainable infrastructure		1.0
Timberland	2.5	2.5
Agriculture	2.5	2.5
Hedge funds	5.0	5.0
Private debt	5.0	5.0
Developed market debt (sovereign)	10.0	10.0
Emerging market debt (sovereign)	2.5	2.5
Multi-asset credit	10.0	10.0
Investment-grade credit	5.0	5.0
Total	**100.0%**	**100.0%**

Source: Mercer

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Appendix 2: Methodology

Climate Models and Scenarios

The 2015 Report includes further explanation on the various integrated assessment models (IAMs) that calculate the environmental impacts of climate change and the associated economic damages. These provide a foundation for our assessment of the investment impacts.

There are different models focused on transition risk or physical risk, and they each have different levels of granularity and methodologies. There are shortfalls in the models that generate criticisms, as outlined in the Cautionary Note included earlier; however, they remain the most concrete foundation we have to provide detailed quantitative impact estimates.

The Sequel — Model Inputs

For the 2015 Report, we used the WITCH model, which remains a well-respected model, together with the IEA 2°C Scenario metrics. However, for the Sequel, we have worked with Cambridge Econometrics and their E3ME model. This analyzes the impact of energy-environment-economy policies and was originally developed through the European Commission's research framework programs 20 years ago, with various updates and developments since. E3ME is a macroeconomic model that is linked to a climate model called GENIE, an IAM.[86]

E3ME is recognized globally as one of the leading models for comprehensive economic modeling of policy and technology scenarios. Cambridge Econometrics was recommended by other respected industry colleagues who had worked with them directly or were familiar with their work; for example, New Climate Economy and World Resources Institute. They were also, importantly, able to work with us to deliver very granular data in the format we required for our modeling approach.

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Appendix 1: Climate Models — pages 83–90

"Quantitative projections of climate change impacts depend upon the use of highly aggregated, large-scale integrated assessment models (IAMs). IAMs are integrated in the sense that they use climate science and economic data together. IAMs are diverse in structure but can be described as stylized representations of the relevant interactions of natural and human systems. These models take a set of input assumptions (for example, population growth, baseline GDP growth, technological change) and produce long-term projections of various outputs (for example, mitigation costs, physical damages)."

(page 83)

The Key Strengths of the E3ME Model

The key strengths of E3ME for modeling investment scenarios include:

- Complete representation of the economy, energy systems and the environment, and the interlinkages between each of these components
- Quantification of GDP, gross value added (GVA) and interest-rate impacts, among other factors (the raw data was received for each risk factor under each scenario for multiple economic variables at annual time steps to 2100)
- A high level of granularity, including coverage of 59 nation-states/regions and up to 70 distinct economic sectors as well as annual results
- Explicit representation of the drivers of technology take-up and the interactions between energy policy and technology
- Integrated fossil fuel supply curves to model stranded fossil fuel reserves
- Econometric rather than optimization methodology, aiming to capture behavioral factors on an empirical basis and not assume optimal behavior, as per traditional economic theory

E3ME contains information for 59 countries/regions and 70 industry sectors. We distilled these into 16 major investment countries/regions and 20 major industry (sub)sectors, as follows:

16 Regions/Countries

Global (GDP weighted)
MSCI ACWI
MSCI World
MSCI EM
MSCI Europe
MSCI AC Asia Pacific
MSCI North America
US
UK
Canada
Australia
China
India
Netherlands
Sweden
Japan

20 Industry (Sub)Sectors

Energy
Oil and gas
Coal
Utilities
Renewables utilities
Electric utilities
Gas utilities
Multi-utilities
Water utilities
Materials
Forestry and logging
Industrials
Consumer discretionary
Consumer staples
Crops and animals
Health
Financials
IT
Telecoms
Real estate

Data from E3ME was provided for five major economic variables across each of these regions and sectors, at annual time steps for 82 years, for three scenarios and a base case with detail for each of the four identified risk factors. Altogether, Cambridge Econometrics provided us with more than two million individual economic data points.

Cambridge Econometrics was able to adapt its transition model to "feed in" the physical damages inputs so that we received a single data feed across risk factors without having to match the results of two disparate models.

For physical damages in the 2015 Report, we primarily relied upon the FUND model, with some additional literature to support adjustments for missing perils. The FUND model is unique among IAMs, as it models damages as functions of physical processes, it produces sector-specific damage functions and it also offers a broader assessment of "socially contingent" and nonmarket damages than most other models. These are all very useful characteristics to inform sector- and asset-class-specific physical impact assumptions.

However, FUND, like all IAMs, has some gaps in its damage estimation, and its agricultural damage function in particular has been subject to meaningful scrutiny and debate. After conducting a detailed review of FUND in consultation with Cambridge Econometrics, we ultimately determined not to use this model for the Sequel due to concerns regarding the robustness of some FUND damage functions, not just agriculture.

As an alternative, we decided to develop our own "Mercer damage function." To do this, we first conducted a survey of available literature on physical damage functions for specific climate-affected catastrophe perils/natural resources and selected best-in-class research to inform the calculation of key physical damages. These peril/resource-specific damage functions were then combined to create an ensemble damage function for modeling purposes. The catastrophe perils and natural resources ultimately addressed by this "bottom-up" approach are:

- Agriculture damage function[87] (wheat, maize, soy, rice)
- Coastal flood damage function[88]
- Wildfire damage function[89]

Although these are generally considered some of the most impactful/impacted catastrophic perils/natural resources, we were not able to readily identify damage functions with sufficient global scope and regional granularity for other catastrophic perils/natural resource types. This approach to damage function development has benefits (more-robust estimation of the distribution and magnitude of specific damages) and drawbacks (an incomplete picture).

The three papers referenced above provide economic damages globally, but we still needed to determine how best to split out damages by regions and industry sectors. For catastrophic perils — coastal flood and wildfire — Mercer first split the losses regionally based on historical loss patterns for each peril. To determine the sectoral distribution, we first needed to determine the split between insurance and other sectors, based on historical insured loss for the peril type by region and the size of the insurance sector by region. Net uninsured damages were then split by the capital intensity of industry sectors other than insurance. We did not model "demand surge" and/or any adaption measures that could lead to growth or enhanced protection in some markets (for example, flood defense).

For agriculture, the effects of the sourced damage functions for wheat, maize, rice and soy are treated via E3ME's Input/Output model. The change in crop production is modeled as a change (usually a reduction) in output, which leads to increased prices, since demand does not change. Although the price increases do offset some of the output losses felt in agricultural sectors, overall related output decreases. The effect of these price changes is felt on consumer spending (a larger share of household income is spent on food versus other consumer goods) and on industry sectors reliant on agriculture as an input.

The results of this bottom-up approach, which knowingly only includes some of the potential impacts from climate change, predicts loss of GDP at 2100 under a 4°C scenario of 17%. Comparing the Mercer damage function to other damage functions from literature reveals some key differences:

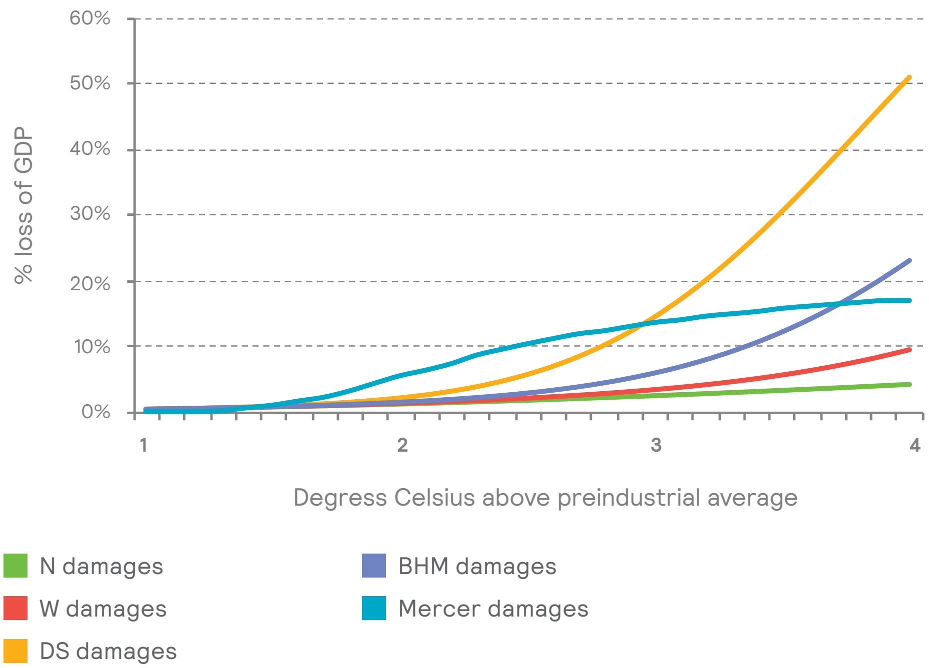
- Covington and Thamotheram (2015) illustrated three potential damage functions, which they labeled as "N damages, W damages and DS damages."[90] N and W produce much lower damages at 4°C than the Mercer function, whereas DS produces a much higher damage ratio. These are top-down, more-theoretical approaches, that also include climate tipping points (for example, melting permafrost and ice, etc.), hence the exponential shape.

- Burke, Hsiang and Miguel (2015) proposed total damages of 23% in relation to GDP per capita.[91] This was in relation to the impact of temperature increases only on productivity and did not include increased physical damages from catastrophes.

- The Mercer damage function produces the highest damage ratio at 2°C of warming. It is linear in shape, primarily reflecting the coastal flood damage study used, which accounts for the majority of the Mercer damages. The coastal flood damage values were selected from an ensemble of 720 different scenarios. The Mercer damage function also does not take account of climate tipping points, which could drive nonlinearity in terms of the severity of coastal flooding or wildfire and/or the incidence and intensity of extreme events. Therefore, we see a more linear relationship between temperature change and damages. We also did not take account of adaption measures that could curtail the scale of damages as temperature increases (see Figure 34 for an illustration of the net effects of these assumptions).

Figure 34. Comparison of Various Climate Change Physical Damage Functions

N damages	W damages	DS damages	BHM damages	Mercer damages
4%	9%	51%	23%	17%



Source: Mercer

Note: Mercer's Climate Risk Analyzer tool has the ability to use other damage functions in place of the Sequel damages, which we believe is best used as part of the stress-test modeling.

The Sequel — Mercer Process

Cambridge Econometrics was able to integrate the physical damage functions into the E3ME transition model to allow for seamless treatment of transition and physical damages within the same modeling framework. They delivered the annual economic impact results for GDP and GVA, which adjusts GDP to more closely align with corporate growth, and inflation into a Mercer-defined template by risk factor and scenario across sectors and regions.

Mercer then:

- Created the data template for Cambridge Econometrics to deliver results across multiple economic indicators by risk factor for asset classes and sectors for the three climate scenarios
- Led on the physical damages research with input from the Cambridge Econometrics team
- Reviewed the results and identified anomalies given the significant number of data points, the physical damages adaptation into E3ME and the Mercer-specified format
- Adopted GDP impacts to represent scenario scripts for each of the three scenarios
- Developed sensitivity factors for each asset class and sector for each of the climate risk factors (with differing sensitivity assumptions for the transition risk factor under the 2°C and the 3°C scenarios)
- Undertook a thorough calibration/reasonableness review between the target return results from the E3ME model and the resulting scenario pathway and risk-factor sensitivity results to understand the results drivers and identify any inconsistencies
- Assigned an economic indicator weighting to different asset classes given our view on the relative investment impact
- Designed an approach specific to fixed income to capture impacts on yields, including treasury rates and credit spreads for different FI categories
- Created the Climate Risk Analyzer tool that takes the final scenario pathways and risk-factor sensitivities and generates the portfolio and asset class impacts on return

2015 Report Reference Guide

Scenarios — pages 33–40

Scenarios Detail — pages 91–100

Even under a 2°C transformation scenario:

"Large-scale adaptation of vulnerable infrastructures — for example, water, energy, and waste management — would be required, and would drastically reduce the risks posed. The human impact of extreme heat events stands to be high even with concerted adaptation with increased heat-related mortality and drought-related water and food shortages causing malnutrition." (page 99)

A 4°C fragmentation scenario:

"Effects would not be distributed evenly ... Increases of 6°C or more in average monthly summer temperatures would be expected in the Mediterranean, North Africa, the Middle East, and parts of the US."

"Agriculture, water resources, human health, biodiversity, and ecosystem services are likely to be severely impacted. This could lead to large-scale displacement of populations and consequences for human security and economic and trade systems." (page 100)

Scenarios

The following table summarizes the key milestones and assumptions for the transition and physical damages in each of the three scenarios modeled in the Sequel — 2°C, 3°C and 4°C. It also compares these to the current situation.

It is also important to remember that if we don't move to a 2°C scenario trajectory quickly, we can't just move over to a 2°C scenario some years down the line and hope we will catch up. A whole new scenario would need to be calculated at that time and would likely require an even-steeper transition and greater reliance on net emissions approaches (afforestation, CSS) to remove prior emissions from the atmosphere.

In October 2018, the IPCC released a new report on 1.5°C, highlighting the difference between that and 2°C to illustrate the additional impact that 0.5°C is expected to have and to reinforce why the Paris Agreement ambition is for "well below" 2°C and how close we are to that window of opportunity closing:

- 1.5°C requires a 45% CO_2 emissions reduction from 2010 levels to 2030 and net zero achieved at 2050.
- 2°C requires a 25% CO_2 emissions reduction from 2010 levels to 2030 and net zero by 2070–2080.

This indicates how much steeper the 1.5°C transition needs to be compared to 2°C and the significant difference when compared to the current Paris Agreement commitments, assuming they are implemented, which result in a 3°C trajectory. The transformative economic transition required to achieve 2°C and, ideally, 1.5°C cannot be underestimated. However, the associated physical damages expected under even 0.5°C of additional warming is a clear motivation for that transformation.

When we next come to update the Mercer model, we look forward to working in an ever-improving context that drives the focus on comparing 1.5°C and 2°C, where 3°C becomes the "worst case" from a climate perspective and 4°C is no longer a consideration. The indicators in the table following should be motivation to make that a reality.

The Sequel Scenarios in Summary

(carbon emissions — $GtCO_2$ — fossil fuel and industrial only)

	Transition milestones and commentary	Physical damage milestones and commentary
Current	• 2017 emissions reached 37 $GtCO_2$.[92] • Fossil fuels are 80% of the energy mix. • 80% of emissions are not covered by carbon pricing. • 59% of 2017 energy supply investment went to fossil fuels. • 3.3 million electric vehicles were on the road in 2017.[93]	• Temperature has increased 1.1ºC relative to preindustrial levels. • CO_2 concentration is over 400 ppm (last occurred three million years ago).[94] • Sea-level rise is at 22 cm.[95] • Half of the Great Barrier Reef has bleached to death since 2016,[96] which has significant biodiversity and flood protection implications.[97]
2ºC	Aggressive* climate action: • Emissions peak in 2020. • Emissions fall to 16 $GtCO_2$ by 2050 (57% decrease versus 2017). • Net-zero emissions are reached by 2080–2100. By 2050 (relative to 2015): • Total energy demand is down by 12%. • Coal is aggressively phased out. • The energy sector is electrified. • Power generation increases by 60% (with 55% of generation from renewables and 8% nuclear). • Oil and gas supply is down by 10% (oil demand down by 33%; gas supply up by 20%). • New vehicle sales are 50% electric vehicles (EV) and 25% liquefied petroleum gas (LPG).	• There is a 50% chance of keeping temperature increase below 2ºC. • By 2050, temperature rises 1.7ºC. Physical damage examples at 2ºC of warming include[98]: • Average sea level rises around 50 cm. • Annual maximum daily temperature is 2.6ºC higher; the number of hot days increases by 25%. • Frequency of rainfall extremes over land increases by 36%. • Average drought length increases by four months. • Suitability of drylands for malaria transmission goes up 27%. • Average crop yields for maize and wheat decrease by 9% and 4%, respectively.

** "Drastic" action would be required to stay below 1.5 ˚C of warming relative to preindustrial levels.*

	Transition milestones and commentary	Physical damage milestones and commentary
3°C	Some climate action but not transformative, and we fail to achieve a 2°C outcome: • Global emissions are essentially flat to 2050 and rise slighter after. • Emissions reach 41 $GtCO_2$ in 2050. By 2050 (relative to 2015): • Total energy demand is up 18%. • Fossil fuels represent 80% of primary energy. • Coal use is down but only by 7%. • Power generation increases by 85% (with 27% of generation from renewables and 3% nuclear). • New vehicle sales are 37% EV and 35% LPG.	• In 2050: Temperature increases by 1.9°C. • By 2100: Temperature increases by 3.2°C. By 2100, example physical damages are largely considered irreversible (permanent loss of arctic sea ice) and include: • Sea levels rise approximately 58 cm on average.[99] • Average drought length increases by four months. • There is 30% less water availability. • Heat waves and forest fires are greater than recent years. • Risk to marine fisheries and negative aggregate impact on agriculture and food production increases chance of famine.
4°C	Business as usual pathway: • Global annual emissions increase by 49% by 2050 relative to 2015. • Emissions reach 91 $GtCO_2$ by 2100. By 2050 (relative to 2015): • Total primary energy is up by 28%. • Fossil fuels represent 84% of primary energy at 2050. • Power generation is 25% renewable (plus 5% nuclear).	• In 2050: Temperature increases by 2.0°C. • By 2100: Temperature increases by 3.9°C (heading higher). By 2100, example physical damages are largely considered irreversible (permanent loss of arctic sea ice) and include: • Sea level rise of approximately 70 cm on average. • There is 50% less water availability. • The strongest Northern Atlantic cyclones increase by 80%. • Heat wave and forest fire risk is very high and compromise normal outdoor activities. • Risk to marine fisheries and ecosystems and medium-to-high risk of decline in fish stocks, plus negative aggregate impact on agriculture and food production, increases chance of famine and reductions in food supplies and employment.

Source: Mercer

Acknowledgements

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Please see the Endnotes for further references made throughout the report.

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Important Notices

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12th June 2019
Report Subject	Pooling Investments in Wales
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The project to pool investments across the eight LGPS funds in Wales continues with the recent focus on the transition of global equity assets, the planned transition of the UK and European equity mandates and continuing work on the fixed income strategy.

The last Joint Governance Committee (JGC) meeting was held on 27th March 2019 and the agenda included the workplan and budget for 2019-20, finalising the Fixed Income sub funds and the development of a Responsible Investment Policy.

The next JGC is being held in Cardiff on June 28th 2019. The agenda has not yet been published but will include the final recommendation for the fixed income sub funds (see agenda item 18) and an update on the Wales Pension Partnership (WPP) Responsible Investment Policy.

The Host Authority met with the Chairs of the 8 Welsh Pension Fund Local Boards on 2nd April 2019 to discuss concerns previously raised by some of the Board Chairs.

The Officer Working Group (OWG) have been in discussions with Russell Investments and bfinance to consider how to implement investing in Alternative assets through the WPP. This work is still ongoing and is on the agenda for the next Officer Working Group to be held on June 6th 2019.

The Clwyd Fund has 25% of assets invested in alternatives so this exercise is very important and will have a major impact on future investments.

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

REPORT DETAILS

1.00	**Pooling Investment in Wales**
1.01	This update report follows a series of previous reports on the progress of the work of the Wales Pension Partnership (WPP). The previous report explained that the Clwyd Fund transitioned 4% of total Fund assets from the current Investec global equity mandate (circa £75m) to the WPP Authorised Contractual Scheme (ACS) on 14th January 2019. The transition manager, Legal & General Investment Management presented a post trade report to the Chairs of the 8 Welsh Pension Fund Committees in a meeting held after the JGC on 27th March 2019. This has been reviewed by Hymans Robertson who have been appointed to oversee the efficiency of the transition. This will highlight the costs of the transition and any impact on investment performance during the transition. The final outcome of that report has yet to be delivered but once known, will be reported to this Committee. At a high level, we know the overall cost of the transition and fees previously paid to Investec and fees to be paid to Russell and Link. As a comparison, the fees which would have been paid to Investec would be £152k per annum higher than those which will be paid in total to Link and Russell based on a valuation of £78.7m. The Clwyd Fund's share of the £9.2m of transition costs for the Global Opportunities Fund was £364k. In purely monetary terms this would mean payback of transition costs in 2 years and 5 months. This does not take into effect any differences in improved (or reduction) of asset returns.
1.02	The most recent JGC was 27th March 2019. The agenda is attached as Appendix 1 and the minutes of that meeting as Appendix 2. The main decision related to the sub fund proposals for the fixed income sub funds. The Clwyd Fund decision as to which sub fund to invest is covered in agenda item 18. The JGC agenda included : • A presentation by Link and the Host authority on progress • Budget 2019-20 (Attached Appendix 3) • Workplan 2019-20 (Attached Appendix 4) • Responsible Investment – Development of Policy • MHCLG consultation on asset pooling (WPP response, attached as Appendix 5) • Presentation on Fixed Income Sub Funds for decision (private) – covered in agenda item 18 There have been several OWGs and weekly calls to ensure the pooling project continues. The next OWG is 6th June and the next JGC is 28th June 2019.
1.03	The Host Authority met with the Chairs of the 8 Welsh Pension Fund Local

	Boards on 2nd April 2019 to discuss concerns previously raised by some of the Board Chairs. The meeting included presentations from officers of the Host Authority and Link Fund Solutions. All attendees confirmed the meeting had been very positive and it was agreed that a formal forum would be arranged on a biannual basis with invitations to each Pension Board Chair (or their nominated representative). This was deemed to be beneficial to the strengthening of the overall governance of the WPP and it was agreed to obtain advice from the WPP legal advisors in relation to incorporating this into the Inter Authority Agreement.
1.04	It was reported to the last Committee that the OWG have been considering whether to recommend to the JGC that the WPP should participate in a Stock Lending programme. In this case all eight funds must agree otherwise separate sub funds would need to be created which is not practical or efficient. The Committee agreed at the February meeting (5 votes for, 2 against) that the Clwyd Fund would participate in the programme. The concerns raised by the Committee during the discussions were also fed back to the OWG at their next meeting. All 8 Pension Funds have now agreed to participate in the programme which has not yet commenced.
1.05	Clwyd Pension Fund officers remain involved in the work of the WPP and the national asset pooling programme. The Deputy Head of Clwyd Pension Fund represents Wales at the national Infrastructure Cross Pool and Responsible Investment Cross Pool meetings and, at the request of the Host Authority, has also represented WPP at national Cross Pooling meetings.
1.06	It was reported to the previous Committee that the MHCLG had issued an informal consultation which set out the requirements for administering authorities in relation to the pooling of LGPS assets. The Clwyd Fund draft response was discussed and changes delegated to the Clwyd Pension Fund Manager. The WPP response was considered by the OWG and agreed by the JGC on 27th March 2019. (Attached at Appendix 5)

2.00	**RESOURCE IMPLICATIONS**
2.01	The costs of the Host Authority and advisors appointed on behalf of the eight funds to assist with the implementation process are being shared equally between the eight WPP LGPS funds and are included in the 2019/20 budget. The estimated Operator costs are also included within that budget.
2.02	There has been considerable time allocated by the Clwyd Pension Fund Manager and Deputy Head of Clwyd Pension Fund on this project which has impacted on time available for other Fund matters. This is expected to

	continue for the foreseeable future and may result in greater reliance on external advisers for other matters than would otherwise be the case.

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

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

5.00	**APPENDICES**
5.01	Appendix 1 – Agenda WPP JGC 27th March 2019 Appendix 2 – Minutes WPP JGC 27th March 2019 Appendix 3 – WPP Budget 2019-20 Appendix 4 – WPP Workplan 2019-20 Appendix 5 – WPP Response to statutory guidance on asset pooling

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	• Earlier Committee reports on the progress of the WPP. • The Wales Pension Partnership Inter-Authority Agreement. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

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

	County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of **(e) Inter-Authority Agreement (IAA) –** the governance agreement between the eight Wales pension funds for purposes of pooling **(f) Wales Pension Partnership (WPP) –** the name agreed by the eight Wales pension funds for the Wales Pool of investments **(g) The Operator –** an entity regulated by the FCA which provides both the infrastructure to enable the pooling of assets and fund management advice. For the Wales Pension Partnership, the appointed Operator is Link (h) **Financial Conduct Authority (FCA)** – the regulator of the financial markets and financial services firms in the UK **(i) Stock – Lending –** is the act of loaning a stock to an investor. This requires the borrower to put up collateral whether cash or security. When a stock is loaned the title and ownership are transferred to the borrower.

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Wales Pension Partnership Joint
Governance Committee,
Democratic Services Unit,
Chief Executive's Department,
Carmarthenshire County Council,
County Hall,
Carmarthen SA31 1JP.

TUESDAY, 19 MARCH 2019

TO: ALL MEMBERS OF THE WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

I HEREBY SUMMON YOU TO ATTEND A MEETING OF THE **WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE** WHICH WILL BE HELD IN THE **CHAMBER, SWANSEA COUNCIL, GUILDHALL, SWANSEA. SA1 4PE. AT 10.00 AM, ON WEDNESDAY, 27TH MARCH, 2019** FOR THE TRANSACTION OF THE BUSINESS OUTLINED ON THE ATTACHED AGENDA

Mark James

CHIEF EXECUTIVE
CARMARTHENSHIRE COUNTY COUNCIL

***PLEASE NOTE**: THIS MEETING WILL BE FILMED FOR LIVE OR SUBSEQUENT BROADCAST. THE IMAGES AND SOUND RECORDING MAY ALSO BE USED FOR TRAINING PURPOSES..*

Democratic Officer:	**Jessica Laimann**
Telephone (direct line):	**01267 224178**
E-Mail:	**JMLaimann@carmarthenshire.gov.uk**
Webcast Link	**https://swansea.public-i.tv/core/portal/home**

WALES PENSION PARTNERSHIP
JOINT GOVERNANCE COMMITTEE
8 MEMBERS
(1 Member from each Constituent Authority)

CARMARTHENSHIRE COUNTY COUNCIL

COUNCILLOR ELWYN WILLIAMS

CITY & COUNTY OF SWANSEA

COUNCILLOR CLIVE LLOYD

CITY OF CARDIFF

COUNCILLOR CHRISTOPHER WEAVER

FLINTSHIRE COUNTY COUNCIL

COUNCILLOR DAVID HUGHES

GWYNEDD COUNTY COUNCIL

COUNCILLOR JOHN PUGHE ROBERTS

POWYS COUNTY COUNCIL

COUNCILLOR PETER LEWIS

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

COUNCILLOR MARK NORRIS

TORFAEN COUNTY BOROUGH COUNCIL

COUNCILLOR GLYN CARON

A G E N D A

1.	**APOLOGIES FOR ABSENCE**	
2.	**DECLARATIONS OF INTEREST**	
3.	**TO SIGN AS A CORRECT RECORD THE MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON THE 25TH SEPTEMBER 2018**	5 - 10
4.	**PRESENTATION BY LINK AND HOST AUTHORITY ON MILESTONES AND PROGRESS UPDATE**	11 - 20
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10.	**EXCLUSION OF THE PUBLIC** THE REPORT RELATING TO THE FOLLOWING ITEM IS NOT FOR PUBLICATION AS IT CONTAINS EXEMPT INFORMATION AS DEFINED IN PARAGRAPH 14 OF PART 4 OF SCHEDULE 12A TO THE LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) (WALES) ORDER 2007. IF, FOLLOWING THE APPLICATION OF THE PUBLIC INTEREST TEST, THE COMMITTEE RESOLVES PURSUANT TO THE ACT TO CONSIDER THIS ITEM IN PRIVATE, THE PUBLIC WILL BE EXCLUDED FROM THE MEETING DURING SUCH CONSIDERATION.	
11.	**PRESENTATION BY LINK / RUSSELL ON FIXED INCOME SUB FUNDS**	95 - 132

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WALES PENSION PARTNERSHIP JOINT GOVERNANCE COMMITTEE

Wednesday, 27 March 2019

PRESENT: Councillor Cllr. M. Norris (Chair)

Councillors:
G. Caron, D. Hughes, P. Lewis, C. Lloyd, J.Pugh Roberts, C. Weaver and D.E. Williams

The following Officers were in attendance:
C. Moore, Joint Committee Section 151 Officer (CCC)
L.R. Jones, Joint Committee Monitoring Officer (CCC)
G. Russell, Head of Pensions (TCC)
B. Davies, Director of Financial Services (RCT)
J. Dong, Chief Treasury & Technical Officer (C&CS)
D. Edwards, Director of Finance (GCC)
C. Lee, Corporate Director of Resources (CoC)
D. Fielder, Pensions Finance Manager (FCC)
C. Hurst, Pension Fund Manager (PCC)
A. Parnell, Treasury & Pension Investments Manager (CCC)
M. Evans Thomas, Principal Democratic Services Officer (CCC)
T. Williams, Senior Financial Services Officer (CCC)
J. Laimann, Assistant Democratic Services Officer (CCC)

Also present:
Denise Jones, Link Fund Solutions
Duncan Lowman, Link Fund Solutions
Sasha Mandich, Russell Investments
William Marshall, Hymans Robertson

Chamber - Swansea Council, Guildhall, Swansea. SA1 4PE. 10.00 - 11.35 am

1. APOLOGIES FOR ABSENCE

There were no apologies for absence.

2. DECLARATIONS OF INTEREST

Councillor	Nature of Personal Interest
G. Caron	Member of Greater Gwent Pension Fund Wife is deferred Member of the Greater Gwent Pension Fund
D. Hughes	Member of the Clwyd Pension Fund;
P. Lewis	Member of the Powys Pension Fund;
C. Lloyd	Member of the City and County of Swansea Pension Fund;
M. Norris	Member of the Rhondda Cynon Taf Pension Fund;
J. Pugh Roberts	Member of the Gwynedd Pension Fund;

E. Williams Member of the Dyfed Pension Fund.

(Note: There is an exemption within the Code of Conduct for Members, which allows a member who has been appointed or nominated by their authority to a relevant body to declare that interest but remain and participate in the meeting).

3. TO SIGN AS A CORRECT RECORD THE MINUTES OF THE MEETING OF THE JOINT COMMITTEE HELD ON THE 25TH SEPTEMBER 2018

With regard to the appointment process for Transition Managers (Minute Item 4 of the Joint Governance Committee meeting on the 25th September 2018 refers), the Committee was advised that a Pension Board Member had referred to this as an example showing that governance arrangements in the JGC could be improved. It was suggested that this matter had been raised by several Pension Boards but was not a governance but a communications issues relating to the evolving nature of relationships with the operator. The Committee was advised that communications was on the agenda at next week's meeting of Pension Board Chairs. Several Section 151 Officers would be attending the meeting.

UNANIMOUSLY RESOLVED that the minutes of the meeting of the Committee held on the 25th September 2018 be signed as a correct record.

4. PRESENTATION BY LINK AND HOST AUTHORITY ON MILESTONES AND PROGRESS UPDATE

The Chair welcomed Denise Jones, Head of Change Management of Link Fund Solutions, to provide a presentation on Key Milestones and progress in respect of the Wales Pension Partnership.

Ms Jones provided the Joint Committee with a list of the provisional dates for the key milestones, progress to-date on Initial Funds (Global Equity), Tranche 2 (UK and European Equities) and Tranche 3 (Fixed Income), and the next steps.

Ms Jones advised that Tranche 1 had been successfully launched in January and post trade reports had been issued. Tranche 2 had received approval and a launch date was currently being agreed. With regard to Tranche 3, a final fund structure proposal would be provided later at the meeting (Item 11 refers). The first monthly reporting pack would be circulated this month. Key next steps were the agreement of fund structures for Tranche 3, the agreement of managers and an agreement on stock lending which was subject to approval from all constituent authorities.

Mr Anthony Parnell provided the Committee with the following update on the host authority's responsibilities:

- Staffing – Tracey Williams had been appointed as the Senior Financial Services Officer in February 2019. Mr. Parnell advised that the second Host Authority Officer role had been budgeted as a provision. It would become clear whether the role was required as the Wales Pension Partnership progressed over the next 12 months.

- Communications – A communications policy had been drafted with Hymans and the website for the Wales Pension Partnership would be functional by early summer. The Officer Working Group continued to liaise on a regular basis.
- Governance – Pension Board Chairs would receive a report on governance at next week's meeting so as to clarify the responsibilities of the JGC, the Officer Working Group, LINK, Russell Investments and the Host Authority.
- Reporting – Reports from LINK were expected soon. Mr. Parnell advised that an agenda item on reporting would be scheduled for the next JGC.

Mr. Parnell further advised that a preliminary meeting had taken place with Wales Audit Office (WAO) regarding the Wales Pension Partnership Audit. WAO would liaise with each of the eight fund auditors and regular meetings would be taking place over the next months. The JGC would receive an update on this in the near future.

A comment was made welcoming plans for a Wales Pension Partnership website and suggesting that this should be completed as soon as possible in order to support communication and transparency.

A query was made regarding trade union involvement in the Wales Pension Partnership and representation on the JGC. It was suggested that this topic should be tabled for a future meeting for a formal consideration and decision by the JGC. A Panel Member suggested that scrutiny and advice functions were taken up by Pension Boards at the level of each individual Pension Fund Committee and their representatives on the JGC, therefore such a role was not required at pool level. It was suggested that involvement and communication with all stakeholders was crucial but had to take place in the appropriate fora.

The Monitoring Officer advised that the Inter-Authority Agreement did not contain provisions for the representation of non-voting or co-opted members on the JGC. If the JGC decided in favour of trade union representation, the Agreement would have to be altered with approval from the eight Constituent Authorities.

UNANIMOUSLY RESOLVED that the presentation from Link and the Host Authority on milestones and progress update be received.

5. BUDGET 2019-20

The JGC considered a report on the Wales Pension Partnership Budget, which provided an update on the current budget position for 2018-19, the revised budgets for 2019-20 and 2020-21, and the budget for 2021-22.

With regard to External Consultants, Mr. Parnell advised that the initial budget had been based on very early estimates of work required. At later stages it had become apparent that further support was needed from external investment and legal consultants. Work undertaken so far had been very robust. While it was expected that the need for legal consultant advice would decrease in the future, it had been agreed that a contract for an investment consultant would be tendered during 2019-20 and the budget had been increased accordingly.

In response to a query, Mr. Parnell advised that support from investment consultants would be required on a regular basis to help manage and monitor the progress of the Wales Pension Partnership. The need for advice from legal consultants was expected to decrease.

A comment was made thanking the Host Authority for its work and the good progress to date in light of the ambitious timetable set by the Government.

In response to a question regarding financial statements, Mr Chris Moore advised that WAO had indicated at a recent meeting that an annual return would be sufficient for this year. He suggested that the annual return would be provided to the JGC and that WAO could be invited to attend the meeting.

UNANIMOUSLY RESOLVED that
5.1. The current budget position for 2018-19 be noted;
5.2. The revised budgets for 2019-20 and 2020-21 be approved;
5.3. The budget for 2021-22 be approved.

6. WORKPLAN 2019-20

The Committee considered the workplan for the Wales Pension Partnership for 2019-20, which detailed key tasks for the forthcoming year in the following areas:
- Governance
- Ongoing establishment
- Operator services
- Communications and reporting
- Training and meetings
- Resources, budget and fees

It also indicated:
- who the activities have been assigned to
- who needs to ratify/sign off the individual tasks
- what contractual obligation it forms part of (if any), and
- the timeline for the task completion

The Committee noted that the workplan was a working document that could be adapted as required as the Wales Pension Partnership progressed.

A comment was made suggesting that there should be an opportunity for the JGC to have an input into the formulation of objectives and beliefs for the Wales Pension Partnership. Mr. Parnell advised that the JGC would have the opportunity to consider the document at its next meeting in June and either ratify it or suggest amendments. A revised version, if required, could be ratified at the JGC meeting in September.

UNANIMOUSLY RESOLVED that the Wales Pension Partnership Workplan for 2019-20 be approved.

7. RESPONSIBLE INVESTMENT - DEVELOPMENT OF POLICY

The JGC welcomed Mr. William Marshall of Hymans, who provided a presentation on the development of a Responsible Investment (RI) Policy. The RI Policy document included an evaluation of the questionnaire responses, draft Responsible Investment policy principles, comparison of voting policies and next steps.

The Committee was advised that, if the principles were approved, a Responsible Investment Policy would be prepared and presented to the next Joint Governance Committee meeting in June for final approval.

The Chair advised that, while each Fund's Committee would have the opportunity to discuss the Policy and suggest amendments, the overall Policy would ultimately be ratified by the JGC.

Several comments were made suggesting that the timeframe for completing the draft Policy by June might be too optimistic, however there was also comments made that delays in developing the Policy could lead to issues with regard to retrospective sub fund developments. It was suggested that the draft RI policy be taken to the OWG meeting in April 2019 and subsequently taken to each constituent authority for consideration. The draft will then be brought back to JGC for approval / review.

A comment was made suggesting that it was important to provide appropriate training to all Committee Members in order to be able to agree achievable targets.

It was suggested that the Policy should consider ethical employment.

UNANIMOUSLY RESOLVED to approve the Principles for the Wales Pension Partnership Responsible Investment Policy.

8. LINK ENGAGEMENT PROTOCOL

The Committee received an Engagement Protocol, developed by Link and the Host Authority, which addressed five main areas of engagement:

- Strategic Relationship Review
- JGC engagement
- OWG engagement
- Annual Shareholder Day
- Individual Pension Fund Committee meetings

A comment was made suggesting that the Engagement Protocol could also provide guidelines regarding reporting, including the form of reports and the frequency at which they are provided to the JGC and individual Pension Fund Committees and Boards. It was suggested that the Officers Working Group could develop a reporting template for the JGC meeting in June.

UNANIMOUSLY RESOLVED that the Engagement Protocol be approved.

9. MINISTRY OF HOUSING, COMMUNITIES AND LOCAL GOVERNMENT (MHCLG) CONSULTATION ON DRAFT STATUTORY GUIDANCE ON ASSET POOLING IN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

The Committee considered the MHCLG consultation on draft statutory guidance on asset pooling in the LGPS, appended with a draft response which had been written on behalf of the Wales Pension Partnership. The Committee was advised that the consultation was closing on the next day (28th March 2019).

The JGC was advised that it would be bound by the statutory guidance once it had been finalised and that responses to the consultation could be provided by each individual Pension Fund Committee as well as the JGC. The draft response had been developed from discussions in the Cross-Pool Collaboration Group. It had been suggested that the draft statutory guidance could be improved in areas such as risk management and responsible investment. Several Pension Fund Committees had already commented on the draft and comments from those who had not yet responded were welcome.

A comment was made welcoming the response, in particular with regard to responsible investment. It was suggested that responsible investment would incur additional costs and this should be reflected in the statutory guidance.

Members welcomed the response's suggestion that the statutory guidance should acknowledge the variety of pool structures, especially since the comparatively lean "off the shelf" structure of the Wales Pension Partnership might be more cost-effective than the model referred to in the draft guidance.

A comment was made suggesting that individual Pension Fund Committees should receive a copy of the final JGC response to issue messages of endorsement before the deadline of the consultation. Mr. Parnell advised that the response would be updated to reflect recent comments and a final draft circulated to the JGC the next morning. He advised that the deadline for consultation responses was at the end of the next day.

UNANIMOUSLY RESOLVED that
9.1. The Pool's response to the MHCLG consultation be approved;
9.2. A copy of the final response be circulated to the JGC by midday on the next day (28th March 2019).

10. EXCLUSION OF THE PUBLIC

UNANIMOUSLY RESOLVED, pursuant to the Local Government Act 1972, as amended by the Local Government (Access to Information)(Variation) (Wales) Order 2007, that the public be excluded from the meeting during consideration of the following item as the report contained exempt information as defined in paragraph 14 of Part 4 of Schedule 12A to the Act.

11. PRESENTATION BY LINK / RUSSELL ON FIXED INCOME SUB FUNDS

The JGC received a presentation from Link/Russell in relation to the following Fixed Income Sub-funds and their Manager Structure:

- Global Credit Fund;
- Global Government Bond Fund;
- Absolute Return Bond Fund;
- Multi-Asset Credit Fund.

Mr Sasha Mandich advised that, following a request from RCT, another Fund would be created for UK Fixed Assets.

UNANIMOUSLY RESOLVED to approve the following Fixed Income sub-funds including the management portfolio structures:
- **Global Credit Fund;**
- **Global Government Bond Fund;**
- **Absolute Return Bond Fund;**
- **Multi-Asset Credit Fund.**

CHAIR **DATE**

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Budget 2018-19 £	Forecast Actual 2018-19 £	Variance 2018-19 £	Notes	**Wales Pension Partnership**	Notes	Budget 2019-20 £	Budget 2020-21 £	Budget 2021-22 £
				Host Authority Budget				
				Financial Services				
10,000	10,000	0		Section 151 officer recharge		10,000	10,000	10,000
25,000	25,000	0		Treasury & PIM - Pay, NI and Super		25,000	25,000	25,000
55,000	43,111	11,889	1	Senior Financial Services Officer - Pay, NI, Super	1 FTE	57,000	59,000	62,000
40,000	0	40,000	2	Assistant Accountant - Pay, NI and Super	1 FTE	19,000	40,000	42,000
5,000	1,058	3,942		Staff Travelling Expenses		5,000	5,000	5,000
1,000	550	450		Subsistence & Meetings Expenses		1,000	1,000	1,000
1,000	0	1,000		Admin, Office & Operational Consumables		1,000	1,000	1,000
30,000	0	30,000	3	Website Development and ongoing cost		33,000	3,000	3,000
10,000	10,000	0		FMIS/Premises/HR Support		10,000	10,000	10,000
5,000	5,000	0		Audit Fees		5,000	5,000	5,000
5,000	1,277	3,723		Translation Services		5,000	5,000	5,000
				Procurement Services				
				Daily Rate @£296				
				Democratic Services				
20,000	20,000	0		Democratic Services Officer		20,000	20,000	20,000
				Legal Services				
10,000	10,000	0		Monitoring Officer recharge		10,000	10,000	10,000
				Daily Rate @£370				
217,000	**125,996**	**91,004**		**TOTAL**		**201,000**	**194,000**	**199,000**
27,125	15,750	11,375		Cost to each fund		25,125	24,250	24,875
				Operator & Other Services Budget				
				Operator Services Fees				
5,000	0	5,000		Manager Selection		5,000	5,000	5,000
32,000	0	32,000		Attendance at Committee Meetings (£4k)		32,000	32,000	32,000

980,000	676,735	303,265	4	AUM Fees (Link, Russell, NT)	4,441,750	7,207,000	7,207,000
				Reporting Fee			
50,000	0	50,000		For JGC	50,000	50,000	50,000
50,000	0	50,000		For Constituent Authorities	50,000	50,000	50,000
		0		**External Consultants**			
80,000	314,390	-234,390	5	Investment & Legal Consultants	120,000	120,000	120,000
1,197,000	**991,126**	**205,874**		**TOTAL**	**4,698,750**	**7,464,000**	**7,464,000**

Notes

1 Post only part filled during 2018-19

2 Vacant Post

3 Website Development carried forward to 2019-20 budget.

4 AUM 18-19 - £3.5bn (Global Equities)
AUM 19-20 - £8.9bn (Above plus UK & European Equities, Other Regional Equities and Fixed Income)
AUM 20-21 - £13bn (Above plus Alternatives)

5 Contract to be tendered during 2019-20.

WALES PENSION PARTNERSHIP WORKPLAN 2019-20

WORK AREA	ACTIVITIES DESCRIPTION	Assigned to	Ratified by / sign off	Contractual obligation	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Mar
Governance	Formulation of objectives and beliefs for Wales Pension Partnership	OWG	JGC					
	Preparation of business plan	Host Authority, OWG	JGC, Administering Authorities	IAA Clause 6.1				
	Development of WPP responsible investment policy	Hymans, OWG	JGC, Administering Authorities					
	Cross reference of voting policies and develop WPP policy	Hymans, OWG	JGC, Administering Authorities					
	Development of WPP policies and procedures: - Training and Competence - Complaints - Breaches and Errors - Conflicts of Interest - Business Continuity Planning - DSAR/FOI - Contract management, co-ordination and liaison with the Operator - Re-balancing policy	OWG, Link	JGC	IAA Clause 20 and Schedule 5				
	Engage with MHCLG over consultation	OWG	JGC					
	Finalise engagement protocols with Operator	Host Authority, Link	JGC					
	Agree and document delegations and decision-making in single source / governance matrix	Host Authority	JGC					
	Measure underlying costs and savings including FX, custody, trading	Host Authority	JGC					
	Explore other opportunities for collaboration e.g. single custodian for non-pool assets	Host Authority	JGC, Administering Authorities					
Ongoing establishment	Launch of Tranche 2 sub-fund - UK and European (ex-UK) equity (currently scheduled for March 19)	Link	Administering Authorities	OA Schedule 4, 1.1				
	Launch of Tranche 3 sub-fund - Fixed Income	Link	Administering Authorities	OA Schedule 4, 1.1				
	Launch of online reporting portal	Link	OWG					
	Development of monthly reporting pack e.g. valuation reports, assets held outwith the pool	OWG, Link	Administering Authorities	OA Schedule 4, 1.7				
	Development of KPI reports (quarterly requirement)	OWG, Link	Host Authority	OA Schedule 4, 1.6				
	Develop plan for tranche 4 onwards (incl fee negotiations)	Link, Russell	JGC	OA Schedule 3, 3				
	Finalise stock lending arrangements with Administering Authorities	OWG	Administering Authorities					
	Appoint transition manager for required transitions and oversee transitions	Link	OWG	OA Schedule 5, 2.5				
	Transition planning and implementation	Transition Manager	OWG, Link					
	Transition oversight following transition exercises including independent audit	Hymans Robertson, Byhiras	OWG					
	Define requirements for illiquid assets and develop other vehicles	OWG	JGC, Administering Authorities	OA Schedule 3, 4				
Operator services	Effective management of sub-contractors e.g. depositary, custodian, Russell	Link	Host Authority	OA Schedule 4, 1.5				
	Provide detailed monitoring and reporting on performance of all underlying Investment Managers and Non-Pool Investment Managers (quarterly requirement)	Link	Host Authority	OA Schedule 5, 2.6				
	Management of ACS and sub-funds	Link	Host Authority	OA Schedule 4, 1.4				
	Agree requirements for cost transparency, and ensure reporting in place	OWG, Link						
	Adherence to WPP policies	Link	Host Authority					
	Annual review of the ACS prospectus	Link	JGC	OA Clause 6				
	Provide monthly reporting pack e.g. valuation reports, assets held outwith the pool	Link	N/A	OA Schedule 4, 1.7				
	Provide KPI reports (quarterly requirement)	Link	Host Authority	OA Schedule 4, 1.6				
	Annual review by WPP as to whether to switch on non-consultative services	OWG	JGC	OA Schedule 6, 1				

WORK AREA	ACTIVITIES DESCRIPTION	Assigned to	Ratified by / sign off	Contractual obligation	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Mar
	Adherence to insurance requirements (to be expanded)	Link, Lockton	Host Authority	OA Clause 16				
Communications and reporting	Creation of a communications plan	Host Authority	JGC					
	Creation / ongoing maintenance of WPP website	Host Authority	JGC					
	Drafting of communications to internal stakeholders e.g. regular bulletins	Host Authority	N/A					
	Drafting of external communications / press releases	Host Authority	JGC					
	Drafting of the bi-annual update to MHCLG	Host Authority	JGC					
Training and meetings	Development of JGC / OWG training plan	Host Authority, OWG	JGC					
	2 - 3 educational training sessions to the JGC / OWG	Link	N/A	OA Schedule 5, 2.7(a)				
	1 educational training session per year with each Constituent Authority	Link	N/A	OA Schedule 5, 2.7(b)				
	Quarterly review and planning meetings	Host Authority, Link	N/A	OA Schedule 5, 2.8(a)				
	Annual meeting with each individual Constituent Authority	Link	N/A	OA Schedule 5, 2.8(b)				
	Meeting(s) with Investment Managers (to be considered)	Link	N/A					
	Scheduling and facilitation of business planning meeting	Host Authority	N/A					
	Scheduling and production of papers for OWG meetings	Host Authority	N/A	IAA Clause 7.1(d)				
	Scheduling and production of papers for JGC meetings	Host Authority	N/A	IAA Clause 7.1(d)				
Resources, budget and fees	Management of Host Authority resources	Host Authority	OWG	IAA Clause 7.1(a) & 7.1(c)				
	Preparation and monitoring of budget	Host Authority	OWG	IAA Clause 6.1(b)				
	Procurement of oversight advisor for the WPP	OWG	JGC					

Local Government Pension Scheme - Statutory guidance on asset pooling

Introduction

The 8 LGPS Administering Authorities of the Wales Pension Partnership (WPP) are pleased to be able to provide this response to the Government's consultation on revised LPGS pooling guidance. The Authorities hope that the Government finds it helpful to receive a single consolidated response from WPP on the key points it has identified from the consultation, which further underlines WPP's effective partnership approach.

We welcome the intention to set out an up to date list of requirements on a statutory basis, to establish common terminology and to clarify the position on questions raised by funds and pools.

Structure and definitions

The Government should ensure that the guidance takes account of the variety of pool operating models, as it currently appears to be largely written for the circumstance where 'pool companies' are wholly owned by the pool members, rather than the 'pool company' being a third party awarded a contract by the 'pool members'. Paragraph 3.2 correctly states that 'pool members' may appoint more than one pool company. The guidance should recognise more clearly that multiple 'pool companies' may be appointed to provide 'pooled vehicles/funds' to the 'pool members' and to provide the investment management of those assets. This could include passive investments through life funds, or infrastructure and other illiquid investments. This is no different to the provision of internal investment management by wholly owned 'pool companies'.

WPP feels that MHCLG needs to reconsider its definition of pooling to ensure consistency and any undue misunderstanding. WPP believes that MHCLG has correctly referenced CIPFA's definition of 'pooled assets' (key sections have been underlined) '*those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a <u>third party out with the individual pension fund's control</u>'.* However this is not consistent with the definition in the draft guidance *'an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a <u>regulated pool company, or an investment held in a pool vehicle</u>'*.

As an example MHCLG is aware that the WPP authorities have let contracts to BlackRock for the management of WPP passive investments, which have saved at least £2m per annum, and for which WPP have been complimented many times by the Minister. We have therefore assumed that the Government would want to treat these savings as a pool saving. The decision on the award of these contracts was made by the WPP and the ongoing management of the contract and investments will be under the pool's governance, not individual authorities, thereby meeting CIPFA's definition, and as such will be reported as a 'pool asset', which should be reflected in the guidance.

Active and passive investments

The WPP authorities are pleased that the guidance continues to reflect that strategic asset allocation remains the responsibility of individual administering authorities. As such the decision to invest in active or passive investments will be determined by each administering authority based on their individual assessment of the suitability of the investments and approach to risk [Regulation 7(2) (b & c)] in their Investment Strategy Statement. The effectiveness of both active and passive investment is already being closely monitored by each authority as part of the ongoing management of their pension fund.

The decision to invest in either active or passive investments is not a pooling issue and therefore paragraph 3.6 should be removed from the guidance.

However, if this section is to remain in the guidance, it is important that any assessment of performance takes into account the level of risk being taken to achieve this performance.

The lack of reference to risk is a notable omission in the draft guidance.

Local Pension Boards

Every administering authority established a local pension board under the provisions of Section 3 of the Public Service Pensions, England and Wales The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015. It is responsible for **assisting the administering authority** and performs an oversight role, to

- Secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme and any other connected scheme, and any requirements imposed by the Pensions Regulator in relation to the Scheme and

- Ensure the effective and efficient governance and administration of the Scheme.

We therefore feel that reference to the Board should be removed from the guidance as it is not related to pooling.

Value for money and holding assets outside of the pool

The WPP funds are disappointed that the original pooling criteria of 'value for money' does not continue to feature in the guidance. The guidance correctly identifies that *'Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers… [and] have legal responsibilities for the prudent and effective stewardship of LGPS funds'*. While the guidance states that *'LGPS benefits are not dependent on their [local pension committees'] stewardship'* critically the cost of those benefits to scheme members are, therefore the value for money of each funds' and pools' investment arrangements remain important and a key part of the discharge of pension committees' fiduciary duty, and should remain a fundamental pooling criteria.

Paragraph 4.4 of the guidance correctly refers to pension committees and pool governance committees taking a long-term view of the costs and benefits of pooling. However in going further and stating that there should be consideration 'of the benefits across the pool and across the scheme as a whole', it sets inappropriate and unworkable expectations. Individual pension committees have a fiduciary responsibility to their own scheme members and cannot make decisions that disadvantage their own fund, even if it would benefit others. There is no mechanism for pools to quantify benefits to the scheme as a whole, and this is an unreasonable basis for pool decision making. The section of paragraph 4.4 quoted above should be removed unless the Government can provide a legal opinion that shows Administering Authorities fiduciary duty must extend external to their pool and the scheme as a whole.

Since the original pooling guidance in 2015 WPP's significant work around pooling has identified that there are net savings that can be achieved though pooling in investment managers fees and costs. This has been reported to the Government and been received positively. The WPP has also reported that is has a programme of work to implement pooling and achieve these savings, which is already well underway.

Nonetheless the work to date has also highlighted that in a number of instances individual authorities have already achieved very competitive fees, and in some instances little to no further saving can be achieved through pooling, which is recognised in the guidance in paragraph 5.4. However, the guidance should acknowledge that despite regular review, the on-going benefits of pooling over the long-term may never outweigh the costs and assets may remain outside of the pool indefinitely. As such the heading for paragraphs 5.4 and 5.5 should have word 'temporary' removed and the definition of a 'retained asset' should be amended to 'an existing investment allocation retained by a pool member'. Further clarification on the retention of assets outside the pool must be included, in particular with regards to direct property investments. Unlike other asset classes, direct property will not 'mature' (as described in paragraph 5.4) and ultimately become available for investment in a subsequent pooled solution. In addition to maximise investment returns and for efficient portfolio management new direct property investment will continue to be made within existing strategic allocations, whilst new allocations will be made within the pool when suitable options are available.

Making new investments outside the pool

We welcome 6.2 investments in local initiatives. The WPP sees these as important potential investment opportunities which are currently being considered.

Reporting

As stated earlier in this response the Government must ensure that this guidance reflects both pooling models where the 'pool company' is a third-party provider or wholly owned by the pool members. As such paragraph 8.8 should either be deleted or clarified that it only applies to wholly owned pool companies. Third-party pool companies will not produce annual reports that are relevant to LGPS investment pooling.

The preceding paragraphs of section 8 are correctly worded. WPP's contract with the operator ensures that it reports to the pool members in line with the SAB Code of Cost Transparency (paragraph 8.7), which will be the basis of the administering authorities annual reports produced in accordance with CIPFA's guidance, which can be collated by the SAB (paragraph 8.6).

Responsible investment

The consultation is notably light on wording in this area. Given the importance of this subject, we believe there is scope for wording on this subject, and the potential implications of pooling, to be added to the guidance.

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CYNGOR Sir y Fflint Flintshire COUNTY COUNCIL

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12th June 2019
Report Subject	Governance Update
Report Author	Clwyd Pensions Manager

EXECUTIVE SUMMARY

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

(a) Business Plan 2018/19 completion and an update on the first quarter of the 2019/20 business plan.
(b) A summary of the key points discussed at the last Local Pension Board meeting
(c) The update from the latest national LGPS Scheme Advisory Board (SAB) meeting
(d) Training implementation and monitoring
(e) The latest changes to our breaches of the law register.

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

REPORT DETAILS

1.00	GOVERNANCE RELATED MATTERS
1.01	**Business Plan 2018/19 Update** Actions against the 2018/19 business plan are now updated as per the February 2019 Committee report and as illustrated in Appendix 1. The recruitment to the Business Support Assistant role relating to the G5 Structure Review of the Finance Team has been progressed and the position re advertised. Suitable applicants will be interviewed in July 2019. Appendix 2 shows progress with this quarter's work in the 2019/20 business plan. The only area which is ongoing this quarter is the review of the pension administration system contract and this is in progress as part of the national framework (which is considered further in the Pension Administration Update report).
1.02	The Committee is asked to note the contents of the business plan update.
1.03	**Current Developments and News** *Pensions Administration Manager Post* As mentioned at the last meeting, the vacant position of Pensions Administration Manager was advertised internally and interviews took place at the end of March 2019. Karen Williams, former Principal Pensions Officer, was successfully appointed and has been in post since 1 April 2019.
1.04	*Pension board update* The Clwyd Pension Fund Board met on 27 February 2019. The minutes from the meeting will be circulated when they are finalised. The key points from the meeting are as follows: • Data Improvement Plan - the recently developed Plan was shared and the Board were provided with an update on progress in relation to the improvements that were being made. The Board were impressed by the level of information and agreed that there were a number of data items that should be given very low priority or even not be cleansed as they had no impact on scheme members or the valuation. The Board asked for this to be a standard item on its agenda so ongoing progress could be monitored. • Project Apple – a progress updated was provided. • Administration Update – the Board were pleased that priority was being given to filling the vacant Pensions Administration Manager role. • Compliments and Complaints – the Board received an update on the latest compliments and complaints and asked for clarity on some of the information provided. • TPR Code of Practice and Action Plan – The Board were pleased to see a separate action plan had been prepared in relation to areas of non-compliance, and asked for this to be shared at each Board meeting so progress could be monitored.

	• Asset Pooling – The Board reiterated its ongoing concerns about the governance of the asset pool. It welcomed the development that a separate meeting was to be held with Pension Board representatives and the Host Authority, Carmarthenshire County Council. It was agreed that the key points that had previously been highlighted still remain areas of concern that could be discussed at that meeting. Note an update on this will be provided by the Chair of the Pension Board at the meeting as part of the asset pooling committee report.
1.05	*National LGPS Scheme Advisory Board (SAB) Update* The LGPS SAB Board met on 8 April 2019. A summary of that meeting, provided by the Secretary to the SAB, is attached in Appendix 3. It should be noted that the Good Governance survey has since been issued by SAB with a closing date of 31 May 2019. The survey requested individual responses, rather than a formally agreed administering authority response. The Clwyd Pension Fund received a request for the survey to be completed and has responded accordingly.
1.06	*Marsh Mclennan (Mercer) / JLT Merger* On 1 April 2019 Marsh & McLennan Companies (MMC), completed the acquisition of Jardine Lloyd Thompson Group (JLT). The JLT Employee Benefits business, whom the Fund's investment consultants are part of, is being integrated into Mercer, who provide the Fund with actuarial, risk and benefits services. While the integration is ongoing and will take some time to fully complete, from a Fund perspective, it remains business as usual with no change to the personnel or service provision from what was historically JLT and Mercer but will operate as a single entity (Mercer) in due course.
  1.07	**Policy and Strategy Implementation and Monitoring** *Training Policy* The Clwyd Pension Fund Training Policy requires all Pension Fund Committee, Pension Board members and Senior Officers to: • have training on the key elements identified in the CIPFA Knowledge and Skills Framework • attend training sessions relevant to forthcoming business and • attend at least one day each year of general awareness training or events. Appendix 4 details progress made to date in relation to the CIPFA Knowledge and Skills Framework training. Appendix 4 also includes training and various external events attended by Committee members during 2018/19. Appendix 5 includes details of planned training events including forthcoming events considered suitable for general awareness training. Training will also be arranged for the new Committee members. Committee members are reminded to highlight, at any point, topics they feel they need further training on.
1.08	*Recording and Reporting Breaches Procedure* The Fund's procedure requires that the Clwyd Pension Fund Manager

	maintains a record of all breaches of the law identified in relation to the management of the Fund. Appendix 6 details the current breaches that have been identified.
1.09	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. No delegated responsibilities were used in the last quarter in relation to governance matters.
1.10	**Calendar of Future Events** Appendix 7 includes a summary of all future events for Committee and Pension Board members, including Pension Fund Committee meetings, Pension Board meetings, Training and Conference dates.

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

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

4.00	**RISK MANAGEMENT**
4.01	Appendix 8 provides the dashboard showing the current risks relating to the Fund as a whole, as well as the extract of governance risks. The biggest governance risk relates to the impact of externally led influence and scheme change which could also restrict our ability to meet our objectives and/or legal responsibilities. This is due to the ongoing uncertainty around the cost cap process, the McCloud judgement and also some concerns around the governance of asset pooling.
4.02	The following are the main changes that have been made to the risk register since it was last shared with the Committee: • Risk number 2 (inappropriate or no decisions are made due to governance being poor, such as poor knowledge and advice) – this has had the likelihood score changed from Low to Significant due to the unexpected change in Committee membership. Training is being put in place to counter this risk. • Risk number 3 (legal fiduciary responsibilities are not met due to decisions being influenced by conflicts of interest) – this has had the likelihood score changed from Very Low to Low due to the unexpected change in Committee membership. This will be managed by training on the Committee's fiduciary responsibility and the Fund's conflicts policy. • Risk number 6 (the Fund's objectives/legal obligations are not met due to insufficient staff numbers) – this has had the impact score

	changed from Critical to Marginal and the likelihood score changed from Very High to Low. This is as a result of the positive progress that has been made in recruitment. It is hoped the risk can be further reduced shortly as the final positions are filled and training progresses.
5.00	**APPENDICES**
5.01	Appendix 1 – Business plan progress 2018/19 Appendix 2 – Business plan progress 2019/20 Appendix 3 – LGPS SAB update Appendix 4 – Training undertaken Appendix 5 – Training plan Appendix 6 – Breaches Appendix 7 – Calendar of future events Appendix 8 – Risk register

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	No relevant background documents. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

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

	authorities and to MHCLG. (g) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation. (h) **JGC – Joint Governance Committee** – the joint committee established for the Wales Pension Partnership asset pooling arrangement.

Business Plan 2018/19 to 2020/21 – Q4 Update
Governance

Cashflows projections for 2018/19

	2016/17 £000s	2017/18 £000s	2018/19 £000s			
	Actual	Actual	Budget	Actual	Projected for full year	Final under/ over
Opening Cash	(13,640)	(13,623)	(21,188)	(21,188)		
Payments						
Pensions	54,684	57,452	59,280	59,447	59,447	167
Lump Sums & Death Grants	14,857	13,500	15,000	14,708	14,708	(292)
Transfers Out	5,473	5,600	3,200	6,791	6,791	3,591
Expenses	3,001	3,935	3,400	4,263	4,263	863
Support Services	300	120	130	265	265	135
Total Payments	78,315	80,607	81,010	85,474	85,474	4,464
Income						
Employer Contributions	(32,787)	(34,617)	(35,200)	(39,554)	(39,554)	(4,354)
Employee Contributions	(13,779)	(15,259)	(14,000)	(14,794)	(14,794)	(794)
Employer Deficit Payments	(28,474)	(52,612)	(18,123)	(18,811)	(18,811)	(688)
Transfers In	(2,540)	(4,813)	(2,000)	(4,220)	(4,220)	(2,220)
Pension Strain	(2,282)	(1,057)	(1,200)	(1,644)	(1,644)	(444)
Income	(146)	(29)	(40)	(45)	(45)	(5)
Total Income	(80,008)	(108,387)	(70,563)	(79,068)	(79,068)	(8,505)
Cashflow Net of Investment Income	(1,693)	(27,780)	10,447	6,406	6,406	(4,041)
Investment Income	(3,019)	(3,540)	(3,000)	(7,990)	(7,990)	(4,990)
Investment Expenses	2,991	3,035	3,000	3,593	3,593	593
Total Net of In House Investments	(1,721)	(28,285)	10,447	2,009	2,009	(8,438)
In House Investments						
Draw downs	45,146	73,893	86,790	91,883	91,883	5,093
Distributions	(56,614)	(52,294)	(80,337)	(58,348)	(58,348)	21,989
Net Expenditure /(Income)	(11,468)	21,599	6,453	33,535	33,535	27,082
Total Net Cash Flow	(13,189)	(6,686)	16,900	35,544	35,544	18,644
Rebalancing Portfolio	13,206	(879)		(20,120)	(20,120)	(20,120)
Total Cash Flow	17	(7,565)	16,900	15,424	15,424	
Closing Cash	(13,623)	(21,188)	(4,288)	(5,764)	(5,764)	

Operating Costs

	2016/17	2017/18	2018/19			
	Actual	Actual	Budget	Actual	Projected for full year	Projected under/ over
	£000s	£000s	£000s	£000s	£000s	£000s
Governance Expenses						
Employee Costs (Direct)	236	229	243	193	193	(50)
Support & Services Costs (Internal Recharges)	22	23	18	23	23	5
IT (Support & Services)	4	5	5	0	0	(5)
Other Supplies & Services)	58	69	87	78	78	(9)
Miscellaneos Income	(11)	0		0	0	0
Audit Fees	39	39	40	39	39	(1)
Actuarial Fees	335	217	324	407	407	83
Consultant Fees	703	458	589	598	598	9
Advisor Fees	188	202	178	480	480	302
Legal Fees	59	37	24	57	57	33
Pooling (Additional Costs)		53	224	85	85	(139)
Total Governance Expenses	1,633	1,332	1,732	1,960	1,960	228
Investment Management Expenses						
Fund Manager Fees*	14,386	20,539	16,593	21,225	21,225	4,632
Custody Fees	31	31	31	31	31	0
Performance Monitoring Fees	57	67	66	60	60	(6)
Pooling (Additional Costs)			50	0	0	(50)
Total Investment Management Expenses	14,474	20,637	16,740	21,316	21,316	4,576
Administration Expenses						
Employee Costs (Direct)	648	649	776	767	767	(9)
Support & Services Costs (Internal Recharges)	100	105	66	113	113	47
Outsourcing	260	227	1,000	394	394	(606)
IT (Support & Services)	290	271	413	364	364	(49)
Member Self Service	0	15	0	0	0	0
Other Supplies & Services)	70	139	106	86	86	(20)
Miscellaneous Income	0	0	0	0	0	0
Total Administration Expenses	1,368	1,406	2,361	1,724	1,724	(637)
Employer Liaison Team						
Employee Costs (Direct)		163	194	215	215	21
Total Costs	**17,475**	**23,538**	**21,027**	**25,215**	**25,215**	**4,188**

Key Tasks

Key:

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

Governance Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
G1	Data protection changes	x					
G2	Review appointment of Pension Fund Committee Representatives and Local Board Members	x				x	x
G3	Review of Governance Related Policies	x	xM	x		x	x
G4	Cybercrime	x	x				
G5	Structure Review of Finance Team	x	x	x			
G6	Review/ Tender Actuarial Contract	x	x	x			
G7	Review/Tender Investment Consultancy and Independent Adviser Contracts			x	x	xM	
G8	Review/Tender Custodian Contract				x	x	

Governance Task Descriptions

G1 – Data Protection Changes

What is it?

The General Data Protection Regulation is an EU regulation which will come into force from 25th May 2018, building on the existing Data Protection Act. This new regulation introduces stricter compliance requirements and much higher fines for non-compliance.

The main areas affecting the LGPS include the need to keep records of processing activities; enhanced privacy notices for members; privacy impact assessments where there is a high risk to the rights and freedoms of individuals; and the need to redraft any service level agreements to take account of new mandatory provisions. Funds must also put in place a data breach handling procedure as the new rules will require reporting of a breach within 72 hours.

Further information is available from the website of the Information Commissioner's Office.

Timescales and Stages

Understand implications and update processes	2018/19 Q1

Resource and Budget Implications

It is expected that all internal costs will be met from the existing budget.

G2 - Review appointment of Pension Fund Committee Representatives and Local Board Members

What is it?

The employer and scheme member representatives on the Local Board are appointed for a period of three years. This period may be extended to up to five years. The currently appointments will be subject to review as follows:

- Two scheme employer representatives – July 2020 (five year point)
- Scheme member representative (trade union) – October 2020 (three year point)
- Scheme member representative (non-trade union) – July 2023 (assumed three year point but appointment still in progress)

The representative members (for other scheme employers and scheme members) on the Pension Fund Committee are appointed for a period of not more than six years. The existing representative members were appointed in July 2014 and may be reappointed for further terms. However their existing appointments will need reviewed by July 2020.

Timescales and Stages

Finalise appointment of new Pension Board scheme member representative (non-trade union)	2018/19 Q1
Review and recruit current Pension Board (2 x employer plus trade union scheme representative)	2019/20 Q4 & 2020/21 Q1/2
Review existing Pension Fund Committee representatives	2019/20 Q4 & 2020/21 Q1/2

Resource and Budget Implications

It is expected this will mainly involve the Pension Fund Manager taking advice from the Independent Adviser. All costs are being met from the existing budget.

G3– Review of Governance Related Policies

What is it?

The CPF has a number of policies focussing on the good governance of the Fund, as follows:

- Conflicts of Interest Policy - March 2015
- Procedure for Recording and Reporting Breaches of the Law - November 2015
- Training Policy – November 2015
- Risk Policy – September 2017
- Governance Policy and Compliance Statement – March 2017

All of these policies are subject to a fundamental review at least every three years. In addition, the reviews will incorporate any changes as a result of the move to asset pooling with the Wales Pensions Partnership.

Timescales and Stages

Conflicts of Interest Policy - March 2015	2018/19 Q1
Procedure for Recording and Reporting Breaches of the Law & Training Policy - November 2015	2018/19 Q3
Governance Policy and Compliance Statement – March 2017	2019/20 Q1
Risk Policy – September 2017	2020/21 Q2/3

Resource and Budget Implications

It is expected this will mainly involve the Pension Fund Manager taking advice from the Independent Adviser. Estimated costs are included in the budget.

G4 – Cybercrime

What is it?

With large volumes of personal and financial data processed within a relatively less sophisticated security environment by comparison to other financial institutions, pension schemes are an increasingly attractive target for cybercriminals. LGPS funds predominantly rely on the processes and security of their parent local authorities due to the IT systems sitting on local authority infrastructure.

Flintshire County Council currently have a programme of work considering the risk of cybercrime. It is planned that the pension team will be part of this work but will then expand it as required to give appropriate assurances on the security of the pension systems, and a better understanding of any ongoing work required to ensure the appropriate level of security remains.

Timescales and Stages

Ongoing work with FCC on council's cybercrime programme	2018/19 Q1 to Q2
Understand and develop any ongoing CPF specific cybercrime requirements	2018/19 Q1 to Q3

Resource and Budget Implications

It is expected this will mainly involve the Pension Administration Manager working with Council staff. No additional budget has been assumed for external parties at this point.

G5 – Structure review of Finance Team

What is it?

As a result of the retirement of a Finance Manager, the impact of asset pooling, the increased work associated with Governance, and the need to reduce the risk associated with key persons within the structure, the Finance Team is being restructured.

Timescales and Stages

Finalise structure and carry out recruitment	2018/19 Q1 to Q3

Resource and Budget Implications

To be led by Pension Fund Manager with FCC Human Resources Team. All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget and these are not yet included in the proposed budget. Additional costs that may arise as a result of greater use of consultants during the period of implementation and whilst posts remain vacant are estimated in the proposed budget.

G6 – Review/Tender Actuarial Contract

What is it?

The Council needs to review its current actuarial contract to ensure it is getting all the services it wants at the appropriate price and at what it considers to be value for money. This review should include Funding Risk Management and Benefit Consultancy Services. Following this review, and discussions with procurement, the Council needs to put the actuarial contract out to tender. Due to the triennial actuarial valuation of the Fund during 2016/17 and the ongoing need to prioritise work around asset pooling, this was deferred.

Timescales and Stages

Review current actuarial contract and identify tender process	2018/19 Q1
Conduct tender for actuarial services	2018/19 Q2/3

Resource and Budget Implications

To be led by Pension Finance Manager. All internal costs are being met from the existing budget.

G7 – Review/Tender Investment Consultancy and Independent Adviser Contracts

What is it?

The Fund's investment consultancy and independent Adviser contracts reached their initial break point on 31 March 2017 albeit, due to Government changes to investment regulations, including pooling, and also the implications of MIFID II, they were extended for 2 years (to 31 March 2019) to provide stability and consistency of approach. For these reasons the contracts will be reviewed during 2018/19. This will initially involve a review of whether the existing services should be retendered in their current format or whether there is a more appropriate consultancy contracts that could be put in place. Note that, as a result of pooling, it may be preferred to look for options to extend these contracts for a further short period, so as to identify the most appropriate services going forward.

Timescales and Stages

Review appropriateness/decide format of future contracts	2018/19 Q3
Conduct tender for services	2018/19 Q4

Resource and Budget Implications

To be led by Pension Finance Manager within existing budget.

G8 – Review/Tender Custodian Contract

What is it?

The Council needs to review its current custodian contract to ensure it is getting all the services it wants at the appropriate price and at what it considers to be value for money. The introduction of asset pooling could also impact on the type and scope of service to be provided by the Fund's custodian. Following this review, and discussions with procurement, the Council will need to put the custodian contract out to tender. Note that, as a result of pooling, it may be preferred to look for options to extend these contracts for a further short period, so as to identify the most appropriate services going forward.

Timescales and Stages

Review current custodian contract and identify tender process	2018/19 Q4
Conduct tender for custodian services	2019/20 Q1

Resource and Budget Implications

To be led by Pension Finance Manager. All internal costs are being met from the existing budget.

Business Plan 2019/20 to 2021/22 – Q1 Update
Governance

Key Tasks

Key:

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

Governance Tasks

Ref	Key Action – Task	2019/20 Period				Later Years	
		Q1	Q2	Q3	Q4	2020/21	2021/22
G2	Review pension administration system contract	x	x	x	x	x	

Governance Task Descriptions

G2 - Review administration system contract
What is it?
The Fund has a rolling one year contract with Aquila Heywood in relation to their Altair administration system. It has not been subject to a full review through tender for a number of years and it would be good practice to carry this out in the near future. However, due to significant projects involving the administration system (e.g. 2016 actuarial valuation, implementing iConnect and scheme/GMP reconciliation) and to tie in with end dates of existing add-on modules within Altair, it was agreed as part of the 2017/18 business plan to defer this until 2019/20. In recent months, a feasibility study has been carried out into whether a national framework can be put in place for LGPS administration systems. CPF has been participating in carrying out this study. It is therefore recommended that CPF participates as a founding authority in the development of the national framework (assuming it

proceeds) and then carries out the CPF tender for the administration system once that framework is in place. It is hoped that this will allow a new contract to be appointed to before the end of 2020/21.

Timescales and Stages

Take part in national framework for pensions administration system and conduct tender for CPF administration system	2019/20 & 2020/21

Resource and Budget Implications

To be led by Pension Administration Manager and Principal Pensions Officer - Technical. Any associated costs or assistance from advisers will be considered nearer the time.

Scheme Advisory Board

This note summarises the meeting of the Scheme Advisory Board on the 8th April 2019. Full details of the meeting and agenda papers can be found at www.lgpsboard.org.

The Chair opened the meeting by welcoming a new member of the Board, Councillor Ian Brookfield, Chair of the West Midlands Pension Fund and executive member of LAPFF.

Pensions Regulator

A presentation was given by Nicola Parish, Director of Front Line Regulation and Pauline Lancum, Head of Casework Management. The main points included –

- tPR's work within the LGPS was about supervision not enforcement
- High risk cohort work has been positive with no need need for any improvement plans or enforcement action. Some concerns about some employers and fund authorities still using paper data inputs and records. Results will be published in June 2019 on an anonymised basis
- Results of last year's Governance and administration survey will be published in May 2019.
- Code of Practice 14 is the first requirement that scheme managers should have regard to but there are other codes and practice notes that also need to be taken on board.

A copy of the slides can be found on the SAB website here http://lgpsboard.org/index.php/about-the-board/prev-meetings

Good Governance Project

The project team at Hymans Robertson updated the Board on progress to date and next steps. Members were advised that Hymans had approached 15 individuals across the scheme to identify relevant issues concerning administration and governance of the scheme as a means to ensure that future stages of the project, including an online questionnaire, are focussed on relevant and topical issues. The UNISON representative expressed concern that none of the options listed in the paper allowed for wholly new bodies, within the local government legal framework, to be recommended. The Board agreed that Option 4 in the paper should be re-drafted to accommodate for this outcome. Otherwise the Board agreed that Hymans can proceed as set out in the paper, a copy of which can be found at http://lgpsboard.org/index.php/about-the-board/prev-meetings.

Scheme Advisory Board Secretariat

Local Government House, Smith Square, London SW1P 3HZ T 020 7187 7344 E Elaine.english@local.gov.uk W www.lgpsboard.org

SAB levy invoices

It was reported that all 2016/17 levy invoices had now been paid. For 2017/18 invoices, the 25 outstanding invoices a month ago had been reduced to 10. The Board agreed that firm action should be taken to ensure that all levy invoices are paid within a reasonable time. There was agreement that in future, long term non-payees should be blacklisted from LGA.SAB events. In the meantime, Duncan Whitfield, Chair of ALATS, agreed to chase the ten scheme managers that had not paid their 2017/18 levy.

Cost Cap

The Board was advised that the Civil Service Pension Scheme's Advisory Board had recently written to their Minister setting out their agreed package to recover the cap breach of 5.4% and asking that the process, despite being paused, should be allowed to proceed as far as is possible. Board members were further advised that similar actions were being taken by the advisory boards of the other public service pension schemes and that it was open to them to agree to do likewise for the LGPS. The Board agreed that a letter in these terms should be drafted by the Secretariat for members to consider and approve. The letter will invite the Minister to open discussions with the Board about any alternative cost management package and seek his agreement that the Board must be part of any future discussions surrounding the remedy package should the McCloud judgement stand.

Cost Transparency - Compliance System

The Board was advised that a technical breach meant that the procurement project had to be cancelled and started afresh.

Responsible Investment Guidance

The Board agreed with the recommendation from the Investment, Governance and Engagement committee ("Investment Committee") that the guidance should be web based rather than published in hard copy. A web based project will allow greater flexibility when updating and will also cater for linking with other related work and projects. The Board also agreed the recommendation from the Investment committee that a paper to be submitted by UNISON based on the report they commissioned from ShareAction on ESG policies, in particular, on climate change risk, should be considered by the Board at a future date.

MHCLG Draft Statutory Guidance on Pooling

The MHCLG representative confirmed to the Board that 93 responses had been received in response to the consultation and that many of these were very detailed and would need very careful consideration.

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Local Pension Board Survey

Board members were advised that a working draft of the new local pension board survey was near to completion. It was agreed that delegated authority should be given to the Chair of the Investment committee to agree the final draft and publication arrangements to ensure that the survey was undertaken outside of the main Summer holiday break.

2019/20 Budget and Workplan

The Board considered a follow-up paper to the one agreed at the January 2019 meeting that set out in more detail the requirements for an ongoing reserve and how it would be used in 2019/20. Board members were advised that sufficient funds would be available to pay for any additional work arising from the Good Governance project over and above the contract price. The Board agreed that the 2019/20 budget and workplan as set out in the revised paper should be sent to MHCLG Ministers for consideration and approval.

Bob Holloway
Pensions Secretary
16 April 2019

Local Government House, Smith Square, London SW1P 3HZ T 020 7187 7344 E Elaine.english@local.gov.uk W www.lgpsboard.org

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

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
Conferences (Restricted spaces)									
PLSA 21-23 May 2018									✓
LGC Investment Summit (1.5 days) Sept 2018	✓	✓		✓					
AON Governance (1 day) July 2018	✓								
AON Investments (1 day) July 2018	✓								✓
LGC Fundamentals Day 1 (Oct 218)									
PIRC Responsible Investing for WPP (1 day Oct 2018)	✓		✓	✓		✓			✓
LGC Fundamentals Day 2 (Nov 2018)						✓	✓		
LGA Infrastructure (1 day Nov 2018)	✓								
LGC Fundamentals Day 3 (Dec 2018)						✓	✓		
LAPFF Annual Conference (1.5 days) Dec 2018	✓								
LGA Annual Conference 1.5 days (Jan 2018)	✓		✓			✓			✓
LGC Seminar (1.5 days) March 2019	✓	✓	✓	✓	✓	✓			✓

Clwyd Pension Fund

Training Plan 2019/ 20 - as at 31 May 2019

Title of session	Training Content	Timescale	Training Length	Audience	Complete
Employer Risk Management	Employer Risk Management including the monitoring framework (employer covenant, fundiong and protections)	20/09/2017	Before Cttee	Committee, Pensions Board and Officers	Deferred
New Chair Induction	TBD	12/06/2019	0.5 day	Chair Committee	
Day 1 - Induction / Refresher Training Investments	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
Day 2 - Induction / Refresher Training Governance & Funding	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
Day 3 - Induction / Refresher Training Agenda TBC	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
Day 4 - Induction / Refresher Training Agenda TBC	New Member Induction and additional identified from individual TNA.	TBC	1 day	Committee, Pensions Board and Officers	
PLSA Local Authority Conference, Gloucestershire	Various	13-15/05/2019	3 days	Committee, Pensions Board and Officers	Y
CIPFA Local Pension Board Seminars	Annual Event	26/06/2019 London	9.30 - 16.00	Pension Board	
LGC Investment Summit, Newport	Various topical presentations.	4-6/09/2019	2 days	Committee, Pensions Board and Officers	
LGA Fundamentals Training	Day 1 Legal Framework	17/10/19 Leeds 03/10/19 London 31/10/19 Cardiff	1 day	Committee, Pensions Board	
LGA Fundamentals Training	Day 2 Investments	14/11/19 Leeds 06/11/19 London 21/11/19 Cardiff	1 day	Committee, Pensions Board	
LGA Fundamentals Training	Day 3 Duties and Responsibilities	5/11/19 Leeds 12/11/19 London 12/12/19 Cardiff	1 day	Committee, Pensions Board	
LAPFF, Bournmouth	Various topical presentations around the work of the LAPFF	4-6/12/2019	2 days	Committee, Officer	
LGA Annual Conference	Various	23 - 24 Jan 2020	2 day	Committee, Pensions Board and Officers	
LGC Investment Seminar, Carden Park	Various	27 -28/02/2020	2 days	Committee, Pensions Board and Officers	

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Ref	A1	**Date entered in register**		19 Sep 2017
Status	Open	**Date breached closed (if relevant)**		
Title of Breach	Late notification of joining		**Owner**	SB/JT
Party which caused the breach	CPF + various employers			
Description and cause of breach	Requirement to send a Notification of Joining the LGPS to a scheme member within 2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled. Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale.			
Category affected	Active members			
Numbers affected	2017/18: 2676 cases completed / 76% (2046) were in breach. 2018/19: - Q1 - 1246 cases completed / 84%(1050) were in breach - Q2 - 551 cases completed / 87% (480) were in breach - Q3 - 1123 cases completed / 50% (563) were in breach - Q4 - 935 cases completed / 49% (458) were in breach			
Possible effect and wider implications	- Late scheme information sent to member which may result in lack of understanding. - Potential complaints from members. - Potential for impact on CPF reputation.			
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of new joiners (ongoing). - Set up of Employer Liasion Team (ELT) to monitor and provide joiner details more timelessly. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time. 3/6/19 - Review of staff resources now complete and new posts filled.			
Outstanding actions (if any)	- Ongoing roll out of i-Connect. - Bedding in of new staff/ training. - Carrying out backlogs of previous joiners (most of which are due to i-Connect roll out). - Contacting employers which are causing delays. 28/1/19: - Introduce process to analyse specific employers causing problems. - Ongoing streamlining of aggregation cases with major employers. - Consider feasibility and implications of removing reminders for joining pack. - Consider feasibility of whether tasks can be prioritised by date of joining.			

Assessment of breach and brief summary of rationale	29/1/19 Large proportion of joining members affected but business case has been put forward to increase resources. In the meantime, temporary resources are being requested to assist. 4/6/19 New resource put in place but may take a few months to see full impact.
Reported to tPR	No

Ref	A2	**Date entered in register**		19 Sep 2017
Status	Open	**Date breached closed (if relevant)**		
Title of Breach	Late transfer in estimate		**Owner**	JT
Party which caused the breach	CPF + various previous schemes			
Description and cause of breach	Requirement to obtain transfer details for transfer in, and calculate and provide quotation to member 2 months from the date of request. Breach due to late receipt of transfer information from previous scheme and late completion of calculation and notification by CPF. Only 2 members of team fully trained to carry out transfer cases due to new team structure and additional training requirements. 29/1/19 National changes to transfer factors meant cases were put on hold/stockpiled end of 2018/early 2019.			
Category affected	Active members			
Numbers affected	2017/18: 235 cases completed / 36% (85) were in breach. 2018/19: - Q1 - 60 cases completed / 42% (25) were in breach - Q2 - 66 case completed / 38% (25) were in breach - Q3 - 31 case completed / 32% (10) were in breach - Q4 - 56 cases completed / 62% (35) were in breach			
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/previous schemes. - Potential for impact on CPF reputation.			
Actions taken to rectify breach	- Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with in a more timely manner.			
Outstanding actions (if any)	- Completion of training of team members in transfer and aggregation processes. 29/1/19: - If KPIs don't improve, investigate how much of the delay is due to external schemes and look for ways to improve this.			
Assessment of breach and brief summary of rationale	29/1/19 Stockpiling will likely make KPIs worse in short term but then longer term additional training will result in improvements.			
Reported to tPR	No			

Ref	A3	**Date entered in register**		19 Sep 2017
Status	Open	**Date breached closed (if relevant)**		
Title of Breach	Late transfer out estimate		**Owner**	JT
Party which caused the breach	CPF			
Description and cause of breach	Requirement to provide details of transfer value for transfer out on request within 3 months from date of request (CETV estimate). Late completion of calculation and notification by CPF. Only 2 members of team fully trained to provide transfer details due to new team structure and additional training requirements.			
Category affected	Deferred members mainly but potentially some active members			

Numbers affected	2017/18: 382 cases completed / 9% (33) were in breach. 2018/19: - Q1 - 119 cases completed / 10% (12) were in breach - Q2 - 94 case completed / 2% (2) were in breach - Q3 - 76 case completed / 3% (2) were in breach - Q4 - 103 cases completed / 6% (6) were in breach
Possible effect and wider implications	- Potential financial implications on some scheme members. - Potential complaints from members/new schemes. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Continued training of team members to increase knowledge and expertise to ensure that transfers are dealt with in a more timely manner.
Outstanding actions (if any)	- Completion of training of team members in transfer and aggregation processes.
Assessment of breach and brief summary of rationale	29/1/19 - Low number of cases impacted now.
Reported to tPR	No

Ref	A4	**Date entered in register**	19 Sep 2017
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of retirement benefits	**Owner**	SB

Party which caused the breach	CPF + various employers + AVC providers
Description and cause of breach	Requirement to provide notification of amount of retirement benefits within 1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age. Due to a combination of: - late notification by employer of leaver information - late completion of calculation by CPF - for members who have AVC funds, delays in receipt of AVC fund values from AVC provider.
Category affected	Active members mainly but potentially some deferred members
Numbers affected	2017/18: 960 cases completed / 39% (375) were in breach. 2018/19: - Q1 - 297 cases completed / 31% (91) were in breach - Q2 - 341 case completed / 26% (89) were in breach - Q3 - 357 case completed / 30% (108) were in breach - Q4 - 348 cases completed / 32% (112) were in breach
Possible effect and wider implications	- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from members/employers. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of retirees (ongoing). - Set up of ELT to monitor and provide leaver details in a more timely manner. - Prioritising of task allocation. - Set up of new process with one AVC provider to access AVC fund information. - Increased staff resources. 3/6/19 - Review of staff resources now complete and new posts filled.
Outstanding actions (if any)	- Further training of newly promoted team member to deal with volume of work. - Identifying which employers are causing delays.

Assessment of breach and brief summary of rationale	29/1/19 - Improvements have been made and more should be made as staff are settled in and trained. Business case will also assist if approved. 4/6/19 New resource put in place but may take a few months to see full impact.
Reported to tPR	No

Ref	A5	**Date entered in register**		20 Sep 2017
Status	Open	**Date breached closed (if relevant)**		
Title of Breach	Late estimate of benefits		**Owner**	SB
Party which caused the breach	CPF			
Description and cause of breach	Requirement to provide quotations on request for potential retirements as soon as is practicable, but no more than 2 months from date of request unless there is a previous request in the last year. Delays are due to: - late completion of calculation by CPF. - Increasing numbers of estimate requests being made by members.			
Category affected	Active members mainly but potentially some deferred members			
Numbers affected	2017/18: 487 cases completed / 37% (182) were in breach. 2018/19: - Q1 - 79 cases completed / 32% (25) were in breach - Q2 - 60 case completed / 22% (13) were in breach - Q3 - 123 case completed / 15% (18) were in breach - Q4 - 151 cases completed / 6% (4) were in breach			
Possible effect and wider implications	- Late notification of benefits/costs to member/employer. - Potential complaints from members/employers. - Potential for missed opportunities by members/employers. - Potential for impact on CPF reputation.			
Actions taken to rectify breach	- Introduction of MSS should alleviate the volume of requests received as member will be able to calculate own estimate through database. - Further training of team members also required. - Task allocation reviewed by team leader to ensure estimates are given a higher priority. 3/6/19 - Review of staff resources now complete and new posts filled.			
Outstanding actions (if any)	- Additional staff training.			
Assessment of breach and brief summary of rationale	29/1/19 - Improvements have been made including from MSS and more should be made as staff are settled in and trained. Business case will also assist if approved. 3/6/19 Cases in breach now drastically reduced so moved from amber to green. But will review in next quarter.			
Reported to tPR	No			

Ref	A6	**Date entered in register**		20 Sep 2017
Status	Open	**Date breached closed (if relevant)**		
Title of Breach	Late notfication of death benefits		**Owner**	SB
Party which caused the breach	CPF			

Description and cause of breach	Requirement to calculate and notify dependant(s) of amount of death benefits as soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative). Due to late completion by CPF the legal requirements are not being met. Due to complexity of calculations, only 2 members of team are fully trained and experienced to complete the task.
Category affected	Dependant members + other contacts of deceased (which could be active, deferred, pensioner or dependant).
Numbers affected	2017/18: 153 cases completed / 58% (88) were in breach. 2018/19: - Q1 - 53 cases completed / 32% (17) were in breach - Q2 - 26 case completed / 35% (9) were in breach - Q3 - 41 case completed / 39% (16) were in breach - Q4 - 64 cases completed / 22% (14) were in breach
Possible effect and wider implications	'- Late payment of benefits which may miss payroll deadlines and result in interest due on lump sums/pensions (additional cost to CPF). - Potential complaints from beneficaries, particular given sensitivity of cases. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Further training of team - Review of process to improve outcome - Recruitment of additional, more experienced staff. 3/6/19 - Review of staff resources now complete and new posts filled.
Outstanding actions (if any)	- Additional staff training.
Assessment of breach and brief summary of rationale	29/1/19 - Improvements have been made and more should be made as staff are trained. Business case will also assist if approved. 4/6/19 New resource put in place but may take a few months to see full impact.
Reported to tPR	No

Ref	A7	**Date entered in register**	05 Jun 2018
Status	Closed	**Date breached closed (if relevant)**	08 May 2019
Title of Breach	Incorrect APP notified	**Owner**	PL
Party which caused the breach	One employer (confidential)		
Description and cause of breach	CARE should be enhanced to Assumed Pensionable Pay (APP) in some circumstances where normal pay is reduced due to sickness or parental leave. The APP extracted from the payroll system was incorrect. This resulted in provision of an extract by the employer to CPF Administration team that included incorrect CARE pay information for some cases since 1 April 2014.		
Category affected	Active members, deferred members, pensioners, dependants and other exits (e.g. transfers out)		
Numbers affected	Approximately 1,400 members being investigated, albeit not all will have been affected.		
Possible effect and wider implications	- CARE pension may be under or over stated on annual benefit statements, member self-service and other notifications of benefits. - For those who have retired, transferred out, died or received a trivial commutation benefit, CARE pension may be under or overpaid. - The amount of employer contributions may also be under or over paid.		

Actions taken to rectify breach	Working group set up to: - Identify cases that have been impacted/carry out rectification exercise. - Work with payroll provider to ensure root problem is resolved. Project Plan developed with detailed actions. 8/5/19 '- Ongoing work to check all cases and rectify where necessary. - Ongoing work with payroll provider and employer to resolve root problem.
Outstanding actions (if any)	8/5/19 None
Assessment of breach and brief	29/1/19 Large number of members affected.
Reported to tPR	Yes

Ref	A8	**Date entered in register**	05 Jun 2018
Status	Closed	**Date breached closed (if relevant)**	08 May 2019
Title of Breach	Incorrect CARE pension calculated and/or paid	**Owner**	PL
Party which caused the breach	CPF		
Description and cause of breach	CARE should be enhanced to Assumed Pensionable Pay (APP) in some circumstances where normal pay is reduced due to sickness or parental leave. The APP extracted and provided to CPF Administration team was incorrectly calculated in some cases since 1 April 2014. This resulted in CPF incorrectly calculating CARE pensions for those members.		
Category affected	Active members, deferred members, pensioners, dependants and other exits (e.g. transfers out)		
Numbers affected	Approximately 1,400 members being investigated, albeit not all will have been affected.		
Possible effect and wider implications	- CARE pension may be under or over stated on annual benefit statements, member self-service and other notifications of benefits. - 2018 annual benefit statements delayed for members who are potentially affected/need checked. - For those who have retired, transferred out, died or received a trivial commutation benefit, CARE pension may be under or overpaid. - The amount of employer contributions may also be under or over paid.		
Actions taken to rectify breach	Working group set up to: - Identify cases that have been impacted/carry out rectification exercise. - Work with payroll provider to ensure root problem is resolved. Project Plan developed with detailed actions. 8/5/19 - Ongoing work to check all cases and rectify where necessary. - Ongoing work with payroll provider and employer to resolve root problem.		
Outstanding actions (if any)	8/5/19 None		
Assessment of breach and brief	29/1/19 Large number of members affected.		
Reported to tPR	Yes		

Ref	A9	**Date entered in register**	29 Aug 2018
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Late notification of leaver rights and options	**Owner**	SB/JT
Party which caused the breach	CPF + various employers		

Description and cause of breach	Requirement to inform members who leave the scheme of their leaver rights and options, as soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member). Due to a combination of late notification from employers and untimely action by CPF the legal requirement was not met. 20/11/18 - (Q2) Staff turnover in August/September reduced number actioned. 29/1/19 The introduction of I-connect is also producing large backlogs at the point of implementation for each employer. I-connect submission timescales can also leave only a few days for CPF to meet the legal timescale.
Category affected	Active members
Numbers affected	2018/19: - Q1 - 437 cases completed / 40% (173) were in breach - Q2 - 1463 cases completed / 66% (963) were in breach - Q3 - 951 cases completed / 51% (481) were in breach - Q4 - 745 cases completed / 2% (17) were in breach
Possible effect and wider implications	- Late notification of benefits/costs to member/employer. - Potential complaints from members/employers. - Potential for missed opportunities by members/employers. - Potential for impact on CPF reputation.
Actions taken to rectify breach	- Roll out of iConnect where possible to scheme employers including new admitted bodies to ensure monthly notification of leavers (ongoing). - Set up of Employer Liasion Team (ELT) to monitor and provide leaver details in a more timely manner. - Training of new team members to raise awareness of importance of time restraint. - Prioritising of task allocation. KPIs shared with team members to further raise awareness of importance of timely completion of task. - 6/6/18 - Updating KPI monitoring to understand employers not sending information in time. 3/6/19 - Review of staff resources now complete and new posts filled.
Outstanding actions (if any)	- Ongoing roll out of i-Connect. - Bedding in of new staff/ training. - Carrying out backlogs of previous leavers (most of which are due to i-Connect roll out). - Contacting employers which are causing delays. 28/1/19: - Introduce process to analyse specific employers causing problems. - Ongoing streamlining of aggregation cases with major employers. - Consider feasibility of whether tasks can be prioritsed by date of leaving.
Assessment of breach and brief summary of rationale	29/1/19 Large proportion of leaving members affected but business case has been put forward to increase resources. In the meantime, temporary resources are being requested to assist. 3/6/19 Cases in breach now drastically reduced so moved from amber to green. But will review in next quarter.
Reported to tPR	No

Ref	A10	**Date entered in register**	29 May 2019
Status	Closed	**Date breached closed (if relevant)**	29 May 2019
Title of Breach	Scheme Changes Disclosure	**Owner**	KAM
Party which caused the breach	CPF		

Description and cause of breach	Amendment Regulations disclosure communication sent to members - deadline was 9th April 2019 - Communication was 10 days late
Category affected	All active members, status 2 (undecided) members and deferred members
Numbers affected	All active, undecided and deferred members
Possible effect and wider implications	- Late notification to members - May result in complaints
Actions taken to rectify breach	- Communication issued as quickly as possible after deadline - In future will focus on smarter working to improve turnaround time between notification of Regulation change and disclosure of change to members affected.
Outstanding actions (if any)	None
Assessment of breach and brief summary of rationale	Large proportion of members affected but communication was issued very soon after legal timescale.
Reported to tPR	No

Ref	A11	**Date entered in register**	29 May 2019
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	Scheme Changes Disclosure	**Owner**	KAM
Party which caused the breach	CPF		
Description and cause of breach	Amendment Regulations disclosure communication to members. This was sent in error to members who were categorised as "gone away" from last known address. This will have resulted in a data breach as names and addresses would have been visible to people now living at those addresses.		
Category affected	Active members, status 2 (undecided) members and deferred members who are shown as "gone away"		
Numbers affected	921 members impacted		
Possible effect and wider implications	- Personal Details available to view by incorrect recipients - May result in complaints		
Actions taken to rectify breach	- Followed Data Breach procedure		
Outstanding actions (if any)	- Increased staff awareness / training for future distribution - Process to be put in place to ensure future mail shots to all members exclude this category		
Assessment of breach and brief summary of rationale	Large number of members impacted but no personal information other than name included in communications so low impact.		
Reported to tPR	No		

Ref	A12	**Date entered in register**	29 May 2019
Status	Open	**Date breached closed (if relevant)**	
Title of Breach	APC calculation due to revised factors	**Owner**	SB/JT
Party which caused the breach	CPF		
Description and cause of breach	Recalculation of APC contracts due to GAD factor change not communicated within required timescales		
Category affected	Active members with APC contracts		
Numbers affected	<10 members		
Possible effect and wider implications	- Late notification to members of change to APC contracts / recalculation of benefits - May result in complaints		
Actions taken to rectify breach	- Re-calculation of APC contracts underway with explanation to those affected by the change.		
Outstanding actions (if any)	Re-calculation and notification to members required		
Assessment of breach and brief summary of rationale	Low number of cases impacted and remedial action likely to be complete by 30 June 2019		
Reported to tPR	No		

Ref	F3	Date entered in register	03 Jun 2019
Status	Closed	Date breached closed (if relevant)	28 Mar 2019
Title of Breach	Late payment of contributions	Owner	DF
Party which caused the breach	Coedpoeth		
Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions were only received for February 2019 on 28/3/19.		
Category affected	Active members and employer		
Numbers affected	Five active members		
Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.		
Actions taken to rectify breach	-Payment received before employer contacted		
Outstanding actions (if any)	28/3/19 No outstanding actions. Payment now received		
Assessment of breach and brief	28/03/19 Payment made		
Reported to tPR	No		

Ref	F4	Date entered in register	03 Jun 2019
Status	Open	Date breached closed (if relevant)	
Title of Breach	No submission of contribution remittance advice	Owner	DF
Party which caused the breach	Chartwells		
Description and cause of breach	A remittance advice detailing information in relation to contribution payments should be submitted to CPF at the same point as the payment is made. Contributions relating to March 2019 were received on 18 April 2019 but no remittance advice has been received.		
Category affected	Active members and employer		
Numbers affected	Two active members		
Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.		
Actions taken to rectify breach	- Contacted employer 3 times to chase submission of remittance advice		
Outstanding actions (if any)	03/06/19 Continue to chase for outstanding remittance. April remittance received on time. Chartwells use external payroll provider.		
Assessment of breach and brief	03/06/19 Remittance still outstanding		
Reported to tPR	No		

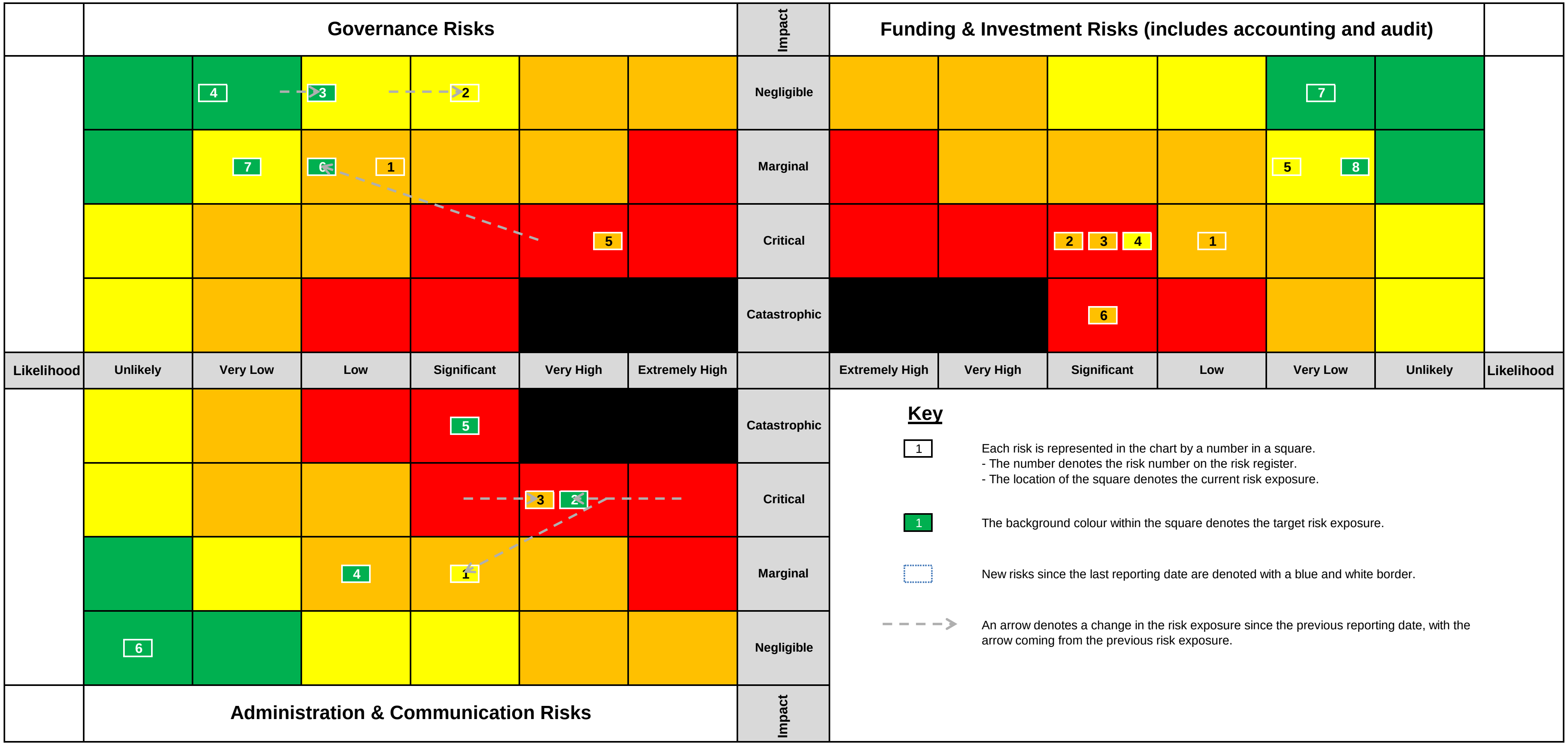
Ref	F5	Date entered in register	03 Jun 2019
Status	Closed	Date breached closed (if relevant)	27 Mar 2019
Title of Breach	Late payment of contributions	Owner	DF
Party which caused the breach	Home Farm Trust		
Description and cause of breach	Contributions must be paid by the 22nd (if BACs) or 19th (if cheque) of the month following the deductions. Contributions were only received for February 2019 on 27/3/19.		
Category affected	Active members and employer		
Numbers affected	43 active members		

Possible effect and wider implications	- Could expose employers to late payment interest charge. - Assumptions regarding funding assume regular monthly payment; not adhering to this regulatory requirement could result in changed actuarial assumptions for the employer.
Actions taken to rectify breach	-Payment received before employer contacted
Outstanding actions (if any)	27/03/19 No outstanding actions. Payment now received
Assessment of breach and brief	27/03/19 Payment made
Reported to tPR	No

CLWYD PENSION FUND - CALENDAR OF EVENTS APRIL 2019 ONWARDS						
Month	**Date**	**Day**	**Committee**	**Training**	**Pension Board**	**Location**
2019						
May						
	13 - 15 May	Mon - Wed		PLSA Local Authority Conference		Gloucestershire
June						
	12-Jun	Wed	9.30am - 1pm			County Hall
	26-Jun	Wed		CIPFA PB Annual Event		London
July						
	02-Jul	Tue			9.30am - 12.30pm	County Hall
August						
September						
	04-Sep	Wed	9.30am - 1pm			County Hall
	4 - 6 Sept	Wed - Fri		LGC Investment Summit		Newport
October						
	03-Oct	Thu		LGA Fundamentals Day 1 Legal Framework of the LGPS		London
	08-Oct	Tue			9.30am - 12.30pm	County Hall
	17-Oct	Thu		LGA Fundamentals Day 1 Legal Framework of the LGPS		Leeds
	31-Oct	Thu		LGA Fundamentals Day 1 Legal Framework of the LGPS		Cardiff
November						
	06-Nov	Wed		LGA Fundamentals Day 2 LGPS Investments		London
	14-Nov	Thu		LGA Fundamentals Day 2 LGPS Investments		Leeds
	21-Nov	Thu		LGA Fundamentals Day 2 LGPS Investments		Cardiff
	28-Nov	Thu	9.30am - 1pm			County Hall
December						
	4 -6 Dec	Wed - Fri		LAPFF		Bournemouth
	05-Dec	Thu		LGA Fundamentals Day 3 Duties and Responsibilities		Leeds
	12-Dec	Thu		LGA Fundamentals Day 3 Duties and Responsibilities		Cardiff
	18-Dec	Wed		LGA Fundamentals Day 3 Duties and Responsibilities		London

Month	Date	Day	Committee	Training	Pension Board	Location
2020						
January						
	23 - 24 Jan	Thur - Fri		LGA Annual Governance Conference		York
February						
	11-Feb	Tue	9.30am - 1pm			County Hall
	25-Feb	Tue			9.30am - 12.30pm	County Hall
	27 - 28 Feb	Thur - Fri		LGC Investment Seminar		Carden Park Chester
March						
	18-Mar	Wed	9.30am - 4.30pm			County Hall
June						
	10-Jun	Wed	9.30am - 1pm			County Hall
	30-Jun	Tue			9.30am - 12.30pm	County Hall

All Fund Risk Heat Map and Summary of Governance Risks



03 June 2019

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

Governance Risks

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

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

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Losses or other determintal impact on the Fund or its stakeholders	Risk is not identified and/or appropriately considered (recognishing that many risks can be identified but not managed to any degree of certainty)	All	Marginal	Low		1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to each PFC 3 - Advisory panel meets at least quarterly discussing changing environment etc 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Marginal	Low					None	CPFM	31/12/2019	13/04/2017
2	Inappropriate or no decisions are made	Governance (particularly at PFC) is poor including due to: - short appointments - poor knowledge and advice - poor engagement /preparation / commitment - poor oversight	G1 / G2 / G3 / G4 / G5 / G6 / G7	Negligible	Significant		1 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Annual check against TPR Code 4 - Training Policy, Plan and monitoring in place for PC and PB members 5 - Training Needs self assessment carried out (January 2018) and training programme reviewed based on results 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Induction training programme in place for new Committee members which covers CIPFA Knowledge and Skills requirements and can be delivered quickly. 7 - Terms of reference for the Committee in the Constitution allows for members to be on the Committee for between 4-6 years but they can be re-appointed.	Negligible	Low		Current likelihood 1 too high	03/06/2019	Dec 2019	1 - Training plan for new ccommittee members to be delivered	CPFM	31/08/2019	03/06/2019
3	Our legal fiduciary responsibilities are not met	Decisions, particularly at PFC level, are influenced by conflicts of interest and therefore may not be in the best interest of fund members and employers	G1 / G2 / G4 / G6 / T2	Negligible	Low		1 - Conflicts of Interest policy focussed on fiduciary responsibility regularly discussed and reviewed 2 - Independent advisor focussing on governance including annual report considering structure, behaviour and knowledge 3 - All stakeholders to which fiduciary responsibility applies represented at PFC and PB 4 - Training Policy, Plan and monitoring in place for PC and PB members including section on responsibilities 5 - There is a range of professional advisors covering all Fund responsibilities guiding the PC, PB and officers in their responsibilities 6 - Clear strategies and policies in place with Fund objectives which are aligned with fiduciary responsibility	Negligible	Very Low		Current likelihood 1 too high	03/06/2019	Dec 2019	1 - New committee members to be trainined on fiduciary responsibility and the CPF Conflicts Policy	CPFM	31/08/2019	03/06/2019
4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	G2 / G7	Negligible	Very Low		1- Range of policies in place and all reviewed at least every three years 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored	Negligible	Unlikely		Current likelihood 1 too high	01/07/2016	Oct 2019	1- Ensure work relating to annual monitoring is completed and included in PFC papers (PL)	Dep. Head of CPF	30/09/2019	03/06/2019
5	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such scheme change, national reorganisation and asset pooling	G1 / G4 / G6 / G7	Critical	Very High		1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Involvement of CEO / links to WLGA and WG 3 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 4 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OWG 7 - Ongoing monitoring of cybercrime risk by AP	Marginal	Low		Current impact 1 too high Current likelihood 2 too high	28/02/2017	Mar 2020	1 - Regular ongoing monitoring by AP to consider if any action is necessary around asset pooling, cost cap and McCloud judgement (PL) 2 - Ensure Board requests to JGC/OWG are responded to (PL)	CPFM	30/09/2019	03/06/2019
6	Services are not being delivered to meet legal and policy objectives	Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	G3 / G6 / G7 / T1	Marginal	Low		1 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restrcuture commenced (2017/18) 4 - Quarterly update reports consider resourcing matters 5 - Advisory Panel provide back up when required 6 - Additional resources, such as outsourcing, considered as part of business plan 7 - Staff reviews implemented and most vacant positions now recruited to (admin and finance)	Negligible	Very Low		Current impact 1 too high Current likelihood 1 too high	01/07/2016	Dec 2019	1 - Recruit to vacant governance and business role (PL) 2 - Ongoing consideration of succession planning (PL)	CPFM	30/09/2019	03/06/2019
7	Legal requirements and/or guidance are not complied with	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches)	G3 / G6 / T1 / T2 / B1 / B2	Marginal	Very Low		1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliance areas (relevant individuals provided with a copy and training provided) 4 - Training policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures 7 - Strategies and policies often included statements or measures around legal requirements/guidance 8 - Wide range of advisers and AP in place 9 - Independent adviser in place including annual report which will highlight concerns	Negligible	Very Low		Current impact 1 too high	01/07/2016	Oct 2019	1 - Further documented processes (as part of TPR compliance) e.g. contribution payment failure (DF) 2 - Embed system of reviewing outstanding actions relating to TPR Code (KW/DF)	CPFM	30/09/2019	03/06/2019

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12th June 2019
Report Subject	Administration and Communications Strategy Statements
Report Author	Pensions Administration Manager

EXECUTIVE SUMMARY

As part of the 2019/20 business plan, it was agreed to review the existing administration and communication strategies for the Fund. These documents were originally agreed in 2016 and are subject to review at least every three years.

The proposed updated strategies are included in Appendix 1 and 2. It is a legal requirement, as well as good practice, to consult with employers when reviewing the administration strategy and therefore it is intended that both strategies will be shared with the Fund's employers after the Committee consider the proposed changes.

Although no major changes are proposed to the administration strategy, there are a number of updates to the communications strategy which are mainly to highlight the objective of delivering communications using digital communications where efficient and effective to do so.

RECOMMENDATIONS	
1	That the Committee consider and approve the proposed amendments to the Administration and Communication Strategies, subject to consultation with stakeholders.
2	That the Committee delegate any final minor changes, following consultation, to be made by the Clwyd Pension Fund Manager and Pensions Administration Manager, with any more substantive changes being brought back to Committee for consideration.

REPORT DETAILS

1.00	ADMINISTRATION AND COMMUNICATION STRATEGIES
	Background
1.01	The Fund's existing administration and communications strategies were both agreed by the Committee in March 2016 and have been subject to minor updates since then. Prior to March 2016, the Fund did not have an administration strategy, albeit it had a communications strategy which was fundamentally reviewed in March 2016. The LGPS Regulations state that each administering authority must have a communications strategy and the minimum areas that should be covered by it. Although the regulations define the minimum requirements to include within an administration strategy, it is not compulsory to have one, albeit it is considered good practice.
1.02	The aim of the administration strategy is to ensure both the Administering Authority and the employers are fully aware of their responsibilities under the Scheme, and to outline the performance standards they are expected to meet to ensure the delivery of a high-quality, timely and professional administration service.
1.03	The aim of the communication strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund. Effective communications will also help to maintain the efficient running of the Scheme.
	Proposed amendments
1.04	*Administration strategy* It is considered that the existing administration strategy remains to be appropriate overall. Its existing focus is on working in partnership with employers to deliver a high-quality administration service. The strategy clearly outlines how the administering authority will assist employers in understanding their responsibilities and delivering those responsibilities. It sets out a formal process to be followed where an employer is not carrying out their responsibilities with the aim of working in partnership to rectify the situation but with flexibility to escalate to a more formal approach if required. It highlights the use of i-Connect as the system that must be used by all CPF employers to communicate the majority of scheme member information to the administering authority.
1.05	The administration strategy includes clear performance standards which both employers and the administering authority must meet to ensure a high-quality service to scheme members and other Fund stakeholders. These performance standards are explained further in an employer service level agreement which is updated annually and which all employers are required to sign and return.

1.06	Appendix 1 includes the administration strategy with the proposed changes highlighted throughout. The key changes are: • The introduction of an annual declaration by employers that must be signed and returned. This declaration asks the employer to confirm that they understand specific responsibilities relating to the Fund. It is considered that this will be a useful in identifying where employers may have further training needs or where data may need a greater level of scrutiny. • Completing a thorough workforce review of the Fund's Administration Team. • The continued roll out and implementation of i-Connect to all employers (i-Connect is new software that will allow employer data to be loaded directly, and therefore more efficiently, into the pension administration software). • Ensuring compliance to the new General Data Protection Regulations 2018 ("GDPR").
1.07	*Communications strategy* The communications strategy has been subject to a more fundamental review. This is due to CPF's gradual evolution towards digital communications in recent years. The proposed changes which are highlighted in the strategy in Appendix 2 include: • highlighting within the aims and objectives that there will be a default of using electronic communications where efficient to do so, and the fund will look for environmentally responsible ways of delivering communications (as well as focussing on efficiencies), • clarifying that the move to digital communications means there will be circumstances where some information is not also issued in hard copy format to members who have opted out of digital communications (for example minor scheme changes that do not legally require to be notified to members), • providing further information on how specific communications will be circulated, for example, information on the website, email notifications through the CPF on-line Member Self-Service (MSS) facility and annual benefit statements being published on MSS, • further strengthening of the message that communications are published in both English and Welsh in accordance with legislative requirements.
1.08	The strategy highlights that scheme members can opt out of digital communications so that they continue receiving hard copy communications. In the past few years, hard copy communications have been delivered to all scheme members on three occasions highlighting the move to digital communications with MSS and their right to opt-out of digital communications. This has resulted in 35% of active scheme members, 21% of deferred scheme members and 41% of pensioner and dependant members being enrolled on MMS. Although these figures are considered high, particularly compared to anecdotal evidence from other LGPS funds, it should be noted that those members who have not registered for MSS, and who have not opted out of digital communication, will not see any digital communications from the Fund, such as their annual benefit statement. To counter this, there will be ongoing drives by the CPF communications team to publicise the MSS facility to scheme members including a final hard copy

	mail-shot to all members not registered providing them with log in details and reminding them of the move to digital communications and their right to opt out of digital communications.
	Consultation and completion
1.09	The LGPS regulations require that the administration strategy changes should be consulted on with Scheme employers and such other persons as we consider appropriate. Accordingly, it is intended to share the proposed amendments to the administration strategy with all employers. We will also share the communication strategy changes with the employers asking them to highlight the move to digital communications to their employees and to encourage all their employees to register on MSS if they have not already done so. The Fund's Pension Board members also receive copies of the Committee agenda and reports. Any views of the Board on the amendments to these strategies will be fed back at the Committee by the Board members in attendance.
1.10	The Committee is asked to consider the proposed changes to the strategies and consider any further amendments they would like made to them. The Committee is then asked to approve them, subject to those changes being made and any minor changes following consultation with employers by made by the Clwyd Pension Fund Manager and Pension Administration Manager. Where more significant changes are suggested because of the consultation exercise, a further proposed strategy will be taken back for consideration by the Committee in September.

2.00	**RESOURCE IMPLICATIONS**
2.01	There are no resource implications as a result of this report at this time. However, the use of digital communications, including i-Connect for receiving information from employers will assist in delivering ongoing efficiencies within the team. Failure to adopt this approach would likely result in the need for additional staff members.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	As outlined in paragraph 1.09.

4.00	**RISK MANAGEMENT**
4.01	The Fund's risk register includes the following key risks: • That the Fund is unable to meet legal and performance expectations due to employer issues, such as employers not understanding their responsibilities or not having access to efficient

	data transmission. This remains a red risk particularly until i-Connect is fully implemented with all employers. The administration strategy is a key internal control in driving the changes that will help manage this risk. • That scheme members do not understand or appreciate their benefits due to inaccurate, poorly drafted or insufficient communications. This risk is currently amber and a key driver in improving this is ongoing promotion of MSS. The communications strategy is fundamental in ensuring this risk is minimised.

5.00	**APPENDICES**
5.01	Appendix 1 – draft Administration Strategy Statement Appendix 2 – draft Communications Strategy Statement

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Administration and Communications Strategy Statements (March 2016) **Contact Officer:** Karen Williams, Pensions Administration Manager **Telephone:** 01352 702963 **E-mail:** karen.williams@flintshire.gov.uk

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

	(f) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF. (g) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (h) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation. (i) **MSS – Member Self-Service** – an on-line portal where scheme members can log in and view certain information on their CPF pension record including scheme history and annual benefit statements. It also provides the facility for members to update information, such as their address and to carry out projections of their benefits. The system can also be used to send electronic notifications to scheme members, either individually, or on bulk such as alerting members to an update on the website or annual benefit statements being uploaded. (j) **I-Connect** – a system which allows employers to upload data that is then validated and downloaded onto the CPF administration system (Altair). This is generally carried out monthly and provides greater assurance in the accuracy of scheme member records as well as ensuring they are updated in a more-timely manner.

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

ADMINISTRATION STRATEGY

[Month] 2019

[Key to draft: Proposed new text, ~~Existing text to be removed~~]

ADMINISTRATION STRATEGY

Introduction and Background

This is the Statement outlining our Pension Administration Strategy for the Clwyd Pension Fund ("the Fund") and has been developed following consultation with employers in the Fund, Pension Board members and other interested stakeholders.

The aim of the administration strategy is to ensure both the Administering Authority ("AA") and the employers are fully aware of their responsibilities under the Scheme, and to outline the performance standards they are expected to meet to ensure the delivery of a high-quality, timely and professional administration service. These performance standards are explained further in the employer service level agreement.

Flintshire County Council (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). The Fund comprises around 43 employers with active members, and approximately 47,000 scheme members (including active members, deferred and pensioner members).

Delivery of a high standard of administration service is not the responsibility of one person or organisation, but rather of a number of different parties, who between them are responsible for delivering the pensions administration service to meet the diverse needs of the membership.

This Strategy applies to all employers in the Fund. The Statement sets out the expected levels of administration performance of both the administering authority and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

Implementation

This Strategy was first agreed in April 2016, and it outlines the level of service the administering authority would like to provide to scheme members and employers, as well as the role employers will need to play in providing that quality of service. It is recognised that the aims and objectives in this Strategy are ambitious in some cases and meeting these is dependent on the streamlining of processes and implementation of ~~some quite radical~~ changes to the existing ways of working .~~not least introducing some major new on-line functionality~~ This Strategy is being implemented during a time which continues to present a number of challenges, not least:

- ~~ongoing work to clear administrative backlogs accumulated during recent years~~
- recent high court judgements resulting in legislative retrospective changes to member benefits
- the need to complete a major scheme reconciliation exercise as a result of the introduction of the new State Pension
- continuing pressure on resources and budgets for employers and the administering authority
- the implementation of other expected national changes.

As part of the 2018/19 business plan, progress has already been made in implementing improvements in the Clwyd Pension Fund Administration Section including:

- the continued implementation and roll out of i-Connect ~~with one major employer~~ (i-Connect is new software that will allow employer data to be loaded directly, and therefore more efficiently, into the pension administration software)
- ~~reviewing the pension administration system work flow functionality~~
- developing more advanced work flow and management reporting functionality within the administration system
- the launch of the Fund's new website incorporating Member Self Service ("MSS") to scheme members
- ~~initial work on a major review of the Fund's website~~

The 2019/20 business plan includes further improvements to help deliver this Strategy including:

- implementing i-Connect with all other ~~major~~ employers
- ~~implementing self-service web functionality to scheme members~~
- ~~finalising the review of the Fund's website~~
- a thorough workforce review in relation to the Fund's Administration Team
- completing and monitoring a Data Improvement Plan in line with The Pension Regulator's ("TPR") requirements
- additional KPI monitoring and reporting.

This updated Strategy will be effective from 1 [month] 2019 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013 provide the conditions and regulatory guidance surrounding the production and implementation of Administration Strategies.

In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the administering authority and employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations
- Pensions Acts 2004 and 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- ~~Data Protection Act 2003~~

- Finance Act 2013
- Relevant Health and Safety legislation and
- General Data Protection Regulations 2018 ("GDPR").

As a result of the Public Service Pensions Act 2013, the Pensions Regulator has responsibility for oversight of a number of elements of the governance and administration of Public Sector pension schemes including the LGPS. The Regulator has the power to issue sanctions and fines in respect of failings caused by the administering authority and also where employers in the Fund fail to provide correct or timely information to the administering authority. Should this happen, the administering authority would recharge any costs back to employers as set out later in this strategy.

More information relating to requirements of the Local Government Pension Scheme Regulations is included in Appendix A. This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of administration.

Our Aims and Objectives

Mission Statement
The Clwyd Pension Fund Mission Statement is:

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

In addition, we have specific aims and objectives in relation to our administration responsibilities as set out below.

Administration Aims and Objectives
The purpose of this strategy statement is to set out the quality and performance standards expected of Flintshire County Council in its role of administering authority and employer, as well as all other employers within the Fund.

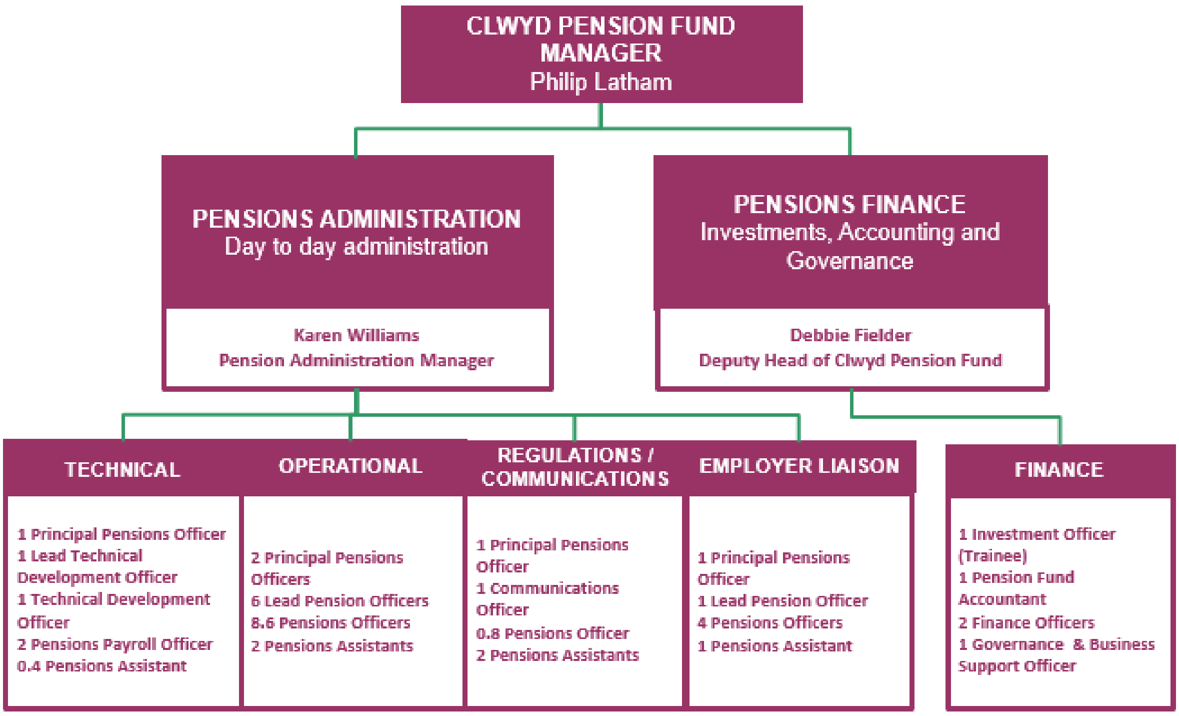
The Administration Strategy has a number of specific objectives, as follows;
- Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
- Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund

- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- Maintain accurate records and ensure data is protected and has authorised use only.

Delivery of Administration

Flintshire County Council has delegated responsibility for the management of the Pension Fund to the Clwyd Pension Fund Committee, taking into consideration advice from the Pensions Advisory Panel and the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

Operationally, the administration of the Fund is undertaken 'in-house' within the Fund. The operational structure of the Pension Fund is illustrated in the schematic diagram below:



Most LGPS administering authorities provide the administration service from internal teams, although some have outsourced (or partially outsourced) their administration, and some utilise shared service administration arrangements across more than one Fund. Others outsource specific projects. The Administering Authority may, in exceptional circumstances, consider outsourcing some of its administration services.

In addition, the Administration Section will look for opportunities to work collaboratively with other administering authorities so as to reduce development costs and enhance the quality of information. This might include:

- working with other administering authorities through the Pensions Officer Group networks or the All Wales network to produce communications, which can then be customised further where necessary to the needs of the Fund
- participating in joint training sessions with other administering authorities.

Performance Standards – Quality

Local Standards

The legislative and regulatory requirements are set out previously and in Appendix A. On top of these, the Fund and employers ensure that all administration functions and tasks are carried out to agreed local quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the employer service level agreement and this Administration Strategy Statement
- information to be provided in the required format and/or on the appropriate forms contained within the employer service level agreement
- information to be legible and accurate
- communications to be in a plain language style
- information provided or actions carried out to be checked for accuracy* by an appropriately trained member of staff
- information provided or actions carried out to be authorised by an agreed signatory, and
- actions carried out, or information provided, within the timescales set out in this strategy statement

* accuracy is defined as when we have received information, for example, from an employer, with **all** required areas completed ***and*** with no contradictory information which needs to be queried.

Secure Data Transfer

The Fund and its employers follow Flintshire County Council's data security guidelines when sending any personal data. Flintshire County Council uses Egress Switch to securely send data when required, which offers a combination of policy based gateway and desktop email encryption software to secure and control information sent to third parties. Egress Switch also uses;

- an authentication process
- password protection, and
- confirmation of receipt

to prevent any sensitive information from being accidentally sent to unauthorised recipients.

A key method of data transfer relating to the Fund's administration, is the receipt of information from employers in relation to scheme members. In order to meet the requirements set out in this document in a secure and efficient way (for both employers and the administering authority), Clwyd Pension Fund uses a secure data system known as i-Connect for its ~~larger~~ employers ~~(and acknowledges that it would not be cost effective to require smaller employers to use this).~~ Any ~~larger~~ employers not submitting data using this data system, once it is made available to them, may risk compromising data security and quality. Consequently use of this system is compulsory to all employers in the Fund.

Oversight of Compliance and Quality
Ensuring compliance is the responsibility of the administering authority and the employers in the Fund. The administering authority has a range of internal controls in place to assist with ensuring compliance and which are articulated in the Fund's risk register. However there are ways in which they are subject to elements of scrutiny or oversight:

Audit
The Fund is subject to a regular annual audit of its processes and internal controls. The administering authority, the Fund and the employers are expected to fully comply with any reasonable requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by the Pension Fund Committee, and where appropriate duly implemented (following discussions with employers where necessary).

Local Pension Board (LPB), the national Scheme Advisory Board (SAB) or the Pensions Regulator
The Public Service Pensions Act 2013 introduced greater oversight through these entities. As a result the LPB of the Clwyd Pension Fund was established from 1 April 2015. In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The administering authority and the employers are expected to fully comply with any guidance produced by the SAB and the Pensions Regulator. Any recommendations made from these entities will be considered by Flintshire County Council, in its role as administering authority, and where appropriate, duly implemented following discussions with employers where necessary.

Performance Standards – Timeliness and Accuracy

Overriding legislation, including The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. Further, the LGPS itself sets out a number of requirements for the administering authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. In addition to these legal requirements, local performance standards have been agreed which cover all aspects of the administration of the Clwyd Pension Fund. In many cases these go beyond the overriding legislative requirements.

The locally agreed performance standards for the Fund are set out in Appendix B. These standards are not an exhaustive list of the administering authority's and employers' responsibilities. Employers' responsibilities are provided in more detail in the employers' service level agreement.

The locally agreed performance standards will be monitored on an ongoing basis by the administrating authority, the key standards which will be publicly reported on are extracted and shown in the table below.

These elements are measured against:

1. any legal timescale that should be met ("Legal requirement")
2. the overall locally agreed target time ("Overall case target")
3. the locally agreed target time for the administering authority to complete that task ("CPF Administration element target")

Generally the CPF Administration element target will be a shorter procedure within the overall case which is being measured by the Legal requirement and Overall case targets. This is because the Legal requirements and Overall case targets will generally include periods of time when the Fund is waiting for information to be provided by an employer or scheme member. The CPF Administration element target then measures the period of time it takes the Fund to carry out their element of work once the accurate* information has been received.

* accurate is defined as when we have received information, for example, from an employer, with **all** required areas completed ***and*** with no contradictory information which needs to be queried.

Key Performance Indicators (KPIs)

Process	Legal requirement	Overall case target	CPF Administration element target
To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled[1]	46 working days from date of joining (i.e. 2 months)	30~~15~~ working days from receipt of all information
To inform members who leave the scheme before retirement age of their rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member) [2]	46 working days from date of leaving	15 working days from receipt of all information
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request [1]	46 working days from date of request	20 working days from receipt of all information
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate) [3] or within a reasonable period (cash transfer sum) [4]	46 working days from date of request	20 working days from receipt of all information
Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age [1] 2 months from date of retirement if before Normal Pension Age [1]	23 working days from date of retirement	10 working days from receipt of all information
Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months [1]	46 working days from date of request	15 working days from receipt of all information
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months to beneficiary from date of becoming aware of death, or from a date of request by a third party (e.g. personal representative) [1]	25 working days from date of death	10 working days from receipt of all information

1 - The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as amended
2 - The Occupational Pension Schemes (Preservation of Benefit) Regulations 1991
3 – Occupational Pension Schemes (Transfer Value) Regulations 1996
4 – Pension Schemes Act 1993

Improving Employer Performance (where necessary)

This Strategy is focussed on good partnership working between the administering authority and the Fund's employers. However, it is recognised there may be circumstances where employers are unable to meet the required standards. The Principal Pensions Officer (either in the Technical or the Operations Team as appropriate) will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance or misunderstanding, provide opportunities for necessary training and development and put in place appropriate processes to improve the level of service delivery in the future.

It is expected that it will be extremely rare for there to be ongoing problems but, where persistent and ongoing failure occurs and no improvement is demonstrated by an employer, and/or unwillingness is shown by the employer to resolve the identified issue, we set out below the steps we will take in dealing with the situation in the first instance:

- The designated Principal Pensions Officer will issue a formal written notice to the person nominated by the employer as their key point of contact, setting out the area(s) of poor performance.
- The Principal Pensions Officer will meet with the employer to discuss the area(s) of poor performance, how they can be addressed, the timescales in which they will be addressed and how this improvement plan will be monitored.
- The designated Principal Pensions Officer will issue a formal written notice to the person nominated by the employer, setting out what was agreed at that meeting in relation to how the area(s) of poor performance will be addressed the timescales in which they will be addressed.
- A copy of this communication will be sent to:
    - The Pension Administration Manager
    - The Director of Finance or other senior officer at that employer.
- The Principal Pensions Officer will monitor whether the improvement plan is being adhered to and provide written updates at agreed periods to the person nominated by the employer, with copies being provided to the Pension Administration Manager and the Director of Finance (or alternative senior officer) at that employer.

- Where the improvement plan is not being delivered to the standards and/or timescales agreed, the Principal Pensions Officer will escalate the matter to the Pension Administration Manager who will determine the next steps that should be taken. This may include (but is not limited to):
    - Meetings with more senior officers at the employer
    - Escalating to the Clwyd Pension Fund Advisory Board, Pension Fund Committee and/or Pension Board, including as part of the Fund's Procedure for Recording and Reporting Breaches of the Law
    - Reporting to The Pensions Regulator or Scheme Advisory Board, as part of the Fund's Procedure for Recording and Reporting Breaches of the Law.

Circumstances where the Administering Authority may levy costs associated with the Employers poor performance

The Fund will work closely with all employers to assist them in understanding all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Administration Strategy Statement. The Fund will work with each employer to ensure that overall quality and timeliness is continually improved.

The 2013 LGPS Regulations provide that an administering authority may recover from an employer, any additional costs associated with the administration of the scheme, incurred as a result of the unsatisfactory level of performance of that employer.

Where an administering authority wishes to recover any such additional costs they must give written notice stating:

- The reasons in their opinion that the employer's level of performance contributed to the additional cost.
- The amount the administering authority has determined the employer should pay.
- The basis on which this amount was calculated.
- The provisions of the Administration Strategy Statement relevant to the decision to give notice.

The administering authority will generally not recharge to an employer any additional costs incurred by the Fund in the administration of the LGPS as a direct result of such unsatisfactory performance. However, in instances where the performance of the employer results in:

- fines being levied against the administering authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, an amount no greater that the amount of that fine will be recharged to that employer.

- the improvement plan as outlined in the last section of this statement is not being adhered to, the Pension Fund Committee may determine that any other additional costs will be recharged. In these circumstances, the Pension Fund Committee will determine the amount to be recharged and how this is to be calculated. The employer in question will be provided with a copy of that report and will be entitled to attend the Pension Fund Committee when this matter is being considered.

Whether or not interest will be charged on late contributions will be stated within the administering authority's separate policy on discretionary provisions.

Employer Liaison Team

Understanding the continuing pressure on resources and budgets for employers and the administering authority, Flintshire County Council has established an Employer Liaison team which can provide assistance to employers by carrying out a number of the employer responsibilities on the employers' behalf. The Employer Liaison Agreement has a number of specific objectives which are aligned with this Clwyd Pension Fund Administration Strategy and which are as follows;

- Provide a high quality, professional, proactive, timely and customer focused service to the Employer
- Provide the agreed service in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the Employer is aware of and understands their role and responsibilities under the LGPS regulations and the Fund's Administration Strategy
- Ensure that accurate member information is provided to the Fund, in the correct format, within the agreed timescales
- Ensure data is protected and has authorised use only.

Subject to having access to the necessary systems and information, the Employer Liaison Team can carry out a number of responsibilities on behalf of an employer including:

- notification of new starters, changes in circumstances and leavers
- carrying out estimates of benefits (for example, for redundancy exercises)
- responding on behalf of the employer to queries from the Clwyd Pension Fund Operations and Technical teams, for example relating to year end submissions.

Any employer wishing to make use of this service will be expected to enter into a signed agreement which will include information relating to how the service is paid for by the employer. There may be opportunities to spread these costs, recognising the budgetary pressures that employers are currently subject to.

Measuring the Fund against the Administration Objectives

The Administrating Authority will monitor the performance of the Fund in carrying out its responsibilities in relation to the scheme, and will regularly monitor performance by benchmarking against other Funds, using benchmarking clubs and other comparators available. How well the Fund performs will be reported in the Fund's Annual Report based on the statistics available at that time.

In addition, the Fund will monitor success against the administration objectives in the following ways:

Objectives	Measurement
Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders.	Key Performance Indicators achieved in 90% of cases* (100% for legal requirements). Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas.
Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money.	Cost per member is not in upper or lower quartiles when benchmarked against all LGPS Funds using national data (either SF3 or SAB)
Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.	Annual data checks (including ongoing reconciliations) resulting in few issues that are resolved within 2 months. Key Performance Indicators achieved in 90% of cases* (100% for legal requirements). Issues included in formal improvement notices issued to employers resolved in accordance with plan. Annual satisfaction surveys with employers achieving 90% of scores in positive responses in these areas. All employers have signed up to their Service Level Agreements

Objectives	Measurement
Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.	Positive results in audit and other means of oversight/scrutiny. Key Performance Indicators achieved in 90% of cases* (100% for legal requirements). Minimal issues against the Fund identified by Internal Dispute Resolution Procedures and complaints. No breaches relating to incorrect benefit calculations as a result of errors that occurred purely within the Fund's Administration Team (e.g. not as a result of incorrect information from an employer).
Maintain accurate records and ensure data is protected and has authorised use only.	Annual data checks (including ongoing reconciliations) resulting in few issues that are all resolved within 2 months. Data improvement plan in place with ongoing evidence of delivered agreed improvements. No breaches of data security protocols. Positive results in audit and other means of oversight/scrutiny.

An overview of the Fund's performance against these objectives, in particular, the target standards for turnaround times, will be reported within the Fund's annual report and accounts. It will be reported, on an ongoing basis, to the Pension Fund Committee and Pension Board. In addition, these will be reported to The Pensions Regulator (if deemed appropriate) under the Procedure for Recording and Reporting Breaches of the Law (Breaches Procedure Policy).

If performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the administering authority will formulate an improvement plan. This will be reported to the Pension Fund Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

Key Risks

The key risks to the delivery of this Strategy are outlined below. The Pensions Administration Manager and other officers will work with the Pensions Advisory Panel, Pension Fund Committee and Pension Board in monitoring these and other key risks and consider how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness

- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Incorrect calculation of members' benefits, resulting in inaccurate costs
- Employer's failure to provide accurate and timely information resulting in incomplete and inaccurate records. This leads to incorrect valuation results and incorrect benefit payments.
- Failure to administer the scheme in line with regulations as listed under 'Regulatory Basis' in this Statement. This may relate to delays in enhancement to software or regulation guidance.
- Failure to maintain records adequately resulting in inaccurate data.
- Use of external printers/distributors resulting in possible data mismatch errors
- Unable to deliver an efficient service to pension members due to system unavailability or failure
- Failure to maintain employer contact database leading to information being sent to incorrect person

Approval, Review and Consultation

This Strategy Statement was originally approved in March 2016 and updated in March 2017 by the Clwyd Pension Fund Committee. It has subsequently been reviewed in June 2019 and this version is effective from 1 [Month] 2019.

It will be formally reviewed and updated at least every three years or sooner if the administration management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing the original Strategy, and updating it in June 2019, we consulted with the relevant employers, the scheme member and employer representatives on the Clwyd Pension Board and other persons considered appropriate. No formal consultation was carried out in March 2017 due to the nature of the changes. However scheme member and employer representatives were able to comment when it was approved at the Pension Fund Committee meeting in March 2017.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on our website at: www.mss.clwydpensionfund.org.uk.

Costs

All additional costs relating to this Strategy Statement are met directly by the Fund unless mentioned otherwise.

Further Information

Any enquiries in relation to the day to day administration of the Fund or the principles or content of this Strategy should be sent to:

Karen Williams, Pensions Administration Manager

Flintshire County Council
County Hall
Mold
Flintshire
CH7 6NA
E-mail – karen.williams@flintshire.gov.uk
Telephone - 01352 702963

Any enquiries in relation to the services provided by the Employer Liaison Team should be sent to:

Kerry Robinson, Principal Pensions Officer – Employer Liaison Team
Flintshire County Council
County Hall
Mold
Flintshire
CH7 6NA
E-mail – kerry.robinson@flintshire.gov.uk
Telephone - 01352 702814

Appendix A

Administration Legal Requirements within the LGPS

Regulations 72, 74 and 80 of Local Government Pension Scheme Regulations 2013 require the following:

Employer Responsibilities:

- To decide any rights or liabilities of any person under the LGPS (for example, what rate of contributions a person pays and whether or not a person is **entitled** to any benefit under the scheme) as soon as is reasonably practicable*
- To formally notify that person of the decision in relation to their rights or liabilities in writing as soon as is reasonably practicable (including a decision where a person is not entitled to a benefit and why not), including information about their internal dispute resolution procedure
- To inform the administering authority of all such decisions made
- To provide the administering authority with such information it requires so it can carry out its functions including, within three months of the end of each Scheme year**, the following information in relation to any person who has been an active member of the scheme in the previous year:
    - name and gender
    - date of birth and national insurance number
    - a unique reference number relating to each employment in which the employee has been an active member
    - in respect of each individual employment during that year:
        - the dates during which they were a member of the scheme
        - the normal pensionable pay received and employee contributions paid
        - the pensionable pay received and employee contributions paid whilst there was any temporary reduction in contributions
        - the normal employer contributions paid
        - any additional employee or employer contributions paid
        - any Additional Voluntary Contributions paid by the employee or employer
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to employer decisions (or a lack of a decision)***

**And at the latest within 1 month of the need for a decision*
***Note that, in practice, the Administering Authority will require this information by a specific date as outlined in the Service Level Agreement in order to meet statutory deadlines on benefit statements*
****Note that, in practice, employers in the Clwyd Pension Fund may use the same person to consider stage 1 IDRP complaints as used by the Administering Authority*

Administering Authority Responsibilities:

- To decide the **amount** of benefits that should be paid, including whether the person is entitled to have any previous service counting towards this for LGPS purposes, as soon as is reasonably practicable
- To formally notify that person of the decision in relation to the amount of their benefits in writing as soon as is reasonably practicable, including a statement showing how they are calculated and information about their internal dispute resolution procedure
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to administering authority decisions (or a lack of a decision)
- To appoint a person to consider complaints under stage 2 of the internal dispute resolution procedure (which covers both employer and administering authority decisions or lack of decisions)
- To provide on request any information to an employer about a complaint under the internal dispute resolution procedure that may be required by an employer

Regulation 59(1) enables an LGPS administering authority to prepare a written statement ("the pension administration strategy") to assist in delivering a high-quality administration service to its scheme members and other interested parties. It sets out local standards which often go beyond the minimum requirements in overriding legislation as outlined above, and which the administering authority and employers should comply with.

The statement may contain matters mentioned below, as considered appropriate:

- Procedures for liaison and communication with the relevant employers in their Fund.
- The establishment of levels of performance which the administering authority and the employers are expected to achieve in carrying out their functions under the LGPS by:
    i. the setting of performance targets;
    ii. the making of agreements about levels of performance and associated matters; or
    iii. such other means as the administering authority consider appropriate;
- Procedures which aim to secure that the administering authority and the employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance.
- Procedures for improving the communication of information, relating to those functions, between the administering authority and the employers.
- The circumstances in which the administering authority may consider giving written notice to an employer on account of poor performance in carrying out its functions under the LGPS Regulations when measured against the agreed performance levels.

- The publication of annual reports, by the administering authority, dealing with:
    i. the measurement of the administering authority and the employers achievements against the agreed performance levels, and
    ii. such other matters arising from its pension administration strategy as it considers appropriate
- Such other matters as appear to the administering authority to be suitable for inclusion in that strategy.

Regulation 59(2)e allows an administering authority to recover additional costs from an employer, where the costs are directly related to the poor performance of that employer. Where this situation arises, the administering authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

In addition, regulation 59(6) also requires that, where a pension administration strategy is produced, a copy is issued to each of their relevant employers as well as to the Secretary of State. The Administering Authority must review this statement and make such revisions as are appropriate. It is a requirement that, in preparing or revising any pension administration strategy, that the administering authority must consult its relevant employers and such other persons as it considers appropriate.

Both the administering authority and employers must have regard to the current version of the pension administration strategy when carrying out their functions under the LGPS Regulations.

Appendix B

Performance Standards

New Appointments	
Employer's responsibility	**Target Service Standard**
To ensure that pensions information is included as part of any induction process	
To provide each new employee with basic scheme information	Within one month of joining

New Scheme Members	
Employer's responsibility	**Target Service Standard**
Provide new members with starter forms and scheme guides, where not delegated to the Administering Authority	10 working days
Decide and ensure the correct employee contribution rate is applied	Immediately on joining in line with employer's policy, and each April thereafter (as a minimum)
Provide new starter information to the administering authority for each new employee joining the LGPS	10 working days
Forward completed starter forms completed by scheme members to the administering authority	3 working days from date of first deduction of contributions
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	5 working day from receipt of all relevant information (or within 1 week for bulk uploads)
To apply for any transfer value details from a previous fund or scheme	5 working days from receiving all information
To send a Notification of Joining the LGPS to a scheme member	30~~15~~ working days

Changes in circumstances	
Employer's responsibility	**Target Service Standard**
Arrange for reassessment of employee contribution rate in line with employer's policy	If applicable, as per employer's policy
Notify the administering authority of any eligible employees who opt out of the scheme within three months of appointment.	10 working days from date of receiving opt out
Send a Notification of Change (or equivalent) if legally required to a scheme member	15 working days from date of change
Notify the administering authority of all other relevant changes in the circumstances of employees	15 working days from date of change

Refund any employee contributions deducted in error, or where the member opts out in writing within 3 months with no previous LGPS membership.	Month following the month of election
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	5 working days
To send a Notification of Change (or equivalent) if legally required	15 working days from receiving information

Retirement Estimates (including ill-health)	
Employer's responsibility	**Target Service Standard**
Provide pay (and other membership) details when a member requests an early retirement estimate	8 working days
Administering Authority's Responsibility	
Providing quotations on request for retirements	15 working days from receipt of all relevant information
Providing provisional statement of retirement benefits for deferred members	1 month before retirement

Actual Retirements (including ill-health)	
Employer's responsibility	**Target Service Standard**
Notify the Fund when members are due to retire and reason for retirement (and authorisation where appropriate)	As early as possible and no later than 15 working days before date of retirement
Notify the Fund when a member leaves employment, including an accurate assessment of final pay	8 working days from members final pay date
Send a Notification of Entitlement to Benefit if legally required to a scheme member (including determining tier of ill-health retirement if applicable)	No later than 5 working days before date of retirement
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	5 working days from receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	10 working days from receipt of all relevant information
Notification of amount of recalculated retirement benefits and payment of any balance tax free cash sum following updated information	10 working days from receipt of all relevant information

Ill-Health Retirements (additional responsibilities)	
Employer's responsibility	**Target Service Standard**
Appoint a qualified independent medical practitioner (from the approved list provided by the Administering Authority) in order to consider all ill health retirement applications, and agree this appointment with the Fund.	Within one month of becoming an employer within the Fund
To keep a record of all Tier 3 ill-health cases and to review these cases after 18 months	
Notify the Fund of the results of any review of Tier 3 ill-health cases with appropriate information to allow the Fund to recalculate benefits if necessary	5 working days of results of review
Send a Notification of Entitlement to Benefit (or change in benefit) to a scheme member following the review of his/her Tier 3 ill-health benefits	5 working days of results of review
Administering Authority's Responsibility	
To notify employers prior to scheduled discontinuation of benefit payments, and before updating the member records to "pensioner with deferred benefits".	3 months prior to scheduled discontinuation date

Members leaving before retirement	
Employer's responsibility	**Target Service Standard**
Notify the Fund of the member's date of (and reason for) cessation of membership, and all other relevant information.	8 working days from member's most recent pay date
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	5 working days from receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	15 working days from receipt of all relevant information
Provide a refund of contributions where requested	10 working days from receipt of all relevant information
Provide a statement of current value of deferred benefits on request	15 working days

Death Benefits	
Employer's responsibility	**Target Service Standard**
Notify the Fund of the death of a member and provide details of next of kin where available	8 working days of being notified
Administering Authority's Responsibility	
Write to next of kin or other contact requesting information following the death of a scheme member	5 working days from notification
Calculate and notify dependant(s) of amount of death benefits	10 working days from receipt of all relevant information
Decide who should be recipient(s) of death grant and pay death benefits appropriately as directed	7 working days from receipt of all relevant information

Transfers	
Administering Authority's Responsibility	
Obtain transfer details for transfer in, and calculate and provide quotation to member	20 working days from receipt of all relevant information
Request transfer value upon acceptance of transfer in	5 working days
Notify scheme member of benefits purchased by transfer in on receipt of payment	15 working days
Provide details of transfer value for transfer out, on request	20 working days from receipt of all relevant information
Provide payment of transfer value to appropriate recipient.	10 working days

Additional Benefits (APCs and AVCs)	
Employer's responsibility	**Target Service Standard**
Commence, cease or amend (as appropriate) deduction of APCs and AVCs	In month following election
Administering Authority's Responsibility	
To provide information on APCs / AVCs on request to members and employers.	10 working days from request

Various Financial Obligations	
Employer's responsibility	**Target Service Standard**
Pay the Fund all employee contributions deducted from payroll and all employer contributions.	Immediately when deducted from pay but at the latest by the 19th day of the following month.
Pay all rechargeable items to the Fund, including additional fund payments in relation to early payment of benefits.	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
Pay all additional costs to the Fund associated with the unsatisfactory performance of the employer	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
Administering Authority's Responsibility	
To allocate the received contributions to each employer's cost centre	Prior to closing month end
Issue invoice in relation to additional fund payments in relation to early payment of benefits	10 working days of employer costs being confirmed
Inform the employers of any new contribution banding	At least 1 month prior to the new contribution bands being introduced
Notify calculation and new value of pension following annual pensions increase	At least 2 working days before payment of revised pension

Annual Return, Valuation and Annual Benefit Statements	
Employer's responsibility	**Target Service Standard**
Provide the Fund with yearend information to 31 March each year, and any other information that may be required for the production of Annual Benefit Statements.	By 30 April annually
Complete the Employer Compliance Declaration	By 30 April annually
Administering Authority's Responsibility	
Process employer year end contribution returns	Within 1 month of receipt
Produce annual benefit statements for all active and deferred members.	In line with LGPS regulations timescales
Provide information to the Actuary (or GAD as appropriate) for both the triennial valuation and for accounting purposes.	As agreed between the Fund and the Actuary.
Provide an electronic copy of the valuation report and associated certificate to each employer, and to answer any questions arising.	10 working days from publication of report

General	
Employer's responsibility	**Target Service Standard**
Confirm a nominated representative to receive information from the Fund, and to take responsibility for disseminating it within the organisation.	By effective date of admission or within 5 working days of previous representative leaving
Formulate and publish policies regarding all discretions that the employer may exercise, and provide a copy to the Fund.	Within 2 months of joining and also provided to administering authority every 3 years or whenever amended
Respond to enquiries from the Fund.	10 working days
Notify the Fund if the employer intends to outsource services that will involve TUPE transfers of staff, and work with the Fund to ensure an admission agreement is put in place and complied with or a bulk transfer arranged.	Initial notification immediately upon becoming aware of potential outsourcing, and at least 3 months prior to the start of the contract
Distribute any information provided by the Fund to members / potential members	5 working days
Put in place a Stage 1 Internal Dispute Resolution Procedure	Within 1 month of joining and before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Administering Authority's Responsibility	
Arrange for the setting up of an admission agreement where required	Within 3 months of all information being provided
Publish and keep up to date the Short Scheme Guide and Employers' Procedural Guide.	Updates made within 10 working days of any legislation changes but preferably before effective date
Publish and keep up to date all forms that members, prospective members and employers are required to complete.	Updates made within 10 working days of any legislation changes but preferably before effective date
Publish the Fund's annual report and accounts and any report from the auditor	In line with CIPFA Guidance
Provision of other responses to general enquiries from scheme members and employers	10 working days to provide initial response
Put in place a Stage 1 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Put in place a Stage 2 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure

	(e.g. an appointed person leaving)

Pension Payments	
Administering Authority's Responsibility	**Target Service Standard**
Issue pension payments to designated bank accounts	To arrive on due date
Issue payslips to home addresses for those pensions where net pay has changed by £5 or more	Posted so as to arrive on the due date
Investigate returned payments and action appropriately	10 working days from receipt of return
Respond to pensioner queries in writing	10 working days from receipt of query
Implement a change to pension in payment	By next payroll period where change occurs more than 5 days prior to the payment date

Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for Clwyd Pension Fund

COMMUNICATIONS STRATEGY

June 2019

COMMUNICATIONS STRATEGY

Introduction and Background

This is the Statement outlining our Pension Communication Strategy for the Clwyd Pension Fund ("the Fund") as per Regulation 61 of the LGPS Regulations 2013, and has been developed following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund, and effective communications will also help to maintain the efficient running of the Scheme.

Flintshire County Council (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). The Fund comprises 43 employers with active members, and approximately 47,000 scheme members (including active members, deferred and pensioner members).

The Statement sets out who we will communicate with, how this will be done and how the effectiveness of that communication will be monitored. It outlines the type of communications the administering authority would like to provide to its stakeholders and how we are moving more towards electronic communications rather than paper based.

The Clwyd Pension Fund recognises that there are several distinct stakeholder groups, such as;

- Scheme Members (active, deferred, pensioner and dependant members) and prospective Scheme Members
- Scheme employers and prospective Scheme employers
- Pension Fund Committee and Pension Board members, Advisory Panel
- Pension Fund Staff
- Other interested organisations including Government Departments, Scheme Advisory Board and Advisors to the Pension Fund.

The main means of communication with these key stakeholders are outlined in this statement, which includes making more use of technology to provide quicker and more efficient communications for the Fund's stakeholders.

Implementation

The Clwyd Pension Fund's business plans for 2019/20 to 2021/22 include a number of projects which will improve communications and help meet the aims and objectives of this Statement.

These include:

- a major review of the Fund's website
- implementing self-service web functionality to scheme members
- implementing new software that will allow employer data to be loaded directly, and therefore more efficiently, into the pension administration software – this in turn will assist in more timely communication with scheme members.

Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:

Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —

(a) members;

(b) representatives of members;

(c) prospective members; and

(d) Scheme employers.

(2) In particular the statement must set out its policy on —

(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;

(b) the format, frequency and method of distributing such information or publicity; and

(c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of communications.

~~The Clwyd Pension Fund ensures it complies with~~The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and other legislation includes various requirements relating to the provision of information relating to pensions (in addition to the requirements in the Local Government Pension Scheme Regulations). The Clwyd Pension Fund aims to adhere with all such legislation and related statutory or best practice guidance. This includes the Pension Regulator's Code of Practice for Public Service Pension Schemes.

There are other regulatory requirements that the Fund adheres to, including the General Data Protection Regulations, the Freedom of Information Act and legislation around the use of Welsh language.

Our Aims and Objectives

Mission Statement
The Clwyd Pension Fund Mission Statement is:

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

In addition, we have specific aims and objectives in relation to our communication responsibilities as set out below.

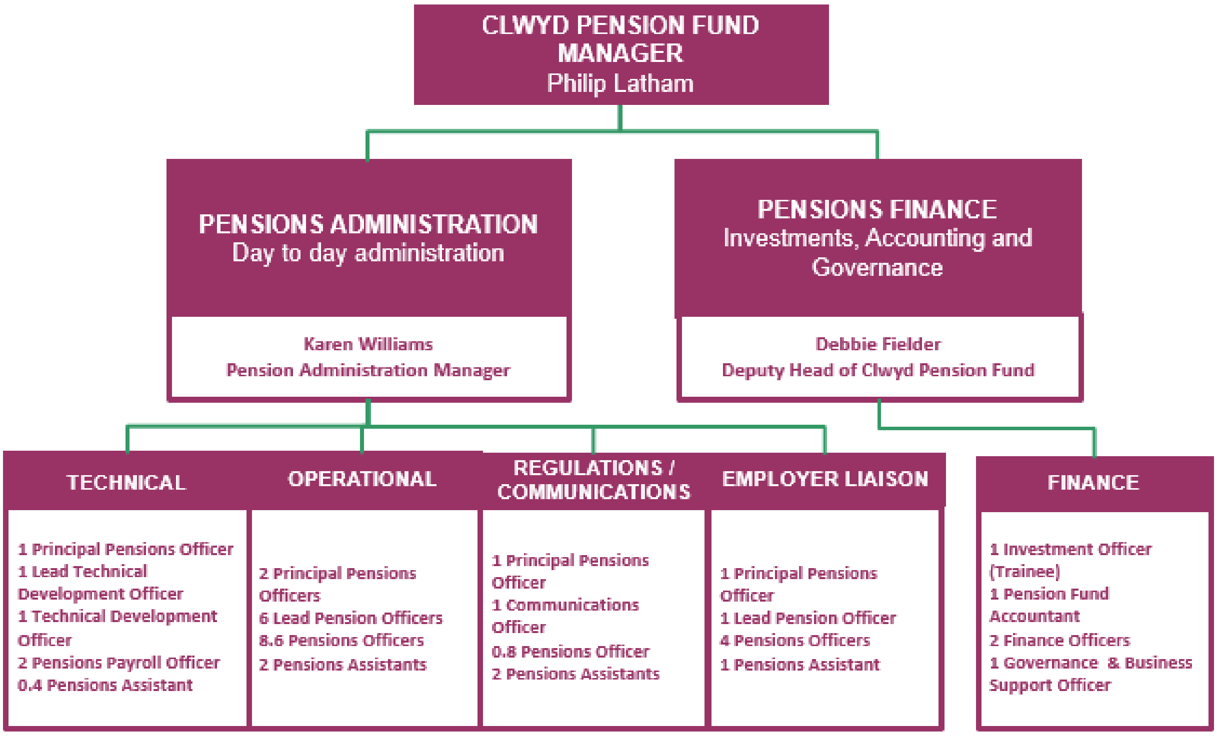
Communication Aims and Objectives
This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, as follows;

- Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
- Communicate in a clear, concise manner
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders, but with a default of using electronic communications where efficient and effective to do so.
- Look for efficiencies and environmentally responsible ways in delivering communications through greater use of technology and partnership working.
- Regularly evaluate the effectiveness of communications and shape future communications appropriately.

Delivery of Communications

Flintshire County Council has delegated responsibility for the management of the Pension Fund to the Clwyd Pension Fund Committee, taking into consideration advice from the Pensions Advisory Panel and the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

The communication aspect of the Fund is undertaken 'in-house' by a dedicated Regulations and Communications Team including a designated Communications Officer. The operational structure of the Clwyd Pension Fund is illustrated in the schematic diagram below. This structure ~~is being~~has been reviewed during 2018/19 and the outcome of the final review is as follows:



The Clwyd Pension Fund may consider using external means to provide some of their communication services, which is likely to include various software packages to allow high quality electronic communications. In addition, the Pension Administration Section will look for opportunities to work collaboratively with other funds so as to reduce development costs and enhance the quality of information. This might include:

- Working with other funds through the Pensions Officer Group networks or the All Wales network to produce communications, which can then be customised further where necessary to meet the needs of the Clwyd Pension Fund
- Participating in joint training sessions with other funds.

How we Communicate

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance. The Fund recognises that communicating in a clear informative style is vital in achieving this aim.

The Clwyd Pension Fund always aims to use the most appropriate communication medium for the audience receiving the information. This may involve using more than one method of communication based on the intended audience, albeit the Fund will aim to utilise electronic communications where appropriate to do so given the efficiencies and ease of access it provides, as well as it being more environmentally friendly. Scheme members will be able to elect not to receive electronic communications, in which case they will be continued to be sent hard copy communications only where the Fund is required to do so.

There may be circumstances where information is issued electronically, but for practical reasons (including costs), equivalent information will not be issued to those members who have elected not to receive electronic communications. For example, if a member's email address is held, a short email might be issued highlighting a new article placed on the Fund's website which is not a matter that legally requires notification to all scheme members. This will equally apply to members who have not registered for Member Self-Service.

Consequently, for those members who have not registered for Member Self-Service or who have not opted to receive paper copies of our communications, we will continue to send scheme communications in paper format where we are required by law to issue a communication; communications may not be issued where there is no legal requirement. We will continue to promote Member Self-Service for these members as all communications (whether required by law or not) will be notified using Member Self-Service.

Furthermore, the Fund may use facilities such as Twitter to communicate short alerts.

All of the Clwyd Pension Fund's generic scheme member communication material is bi-lingual. Clwyd Pension Fund complies with Welsh language legislation and we ensure all communications are published in both English and Welsh languages at the same time. Scheme members are also able to receive all personal correspondence in Welsh should that be their preferred language.

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

The Fund also adheres to other legislative requirements, including the General Data Protection Regulations, Freedom of Information Act, and pension disclosure legislation. The Fund also aims to adhere to good practice standards such as the National Website Standards.

Methods of Communication

The following sections summarise the key methods of communication used by the Fund. The frequency of each communication is not restricted and may vary depending on the urgency of the information being conveyed.

a) With Scheme Members and Prospective Scheme Members

Effective communication promotes the LGPS as a benefit, therefore reducing the impact of misleading media information.

Website	The Fund's website (http://www.cronfabensiynauclwyd.org.uk (Welsh) or http://www.clwydpensionfund.org.uk (English)) is available to everyone. It contains information about the Fund and the LGPS. Members are able to download scheme literature and forms. More detailed information on the scheme can also be obtained on the national LGPS website at https://www.lgpsmember.org Clwyd Pension Fund's website has to adhere to national standards regarding accessibility to the website and how the content is structured.
Member Self Service (MSS)	Member Self Service is available to the Fund's scheme members. It allows members to log into a secure web area to view information held on their Fund record. Some of the facilities available to members include: ability to update their own personal details, update death grant expressions of wish, calculate retirement estimates and review Annual Benefit Statements online. Electronic communications are issued directly to scheme members via the Member Self Service facility; these are generally via an email alert directing the member to log into their Member Self Service to view the relevant information.
Annual Benefit Statements	These statements are distributed annually to all active and deferred scheme members. These statements are issued to members' via their Member Self Service accounts and are downloadable from there. Paper statements are only issued to home addresses ~~in order to comply with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. The format of the statement has recently been reviewed in order to accommodate the new scheme information requirements and is presented as a single sheet with brief notes and an extended set of notes available online and on~~by member request.

Generic Newsletters	The Fund issues a periodic newsletter called Penpal to contributing members, bringing to their attention information such as changes to scheme rules, and including important Facts & Figures from the Annual Report. This is issued once a year. The Fund also sends a newsletter once per year to its pensioners entitled Clwyd Catch Up. This is usually sent with the annual pensions increase notification and explains how their new annual rate of pension has been calculated. It also includes topical information such as relating to the budget and State benefits. ~~Both newsletters are currently distributed to home addresses or via employers where appropriate in order to comply with the disclosure regulations. In the future the Fund hopes to be able to email members direct with generic information.~~ ~~In addition, Pensions Extra is a newsletter that is used to notify members of urgent issues concerning the LGPS.~~ Both newsletters are uploaded onto our Member Self Service portal for members to download them. If any members have opted out of using MSS, they receive a hard copy through the post. All newsletters are available to view on the Fund's website.
Regulatory Update Newsletters	Pensions Extra and Deferred Diaries are newsletters that are issued on an ad hoc basis to notify pensioner and deferred members of urgent issues concerning the LGPS. All newsletters are available to view on the Fund's website.
Pension Presentations/ Workshops/Drop-in Sessions	The Fund offers LGPS presentations, workshops, and drop-in sessions throughout the year on any pension related matters~~as part of pre-retirement planning~~. Employers can also request for an officer from the Fund to visit and speak with their staff about the LGPS. The information given out at these events is constantly reviewed to ensure that it is up-to-date and takes into account any changes in the pension regulations. LGPS literature, ranging from scheme booklets to death grant expression of wish forms, ~~is always available at these events~~ are always promoted at these events. Members are informed of where they can be found on our website for download or electronic copies can be emailed directly to the member.
Telephone and email / Open Office Policy	All members and prospective members have the opportunity to telephone, fax or email the Fund for information (pensions@flintshire.gov.uk). Members are also able to visit the Clwyd Pension Fund offices by appointment only so that they can discuss general LGPS matters. However, estimates are not able to be provided on the day of the one-to-one.

Pre-Retirement Courses	The Communications Officer attends regularly organised pre-retirement courses to inform members who are approaching retirement age about Local Government retirement procedures. The courses are run in partnership with Gwynedd Pension Fund and are offered to all North Wales LGPS members via their employers.
Literature	The Fund ensures pension-related literature is available to scheme members, including: • A Short Scheme Guide to the Local Government Pension Scheme, which is sent to all members upon joining the Clwyd Pension Fund. • A retirement pack sent to all members about to retire. • ~~Your Pension at Retirement, which is distributed to all new employees alongside their contract of employment.~~ • Fact-sheets on numerous areas including ill-health retirement, maternity leave, flexible retirement and commutation. ~~They are produced on an All Wales basis.~~ All Fund literature is available on the website enabling 24 hour access.
Pensions Taxation Correspondence	~~Where appropriate, letters are distributed to all higher earning members, explaining changes to taxation rules and how this may affect their pension savings. This allows members to plan any action required to ensure they do not have pension savings in excess of the Annual and Lifetime Allowances. The Fund facilitates services offered by Prudential to offer presentations at Senior Management Team level.~~ The Fund has a separate policy on how it will communicate with scheme members to help them understand whether they may be impacted by the annual or lifetime allowance. This is because this is a particularly complex area. This policy is focussed on providing basic information to all scheme members and more detailed information where it appears a member may be at risk of exceeding the annual or lifetime allowance, based on their Clwyd Pension Fund membership.
Annual Report	The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment principles, funding strategy, risk, governance, audit and administration. It is available on the Fund's website.

b) With Employers

Effective communication between the Fund and its employers reduces errors, improves efficiency, ensures more timely communications to scheme members and leads to good working relationships. The main means of communication with employers are outlined below.

Administration Strategy	The Fund's Administration Strategy provides an overview of how the administering authority and employers will work together to achieve a high quality service. It sets out, in detail, the obligations and responsibilities of both the Fund and the employer to achieve set performance standards. This is available on the Fund's website.
Service Level Agreements (SLAs)	SLAs ensure best practice and also comply with audit requirements. The SLA sets out, in detail, the obligations and responsibilities of the employer, concerning all aspects of LGPS administration. These Agreements are reviewed and updated annually taking into account changes made to the regulations and feedback from the Fund's employers. All the Fund's employers are required to sign and return the SLA each year which helps to ensure they acknowledge their responsibilities.
Employer key contact officers and meetings	We expect each employer in the Fund to designate a named individual to act as their key contact officer; this individual will be the main contact with regard to any aspect of administering the LGPS and the employer must keep the Fund aware of the contact details for that person. The Operations Section consists of teams led by Principal Pensions Officers. Each team is responsible for the day to day operations for specific employers. The designated Principal Pensions Officer, will contact, and where relevant, meet with the employer's key contact officer to discuss any issues relating to the LGPS and/or raise any issues around the performance of the employer or services provided by the Fund. Further meetings will be arranged if necessary, and may be escalated to include the Pensions Administration Manager.
Annual Employer Meeting	Employers have the opportunity to meet with members of staff from the Clwyd Pension Fund and receive updates and presentations from selected speakers who address the current issues and changes to the Clwyd Pension Fund and the LGPS. ~~This meeting takes place on the morning of the Annual Joint Consultative Meeting.~~

Annual Joint Consultative Meeting (AJCM)	The AJCM invites employers, Trade Union representatives and other scheme member representatives to discuss the latest pension issues and to keep up-to-date with Local Government Pension Scheme ~~regulations~~changes and matters affecting the Fund. The AJCM is normally attended by the Fund Actuary, Investment ~~Managers~~ Consultant and Independent Adviser and usually includes presentations summarising the main aspects of the Fund's annual report and accounts.
Training Sessions	Training sessions are offered to each employer. The sessions include training on the LGPS regulations and administration procedures and are offered to all relevant staff.
Website	All employers have access to the Fund's website (https://mss.clwydpensionfund.org.uk) which includes a range of information relating to the scheme benefits and also management of the Clwyd Pension Fund. The employers also have their own website section: https://mss.clwydpensionfund.org.uk/home/employers/index.html that they can visit to find out how to implement LGPS regulations. ~~They are able to download password protected pensions forms~~ Additional guidance can also be found on the LGA website: https://www.lgpsregs.org/
Email Updates	The Fund communicates with employers using an email distribution list including key staff from all employers. This distribution list is used to highlight general updates about the LGPS and to remind employers of facilities available to them and their staff, i.e. pension presentations and drop-in sessions. The Fund emails employers to inform them when a news alert is added to the website.
Employer Bulletins	The Clwyd Pension Fund Employer Bulletin will be emailed to employers annually to inform them of important LGPS issues. It will also be used to summarise all of the LGPS changes for the past 12 months and will also include updates on any major changes expected. Additional employer bulletins are issued throughout the year if urgent information needs to be sent to our employers.

i-Connect	i-Connect is the software that ~~the larger~~ all employers in the Fund ~~will be required to use~~ should work towards using to submit information to the Pension Administration Section. The system provides for efficient and timely data submission due to the automated validation it provides. ~~Any employer~~Once i-Connect has been ~~made available~~ implemented and training has been provided to an employer, any employer not providing data using i-Connect will be charged additional administration costs due to the fact that other methods can result in great time spent validating data and hence significant delays in processing, which in turn impact the quality and timeliness of information provided to scheme members. On request, training will be provided by the Technical Team to ensure all employer key contact officers understand how to use the system. (Note – at the point of writing, i-Connect is still being implemented with the final employers due to go live by the end of 2020/21).
Employer specific events	A Fund Officer is available to attend any employer specific events to assist employers in understanding their responsibilities.

c) With Pension Fund Committee and Pension Board members:

Effective communication ensures that Pension Fund Committee and Pension Board members are appropriately knowledgeable and able to act in the best interests of the Fund and its members.

Members are provided with regular reporting on all areas relevant to pensions, including investment, funding, audit, governance, administration and risk. This is communicated in a variety of formats including via the external website, the infonet, the annual report and accounts, through committee meetings and through regular training in line with the Fund's Training Policy.

The majority of reports provided to Pension Fund Committee members, together with the meeting minutes, are available on the Council's website:-

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

http://committeemeetings.flintshire.gov.uk/ieListMeetings.aspx?CommitteeId=445&LLL=0

The Committee papers also include the minutes from the latest Pension Board meeting.

d) Information for Fund Staff:
Effective communication ensures that Fund staff are confident and prepared to undertake their role, as follows:

Clwyd Pension Fund Manager	The Clwyd Pension Fund Manager maintains an open-door policy ensures they are available for any of the Fund staff who may want a one-to-one with them. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.
Pensions Administration/Finance Manager	The Pensions Administration ~~and Finance Managers maintain an open-door policy~~ Manager, Clwyd Pension Fund Manager and Deputy Head of Clwyd Pension Fund ensure they are available for any Fund staff who may want a one-to-one with them. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.
Administration Section Meetings	Normally held on a monthly basis to discuss operational and technical issues, ensuring there is a shared understanding of any issues and developing a consistent approach towards addressing them. In addition, the Pensions Administration Management team meet fortnightly.
Appraisal and Training	All new members of staff undergo an induction procedure to acquaint them with the operational running of the Fund. Subsequently, all pension staff also receive both in-house and external training. Staff at all levels in the Fund have annual assessments, with a mid-year review, during which there are open discussions of work issues and areas for development. This dialogue is supplemented by regular one-to-one meetings within team structures.
TEC (Training & Education Centre)	Clwyd Pension Fund utilises an e-learning facility. This allows Fund staff to work through these e-learning modules to enhance other learning and on-the-job training that they receive. The modules include a timeline of LGPS regulations and how to process calculations

e) Communicating with other bodies:

There are a number of other interested parties with whom we communicate as required, including:

Ministry of Housing, Communities, and Local Government (MHCLG)	The Fund has regular contact with MHCLG as a responsible LGPS Fund, participating and responding to consultations, as required.
Local Government Association (LGA)	The LGA liaises with LGPS Funds and MHCLG to ensure that all LGPS regulations are administered correctly as per MHCLG's instructions.
Scheme Advisory Board (SAB)	The national SAB was established following the Public Services Pensions Act 2013. It provides advice to the Fund and Local Pension Boards in relation to the effective and efficient administration and management of the Scheme and their funds. We therefore liaise with the SAB as appropriate.
The Pensions Regulator	The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. The Fund liaises with the Regulator as required to ensure that it is compliant with the Pensions Regulator's Code of Practice.
Trade Unions	The Fund works with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts are made to ensure all pension related issues are communicated effectively with the trade unions. The trade unions are represented on the Pension Fund Committee and Pension Board.
Employer Representatives	The Fund communicates with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups. Employers are represented on the Pension Fund Committee and Pension Board.
AVC Provider	Additional Voluntary Contributions (AVC) are held and invested separately from the LGPS. The Fund's current AVC providers are Prudential and Equitable Life (closed). ~~The Communication Officer and other Pensions Officers meet with the Prudential for a quarterly update~~ A new AVC provider is expected to take over administration of AVCs previously covered by Equitable Life during 2019/20.

Pension Fund Investment Managers, Advisers and Actuaries	The Clwyd Pension Fund Manager, Deputy Head of Fund and Finance team have regular meetings with; – the Fund Managers who invest funds on behalf of the Fund – Investment Advisers who provide help and advice on the asset allocation and investments of the Fund – the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund The Independent Adviser, the Fund Actuary and the Investment Adviser are all members of the Pension Fund Advisory Panel, and attend all Pension Fund Committee meetings.
Welsh Government	The Fund sometimes needs to liaise with Welsh Government on matters that might impact the delivery of the LGPS, such as local government reorganisation.
Wales Pension Partnership (WPP)	The Fund is a member of the Wales Pensions Partnership which has appointed an Operator to invest assets for all Wales LGPS Funds. Some of the administration and management of the partnership is carried out by the Host Authority, Carmarthenshire Council. The Fund is represented on the WPP Joint Governance Committee by the Chair of the Pension Fund Committee and on the Officer Working Group by an Officer determined by the Pension Fund Committee. As a result of this the Fund will have ongoing relationships with a number of LGPS Funds and organisations within this and other asset pools. Regular reports on the performance of and decisions made by the pool will be presented at Committee meetings and to members via the Fund's annual report and accounts.
Pension Fund Custodian	The Fund's Custodian ensures the safekeeping of the Funds investment transactions and all related share certificates where not invested with the Wales Pensions Partnership.
Pensions and Lifetime Savings Association (PLSA)	The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice. The Clwyd Pension Fund Manager is a representative on the PLSA Local Authority Committee.
Class User Group	The Pension Administration Manager and other Pensions Officers attend the Class User Group meetings twice a year to discuss software issues and required upgrades to Altair, the Fund's administration system. This also includes additional user groups for i-Connect and Member Self Service.
Local Authority	The Fund is a member of LAPFF which was established to help

Pension Fund Forum (LAPFF)	local authority Funds share information and ideas about socially responsible investing.
Regional Forums	The Shrewsbury Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Administration Managers and other Pension Officers from LGPS Funds in the region, to share information and ensure uniform interpretation of the LGPS, and other prevailing regulations.
Partnership Manager Meetings with the 8 Pension Funds in Wales	The Pensions Administration Manager and other Pension Officers regularly meet representatives from the other LGPS Pension Funds in Wales to discuss best practice, to ensure that all Welsh Funds have a consistent approach to their administration procedures. ~~In addition, all of the Communication Officers from the Welsh Pension Funds meet annually to share ideas about forms of communication.~~
Welsh Communications Group with the 8 Pension Funds in Wales	All of the Communication Officers from the Welsh Pension Funds meet as and when required to share ideas about forms of communication.
Shared Services Communications Group	The Communications Officer and other Pension Officers also attend a regional Communication Group on a quarterly basis, to ensure continuity and share ideas about forms of communication.
Requests for information	Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality, by the Flintshire County Council Freedom of Information Officer.
Consultations	There are occasions when the Fund will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the Fund. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.
Press releases and comments	Press releases or comments regarding the Clwyd Pension Fund are made either via the Corporate Communications team within Flintshire County Council or in collaboration with them.

Measuring whether we meet our Communication Objectives

The Fund will monitor success against our communication objectives in the following ways:

Objectives	Measurement
Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits.	Annual satisfaction surveys with scheme members achieving 90% of scores in positive responses in these areas.
Communicate in a clear, concise manner.	Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas.
Ensure we use the most appropriate means of communication , taking into account the different needs of different stakeholders, but with a default of using electronic communications where efficient and effective to do so.	Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas. 5% per year increases in the proportion of scheme members registered on Member Self-Service with a long-term target of 75% of all active and deferred members being registered users.
Look for efficiencies and environmentally responsible ways in delivering communications including greater use of technology and partnership working.	~~Evidence of consideration given towards available technology solutions.~~ ~~Proof of utilizing partnership opportunities relating to communications with other LGPS Funds with similar values and approaches~~. Evidence of use of digital communications as a default in all situations unless valid reasons not to do so for efficiency or effectiveness.
Regularly evaluate the effectiveness of communications and shape future communications appropriately.	Satisfaction survey is undertaken annually (as a minimum). Results from satisfaction survey are thoroughly analysed and investigated, and trends monitored from previous years. Detailed analysis of survey results is used to identify areas to improve communications in future.

An overview of our performance against these objectives will be reported within the Fund's annual report and accounts and also reported on an ongoing basis to the Pension Fund Committee and Pension Board.

If performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Fund will formulate an improvement plan. This will be reported to the Funds' Pension Fund Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

Key Risks

The key risks to the delivery of this Strategy are outlined below. The Clwyd Pension Fund Manager, the Pensions Administration Manager and other officers will work with the Pensions Advisory Panel, Pension Fund Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- ~~Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier~~
- Issuing incorrect or inaccurate communications
- Failure to maintain employer database leading to information not being sent to correct person
- Lack of clear communication to employers, scheme members and pensioners

Approval, Review & Consultation

This Strategy Statement was approved in March 2016 by the Clwyd Pension Fund Committee and further minor amendments approved using officer delegations in September 2018. Further updates were made and approved by the Clwyd Pension Fund Committee in June 2019.

It will be formally reviewed and updated at least every three years or sooner if the communication management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing this Strategy we have consulted with the relevant employers, the scheme member and employer representatives on the Clwyd Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on our website.

Costs

All additional costs relating to this Strategy Statement are met directly by the Fund unless mentioned otherwise.

Further Information

Any enquiries in relation to the Fund's communications or the principles or content of this Strategy Statement should be sent to:

Karen Williams
Pensions Administration Manager
Flintshire County Council
County Hall,
Mold,
Flintshire
CH7 6NA

e-mail - karen.williams@flintshire.gov.uk

Telephone – 01352 702963

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday,12th June 2019
Report Subject	LGPS Current Issues
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide an update on the key issues affecting the LGPS. This covers many of the current ongoing issues and the latest news since the last Committee update in February 2019, in particular:

- McCloud and the Cost Cap Mechanism – on 14 May 2019 SAB published its guidance concerning dealing with the potential additional costs/liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case ("McCloud"). The existing LGPS Regulations should be used to set employer contribution rates, but that Funds and employers should be mindful of the potential extra liabilities when setting their contribution rates at the 2019 valuation.
- On 8 May the MHCLG announced a consultation for the changes to the LGPS Valuation Cycle and the Management of Employer Risk. The deadline for responding to the consultation is 31 July 2019. One of the key proposals include amending the valuation cycle from three years to four years from 2024 (with an out of cycle valuation taking place in 2022).
- We have now passed the actuarial valuation date of 31 March 2019. There will be a number of challenges ahead given the national issues affecting the LGPS at the moment (e.g. McCloud, exit credits, interim valuations, etc.). The Fund has therefore commenced its preparation and is expected to provide membership data to the Actuary during early July.
- In April 2019, the HM Treasury issued a further consultation on the introduction of a £95,000 cap on exit payments, which confirms the overall intentions and also addresses some of the issues that need to be resolved prior to implementation. This consultation closes on 3 July.
- As noted in other reports, there have been a number of developments at the Fund's two AVC providers;
  - Following an internal review of lifestyle options available to members, Prudential has decided to fully close their "Optimiser" lifestyle plans later this year.

	- Equitable Life's transfer of policies to Utmost Life and Pensions Limited will involve some decisions on how funds will be invested on transfer.

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

REPORT DETAILS

1.00	**LGPS Current Issues**
1.01	The purpose of this report is to provide a general update to Committee Members on various current issues affecting the LGPS. Appendix 1 sets out a brief update on a number of significant specific issues, and also wider issues affecting the whole of the pensions industry.
1.02	Key points to be aware of are: • McCloud and the Cost Cap Mechanism – on 14 May 2019 SAB published its guidance on dealing with potential additional costs/liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case. The SAB's view is that the current benefit design as set out under the existing LGPS Regulations should be used to set employer contribution rates, but that employers and the Fund should be aware of the potential extra liabilities when setting their contribution rates at the 2019 valuation. The costs will be quantified and notified to employers as part of the valuation process so they can make provisions where relevant. The McCloud position also has an impact on employer exits and the guidance suggests that it may be possible to take a more prudent approach when determining the exit position and therefore any payment or credit due. The Fund is considering (with the Actuary) whether a policy is required which would set out how to allow for McCloud within termination payments (noting the small number of exits that take place within the Clwyd Fund). • 2019 Actuarial Valuation – As you will be aware, we have now passed the actuarial valuation date of 31 March 2019. There will be a number of challenges ahead given the number of issues affecting the LGPS at the moment (e.g. McCloud, exit credits, interim valuations, etc.). All of these issues will need to be incorporated into Fund policies going forward. The valuation update contains further information on the progress that the Fund has made to date. • On 8 May the MHCLG announced a consultation for the changes to the LGPS Valuation Cycle and the Management of Employer Risk. The deadline for responding to the consultation is 31 July 2019. The

key proposals in the consultation are as follows:

- to amend the local fund valuation cycle of the LGPS from three years to four years from 2024 (with an out of cycle valuation taking place in 2022).
- to introduce powers for the Fund to undertake interim valuations (in full or in part) and to widen the power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations.
- the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant.
- allowing an exit payment calculated on a full buy-out basis to be recovered over a period of time for cases where 'deferred employer' status might not be appropriate.
- a review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an employer.

The Fund has drafted a response to the consultation.

- Exit Payment Caps – this relates to the settlement payments that are made to employees when they leave an employer. These payments normally take the form of a lump sum cash payment, or in the form of shares/share options.

  For employers participating in the LGPS, settlement payments will also include the value or "strain" of taking an unreduced pension for members over age 55. In April 2019, the Government issued a further consultation on the introduction of a £95,000 cap on exit payments, which confirms the overall intentions and also addresses some of the issues that need to be resolved prior to implementation. This consultation is across the whole of the public sector, not just the LGPS, and closes on 3 July.

  The Fund has drafted a response to the consultation and this will be discussed further during the Committee meeting.

- Significant changes are due at both Prudential and Equitable Life during 2019. Following an internal review of lifestyle options available to members, Prudential has decided to fully close their "Optimiser" lifestyle plans later this year. Once the "Optimiser" plans have been fully closed, the Fund will need to be moved to new arrangements. Members will therefore be invited by Prudential to make a decision as to which lifestyle arrangement they would like to transfer. However, in the absence of any decision made by members, the Fund will need to make a decision (and notify Prudential) as to what the default lifestyle arrangement will be so the transfers can take place.

  In addition, major changes are due at Equitable Life as it is expected that all investments are to transfer to Reliance Life with the transfers taking place during the latter part of 2019. Reliance Life has since been rebranded as Utmost Life and Pensions Limited. As part of the transfer deal, the Equitable Life With-Profits

	Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds. Equitable Life has recently stated that (for most investors in a policy with a 3.5% guaranteed interest rate) the Capital Distribution is now expected to increase further than the 60-70% previously expected, although full details have yet to be confirmed. • Actuarial Factors Update – As a result of changes to the SCAPE discount rate in 2018, a number of actuarial factors have been updated and published by GAD recently, coming into effect from March/April 2019 in most cases. The factors updated include those associated with the Purchase of Additional Pension, Early Retirement, Lifetime Allowance and Pension Debits/Credits. The new factors are now being incorporated into calculation systems and routines.

2.00	**RESOURCE IMPLICATIONS**
2.01	Some of the actions arising out of the issues identified could mean significant changes to operational matters for the Fund. In particular, if the benefit changes discussed as part of the LGPS Cost Cap Mechanism go ahead, this would require additional administration resources to implement the changes.

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

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risks: G2 & G7. • Funding and Investment risks: F1, F5

5.00	**APPENDICES**
5.01	Appendix 1 – LGPS Current Issues – June 2019 edition

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Earlier editions of the LGPS Current Issues document, tabled at previous Committee meetings. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **GAD** - The Government Actuary's Department. (f) **SAB – Scheme Advisory Board** – national board established under Public Service Pensions Act 2013. Its purpose is to encourage best practice, increase transparency and co-ordinate technical and standards issues. (g) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (h) **MHCLG – Ministry of Housing, Communities and Local Government** - Central Government department responsible for the LGPS (i) **LGA - The Local Government Association** - a politically-led, cross-party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. Performs various Secretariat and support roles for the LGPS. (j) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement. (k) **GMP** – **Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997.

(l) **CARE** – **Career Average Revalued Earnings –** With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

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

(n) **Fair Deal** - guidance issued by the Government which applies to compulsory transfers of employment out of the public sector. Updated guidance was issued in October 2013, referred to as "New Fair Deal", which amends some of the previous guidance.

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

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

(q) **TPR** – The Pensions Regulator - the UK regulator of workplace pension schemes. TPR is focussed on ensuring that employers put their staff into a pension schemes and pay money into it, together with making sure that workplace pension schemes are run properly so that people can save safely for their later years. TPR has a specific remit in the context of Public Service Pension Schemes as defined by the Public Service Pensions Act 2013 (see its Code of Practice 14).

LGPS CURRENT ISSUES

NEWS IN BRIEF

IN THIS ISSUE

2019 ACTUARIAL VALUATION (E&W)

As everyone will be aware, we have now passed the actuarial valuation date of 31 March 2019. The year ahead certainly promises to be an interesting (and busy!) one as there will be a number of challenges facing Funds and Employers, both locally and nationally, given the number of issues affecting the LGPS at the moment (e.g. McCloud, exit credits, interim valuations, etc.). All of these issues will need to be incorporated into Fund policies going forward.

Whilst membership data has not yet arrived (other than for the keenest Funds), there remains plenty for Funds to be considering at the moment in preparation for what lies ahead, namely:

- arranging preliminary results meetings to discuss snapshot funding positions at 31 March 2019 and in some cases to provide employers with provisional outcomes to assist with their budget planning.
- drafting updated Funding Strategy Statements (incorporating admission/termination policies, etc.) and beginning to plan for the forthcoming consultation exercise.
- continuing the work undertaken to date improving data quality in order to ensure the valuation data submissions are as clean and complete (and therefore as accurate) as possible.
- considering what will be required to implement/develop risk management frameworks as part of the valuation process, e.g. covenant assessments, asset/liability modelling, investment strategy reviews etc.

We are happy to assist Funds with all aspects of the valuation process (not just the boring number crunching!) and so please do discuss your requirements further with your Mercer consultant as required.

COST CAP AND MCCLOUD

On 14 May the LGPS Scheme Advisory Board (SAB) issued its guidance concerning dealing with the potential additional costs/liabilities arising from the Cost Cap process and the McCloud and Sargeant age discrimination case ("McCloud"). The full document can be found here. In practice the likely direction of the advice had been widely trailed, so it did not contain any surprises.

For the actuarial valuations, the SAB's view is that the current benefit design as set out under the existing LGPS Regulations should be used to set employer contribution rates, but that Funds and employers should be mindful of the potential extra liabilities when setting their contribution rates at the 2019 valuation. This is something that will be considered further as we go progress through the valuation process.

The McCloud position does have an impact on employer exits and the guidance suggests that it may be possible to take a more prudent approach when determining the exit position and so any payment or credit due. Funds should discuss the approach to be taken with their actuaries, and our overarching view is that the impact of the potential McCloud liabilities should be allowed for in some way that is appropriate.

CHANGES TO THE VALUATION CYCLE AND MANAGEMENT OF EMPLOYER RISK

On 8 May the MHCLG announced a consultation under the not-so-snappy title "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk". The deadline for responding to the consultation is 31 July 2019 and the full document can be found here.

The key proposals in the consultation are as follows:

- to amend the local fund valuation cycle of the LGPS from three years to four years from 2024 (with an out of cycle valuation taking place in 2022).
- to introduce powers for LGPS funds to undertake interim valuations (in full or in part) and to widen the power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations.
- the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant.
- allowing an exit payment calculated on a full buy-out basis to be recovered over a period of time for cases where 'deferred employer' status might not be appropriate.
- a review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an employer.
- a removal of the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff for new entrants.

We will shortly be submitting our own response to the consultation and will be discussing this with Funds in due course.

EXIT PAYMENT CAPS

For a number of years, the Government has been considering the introduction of a cap on the settlement payments that are made to employees when they leave an employer. These payments normally take the form of a lump sum cash payment, or in the form of shares/share options. For employers participating in the LGPS, settlement payments will also include the value or "strain" of taking an unreduced pension for members over age 55.

In April 2019, the Government issued a further consultation on the introduction of a £95,000 cap on exit payments, which confirms the overall intentions and also addresses some of the issues that need to be resolved prior to implementation. This consultation is across the whole of the public sector, not just the LGPS, and closes on 3 July.

The introduction of the cap will lead to a number of actions / complexities that administering authorities, and employers, will need to be aware of. A separate consultation specific to the LGPS is expected in due course and we will provide further comment on the implications of the exit cap to Funds at that time.

CODE OF TRANSPARENCY

The FCA established the Institutional Disclosure Working Group ("IDWG") in 2017, with a remit to support consistent and standardised disclosure of costs and charges to institutional investors. The IDWG published a summary of their findings in July 2018, which included a recommendation to form a group to encourage and support the use of cost disclosure templates as well as monitor their use. In November 2018, this group was announced as the Cost Transparency Initiative ("CTI").

The CTI launched its cost disclosure templates on 21 May 2019, having conducted a pilot involving asset managers and asset owners. The templates and user guides will be updated in response to feedback in 2020, but they will only be amended if essential so as not to lose asset manager support in their completion.

The objective of the CTI is for all UK asset managers to be able to publish templates in the next 6-12 months. They will be client specific, reflecting agreed terms with each investor. At this stage there is no regulation that obligates managers to complete templates, although this may change in the future. As a result, the process is reliant on pressure from the FCA, CTI, asset owners and advisors.

Of course this is alongside the work done by the LGPS Scheme Advisory Board since launching The LGPS Code of Transparency in May 2017. It was reported at the PLSA Local Authority conference in May by the SAB Chair Cllr Roger Phillips that 117 managers had signed up to the Code since the launch, and that almost 100% of listed assets were now covered. Work has been recently done on property and private equity templates, and it's hoped that all remaining asset managers will sign up to the Code.

AVC UPDATES

Equitable Life

As part of their Spring Announcement in 2018, Equitable Life announced their intention to transfer all policies to Reliance Life, with the transfers taking place during the latter part of 2019. Reliance Life has since been rebranded as Utmost Life and Pensions Limited.

As part of the transfer deal, the Equitable Life With-Profits Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds.

Equitable Life has recently stated that (for most investors in a policy with a 3.5% guaranteed interest rate) the Capital Distribution is now expected to increase further than the 60-70% previously expected, although full details have yet to be confirmed.

Equitable Life are now in the process of contacting LGPS Funds with further details of the proposed transfers and over the next few months Funds will need to make a number of decisions. We would recommend that Funds consider obtaining regulated investment advice to make these decisions and we will be happy to provide further assistance to Funds in this area as appropriate.

Prudential

Following an internal review of lifestyle options available to members, Prudential has decided to fully close their "Optimiser" lifestyle plans later this year. Their review took into account the impact of pension freedom changes in 2015 and also experience of how the AVC Funds were being used by all members (across all Schemes).

Once the "Optimiser" plans have been fully closed, any funds invested in these plans need to be moved to new arrangements. Members will therefore be invited by Prudential to make a decision as to which lifestyle arrangement they would like their funds to transfer.

However, in the absence of any decision made by members, Funds will need to make a decision (and notify Prudential) as to what the default lifestyle arrangement will be so the transfers can take place. We would be happy to assist Funds in making the necessary decisions and considering the wider Prudential AVC offering where necessary.

REGULATOR UPDATE – A NEW APPROACH TO GOVERNANCE

At the PLSA Local Authority conference in May, the Pensions Regulator announced its new approach to governance of LGPS Funds, under a Clearer, Quicker, Tougher mantra. Coupled with the ongoing SAB "Good Governance" review, governance is becoming an even more important subject for Funds to be focusing on, in particular now that the investment pools are all established. In anticipation of the Regulator's increased involvement in the governance of the LGPS going forwards, we will be continuing to build on the good work Funds have begun in recent years e.g. data quality, covenant, training, etc. such that Funds can ensure they are in a strong position going forwards for the benefit of all members and stakeholders.

ACTUARIAL FACTORS UPDATE

As a result of changes to the SCAPE discount rate in 2018, a number of actuarial factors (and in some cases the associated calculation guidance) have been updated and published by GAD recently, coming into effect from March/April 2019 in most cases. The factors updated include those associated with the Purchase of Additional Pension, Early Retirement, Lifetime Allowance, Pension Debits/Credits, Transfer Values and Trivial Commutation. The new factors should now be incorporated into calculation systems and routines.

Aside, a consultation on the implementation of new late retirement factors was issued in March 2019 and closed in April 2019. Alongside a change to the underlying late retirement factors, the consultation also proposed a change to the methodology for calculating late retirement pensions. A number of concerns were raised as part of our response, given the potential administrative/communication impact they would have on Funds (and also software providers) and also the monetary impact on members. From other consultation responses we have seen, these concerns have been echoed. The outcome of the consultation is now awaited.

FURTHER / HIGHER EDUCATION NEWS

Alongside potential changes to the way further/higher education employers offer membership of the LGPS to new entrants (included in the valuation cycle consultation referred to above), there remains significant pressure on employers in the sector from a funding perspective.

Indeed, it has also been announced recently that Hadlow College in Kent has become the first further education college to fall under the Government's new college insolvency scheme that was introduced earlier this year.

If Funds have not done so already, we would therefore recommend a review of the covenant of further/higher education employers participating in the Fund. For those Funds in England and Wales, the 2019 actuarial valuation exercise is an opportune time for such reviews to take place in order that the outcomes can be discussed as part of the Funding Strategy Consultation and reflected in any updated contribution outcomes from April 2020. We would be happy to assist Funds further with these reviews.

FAIR DEAL UPDATE

As mentioned in our previous Current Issues, the MHCLG had published its consultation on the "New" Fair Deal, concerning the introduction of greater pensions protection for employees of LGPS employers who are compulsorily transferred to service providers. The consultation closed on 4 April 2019 and the MHCLG is currently analysing the feedback.

We will provide you with more details on this as new information becomes available. In the meantime, if you have any queries in this area, please contact us.

UK STEWARDSHIP CODE

The Financial Reporting Council (FRC) published in January 2019 a proposed UK Stewardship Code (the Code) for wide public consultation. The consultation closed 29 March 2019 and drew in 170 companies and investors to comment on the proposed changes, including from the LGPS. The final version of the Code will be published in the summer of 2019.

"The proposed main changes to the Code include:

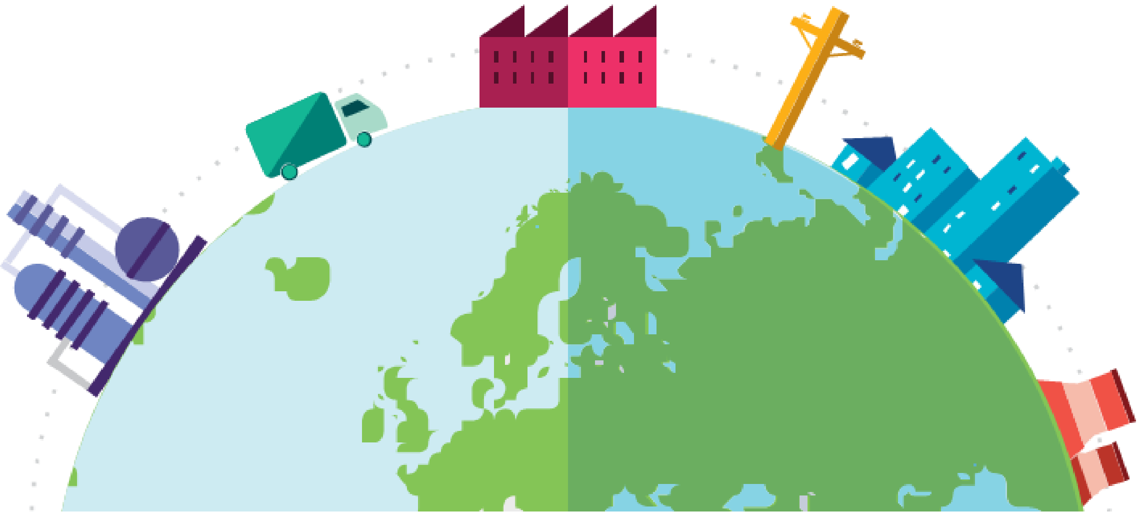
Purpose, values and culture. *Investors must report how their purpose, values and culture enable them to meet their obligations to clients and beneficiaries. This aligns the Code with the UK Corporate Governance Code and encourages embedding behaviour conducive to effective stewardship in the investor community.*

Recognising the importance of ESG factors. *The proposed Code now refers to environmental, social and governance (ESG) factors. Signatories are expected to take material ESG issues into account when fulfilling their stewardship responsibilities.*

Stewardship beyond listed equity. *The proposed Code now expects investors to exercise stewardship across a wider range of assets where they have influence and rights, in the UK and globally."*

From LGPS perspective, the Code further drives Funds to consider how stewardship delivers sustainable value - not only for beneficiaries, but the economy and society at large. Local Government Pension Schemes will need to form a view whether becoming a Code signatory is an action it wants to pursue to ultimately support the overall effectiveness of the proposed Code. Local Government Pension Schemes with their purpose, values and culture are potentially pivotal drivers of the Codes success by expressing their demand for better stewardship.

We would be happy to speak to Funds to discuss the potential impact of the new code and in particular, discuss their ESG investments given this is becoming an increasingly high profile area that Funds needs need to be addressing.



DATES TO REMEMBER

DATE	ISSUE	THE LATEST
31 July 2019	Valuation Cycle	Consultation closes
Summer 2019	UK Stewardship Code	Final version of the code expected to be published
31 August 2019	Benefit Statements	Deadline for Funds to issue annual benefits statements to members
6 October 2019	Pension Savings Statements	Deadline for issue to members
October 2019	Equitable Life	Voting on transfer decisions by eligible policyholders
2019	Pensions Dashboard	Expected to go live in 2019 (under review).
31 March 2020	2019 Actuarial Valuation	Deadline for formal reports and rates and adjustments certificate to be signed off by Fund Actuary
6 April 2020	Lifetime Allowance indexed in line with CPI	The LTA for 2020/21 to increase from £1,055,000 in line with CPI increases.
5 April 2021	Abolition of DB contracting out	End of the 5 year period during which an employer may use its overriding power to amend a scheme to reflect the abolition of contracting out.

MEET SOME OF THE TEAM
THINGS YOU MAYBE DIDN'T KNOW

Name: Michelle Doman
Role: Fund Actuary
Joined Mercer: 2001
Place of Birth: Liverpool
Favourite film: Difficult to narrow down, but a guilty pleasure would have to be the Harry Potter series.
What is your favourite animal and why?: Horses – so many reasons. Ranging from the fun of trying to race round a course of show jumps faster than fellow competitors, to what trusting creatures they are.
What did you do for the May bank holidays?: I went to visit the "World Horse Welfare" charity in Blackpool to donate some gear, eat cake and much to my other half's relief, not come back with another horse!

Name: Kieran Harkin
Role: Investment Consultant & Head of the LGPS Investment Team
Joined Mercer: April 2019 (previously joined JLT in March 2013)
Place of Birth: Stockport
Favourite film: Tough one, as I like so many films, but will go with Goodfellas
What is your favourite animal and why?: Any of the numerous birds that migrate between warmer climates in summer and winter. Why - travelling with friends and/or family to experience a change of environment twice a year and (in theory) enjoy decent weather all year round, sounds good to me!
What did you do for the May bank holidays?: We are having some house refurbishment over the summer so a lot of time was spent looking at (agreeing to!) various room designs my wife has planned.....

Name: Haris Ellahi
Role: Investment Analyst
Joined Mercer: 2017
Place of Birth: Liverpool
Favourite film: The Fast and Furious franchise (can't pick one film but the first 5 are the best)
What is your favourite animal and why?: Can't really think of one. I once had a Russian Dwarf hamster so I'll go with that.
What did you do for the May bank holidays?: Catch up on sleep – Fasting for Ramadan so need to conserve energy somehow!

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12th June 2019
Report Subject	Administration and Communications Update
Report Author	Pensions Administration Manager

EXECUTIVE SUMMARY

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

(a) Business Plan 2018/19 completion and moving into 2019/20 update – this includes details of data preparation for the 2019 valuation.

(b) Current Developments and News – this includes updates relating to recent training sessions, external projects and national changes, including a proposed Fund response to a consultation on introducing a £95k exit payment cap for public sector employees.

(c) Communications – the results from this year's annual satisfaction surveys.

(d) Resource – an update on recruitment and staffing.

RECOMMENDATIONS	
1	That the Committee consider the update and provide any comments.
2	That the Committee approve the change in timescales to the business plan as outlined in paragraph 1.01.
3	That the Committee approve the proposed response to the £95k exit cap consultation as attached in Appendix 7.

REPORT DETAILS

1.00	**ADMINISTRATION AND COMMUNICATIONS RELATED MATTERS**
	Business Plan 2019/20 Update
1.01	Actions against the 2018/19 business plan are now complete as illustrated in Appendix 1. Progress against the business plan items for quarter one of this year is generally on track as illustrated in Appendix 2. Key items to note relating to this quarter's work are as follows: • A1 Workforce Review - this has been completed and appropriate appointments have been successfully made. Full details are noted below in point 2.00 Resource. In addition to the changes and appointments that have already been made, the review identified that the structure of the Technical Team does not correctly reflect the function of payroll within the Administration Team. The roles within the Technical Team will now be reviewed and a further update will be provided at the next Committee Meeting. • A2 Project Apple - This has been successfully completed and is considered in a separate agenda item. • A3 & A8 Under/Overpayments Policy & GMP Reconciliation project– A3 has been delayed due to the requirement of more information in relation to the GMP reconciliation project. Timescales for this will need to be extended into Q2. A8 remains on track, although an extension to the existing contract was required to include the provision of service from Equiniti until the end of December 2019. This, however, has not resulted in any additional costs for the Fund. In addition to the fortnightly conference calls, a meeting will take place between the CPF and Equiniti within the next couple of months to discuss the next phase of the project and the workload implications on the Administration Team. Decisions may be required before the next committee meeting regarding tolerances for the under/overpayments policy, in which case the Fund's urgency delegations will be used. • A4 Administration and Communication Strategies – Both of these have been reviewed and proposed updated strategies are included in a separate agenda item. • A5 & A10 Preparation of Member Data for Valuation and Funding Reviews & Data Improvement Plan Development / Implementation – Work is well under way within the Administration Team. Additional outstanding benefit calculation cases have been identified which are suitable to be outsourced and these will be undertaken by Mercer in line with existing working agreements and charges which are consistent with previously outsourced work. The expected increase in budget and associated costs will be reported in the September Committee once known. The aim is for as many of the outsourced cases as possible to be completed in time for the valuation data submission deadline which is mid-July. The cases being completed within A5 also form part of the Data Improvement Plan.
1.02	The Committee is asked to agree the extension of timescales above relating to A3 and note the budget increase that will be required for A5, which will be provided to the Committee in September.

	Current Developments and News
1.03	A separate LGPS update report has been provided by Mercer and is included with the Committee Papers. In general we are aware of the points highlighted in the report and a number of these are specifically referred to in the Business Plan for 2019/20. The following includes some of these points as well as other developments and news: • The founder members of the LGPS National Framework for the provision of a software supplier have agreed to proceed with the framework. CPF is one of the founder members. Please see Appendix 3 for details. This is a vital piece of work and will benefit the CPF in the procurement process to review the pension administration software. The Pension Administration Manager will continue to work with the other founder members over the next 12-14 months to establish the framework. • The administration team are continuing to develop and implement the changes recommended in the CIPFA Annual Report Guidance. The CIPFA Pensions Panel recently wrote to all Finance Managers highlighting the need for proper benchmarking and concerns about resources (see Appendix 4). The Pensions Administration Manager was part of the national working group of practitioners which developed the updating reporting requirements and, CPF continues to promote the changes and share our working practices with other Funds. Further KPIs will be developed under A11 of the Business Plan. These changes are intended to streamline the benchmarking procedure, ensuring the details reported are consistent and will encourage more funds to participate in its completion thus making benchmarking more valuable. • The 2019 Pensions Increase Review has been successfully implemented, and increases paid and communicated to all pensioner and dependant members. Communications were sent using the members' preferred method; either through the on-line Member Self Service (MSS) facility or a paper copy. • To assist with the understanding of the roles and responsibilities of the parties involved within the running of the Scheme (for example the role of FCC as Administering Authority, Pension Board and the Pension Committee), governance training was offered and provided to members of the Administration Team. This was completed over two sessions and was greatly received by all attendees. • A new working policy for the administration and communication of tax allowances to scheme members is currently being developed which will ensure more focussed communications to members who might be impacted. A review is being undertaken of the deferred and active member benefit statements, to investigate the possibility of including further information regarding comparison with Life Time Allowance (LTA) and Annual Allowance (AA) thresholds within the statements. Further training on these complicated areas will be provided by Mercer to senior administration team members. • The Pension Administration Manager (PAM) is a member of a Business Continuity Plan working group for FCC. To ensure good practice, CPF will complement this by implementing a separate CPF specific plan. • The £95k exit cap proposal has now been consulted on with the intention of limiting the amount of lump sum payments, paid to public sector workers on termination of employment, to £95k. However, within

	the LGPS this is expected to include the value of the "strain on the Fund" where a scheme member is paid a pension with any reduction for early retirement effectively being waived. This will primarily impact on members where a termination of contract has occurred with the ability to receive a full unreduced pension, often alongside a redundancy payment. The following documents relating to the consultation are included with this report: o A circular prepared by LGA providing an overview of the impact of the consultation for the LGPS, including web links to the consultation, is attached as Appendix 5, o A summary of the consultation prepared by the Fund Actuary, Mercer, including the impact on the administering authority and employers in the LGPS is attached as Appendix 6, and o the proposed CPF response to the consultation for approval is attached as Appendix 7. The Committee is asked to consider and approve the consultation response.
1.05	**Policy and Strategy Implementation and Monitoring** *Administration Strategy* The latest monitoring information in relation to administration is outlined below: • Day to day tasks – Appendix 8 provides the analysis of the numbers of cases received and completed on a monthly basis since April 2016 as well as how this is split in relation to our three unitary authorities and all other employers. The number of tasks being completed by the team remains consistently high which can be seen by the consistent reduction in the number of outstanding cases since September 2018 when it was approximately 10,000 cases. Over the last three months the number of outstanding cases has reached the lowest level it has been at in the past 16 months (albeit with a slight increase in April 2019) with outstanding cases now being approximately 8,000. This is due to a more focused approach towards business as usual cases, specific project work and preparation for the 2019 valuation, as well as the beginning of the benefits of recent recruitment and training. • Key performance indicators – Appendix 9 shows our performance against the key performance indicators that are measured on a monthly basis up to April 2019. The chart continues to illustrate that we are not managing to meet most of the agreed standards and this will continue to be the case whilst historical work is being completed. However, the recent appointments will also help to improve these statistics once training has been completed. It is hoped that improvements will be instant in some areas such as the Joiners and Leavers process. It is pleasing that Transfers Out, Quotations and Retirements targets continue to be high % target achieved results, in most if not all targets.
1.06	*Internal dispute resolution procedures* The two outstanding cases for 2017/18 have now been resolved with no impact on CPF. In relation to the cases outstanding for 2018/19: • there are seven Stage One appeals currently ongoing against the employer. These are all in respect of requests for payment of benefits

	on ill health grounds being declined. • three Stage One appeals against the employer have been rejected. • there have been two Stage One appeals against the Administering Authority which have both been rejected. • The Stage Two ongoing appeal has also been rejected. In relation to the cases for 2019/20: • there is one Stage One appeal against the employer for a request for payment of benefits on ill health grounds that was declined. This case is ongoing.

	2019/20			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	1			1
Stage 1 - Against Administering Authority				
Stage 2 - Against Employers				
Stage 2 - Against Administering Authority				

	2018/19			
	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	10		3	7
Stage 1 - Against Administering Authority	2		2	
Stage 2 - Against Employers	3	2	1	
Stage 2 - Against Administering Authority	1		1	

	There are no CPF cases that are currently with the Pensions Ombudsman.
1.07	*Communications Strategy* The Communications Team has provided the following communications since the last update: • Twelve emails to employers providing information in relation but not limited to retirement factors, the Fair Deal Consultation, the Cost Cap and LGA bulletins. • Numerous presentations to employers and members including retirement seminars, LGPS presentations and individual sessions explaining combining benefits for multiple employments. • A communication providing information about scheme regulation changes was sent to all members. Further updates were issued to relevant scheme members including pensioner newsletters. New versions of the updated scheme guides have been uploaded onto the website. They have also attended several user group meetings across England and Wales.
1.08	Other key points in relation to communications include: • The successful appointment from 1st March to the vacant Communications Officer post has completed the recruitment for that team. This will facilitate progression of the Communications Strategy and other key communication related projects that are within the business plan. • Member and Employer satisfaction surveys were issued in March

	with results collated in April. The results provide a vital insight for future focus and improvements. The results can be found in Appendix 10. There has been a dip in scores compared to previous years and we are continuing to analyse the results and comments to determine appropriate actions that should be taken. We are, however, confident that the appointments to the Regulations and Communications team, and the wider appointments to increase team resources, will have a positive impact going forward. • A review of the Annual Benefit Statements and Deferred Benefit Statements is currently being undertaken to ensure compliance with the proposed policy for administration and communications of tax allowances to scheme members.
1.09	Appendix 11 provides an updated summary of Member Self Service (MSS) registered users, which illustrates that enrolment to Member Self Service continues to grow. It has increased by over 600 members since the last meeting with 35% of active members now registered to use this on-line facility. It is pleasing to see a large increase in the number of MSS registrations covering this period. A greater focus on member uptake of Member Self Service (MSS) will be one of the main priorities of the new Communications team. An additional communication will be issued targeting those members who have not yet provided us with their method of communication preference.
  1.10	**Delegated Responsibilities** The following have been agreed using delegated responsibilities since the last committee meeting. • Approval of the Administering Authority Discretionary Policy statement • Approval of the Fund's Voluntary Scheme Pays Policy • Changes to staffing structure – increasing 1 Pensions Officer from 3 to 5 days and creating 2 new 12-month contract Pension Assistant posts. • Write off overpaid pension and lump sums relating to three pensioner members due to system and manual errors (approximately £3,500 in total). Further details are included within Appendix 12.

2.00	**RESOURCE**
2.01	An appointment has been made to the vacant Pension Administration Manger post. As a result of internal promotion to this post, a number of other vacancies required recruitment and these have now all also been filled. Details are shown below: • Principal Pensions Officer – Technical (internal promotion) • Technical Development Officer (internal transfer)

	• Pension Payroll Officer part-time (external appointment) • Communications Officer (internal promotion) • Pensions Officer (internal promotion) • Pension Assistant (internal promotion) • Pension Assistant part-time (external appointment) In addition, following approval by the Committee, the following vacancies have also been filled: • New Lead ELT Pension Officer (internal promotion) • ELT Pension Officer – replacing above (internal promotion) • ELT Pension Assistant – replacing above (external appointment) • Pension Officer (external appointment) • 2 x Pension Assistant (external temporary 12-month appointments) It will take a number of months for all the new and promoted staff members to be fully trained, but the benefit of the recruitment and training is already being evidenced and this is expected to continue through improvements in outstanding case numbers and KPIs in the coming months. This is the first time that the team has not had vacant posts in several years. Staffing levels will be continuously reviewed to measure the impact of the new team members on our workloads.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	None directly as a result of this report other than the £95k exit cap proposals which is of relevance to the employers in the Fund. These proposals have been shared with all the employers in the Fund and we have encouraged them to submit their own responses.

4.00	**RISK MANAGEMENT**
4.01	Appendix 13 provides the dashboard and the extract of administration and communications risks. The key risks continue to relate to: • Employers not understanding or meeting their responsibilities which could lead to us being unable to meet our legal or performance expectations, • Big changes in employer numbers, scheme members or unexplained work increases which could lead to us being unable to meet our legal or performance expectations. This is considered a high risk due the range of potential national changes and particularly the potential impact of the employer cost management process and McCloud judgement. • Systems are not kept up to date or not utilised appropriately, or other processes inefficient, which could lead to high administration costs and/or errors. This is currently high due to a major organisational change in the supplier of the CPF administration system
4.02	Since the last update, the following risks have been updated:

	• Risk number 1 – unable to meet legal and performance expectations due to staff issues e.g. poorly trained or insufficient staff. The controls and actions have been updated to reflect the increasing staffing levels. The risk category has reduced from red to amber due to likelihood and impact also reducing to significant (from critical) and marginal (from very high). This is due to the recent recruitment of additional staff. This expected to remain at this level until all new staff are fully trained. • Risk number 2 – unable to meet legal and performance expectations due to employer issues e.g. not understanding their responsibilities, poor data transmission and insufficient resources. The likelihood score has been reduced to very high (from extremely high) after considering the increased employer engagement surrounding data quality recently. More employers are also moving onto i-Connect for efficient data transmission. We believe employer engagement will continue to increase and an increase in the number of employers using i-Connect is also planned which will have a positive impact on the risk status moving forward. • Risk number 3 – unable to meet legal and performance expectations due to external factors e.g. big changes in employer or scheme member numbers or unexpected work. The likelihood has been increased to very high (from significant) to reflect the potential changes at a national level particularly around the employer cost management process and the McCloud judgement. This will be monitored until the impact of the proposed changes is better understood.

5.00	**APPENDICES**
5.01	Appendix 1 – Business plan update 2018/19 Appendix 2 – Business plan update 2019/20 Appendix 3 – Framework update Appendix 4 – CIPFA letter Appendix 5 – LGA summary of £95k cap proposals Appendix 6 – Mercers summary of £95k cap impact Appendix 7 – Draft £95k cap consultation response Appendix 8 – Analysis of cases received and completed Appendix 9 - Key Performance Indicators Appendix 10 – Satisfaction survey results Appendix 11 – Member Self Service update Appendix 12 - Details of delegated responsibilities Appendix 13 - Risk register update

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Business Plan 2018/19 to 2020/21 **Contact Officer:** Karen Williams, Pensions Administration Manager **Telephone:** 01352 702963 **E-mail:** karen.williams@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of. (f) **TPR – The Pensions Regulator** – a government organisation with legal responsibility for oversight of some matters relating to the delivery of public service pensions including the LGPS and CPF. (g) **SAB – The national Scheme Advisory Board** – the national body responsible for providing direction and advice to LGPS administering authorities and to DCLG. (h) **MHCLG – Ministry of Housing, Communities and Local Government** – the government department responsible for the LGPS legislation.

Business Plan 2018/19 to 2020/21 – Q4 Update
Administration and Communications

Key Tasks

Key:

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

Administration (including Communications) Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
A1	Additional Payroll Functionality	x		xM			
A2	Move to Electronic Annual Benefit Statements	x	x				
A3	iConnect	x	x	x	x	x	
A4	Expanded Backlog to 31 March 2014	x	x	x	x		
A5	Aggregation Project	x	x	x	x	x	
A6	Electronic and Centralised internal procedures	x	x	x	x	x	
A7	Data Improvement Plan Development	x	x	x	x		
A8	GMP Reconciliation	x	x	x	x	x	
A9	Trivial Commutation	x	x	x	x	xM	
A10	LGPS Legal Timescales Analysis		x	x	x	xM	
A11	National Pensions Dashboard			x	x	x	xM
A12	Workforce Review				x	x	
A16	Other Expected National Changes (dates unknown)						
A17	GMP Equalisation				xM	xM	
A18	Scheme changes due to Cost Management Process				xM	xM	

Administration and Communication Task Descriptions

A1 – Additional Pensioner Payroll Functionality

What is it?

Currently lump sum payments (i.e. retirement lump sums, transfer payments and death grants) are made via the Council's main financial system. The Altair pensioner payroll system which is used by the Pensions Administration Team has the functionality to allow these payments to be made through it. This reduces the reliance on systems outside of the control of the pension administration team and it would also result in quicker payments to scheme members. .

Timescales and Stages

Testing and implementation	2018/19 Q1

Resource and Budget Implications

All internal costs are to be met from the existing budget. External costs amount to £3,800 one off cost.

A2 – Move to Electronic Annual Benefit Statements

What is it?

Following the implementation of Member Self Service, the move from paper based Annual Benefit Statements to Electronic is planned for the 2018 statements. This includes other annual electronic communications such as pensions increase letters for pensioners.

Timescales and Stages

Deferred Benefit Statements	2018/19 Q1
Active Benefit Statements	2018/19 Q2

Resource and Budget Implications

All internal costs are to be met from the existing budget. Printing and mail costs will reduce in 2018/19 and future years.

A3 - iConnect

What is it?

iConnect is the on-line computer module that allows information to be submitted by employers more directly and efficiently into the pension administration system (Altair). It involves employers uploading data directly into iConnect from their payroll systems. iConnect is to be rolled out to all employers of the Fund on a phased basis. For each employer being transitioned onto iConnect, the first stage is ensuring that the correct member records are held on the Altair administration system before entering into testing and live roll out of iConnect. This will be done on a phased basis by employer. The project commenced in 2017/18 and Denbighshire County Council, Bodelwyddan Castle Trust, Prestatyn Town Council, Careers Wales, Cartref NI Ltd Flintshire County Council, Aura and Newydd have been successfully implemented.

Timescales and Stages

Other employers	2018/19 Q2/Q3/Q4
WCBC	2019/20

Resource and Budget Implications

There will be a time and resource commitment required from employers. All internal costs are being met from existing budget. The system cost is also incorporated into the budget. The roll out of iConnect, particularly to WCBC will involve significant internal resources which may impact on other day to day work.

A4 – Expanded Backlog to 31 March 2014 (Mercers)

What is it?

A backlog of tasks prior to 31 March 2013 has been expanded to 31 March 2014 and approximately 350 additional member cases have been identified for completion by Mercers.

Timescales and Stages

Clear cases externally and eliminate backlog	2018/19

Resource and Budget Implications

Resource provided by Mercer. The costs in relation to this exercise have been included in the budget.

A5 – Aggregation Project

What is it?

When members move/leave employments there are a number of options available to them and all of these options need to be conveyed to the members concerned. There are approximately 3,500 cases (as at 30 September 2017) where members need to either be informed that their records have been aggregated or be provided with their respective options. Software providers are still developing calculations to accommodate these changes. The recent recruitment and creation of the Aggregation Team has facilitated procedures to be put in place to address this backlog and maintain these cases as "business as usual" going forward. Whilst still in the planning stages it is expected that approximately 1700 of these cases may be outsourced to Mercers for the initial stage of the process to be actioned and returned to the Aggregation Team for completion.

Timescales and Stages

This is a high priority project and will be completed as soon as possible.

Ongoing progress with data cleansing	2018/19
Clear cases and eliminate backlog	2018/19 & 2019/20

Resource and Budget Implications

An additional £13,683 for changing Pensions Assistants to Pensions Officers is included within the budget (previously agreed in 2017/18. There will also be further costs relating to the work which may be outsourced to Mercers and an estimated cost for 2018/19 has been included in the budget figures.

A6 – Electronic and Centralised internal procedures

What is it?

This relates to the development of an on-line procedures manual for use by the Pensions Administration staff. This will amalgamate, expand and update current procedure documents, and ensure consistency, easy access and efficient working as well as providing a useful training tool. These updated procedures will also be linked into staff competencies and training plans.

Timescales and Stages

This is a lower priority project and will be completed as and when resource allows.

Develop, collate, update and maintain	2018/19 & 2019/20

Resource and Budget Implications

To be carried out by the full Pensions Administration team. All internal costs are to be met from the existing budget.

A7 – Data Improvement Plan Development

What is it?

In 2015, the Pensions Regulator (TPR) assumed responsibility for Public Sector Pension Schemes. Prior to this, in June 2010, TPR issued guidance on the approach that they expected to be adopted by private sector pension schemes to consider data. This referred to checks being expected on 'common' data (e.g. Name, Address, Date of Birth, National Insurance number). TPR also outlined 'conditional' data checks but did not set prescriptive targets as the data is deemed to be scheme-specific (e.g. Member data – divorce, transfers in, AVCs, deferred information). The guidance did target pension scheme trustees to ensure that 'reasonable endeavours' were undertaken to provide evidence of assessment and measurement, together with an action plan to meet the scheme specific targets (i.e. a data improvement plan). From 2018/19, TPR is expecting all pension schemes to review their common and conditional (now called scheme-specific) and score the quality of that data.

To assist customers in undertaking this practical assessment of their data, both common and /scheme specific Aquila Heywood offers a Data Quality service. The LGPS Scheme Advisory Board will also be providing guidance on what LGPS scheme specific data should be (to provide consistency in checks between administering authorities) but this is unlikely to be available until later in 2018/19.

In addition to measuring and capturing the results of the common and scheme specific data reviews, the Fund will develop a data improvement plan to capture any other elements of data that they consider to be inaccurate and ongoing plans.

Timescales and Stages

Run reports and ascertain data quality	2018/19 Q1
Research and correct any data anomalies where practical*	2018/19 Q1 – Q4
Review scheme specific data checks based on national	2018/19 Q3/4 (to be

LGPS requirements	confirmed)

*Where not practical, a timescale will be included in the Fund's data improvement plan.

Resource and Budget Implications

To be carried out by the Pensions Administration Team. This may also require input/information from the employers (subject to findings). The data reports are provided at an annual cost of £5,000 (assuming this is taken over at least three years).

A8– GMP Reconciliation

What is it?

The government removed the status of "contracted-out" from pension schemes in April 2016. Prior to then, contracted-out pension schemes had to ensure the benefits they paid met a minimum level and one element of this was a Guaranteed Minimum Pension (GMP) figure that accrued individually for each scheme member up to April 1997. Historically pension schemes would go to HMRC to get confirmation of the GMP amount on retirement. However, as a result of the demise of contracted-out status, HMRC will no longer be maintaining GMP and other contracting out member records. This means that the onus will be on individual pension schemes to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC. All GMP's and national insurance information must be reconciled by March 2019, the date the HMRC will cease to provide their services.

Initial work has identified that there was significant discrepancies between the two sets of data, and a significant amount of work will be required to determine the correct benefits, ensure all systems are updated and to process a potentially significant number of over/underpayment calculations. After the records are reconciled for former pensionable employees, the Fund must also ensure the accuracy of national insurance information held for active members. All GMP's and national insurance information must be reconciled by December 2018, the date the HMRC will cease to provide their services. Clwyd Pension Fund decided to outsource this exercise in 2017/18 to Equiniti and the project commenced during that year. The timescales below are subject to change depending on the magnitude of the work.

Timescales and Stages

GMP data reconciliation and investigation	2018/19
Reconciliation of national insurance information (Active Members)	2018/19
Benefit correction and system updates	2018/19 & 2019/20

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Equiniti who are carrying out the work. This is likely to impact internal resources in relation to any adjustments to be made to current pension amounts (i.e. under or overpayments) but the impact of this is not yet known.

A9 - Trivial Commutation

What is it?
This is where a member who is entitled to a small pension can elect to give up the entirety of that pension and instead receive their benefit as a single lump sum payment. A project will be carried out to identify any pensioners and dependants who may be eligible for trivial commutation and to offer it to them. This will reduce the administrative burden on the Fund paying a large number of very small pensions over a number of years as well as providing greater clarity from a funding perspective. The government has a limit for members to trivially commute their pension in relation to their single pension (£10,000 value – called a "small pot") and total benefits (£30,000 – called "trivial commutation"). As well as reducing the number of pensioner payments that require ongoing payment this could also have a positive impact on the funding level as it removes the liabilities for these members. It will also be welcomed by a number of pensioners who would prefer a one-off lump sum payment rather than ongoing smaller payments of little value.

Timescales and Stages
Timescales below are indicative and subject to prioritisation of other administration work streams.

Identify members eligible to commute under £10,000	2018/19
Communicate with eligible members and pay lump sums	2018/19
Identify members eligible to commute under £30,000:	2019/20
Communicate with eligible members and pay lump sums	2019/20

Resource and Budget Implications
The majority (if not all) of this work may be outsourced to Mercer or another external provider to assist with resourcing. The precise cost of this is as yet unknown but a contingency has been included for 2018/19 within the budget to cover potential costs. It will also require input by the Technical Team with some assistance from the Operational Team, with any such input being focussed on the later stages of the project. All internal costs are to be met by existing budget.

A10 – LGPS Legal Timescales Analysis
What is it?
Following the implementation of monitoring performance against the seven key legal timescales (as part of the monthly Key Performance Indicators (KPIs) reporting), a full review is being undertaken of our workflow systems and data quality to enable monitoring against a wider range of legal deadlines such as those relating to refunds and divorce.

Timescales and Stages
Develop further legal timescales reporting process	2018/19 Q2/Q3

Resource and Budget Implications

All internal costs are to be met by existing budget. It may be effective to outsource some of the development work to Aquila Heywood but this is not expected to be a material cost, and it is not included in the budget.

A11 – National Pensions Dashboard

What is it?

The Pensions Dashboard is a Government initiative first announced in the Budget 2016. The idea behind the Dashboard is to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. A basic prototype was developed in 2017 and the full launch is planned for 2019. The implications on public service pension schemes, including whether they will be required to participate and the cost, and resource implications, is not yet known. The timescales below are therefore estimated.

Timescales and Stages

Development expected	2018/19 Q3/4 & 2019/20
Launch	2019/20

Resource and Budget Implications

Resource and budget implications cannot be determined until more detail is available.

A12 - Workforce Review

What is it?

Following ongoing system improvement, backlog work and other efficiencies, it is appropriate to review whether the structure of the Administration Team (including the Employer Liaison Team) is effective and fit for purpose taking into consideration the new processes. As part of this, the ongoing cost will be considered, including whether the administration objective relating to cost is achievable.

Timescales and Stages

Review temporary contracts	2018/19 Q4
Wider review of appropriateness and effectiveness of structure	2019/20

Resource and Budget Implications

All internal costs will to be met from the existing budget.

A16 - Other Expected National Changes

What is it?

There are a number of national changes that are expected in due course. Given the focus on Brexit, it is not expected that many, if any, changes will take place during 2018. Areas where change may be forthcoming in due course could include:

- Scheme Changes as a result of the Cost Management Process (now A18)
- Changes in Exit Payments
- Indexation of GMP's for members reaching SPA from December 2018
- GMP equalisation (now A17)
- Fair Deal
- LGPS amendment regulations in relation to drafting problems or other areas of improvement (e.g. ill health provisions and aggregation)
- Welsh income tax changes

Timescales and Stages

To be determined

Resource and Budget Implications

Any significant changes will be reported to PFC when more information becomes available.

A17 – GMP Equalisation

What is it?

Following a High Court judgement in October 2018, it has been confirmed that pension schemes are required to equalise male and female members' benefits for the effect of Guaranteed Minimum Pensions (GMPs). The impact for the LGPS will likely be resolved through increasing the amount of indexation (or pensions increases) when pensions are paid. As at November 2018, we are still awaiting guidance from the Government on the details of how this will be done but it could result in a significant administration exercise to update member records and potentially to adjust pensions already in payment. We would expect any work to resolve this to be during 2018/19 and 2019/20.

Timescales and Stages

To be confirmed

Resource and Budget Implications

To be confirmed.

A18 – Scheme changes due to Cost Management Process

What is it?

Following a Cost Management exercise, changes are expected effective from April 2019 which will improve scheme benefits and/or reduce scheme member contributions. These changes will need to be communicated to scheme members and employers, and processes will also need updating.

Timescales and Stages

Confirmation of changes expected, and initial communications with scheme members and employers	Q4 2018/19
Changes to processes and systems	Q1 2019/20

Resource and Budget Implications

There will be a time and resource commitment required from employers including relating to updating payroll systems. It is expected that internal costs will be met from existing budget. There may be additional costs relating to changes to the Altair administration system. The amount of work may involve significant internal resources and consequently other day to day work may be impacted.

Employer Liaison Team Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
E2	Data preparation for iConnect	x	x	x	x	x	
E3	Development of workflow reporting to employers		x	x	xM		
E4	Review of Agreements				x	x	x

Employer Liaison Team Task Descriptions

E2 – Data preparation for iConnect

What is it?

The supply (manually) of significant volumes of missing data, in order to match records between the employer's payroll system and the iConnect software in preparation for automatic monthly uploads going forward.

Timescales and Stages

Reviewing inconsistencies, working through spreadsheets (WCBC)	2018/19 Q1 to Q4
Continuous refining of mismatches going forward (WCBC)	2019/20 Q1/2

E3 – Development of workflow reporting to employers

What is it?

Developing the standard reports that will be sent out on a monthly basis to employers who use ELT.

Timescales and Stages

Review and recommend updates:	2018/19 Q2/3

E4 – Review of Agreements

What is it?

Periodic review of the scope of the ELT agreements and service level agreements for each employer

Timescales and Stages

Whistle-stop review to address any issues/new requirements FCC/WCBC	Each Q4

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Business Plan 2019/20 to 2021/22 – Q1 Update
Administration and Communications

Key Tasks

Key:

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

Administration (including Communications) Tasks

Ref	Key Action -Task	2019/20 Period				Later Years	
		Q1	Q2	Q3	Q4	2020/21	2021/22
A1	Workforce Review	x					
A2	Project Apple	x					
A3	Develop Under/Over Payment Policies	x	xM				
A4	Review Administration & Communications Strategy Statements	x			x		
A5	Preparation of Member Data for Valuation and Funding Reviews	x	x				
A6	Implement Survivor Benefits Changes	x	x				
A7	Member Tracing	x	x	x			
A8	GMP Reconciliation	x	x	x			
A9	Aggregation Project	x	x	x			
A10	Data Improvement Plan Development / Implementation	x	x	x	x		
A11	LGPS Legal Timescales Analysis	x	x	x	x		
A12	iConnect	x	x	x	x	x	

Administration and Communication Task Descriptions

A1 - Workforce Review

What is it?

The resource requirement relating to the Administration Team (including the Employer Liaison Team) were considered during 2019/20 resulting in an increase in posts. These posts are continuing to be filled and this, and the associated training, is likely to continue into 2019/20. The appropriate resources will continue to be monitored during 2019/20 to ensure existing backlogs are reduced whilst implementing ongoing changes to the scheme and striving to meet the Fund's agreed key performance indicators.

Timescales and Stages

Filling vacancies and ongoing training	2019/20 Q1

Resource and Budget Implications

All internal costs are being met from the existing budget albeit any necessary changes to staffing levels or numbers may impact on the budget which will be amended accordingly from time to time, subject to agreement by the PFC.

A2 – Project Apple

What is it?

Due to incorrect Assumed Pensionable Pay figures being provided by an employer, the Employer Liaison and Operations Teams of CPF are recalculating a number of scheme members benefits. This is resulting in some changes to benefits which require rectification and communication with scheme members. The project is expected to be largely finished by 31 March 2019 but it is assumed there will be some final elements that will need completed during the beginning of 2019/20 including verifying the final financial impact on the employer and the Fund, and further testing of the fix to the payroll system.

Timescales and Stages

Completion of delivery of Project Apple	2019/20 Q1

Resource and Budget Implications

The work is being completed by ELT, Operations, Mercers and Aon. All expected costs are outlined in the budgets. The majority of the costs are subsequently being recharged to the affected employer through its employer pension contribution rate.

A3 – Develop Under/Over Payment Policies

What is it?

It is good practice for a pension fund to have clearly agreed policies and procedures relating to how to deal with benefits that have been under or over calculated and, where relevant, under or over paid. This could be for several reasons, including incorrect information being provided by an employer or a scheme member, late notification of a change of circumstances (such as a death of a pensioner) or CPF carrying out a benefit calculation incorrectly. CPF is currently undertaking the GMP reconciliation exercise which is likely to result in benefits being recalculated. It therefore is timely to produce a CPF policy which will consider how members will be dealt with because of the GMP reconciliation exercise, as well as other situations.

Timescales and Stages

Drafting, approval of and implementation of policy	2019/20 Q1

Resource and Budget Implications

The initial drafting work was carried out during 2018/19 by Aon. The majority of the final work will be completed internally and within the budgets shown.

A4 - Review Administration and Communication Strategies

What is it?

The CPF Administration Strategy and Communications Strategy were approved at the March 2016 PFC. The Communication Strategy was due to be formally reviewed in March 2019 but that was deferred due to team member changes. The Administration Strategy was updated in March 2017 and is therefore due for review in March 2020, but this may be carried out as the same time as the Communications Strategy for consistency purposes. They must be reviewed at least once every three years to ensure they remain relevant and up to date. Given the close relationship between the two strategies, it is advantageous to review them at the same point.

Timescales and Stages

Review of Communications Strategy	2019/20 Q1
Review of Administration Strategy (if not done before)	2019/20 Q4

Resource and Budget Implications

This will be led by the Pensions Administration Manager. All costs are being met from the existing budget.

A5 – Preparation of Member Data for Valuation and Funding Reviews

What is it?

The triennial actuarial valuation as at 31 March 2019 requires the pension administration team to provide data to the actuary. This involves additional year end cleansing exercise post 31 March 2019 to ensure the data is of sufficient quality for the valuation and to then rectify any anomalies discovered during the valuation process. The CPF data is expected to be more robust than in previous years due to ongoing work implementing iConnect, dealing with backlogs and carrying out data cleansing since the last valuation.

Timescales and Stages

Preparation of data for 31 March 2019 valuation	2019/20 Q1 & Q2

Resource and Budget Implications

Carried out by the Technical Team in the main with assistance from the rest of the Administration team depending on the requirement. All internal costs are being met from the existing budget.

A6 – Implement Survivor Benefit Change: Amendment LGPS Regulations & Elmes versus Essex High Court Ruling

What is it?

The LGPS (Miscellaneous Amendment) Regulations 2018 (SI2018/1366) came into force with effect from 10 January 2019. These included changes that impact on the calculation of and entitlement to surviving partner pensions in respect of Civil Partners or same sex marriages. The Local Government Association are reviewing the amendment regulations and will issue an impact analysis to LGPS Funds during Q4 of 2018/19 as to how this will affect the administration of survivor benefits in the future and clarifying where previous dependant pensions already in payment need to be re-visited or where a review is required for cases where no dependant pension was paid. Once this analysis has been received, we will be required to carry out a major review of affected cases.

In addition, LGPS Funds need to action the outcome of Elmes versus Essex case where it has been ruled in the High Court that any LGPS members leaving the scheme between 1 April 2008 and 31 March 2014, and who subsequently died leaving a Cohabiting Partner, that partner could have a survivors pension paid to them even without a completed nomination form in place so long as they still meet the eligibility criteria. Any potential cohabiting partners need to be contacted and surviving partner pensions put into payment if applicable.

Timescales and Stages

Tracing, contacting, verifying entitlement and recalculating affected surviving partners	2019/20 Q1 & Q2

Resource and Budget Implications

This project will be absorbed by the Operations Team within Pensions Administration to ensure all surviving partners prior to the regulation change have been reviewed and amended where applicable. Any new cases from the date of the amendment regulations will be dealt with as per the amended legislation and will be treated as business as usual.

A7 – Member Tracing

What is it?

To ensure data accuracy, we periodically carry out a member tracing exercise. This includes carrying out additional verification checks for pensioners living overseas as well as trying to trace members where they appear to have left the address held on our pension records. The ability to trace members has become more important as the 2014 LGPS introduced a requirement to pay unclaimed refunds of contributions at the point of 5 years since date of leaving to those members who are not entitled to a scheme pension. There are several companies who carry out tracing services for pension schemes and we will therefore carry out a procurement exercise to identify and appoint a suitable supplier.

If we find we are still unable to trace any members and the payments are not made within the required timescales, this could result in the Fund making payments that are not permitted by law or the payments could incur additional tax charges for both the Fund and the scheme member. Therefore another element of this project will be to set up an ESCROW account to facilitate these payments in the future.

Timescales and Stages

Identify members and initiate tender process	2019/20 Q1 & Q2
Establish an Escrow account	2019/20 Q1 & Q2
Carry out initial member tracing/verification exercise	2019/20 Q2 & Q3

Resource and Budget Implications

There will be external costs relating to the appointment of a supplier but these have not yet been identified. Internal costs will be met by existing budget. This is likely to impact internal resources in relation to the initial identification process and the resulting case work.

A8– GMP Reconciliation

What is it?

The government removed the status of "contracted-out" from pension schemes in April 2016. Prior to then, contracted-out pension schemes had to ensure the benefits they paid met a minimum level and one element of this was a Guaranteed Minimum Pension (GMP) figure that accrued individually for each scheme member up to April 1997. Historically pension schemes would go to HMRC to get confirmation of the GMP amount on retirement. However, as a result of the demise of contracted-out status, HMRC will no longer be maintaining GMP and other contracting out member records. This means that the onus will be on individual pension schemes to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC. HMRC will cease to provide their services from April 2019.

Initial work identified that there were significant discrepancies between the two sets of data (HMRC v CPF), and a significant amount of work is ongoing to determine the correct benefits, ensure all systems are updated and to process a potentially significant number of over/underpayment calculations. After the records are reconciled for former pensionable employees, the Fund must also ensure the accuracy of national insurance information held for active members. All GMP's and national insurance information must be reconciled by dates determined by HMRC. Clwyd Pension Fund decided to outsource this exercise in 2017/18 to Equiniti and the project commenced during that year. The timescales below are subject to change depending on the magnitude of the work and changes to deadlines by HMRC.

Timescales and Stages

GMP data reconciliation and investigation	2019/20 Q1 & Q2
Reconciliation of national insurance information (Active Members)	2019/20 Q1 & Q2
Benefit correction and system updates	2019/20 Q2 & Q3

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Equiniti who are carrying out the work and who were appointed as part of a procurement exercise. This is likely to impact internal resources in relation to any adjustments to be made to current pension amounts (i.e. under or overpayments) but the impact of this is not yet known.

A9 – Aggregation Project

What is it?

When members move/leave employments there are a number of options available to them and all of these options need to be conveyed to the members concerned. There are approximately 2,000 records where members need to either be informed that their records have been aggregated or be provided with their respective options. Software providers have developed calculations to accommodate these changes. The recent recruitment to the Aggregation Team has facilitated procedures to be put in place to address backlogs and maintain these cases as "business as usual" going forward. Some of the historical cases were outsourced to Mercer for the initial deferment with approximately 500 still outstanding to be returned to the Aggregation Team for completion.

Timescales and Stages

This is a high priority project and will be completed as soon as possible.

Clear cases and eliminate backlog	2019/20 Q1 – Q3

Resource and Budget Implications

All costs to be met from the existing budget which includes expected costs for Mercer who are carrying out some of the work. The rest of the work is to be carried out by the Pensions Administration Team.

A10 – Data Improvement Plan Development and Implementation

What is it?

From 2018/19, the Pension Regulator (TPR) expected all pension schemes to review their common and conditional (now called scheme-specific) and score the quality of that data. To assist customers in undertaking this practical assessment of their data, both common and /scheme specific Aquila Heywood provided a Data Quality service. This serviced was used during 2018/19 to identify potential issues with the Fund's data. The LGPS Scheme Advisory Board will also be providing guidance on what LGPS scheme specific data should be (to provide consistency in checks between administering authorities).

In addition to measuring and capturing the results of the common and scheme specific data reviews, the Fund will develop a data improvement plan to capture any other elements of data that they consider to be inaccurate and ongoing plans.

Timescales and Stages

Develop initial data improvement plan	2019/20 Q1
Research and correct any data anomalies	2019/20 Q1 – Q4
Review scheme specific data checks based on national LGPS requirements	2019/20 Q1 - Q4

Resource and Budget Implications

To be carried out by the Pensions Administration Team. This may also require input/information from the employers (subject to findings). The data reports are part of the system costs included within the budget.

A11 – LGPS Legal Timescales Analysis

What is it?

Following the implementation of monitoring performance against the seven key legal timescales (as part of the monthly Key Performance Indicators (KPIs) reporting), a full review is being undertaken of our workflow systems and data quality to enable monitoring against a wider range of legal deadlines such as those relating to refunds and divorce. This review will also coincide with the CIPFA Benchmarking KPI review.

Timescales and Stages

Develop further legal timescales reporting process	2019/20 Q1 - Q4

Resource and Budget Implications

All internal costs are to be met by existing budget. It may be effective to outsource some of the development work to Aquila Heywood but this is not expected to be a material cost, and it is not included in the budget.

A12 - iConnect

What is it?

iConnect is the on-line computer module that allows information to be submitted by employers more directly and efficiently into the pension administration system (Altair). This is being implemented on a phased basis by employer. We have currently on-boarded 25% of our employers including Denbighshire County Council and Flintshire County Council. Data cleansing work is currently being undertaken to prepare for Wrexham CBC to on-board.

Timescales and Stages

Onboard Wrexham CBC	2019/20 Q1- Q3
Onboard other employers	2019/20 & 2020/21

Resource and Budget Implications

There will be a time and resource commitment required from employers. All internal costs are being met from existing budget. The system cost is also incorporated into the budget. The roll out of iConnect, particularly to Wrexham CBC will involve significant internal resources which may impact on other day to day work.

Employer Liaison Team Tasks

Ref	Key Action -Task	2019/20 Period Q1	Q2	Q3	Q4	Later Years 2020/21	2021/22
E1	Review processes	x		x			
E2	Ongoing development of workflow reporting	x			x		
E3	Design financial reporting and recharge procedures	x	x				
E4	On-board Wrexham CBC to iConnect	x	x				
E5	Plan for ELT further business and review of resources	x	x				
E6	Review of Agreements	x	x			x	x

Employer Liaison Team Task Descriptions

E1 – Review processes

What is it?

Checking reports from employer payroll systems are comprehensive and accurate. Covering all requirements including Audit. Potentially extend current reporting and automate/streamline other processes.

Timescales and Stages

Review FCC processes following job transfer updates	2019/20 Q1
Review procedures following iConnect with Wrexham CBC	2019/20 Q3

E2 – Ongoing development of workflow reporting

What is it?

Making sure processes for recording completed work, are accurate and meet the legal requirements and service standards within the ELT Agreement and provide appropriate monthly and annual reporting for employers and internal workflow management purposes.

Measuring the outstanding cases and reviewing the progress, as follows:

- Proportion of outstanding cases completed per employer against service standards
- Volume of cases completed and any recording and/or reporting of breaches of the law

Timescales and Stages

Review and recommend updates	2019/20 Q1
Review updated procedures	2019/20 Q4

E3 – Design financial reporting and recharge procedures

What is it?

Consider the staff time spent and tasks completed in order to break down charges to be applied to each employer as part of 31 March 2019 actuarial valuation.

Timescales and Stages

Review timesheets to formulate reporting and recharge procedures	2019/20 Q1/2
Provide costs to employers and actuary	2019/20 Q2

E4 – On-board Wrexham CBC to iConnect

What is it?

Wrexham CBC, ELT and the Operations Team are all keen to onboard Wrexham CBC to iConnect. However this will be a major onboarding including the supply (manually) of significant volumes of missing data, in order to match records between the employer's payroll system and the iConnect software in preparation for automatic monthly uploads going forward.

ELT will:

- consider and estimate how many cases can be completed per month to show how historical cases will be cleared up in addition to maintaining business as usual.
- establish adjustments required to accommodate Wrexham CBC transfer to iConnect and data cleaning involved.

Timescales and Stages

Continue reviewing inconsistencies, working through spreadsheets	2019/20 Q1
Continuous refining of mismatches going forward	2019/20 Q2
Review cases completed and project according to staffing levels	2019/20 Q1/2

E5 – Plan for ELT further business and review of resources

What is it?

Consider capacity of the ELT and review the service standards being recorded against other Fund employers with a view to offering the ELT service to a wider range of employers.

Timescales and Stages

Consider current and potential staffing levels	2019/20 Q1
Review service standards and open contact with potential new ELT serviced employers	2019/20 Q2

E6 – Review of Agreements

What is it?

Periodic review of the scope of the agreements for each employer taking into account iConnect requirements and scope/success of ELT service to date.

Timescales and Stages

Fundamental review of agreement - FCC	2019/20 Q1
Whistle-stop review to address any issues/new requirements - FCC	2020/21 Q1
Fundamental review of agreement – Wrexham CBC	2019/20 Q2
Whistle-stop review to address any issues/new requirements – Wrexham CBC	2020/21 Q2

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National LGPS **Frameworks**

Pensions Administration Software Framework Goes Ahead!
March 2019

The National LGPS Frameworks team have been working with several Founding Authorities: Cheshire Pension Fund; Clwyd Pension Fund; Essex Pension Fund; Merseyside Pension Fund; Norfolk Pension Fund; Northern Ireland Local Government Officers Superannuation Committee (NILGOSC); South Yorkshire Pension Fund; Surrey County Council; Tyne and Wear Pension Fund; West Midlands Pension Fund; and West Yorkshire Pension Fund; to assess the viability of setting up a Pensions Administration Software framework primarily in support of the LGPS.

This initiative has the support of central government including MHCLG and Cabinet Office. In addition to the Founding Authorities, there are many funds who have expressed an interest in using the Framework.

Currently LGPS funds are undertaking individual procurements for their pension administration software requirements. A proposed framework agreement would remove the need to independently undertake full European Union (OJEU) procurements, retain local definition and decision making and leverage our combined buying power. This saves time and money for Providers and Administering Authorities and ensures compliance with Public Contract Regulations.

Market engagement events have been held to inform providers of our intentions and what we hope to achieve, together with exploring the feasibility of a Pensions Administration Software Framework.

Based on the outcome of these activities and the encouraging support from central government, funds and providers, the Founders have decided to proceed with the development of a Pensions Administration Software Framework. It is currently anticipated that this framework will be available for funds to use within 12 -14 months.

If you are interested in finding more about this project and would also like to be involved or listed as providing support, please contact Pippa Bestwick, Programme Director, National LGPS Frameworks, 07795 367 879, pippa.bestwick@norfolk.gov.uk

CIPFA The Chartered Institute of Public Finance & Accountancy

Dear Colleague,

LGPS Administration Benchmarking & Resources

Let me begin with an introduction, from January 2019 I have been appointed as the Chair of the CIPFA Pensions Panel. In my existing role as CFO at Lincolnshire County Council I have been closely involved with the LGPS for many years and more recently I have supported the development of our regional asset pool (Borders to Coast).

During this time I have come appreciate the role of the LGPS and the importance of the staff who ensure it operates effectively at a local level. Indeed discussions at Pension Panel meetings have highlighted how crucial it is to have a properly trained and resourced team to meet the challenges now emerging.

The Pension Regulator has become more involved in the Scheme in recent years and in 2018 focused on the LGPS particularly around data quality. Overall the Scheme has again showed its resilience and performed well but it is clear that there remain issues in dealing with a significant increase in employing bodies on top of a CARE Scheme.

We are all aware of the challenges around resources during this period of austerity and pension funds as with all other services should be as efficient as possible. However, the current pressures and increased complexity facing the LGPS require an increase in resources to ensure that the huge challenge of establishing asset pools as well as the increasing administrative requirements do not create an unmanageable risk. 2019 is a Valuation year for the LGPS in England and Wales and the importance of accurate and reliable data cannot be understated when considering future contribution rates.

CIPFA has recently published its updated **Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds (2019 Edition).** The guidance includes a new requirement for Funds to provide a statement on the value for money achieved by the administration function. This intended to increase the focus upon the Administration function and allow those involved in the governance arrangements to monitor performance and manage risks.

The new guidance also offers a suggested approach to producing key performance indicators which was developed in conjunction with a working group of leading practitioners. The aim is to achieve a standard set of indicators which will improve the consistency and comparability of reporting and help Funds identify areas of strong and weak practice. The Panel are keen to urge all Funds to consider these tables and where possible produce information on a 'best endeavours' basis for 2018/19. CIPFA accepts this may be more difficult for some Funds and would welcome all feedback to help us develop this initiative.

In order to support practitioners we have also updated our **Pensions Administration Benchmarking Service** to mirror the requirements in the Annual Report Guidance. We hope this will make the benchmarking service more relevant and increase participation which will lead to more useful information for all Funds and

LGPS stakeholders. The pension panel hope that this tool will be used by more Funds to help us build a better picture of the current state of administration in the LGPS.

CIPFA has also recently issued **A Guide to Administration in the LGPS** which is a short document designed to provide an insight into the function for Pension Committee Members, Local Pension Board Members and those new to the LGPS.

The Guide was developed with colleagues at AON and we hope it will be circulated widely to support the discussions around administrative challenges.

CIPFA is also looking to support the Scheme Advisory Board's Good Governance Project and we are working with Hymans Robertson to gather the views of S151 officers and feedback more broadly on current governance arrangements.

The level of scrutiny on LGPS Funds has never been higher both from internal sources such as Local Pension Boards but particularly from external sources such as The Pensions Regulator, Pensions Ombudsmen and the national press. It is therefore essential that funds have the necessary capacity to meet these challenges otherwise there is a significant risk of censure and the subsequent reputational damage at local and national level. CIPFA would expect funds to be taking the necessary advice and comparing its costs and service delivery (through benchmarking and other analysis) to ensure they are in line with the rest of the LGPS and achieving the standards expected by their members.

CIPFA's Pension Panel aims to support all those involved in delivery of the LGPS and has produced a range of Guidance to assist practitioners and will continue to do so. The Panel is always keen to hear the views of its members with regard to pensions and works closely with Treasurer Societies as required.

Kind Regards,

Pete Moore
Chair CIPFA Pensions Panel

Exit payments cap

In 2015 the government first announced plans to introduce a cap on exit payments in the public sector. The cap includes any pension strain cost. The cap was legislated for in the Enterprise Act 2016, which amends the Small Business, Enterprise and Employment Act 2015, but required secondary legislation to be introduced.

On 10 April 2019, HM Treasury opened a consultation on draft regulations, Directions and guidance to implement the exit cap. The consultation will run for 12 weeks and closes on 3 July 2019. The LGA will be responding formally to the consultation ahead of the 3 July deadline.

This document has been produced by the LGPC Secretariat and provides a summary of the consultation and the proposed regulations for LGPS administering authorities and local government employers.

Consultation documents

HM Treasury (HMT) published the following consultation documents on 10 April 2019:

1. **Consultation document - 'Restricting exit payments in the public sector: consultation on implementation of regulations'**
   The consultation document sets out what types of public sector exit payments the regulations apply to, summarises the proposed regulations and the reasons for introducing these regulations. Details of how to respond are included, and information concerning how respondents' data will be processed.

2. **Draft regulations - 'Annex A: The Restriction of Public Sector Exit Payments Regulations 2019'**
   'The Regulations' include:
   - the bodies whose exit payments are covered by the cap
   - what constitutes an exit payment and what is exempt
   - the requirement for individuals and public sector bodies to report and record information about exit payments and
   - the circumstances in which the cap must be relaxed and the process for approval in situations where the cap may be relaxed.

3. **Schedule – 'Annex B: £95k cap on exit payments in the public sector schedule (draft)'**
   'The Schedule' sets out public sector authorities and public sector offices that may be affected by the exit payment cap. There are circumstances where the cap must or may be waived. Where relevant, the Schedule specifies what body is the sponsoring department who would be responsible for approving the relaxation of the cap.

4. **Guidance – 'Annex C: Restriction of public sector exit payments: guidance on the 2019 regulations'**
   'The Guidance' sets out more information on how the legislation should be implemented, and particularly gives more information about the process to follow when a public sector body wishes to relax the restriction.

5. **HMT Direction – 'Mandatory HM Treasury directions'**
   'The Directions' describe when the exit payment cap must be relaxed, in what circumstances it can be relaxed and when HMT approval is required.

There are occasions when the contents of the consultation documents contradict each other, there are contradictions within a single document and there are differences in the wording of the Regulations, the Enterprise Act 2016 and the Small Business, Enterprise and Employment Act 2015. The Guidance states that 'Where there is any discrepancy between the regulations and the guidance, the regulations prevail'. This is the approach followed in producing this document. Any area of significant difference in the consultation documents, draft regulation or existing legislation is highlighted.

What is the level of the cap?

The exit payment cap is set at £95,000. Although regulation 153A(9) of the Small Business, Enterprise and Employment Act 2015 allows for Regulations to be introduced which change the cap, under the proposed Regulations there is no provision for the cap to be index-linked.

In relation to those employed in local government, it should be noted that the group who are most likely to be affected by the cap are those over age 55 who are members of the LGPS (or another public sector pension scheme).

Who is covered by the Regulations?

The cap will apply to the whole of the public sector, but is being implemented in two stages. At the first stage the Regulations will apply to exit payments made by:

- local authorities
- the UK Civil Service
- the NHS in England and Wales
- academy schools
- police forces (including civilian staff)
- Fire and Rescue Authorities

where they fall within the responsibility of the UK government regarding employment.

Schedule 2, Part 1 of The Local Government Pension Scheme Regulations 2013 lists the employers who must enrol employees into the Local Government Pension Scheme. The majority of employers listed in Part 1 of Schedule 2 are in scope of the exit payment Regulations. The main exceptions being housing management companies, further and higher education corporations and sixth form college corporations who are not covered by the Regulations.

LGPS administering authorities may wish to check whether any of their Schedule 2 Part 3 employers are listed in the Schedule.

Devolved administrations

<u>Wales</u>

Although most employers in scope of the exit payment cap perform devolved functions, public sector compensation **is not** a power that has been devolved to the Welsh Assembly. The exit payment Regulations therefore do apply in Wales to local authorities, schools, fire and rescue authorities, NHS Trusts etc. with the exception of 'relevant Welsh exit payments' which are payments made to holders of these offices:

- member of the National Assembly for Wales
- the First Minister for Wales
- Welsh Minister appointed under section 48 of the Government of Wales Act 2006
- Counsel General to the Welsh Government
- Deputy Welsh Minister

- member of a county council or a county borough council in Wales
- member of a National Park Authority in Wales
- member of a Fire and Rescue Authority in Wales.

Scotland
The Regulations do not apply to exit payments made by the Scottish Corporate Body or by any authority which wholly or mainly exercises functions within devolved competence (within the meaning of section 54 of the Scotland Act 1998).

The Regulations apply to payments made to non-ministerial office holders and staff of the Scottish Administration.

Northern Ireland
The Regulations do not apply to payments made by Northern Irish authorities which wholly or mainly exercise devolved functions.

Public sector bodies not covered by the cap
A newly created public sector body will not be covered by the cap until it is added to Schedule 1. The government expects all public sector bodies not covered by the Regulations – whether they are new or established bodies – to restrict exit payments voluntarily.

The Regulations will be extended to the rest of the public sector at the second stage, with a limited number of exemptions.

The government has proposed that the Secret Intelligence Service, the Security Service, the Government Communications Headquarters and the Armed Forces should be exempt from the cap due to the unique demands and features of careers in these fields.

The Scottish Parliament, Northern Ireland Assembly and Welsh Assembly could introduce regulations which restrict the exit payments made by those public sector bodies in Scotland, Northern Ireland and Wales respectively, which are not covered by these Regulations.

What is an exit?
The Regulations apply where there has been a 'relevant public sector exit' which occurs when an employee leaves the employment of a public sector authority listed in the Schedule, or when a holder of a public sector office listed in the Schedule leaves office.

In the LGPS there are other events which can lead to a pension strain cost which are **not** exits and which therefore are **not** covered by the Regulations:

- Early payment of deferred benefits and all or part of the early payment reductions are waived
- Flexible retirement – providing the member's pay reduction is achieved by changing the employee's contract.

If a LGPS member takes flexible retirement and the pay reduction is achieved by ending their current employment contract and starting a new one then an exit has occurred and the exit payment restrictions would apply.

Although the Guidance and Regulations concentrate on specific exits such as redundancy, because of the wide nature of the definition of exit, we will need to ensure that there are no other circumstances in which payments are made under the scheme which may be caught.

Payments included in the cap

The cap will apply to payments of the following types, but see also the list of exclusions which follows:

a) any payment on account of dismissal by reason of redundancy – including a statutory redundancy payment
b) any payment made to reduce or eliminate an actuarial reduction to a pension on early retirement or in respect to the cost of a pension scheme of such a reduction not being made [pension strain costs]
c) any payment made pursuant to an award of compensation under the ACAS arbitration scheme or a settlement or conciliation agreement
d) any severance payment or ex gratia payment
e) any payment in the form of shares or share options
f) any payment on voluntary exit
g) any payment in lieu of notice due under a contract of employment [but only if it exceeds a quarter of the employee's annual salary – see the next section]
h) any payment made to extinguish any liability to pay money under a fixed term contract
i) any other payment made, whether under a contract of employment or otherwise, in consequence of termination of employment or loss of office [this will include pay in lieu of notice which is due other than under a contract of employment].

The following payments are **not exit payments** for the purposes of the Regulations:

a) any payment made in respect of death in service
b) any payment made in respect of incapacity as a result of accident, injury or illness
c) certain payments made to retiring firefighters – separate guidance will be issued to cover the position for firefighters
d) a specific service award paid to a member of the judiciary
e) a service payment made in respect of annual leave due under a contract of employment
f) any payment made in compliance with an order of any court or tribunal
g) a payment in lieu of notice due under a contract of employment that does not exceed one quarter of the relevant person's annual salary.

What payments are included in the calculation of an exit payment is subject to change. If HMT becomes aware of payments being made to exiting employees or office holders that are not currently defined as exit payments then it is likely that these payments will be added to the above list.

Where an exit payment exceeds the cap, the employer or the body responsible for determining the remuneration payable to the holder of a public office covered by these regulations must reduce the exit payments until the cap is satisfied. Any statutory redundancy entitlement under the Employment Rights Act 1996 cannot be reduced.

Multiple exit payments

If an individual becomes entitled to more than one exit payment within 28 days, the Regulations prescribe the order in which those exits are treated to have occurred based on the date of exit, salary, hours worked and length of service. The cap applies to the total of the two (or more) exit payments. However, because the statutory redundancy payment cannot be reduced, there may be occasions when an employee receives two or more exit payments within 28 days and the total of those exit payments exceeds the cap. It is the individual's obligation to inform their other public sector employers if they receive an exit payment.

The employer has an obligation to ensure that any exit payment they make does not exceed the exit cap, or if it does exceed the cap that it is compliant with HMT Directions on relaxation. Employers must put processes are in place to request information about any recent or pending public sector exit payments before making such a payment to an exiting employee or office holder.

Pension strain cost

HMT's assumption is that employers will, where possible, cap the redundancy lump sum and allow individuals to receive the pension top up in full. There is no requirement for employers to follow this process, which means that the Regulations as they stand allow employers to restrict any of the elements that make up the exit payment (other than any statutory redundancy payment) in any order.

In a pension scheme which allows partial reduction, if the exit payment cap would otherwise be breached and the exit payment includes pension strain costs, retirement benefits would be reduced to a level which means the cap is not breached. The individual would have the option of buying out some or all of that reduction.

If the Regulations prevent an exit payment being made (because the pension strain cost exceeds the cap and the pension scheme rules do not allow partial reduction, for example) then a cash payment, not exceeding the cap must be paid to the individual.

The position for the LGPS
Paragraph 5 of Schedule 6 to the Enterprise Act 2016 amends the Local Government Pension Scheme Regulations 2013 to allow:

- partial reduction of a member's pension benefits where otherwise the exit payment cap would be breached and
- a scheme member to pay a charge to buy out some or all of that reduction

These changes do not come into effect until HMT issue a commencement order. The effect of the exit payment Regulations on the LGPS is dependent on whether they are enacted before or after the LGPS regulations changes set out in the Enterprise Act come into force.

1. **LGPS Regulations are unchanged**
   If an exit payment includes pension strain cost and would exceed the cap, it is unclear whether the pension could be paid under regulation 30(7)(b) of the LGPS Regulations 2013 if the strain cost referred to in regulation 68(2) cannot be paid in full. It is our understanding that the intention is for the member to receive a fully reduced pension in this circumstance, plus the cash alternative of the strain cost (up to the maximum allowed by the cap). Changes to the LGPS regulations would be required to introduce the option for a member who is made redundant or leaves on the grounds of business efficiency at age 55 or over to defer payment of their pension.

2. **LGPS Regulations amended to allow partial reduction**
   If an exit payment includes pension strain cost and would exceed the cap, then the member's benefits would be reduced to such a level that the exit payment cap is not breached. The member would have the option of paying extra to buy-out some or all of the reduction.

   The proposed regulation changes do not introduce the option to defer payment of pension benefits in the event of a LGPS member who is over age 55 being made redundant or leaving on the grounds of business efficiency. As the regulations currently stand, a LGPS member whose exit payment has been capped would be forced to accept a reduced pension.

If the option to defer payment of LGPS benefits on redundancy or retirement on business efficiency grounds at age 55 or over is introduced, then a member who exercises the option to defer could be paid the cash alternative to the pension strain cost (up to the maximum allowed by the exit payment cap).

In order to implement partial reduction in the LGPS, guidance from the Government Actuary's Department (GAD) on partial reductions and on the cost of buying out those reductions would be required. Detailed information concerning the method of calculating the partial reduction in a members' benefits, the method and calculation for buying out the reduction – particularly the calculation which would be involved in working out the reduction to apply where some but not all of the reduction has been bought out, and the deadline that applies to an election to make such a payment would be required. It is likely that changes to the LGPS regulations and new statutory guidance would be required to effect this change.

The Regulations do not specify how to calculate the strain cost related to the early payment of a pension on an unreduced basis. The LGPS Regulations state that this strain cost is to be 'calculated by an actuary appointed by the administering authority' and the Guidance says that it 'may be the amount as calculated by the scheme actuary'. Currently, the method of strain cost calculation is formulated locally based on the demographic make-up of the LGPS members in an administering authority. Demographic differences across the country mean that strain cost and the implications for the exit cap could differ widely for LGPS members in different geographical areas, even if they are similar in other respects such as age, salary level and length of pension scheme membership.

If there is no change to the current position then the calculation of the strain cost element of an exit payment will differ between LGPS administering authorities. The benefit of this approach is that the strain cost reflects the best estimate of the cost of paying the pension early, based on actuarial assumptions and the demographics of members participating in the LGPS in a particular administering authority. The main disadvantage is that a member may be affected by the cap based on the calculation adopted by one administering authority who would not be affected had the strain cost been calculated by another administering authority.

An alternative would be for GAD to introduce a standard method of calculating pension strain cost in the LGPS. This would have the advantage that the application of the exit payment cap would be equitable and consistent across the entire scheme. Significant demographic differences exist across the country. The use of a single method of strain cost calculation could result in strain costs being overpaid by certain employers, which may lead to a reduction in employer contribution rates. In other administering authorities the strain cost paid by employers would not reflect the 'true' cost of paying the pension early and consequently could lead to increased employer contribution rates. In these circumstances the exit payment may not reflect the actual cost to the employer of releasing a LGPS pension early.

Relaxation of the restriction on exit payments

HMT Directions set out the circumstances in which the exit payment restrictions must be relaxed – mandatory cases – and the circumstances when they may be relaxed – discretionary cases.

The HMT Directions do not apply to exit payments made by a devolved Welsh authority.

The ‘Decision Maker’ is the person who exercises the power to relax the exit payment restriction. This power generally rests with a Minister of the Crown but can be delegated in respect of exit payments made by certain public sector bodies. This is covered further in the next section.

The power to relax the exit payment cap can be exercised in respect of an individual, or in exceptional circumstances in respect of a group of employees, for example where redundancies occur as a result of specific workforce reforms.

Mandatory cases
The exit payment restriction must be relaxed in the following circumstances:

- Where the obligation to make the payment arises as a result of the applying TUPE regulations
- Where the payment relates to a complaint that an Employment Tribunal (ET) has the jurisdiction to consider. This is limited to complaints under whistleblowing or discrimination legislation and the employer believes, on the balance of probabilities, that an ET would find in favour of the complainant
- Certain exit payments made by the Nuclear Decommissioning Agency

Discretionary cases
The exit payment restriction may be relaxed if the Decision Maker is satisfied that:

- not exercising the power would cause undue hardship
- not exercising the power would significantly inhibit workforce reform *
- an agreement to exit was made **and** the exit was planned to occur before the Regulations came into force, the exit was delayed and the reason for that delay was not attributable to the employee or office holder.

* There is a difference in the wording of the consultation documents here. HMT Directions refer only to ‘workforce reform’, but the Guidance specifies ‘urgent’ workforce reform.

Section 4.5 of the Guidance states that ‘the reasons for exercising a power to relax the cap should relate directly to a relaxation category’, but section 5.1 says that the cap can be relaxed ‘outside of the circumstances outlined in HMT directions…’. The Regulations support the position that the exit payment restriction can be relaxed for reasons other those set out in the Directions with HMT consent. It is possible that there may be changes in later versions of the Regulations, Directions or Guidance which may affect the rules concerning relaxation on grounds other than those currently listed in the HMT Directions.

The power to relax the cap
Generally, the power to exercise the cap lies with a Minister of the Crown, the ‘Decision Maker’, but this is delegated to certain other public sector bodies.

Payment made by:	**Power to relax restrictions delegated to:**
A devolved Welsh Authority	Welsh Ministers
A local authority in England	The full council of that local authority
A fire and rescue authority	The fire and rescue authority
The Greater London Authority	The London Assembly

Depending on who is the ‘Decision Maker’ and whether the exit payment is being restricted on mandatory or discretionary grounds, HM Treasury approval may also be required before the exit payment restriction can be relaxed.

The consultation documents do not agree on when certain types of approval are required. Table 1 on page 9 sets out our interpretation of the information provided in the consultation documents.

The relevant public sector employer is responsible for ensuring that any exit payment does not exceed the cap, or if it does that the relaxation of the cap has been done in compliance with HMT Directions or with HMT consent.

If an exit payment is made in excess of the cap which is not compliant with HMT Directions, the employer must make an assessment on whether to pursue repayment through the courts. Sanctions may also be imposed on the employer (or, if appropriate the sponsoring department) by HMT.

Recording and reporting exit payments

The Regulations impose responsibilities on Decision Makers, employers and employees related to exit payments.

Employee: requirement to inform
An employee with multiple employments in the public sector who receives an exit payment in respect of one employment is required, as soon as is reasonably practicable, to inform all other public sector authorities by whom he or she is employed about that exit payment in writing. Specifically, the amount and type of exit payment, who will be paying it and the date they left employment or ceased to hold office to which the exit payment relates.

Decision Makers and employers: Duties to keep records
The Regulations require that the person who exercises the power to relax the restriction must keep a written record, for three years from the exit date, of:

a) the fact that the power has been exercised
b) the name of the person in respect of whom the power was exercised
c) the amount and type of the exit payment in respect of which the power was exercised
d) the date on which the power was exercised
e) the reasons why the power was exercised.

The relevant public sector authority must publish the details from c), d) and e) at the end of each financial year.

Although it is not required by the Regulations, the Guidance includes a recommendation that employers record instances when an exit payment is capped.

Table 1: The power to relax restrictions on exit payments

Employer [1] making the exit payment	Decision Maker	Type of case	Consent of HM Treasury required?
Local authority in England A fire and rescue authority The Greater London Authority	Full council of that authority The fire and rescue authority The London Assembly	Mandatory	No
		Discretionary	Yes [2]
Any other public sector body covered by the Regulations	Minister of the Crown	Mandatory	No
		Discretionary	No [3]
All of the above	As above	Outside of circumstances outlined in HMT Directions	Yes
A devolved Welsh authority	Welsh Ministers	All – HMT Directions do not apply	No

[1] or a body responsible for determining the remuneration payable to the holder of a public sector office listed in Schedule 1

[2] The Guidance states that the sponsoring department would have to approve the business case supporting the relaxation of the exit cap as well as HMT. The requirement for this additional approval is not reflected in the wording of the Regulations or the HM Directions.

[3] The Guidance suggests that HM Treasury approval is required where the Decision Maker is a Minister of the Crown, but this is not reflected in the Regulations or the HMT Directions.

The Scottish Parliament, the National Assembly for Wales or the Northern Ireland Assembly may enact regulations to restrict exit payments made by devolved bodies that are not covered by the Regulations. If they do so, any power to relax the restrictions would lie with Scottish, Welsh or Northern Irish Ministers. The HMT Directions would not apply.

The Consultation

The consultation invites responses from:

- employing bodies within scope and out of scope of the Regulations
- employees
- bodies representing those employers or employees
- academics with expertise in this area
- public and private sector pay, pension, remuneration and HR professionals
- anyone else who might be impacted by this consultation

to the following questions:

1. Does draft schedule 1 to the regulations capture the bodies intended? If not, please provide reasons.

2. Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.

3. Do you agree with the exemptions outlined? If not, please provide evidence.

4. Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.

5. Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistleblowers?

6. Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.

7. Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?

8. Are you able to provide information and data in relation to the impacts set out above?

Responses can be submitted:

Online: https://www.smartsurvey.co.uk/s/QABLW/

By email: ExitPaymentCap@treasury.gov.uk with the subject heading 'Consultation on Exit Payment Cap'

In writing: Workforce, Pay & Pensions Team
HM Treasury
1 Horse Guards Road
London, SW1A 2HQ.

Disclaimer
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MERCER
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EXIT PAYMENT CAP

WHAT ARE EXIT PAYMENTS AND WHY ARE THE GOVERNMENT INTRODUCING THE CAP?

Exit payments are settlements that are paid to employees when they leave an employer. They normally take the form of a lump sum cash payment, or payments in the forms of shares / share options, but for employers participating the LGPS a particular feature is the availability of an unreduced pension on early retirement (i.e. waiving any early retirement reductions that would normally apply).

The cost of exit payments to employers can vary significantly and can be very substantial. The Government has highlighted that employees leaving the public sector workforce in 2016/17 cost the taxpayer £1.2 billion, with payments at and above £100,000 amounting to £0.2 billion.

In response to its concerns over the increasing cost to the taxpayer of financing early retirement packages, the Government first launched a consultation in 2015 about limiting the value of exit payments to a total of £95,000 per employee. It then laid the primary legislation to enable such a cap to be introduced in the public sector via the Small Business Enterprise and Employment Act 2015, which was subsequently amended by the Enterprise Act 2016. This latter Act included some technical details for how the cap should allow for the availability of an unreduced early retirement pension. However, none of these enabling provisions have yet been brought into effect so it is possible they could be amended before the new provisions come into full force.

The Government has therefore issued a further consultation on 10 April 2019 on the introduction of the £95,000 cap. This latest consultation essentially confirms the Government's overall intentions whilst addressing some of the details which need to be resolved prior to implementation.

Under the LGPS regulations members aged 55 and over are entitled to an immediate and unreduced payment of accrued pension where their employment ends on the grounds of redundancy or efficiency. Currently, the employer normally has to pay a "strain cost" to the LGPS in order to "buy out" the reduction in pension benefits which the member would normally face on retiring early, and this strain cost on its own can easily exceed £95,000. Introducing the cap on exit payments would therefore involve some conflict with the LGPS Regulations.

Under the Government's proposals public sector employees would still be able to take early retirement but the extent to which they could take an unreduced early retirement pension would be limited so that the cost of any pension enhancement would be no more than £95,000 less any amounts (cash or other forms of compensation) paid direct to the employee.

WHAT IS INCLUDED WITHIN THE RECENT CONSULTATION?

The key points within the 10 April 2019 consultation are as follows:

- There is no change from the earlier proposal that the maximum exit payment will be £95,000.
- The cap will apply to a wide range of public sector employers, including employees of councils in England and Wales, fire authorities, police forces, academies and maintained schools. There are some limited categories of public servants in Wales which are exempt.
- As discussed, the £95,000 cap will include the value of any early retirement strain payments, and it is envisaged that the ability to take an unreduced early retirement pension will therefore be severely restricted in some cases.
- Certain employers in the LGPS (e.g. Universities and Colleges) appear not to be covered which will mean that members would be treated differently within the LGPS depending on their employer on exit.
- There will be provisions for the cap to be waived in some circumstances. However, the tone of the consultation makes clear that any waiver is expected to be the exception rather than the norm, and that there is a "high bar" for them to be justified (e.g. subject to ratification by the full council in relation to a local authority).

Clearly there will be some details to be ironed out in relation to the LGPS in England and Wales. We expect the MHCLG will run a separate consultation, and which will cover amongst other things the agreement and implementation of an appropriate costing methodology and factors for strain payments for paying pension early.

In any case, at this stage we cannot be sure what the final form of any provisions will be. For example, we understand that there is a proposal from some quarters that for members affected by the cap the focus should move away from the pension being enhanced, and instead the *employee is given the choice of taking the £95,000 in cash or of using part or all of it to buy-back additional pension within the LGPS*.

IMPACT ON ADMINISTERING AUTHORITIES

The consultation introduces some actions / complications for Funds. In particular, in our view:

- There will need to be a clear and consistent LGPS-wide methodology and set of factors for calculating the "early retirement strain cost". Otherwise public sector employees could end up with markedly different forms of exit packages, albeit still with an overall value of £95,000, simply by virtue of the administrative practice of their particular fund or employer.
- Funds will need to set a clear policy on how the cap on exit payments works in practice. There will need to be a process in place for an employer to be advised as quickly as possible of the potential "early retirement strain cost" in any particular case. Inevitably until the employee's exit is finalised this will involve working on estimated figures. The employer will then need to confirm to the Fund whether the exit cap needs to be applied in the particular case, and how much by way of residual compensation is available for increasing the member's pension and this will need to be paid into the Fund as a contribution by the employer or employee. There will then need to be a clear methodology for converting this amount back into pension benefits. The entire process could therefore become very intricate, especially in cases where it is borderline whether the cap will be breached.

- Separate administrative processes will need to observed by the Fund for those employers covered by the cap, and for those not covered by it. The Fund will need to establish and keep a clear record of which employers fall into each category.
- There will be increased administration costs in dealing with such a process and performing the necessary calculations to ensure the cap is not breached. Clearly, the simpler the process can be made, the better.
- Funds will need to consider their communication with employees, and ensure that any right to an unreduced early retirement pension is appropriately qualified.

IMPLICATIONS AND CONSIDERATIONS FOR EMPLOYERS

- The new Regulations will reduce pension costs for affected employers given that the total exit payments made to employees will now be capped.
- These employers will need to have their own procedures on how to exchange information with the Fund in a timely way and communicate appropriately with the affected employees.
- Employers will need to consider whether they will ever consider seeking to waive the exit cap, the circumstances in which they would do so and the procedures which they would need to go through if they did. Consistency from one case to another will be one of the keys to avoiding employment relationship complications.
- There may be pressure over the next few months from some employees to seek exit packages in advance of the new Regulations coming in. This could cause workforce planning issues and unplanned costs for employers in the very short term. It is also possible that employees would press for alternative access to an unreduced pension via ill health so these processes need to be robust in these circumstances.
- The introduction of the cap may cause relationship problems with staff, particularly if they have seen staff exit with large payments in the past. As an example, for a 55 year old with an accrued pension of c.£13,000 per annum the early retirement strain cost could easily be around £100,000 in isolation. If we assume a non-pension redundancy payment of c£20,000, this leaves a balance of £75,000 that can be used for providing the pension enhancement, so only about 75% of the member’s pension would be enhanced and the remainder subject to an actuarial reduction. In practice, typically LGPS pensions are much less than this and so the change will only impact a subset of members, but the HR implications of having to deal with a few high-profile cases could be disproportionate.
- Voluntary redundancy exercises would potentially be affected e.g. the higher paid or longer serving employees are most affected by the cap and may not wish to take the option given pension is reduced. This may therefore affect planned workforce reforms and longer term business objectives for the employers.

We would be happy to discuss the above further with the Fund officers, Committee and Board.

Mercer Limited
May 2019

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CLWYD PENSION FUND

RESTRICTING EXIT PAYMENTS IN THE PUBLIC SECTOR: CONSULTATION ON IMPLEMENTATION OF REGULATIONS

This response is from Flintshire County Council as Administering Authority of the Clwyd Pension Fund. Our response has been agreed by the Pension Fund Committee on 12 June 2019.

We set out below our response to each of the questions (where relevant to the Clwyd Pension Fund) posed in the HMT consultation document issued on 10 April 2019.

For the most part, the questions raised are a matter of Government policy so is not an area where the Pension Fund has a particular view. Our participating public sector employers (including Flintshire County Council) may have a view on these matters.

A key issue is how the restrictions on Exit Payments are implemented in the Local Government Pension Scheme Regulations given the current position is that members who exit the Fund age 55 or over on Redundancy or Efficiency grounds has a right to immediate pension scheme benefits unadjusted for early payment which has a cost that needs to be allowed for in the Exit Payment Cap calculation. Therefore, the policies and processes will need substantially updating to cope with the implementation which will need to done on a consistent basis across the LGPS to ensure fair treatment for employees affected. In addition, our software providers will need to update systems to deal with the impact. This will lead to substantive set up costs and an increase in ongoing administration costs especially given employers in scope of the Regulations will need to be treated differently to those out of the scope. More detail on the practical issues are set out in the attached note provided by our Actuary and adviser (Mercer Ltd) which sets out clearly the issues us and our employers will have to contend with.

We have followed the format of the consultation document in our response.

PROPOSED SCOPE OF DRAFT REGULATIONS

Q1	RESPONSE
Does draft schedule 1 to the regulations capture the bodies intended (described in section 2.1 above)? If not, please provide details.	This is a matter of Government policy so is not an area where the Pension Fund has a particular view. Our participating public sector employers may have a view on these matters either individually or through collective forums e.g. the Welsh Local Government Association. However on a practical basis the restrictions will not cover all employers who participate in our Fund leading to different pension Fund policies and processes being required.

Q2	RESPONSE
Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.	This is a matter of Government policy so is not an area where the Pension Fund has a particular view. Our participating public sector employers may have a view on these matters either individually or through collective forums e.g. the Welsh Local Government Association. However on a practical basis the restrictions will not cover all employers who participate in our Fund leading to different pension Fund policies and processes being required.

Q3	RESPONSE
Do you agree with the exemptions outlined? If not, please provide evidence.	This is a matter of Government policy so is not an area where the Pension Fund has a particular view. Our participating public sector employers may have a view on these matters either individually or through collective forums e.g. the Welsh Local Government Association. However on a practical basis the restrictions will not cover all employers who participate in our Fund leading to different policies and processes being required.

GUIDANCE AND DIRECTIONS

Q4	RESPONSE
Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.	This is strictly a matter for employers and individuals (principally through their representative bodies) so is not an area where the Pension Fund has a particular view except that the guidance must allow the employers to develop appropriate and clear policies on how the exit cap is applied. We would however note that the application relies on a significant amount of data being readily available to all parties to govern the application of the exit cap. In particular, the final assessment in relation to pension strain costs in the LGPS would need to be carried out **after** the final data is collated around pay and non-pension exit payments. Otherwise, this could result in some cases that were thought to be under the cap actually then exceeding it if the final data is materially different. The final guidance and processes therefore need to deal with the flow of data adequately. This is especially important as the decisions an individual will need to make in respect of their LGPS pension entitlement would likely be different if they are under/over the exit cap (based on our interpretation of the application). All parties therefore need clarity on when the cap applies and also the information needed to apply it consistently and in line with the final regulations.

Q5	RESPONSE
Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistleblowers?	This is strictly a matter for Government and employers so is not an area where the Pension Fund has a particular view except that the guidance must allow the employers to develop appropriate and clear policies on how any relaxations of the exit cap is applied.
Q6	**RESPONSE**
Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.	We would welcome the guidance making it clearer that it is not the responsibility of the pension fund to consider if the relaxation has been applied in line with the guidance and directions. The pension fund should only implement the pension benefits as per the LGPS Regulations alongside as directed by the employer on whether a relaxation is applied. One technical aspect that needs to be incorporated into these Regulations or separately into changes to the LGPS Regulations is the option for a member to defer taking their reduced pension benefits (due to the exit cap restriction) if they choose to do so. This, in our view, is critical as supports the general abilities for members to make choices in how they receive pension benefits. It is also possible that taking reduced benefits may not be in the best interests of the member at that time as they may not then adequately meet the basic level of income required to maintain living standards throughout their retirement.

DEVOLUTION SUMMARY AND EQUALITIES IMPACTS

Q7	RESPONSE
Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?	Please see attached document in relation to the impact on the Fund and the practical/technical issues that need resolution in the application. This forms part of our response to the consultation and has been prepared in conjunction with our adviser (Mercer Ltd).

Q8	RESPONSE
Are you able to provide information and data in relation to the impacts set out above?	We can provide an analysis of the pension strain cost amounts for the Fund where they exceed the cap of £95k if this would be helpful. We note that allowing for statutory redundancy payments (which must be paid) will reduce the headroom to apply to pension strain costs below the £95k when determining if a members benefits need to be reduced in order to ensure that all payments remain within the exit cap.

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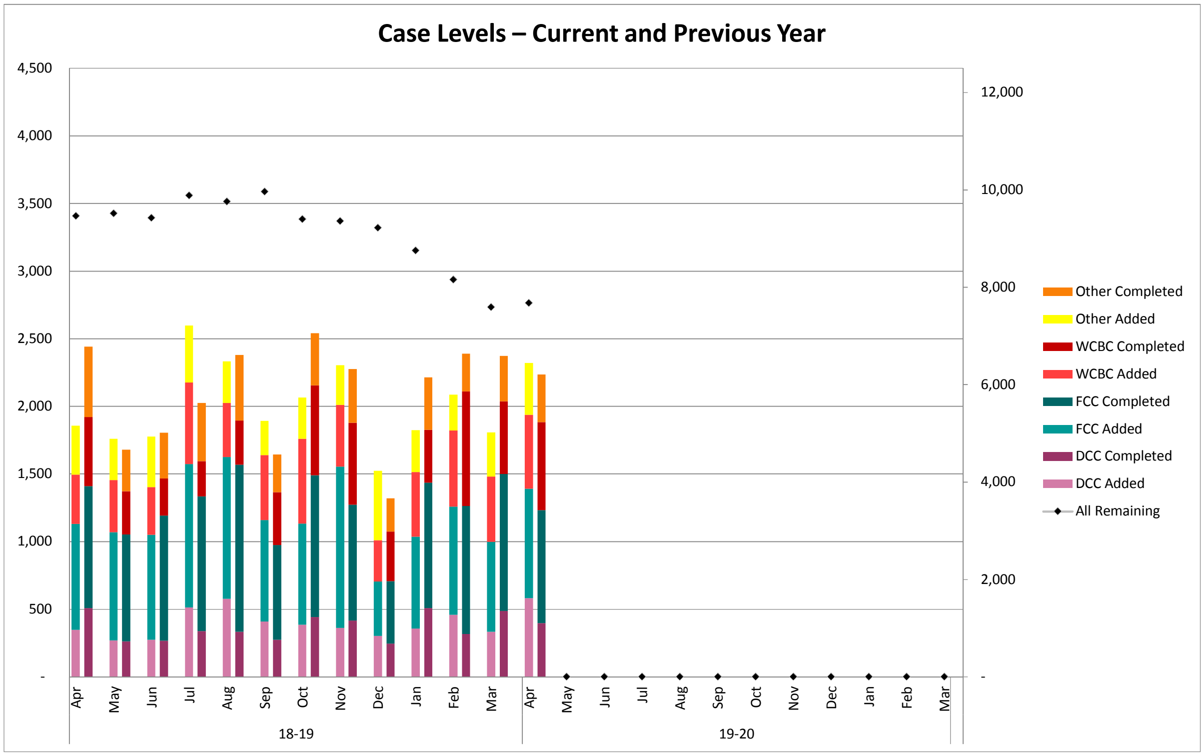
Case Levels – Current and Previous Year
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3,500
3,000
2,500
2,000
1,500
1,000
500
-
12,000
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8,000
6,000
4,000
2,000
-
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
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Other Added
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WCBC Added
FCC Completed
FCC Added
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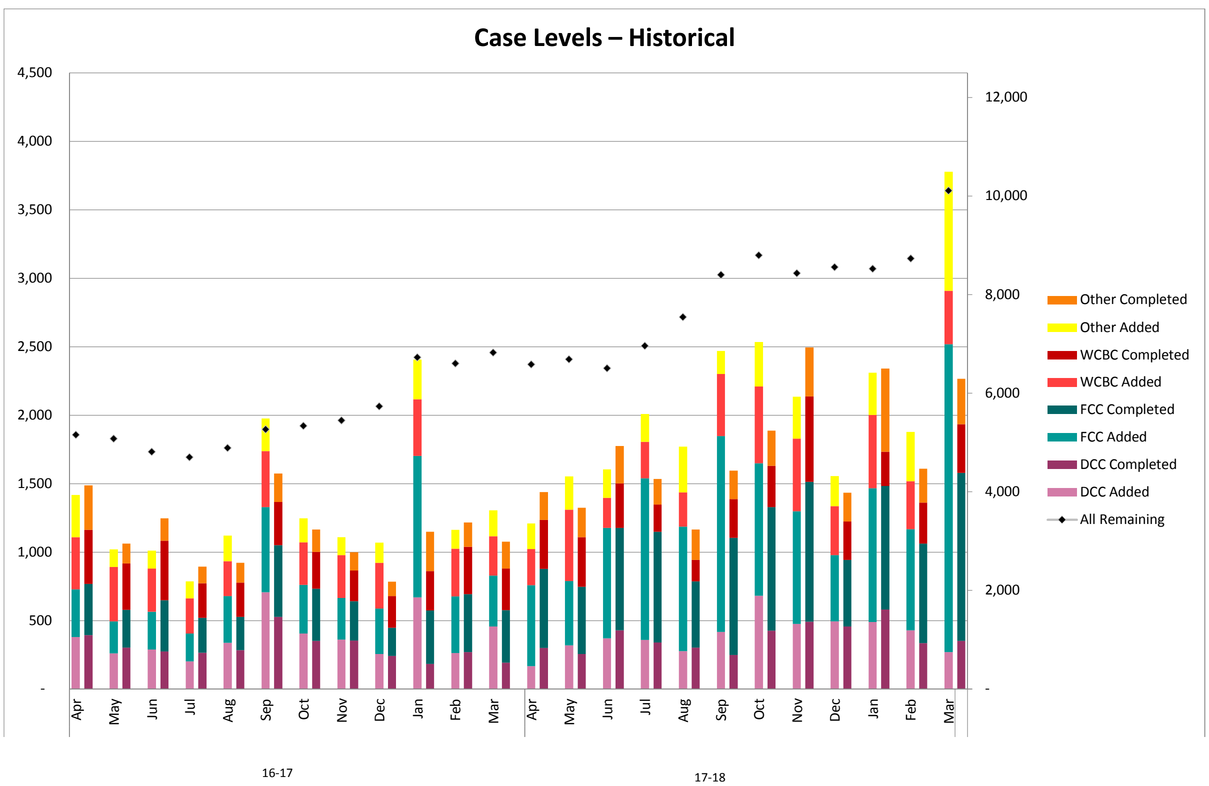
Case Levels – Historical
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3,500
3,000
2,500
2,000
1,500
1,000
500
-
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Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
16-17
17-18
Other Completed
Other Added
WCBC Completed
WCBC Added
FCC Completed
FCC Added
DCC Completed
DCC Added
All Remaining

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Key Performance Indicators

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

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

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

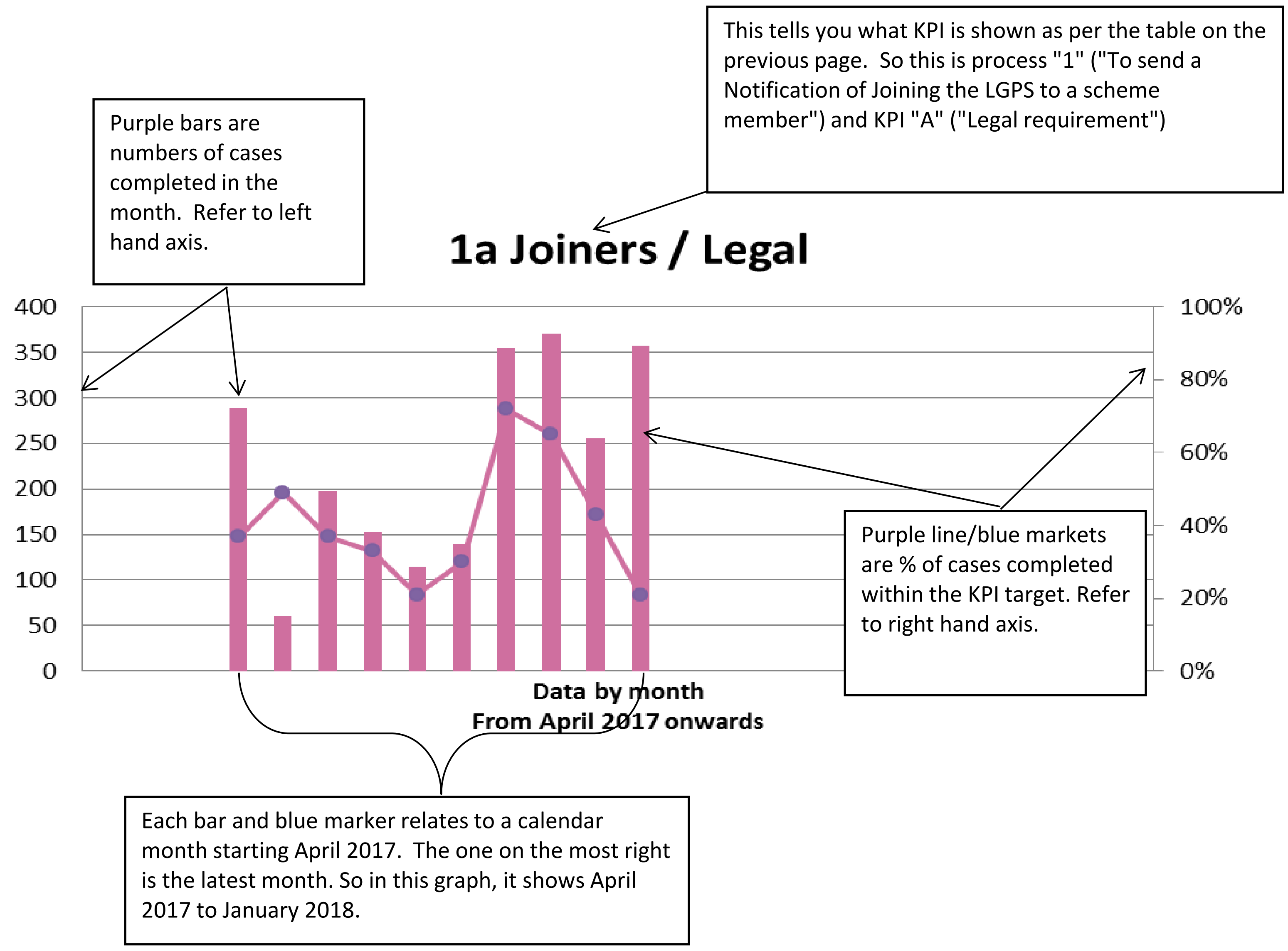
		A	B	C
	Process	**Legal Requirement**	**Overall**	**CPF Administration element target**
1	To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual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

Interpretation of graphs

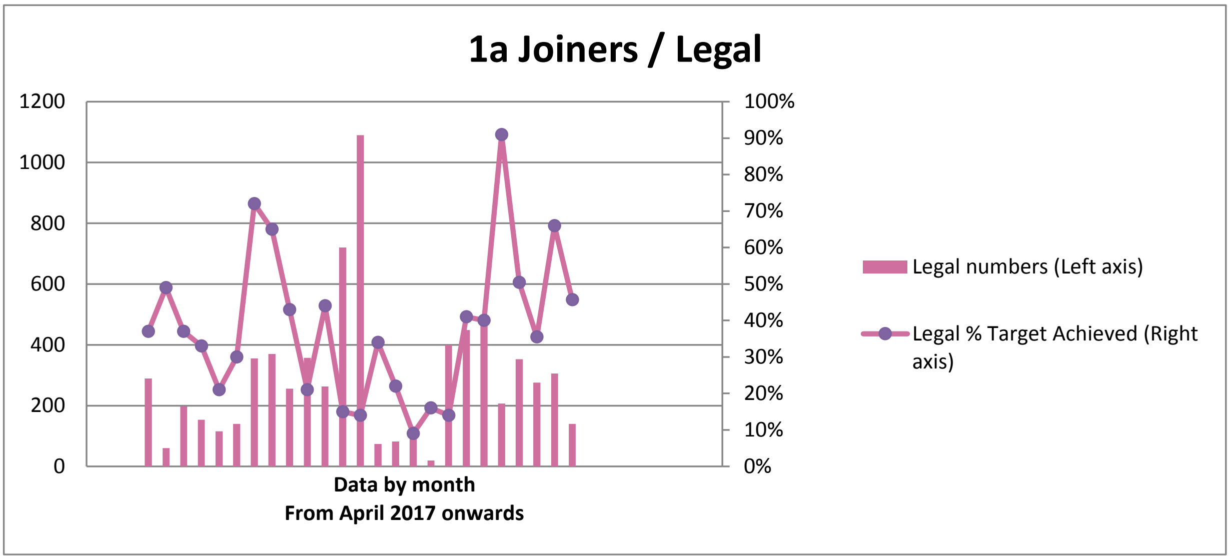
One graph has been provided for each KPI in the table above. Each graph shows month by month:

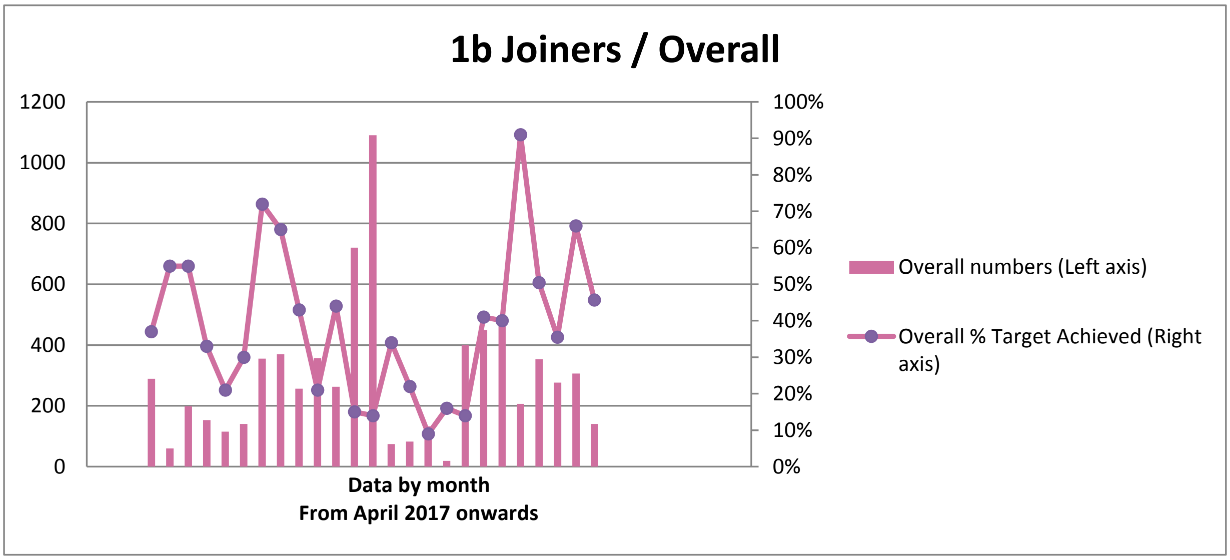
- The number of cases which have been completed each month
- The percentage of those cases completed that were completed within the KPI target

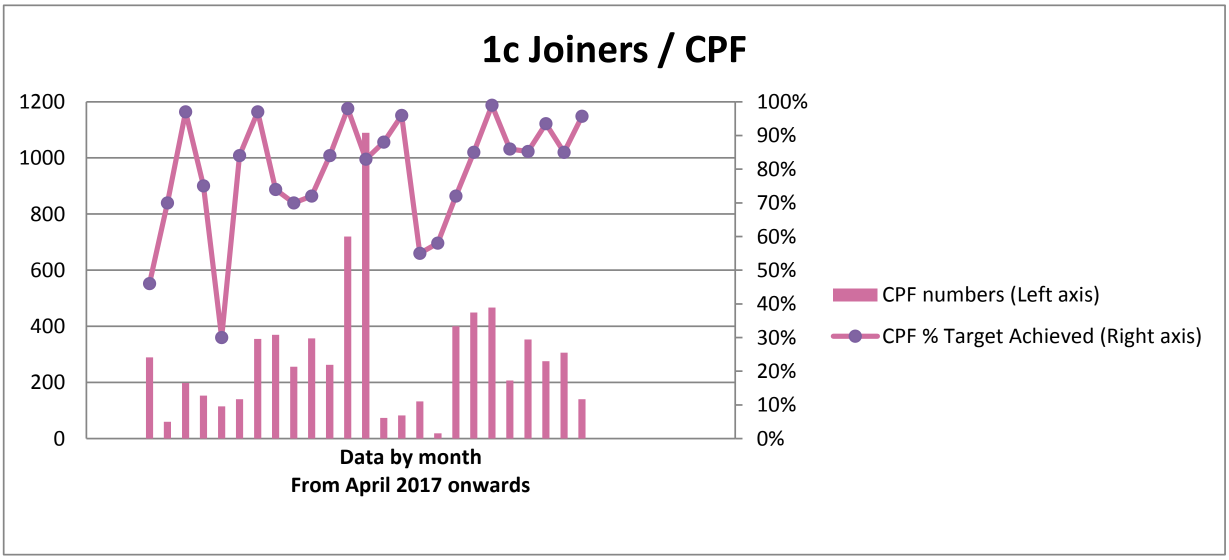
This is illustrated further below.



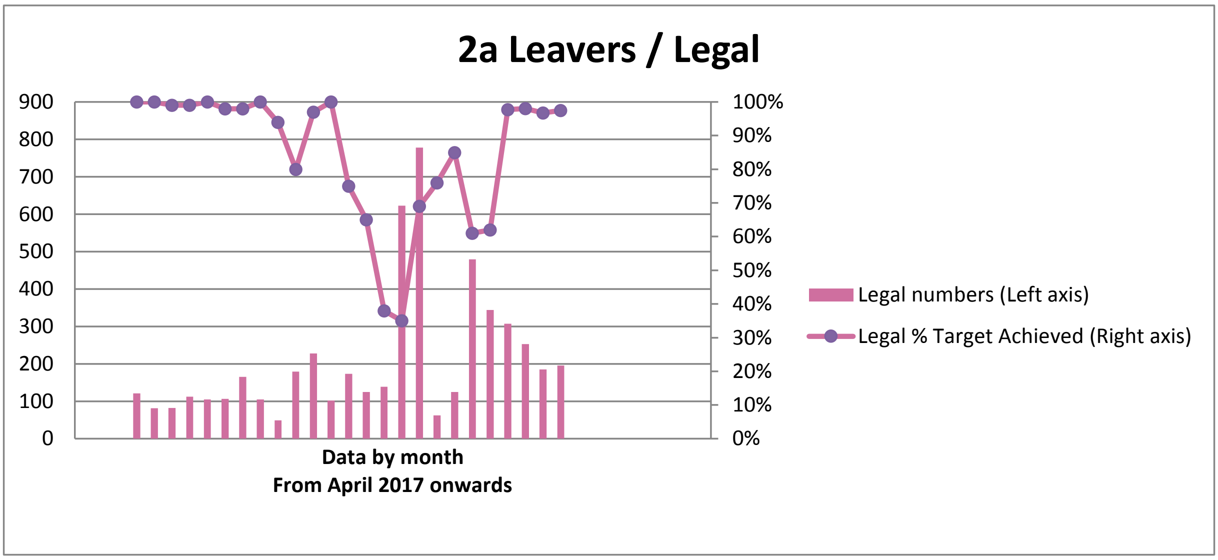
Key Performance Indicators - relating to 30 April 2019

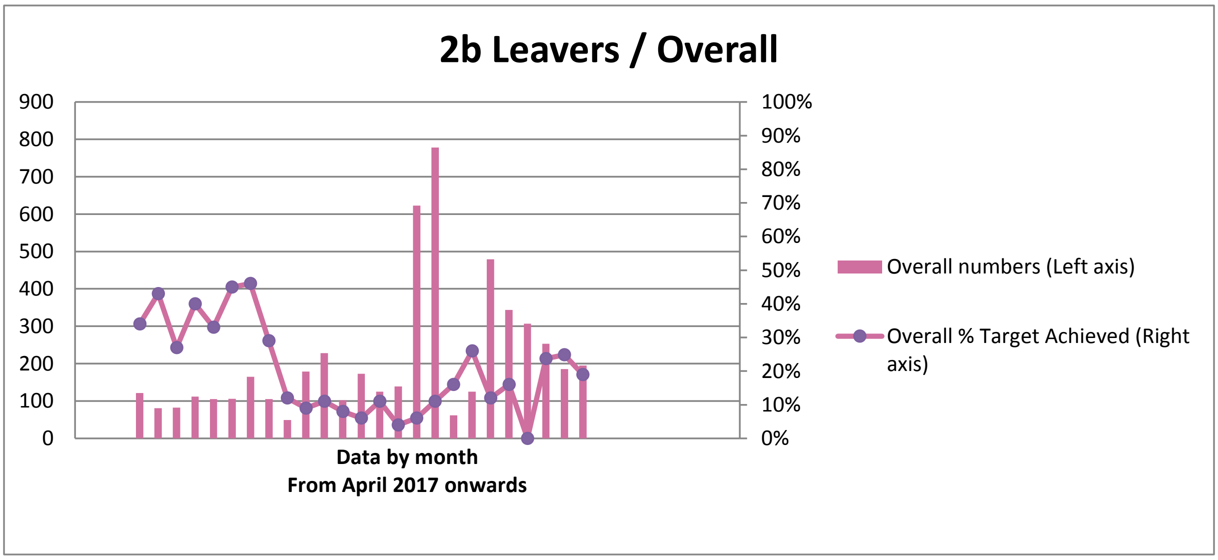


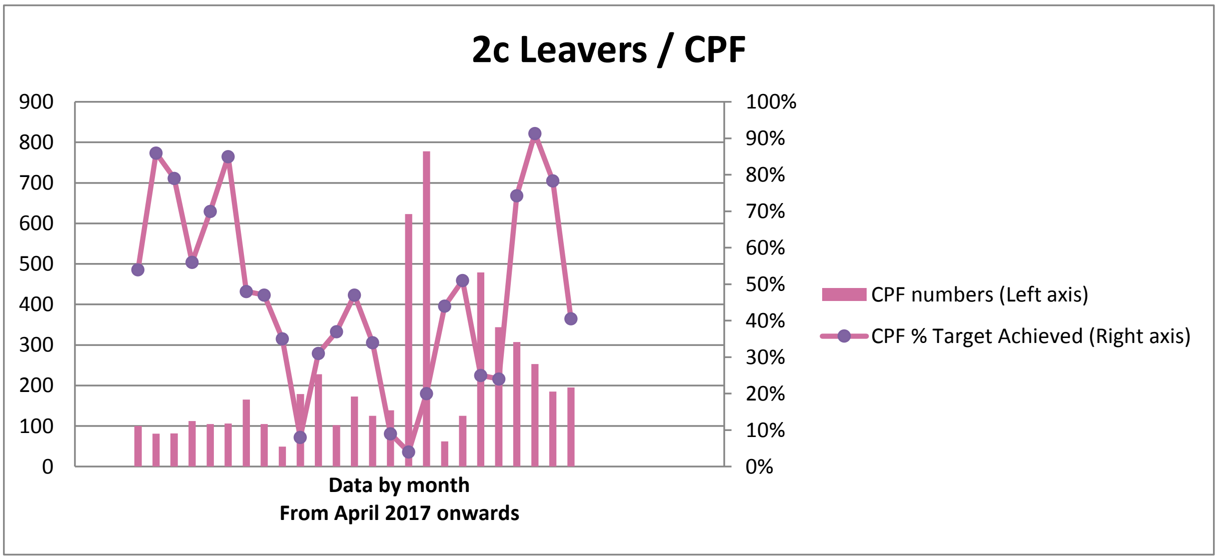




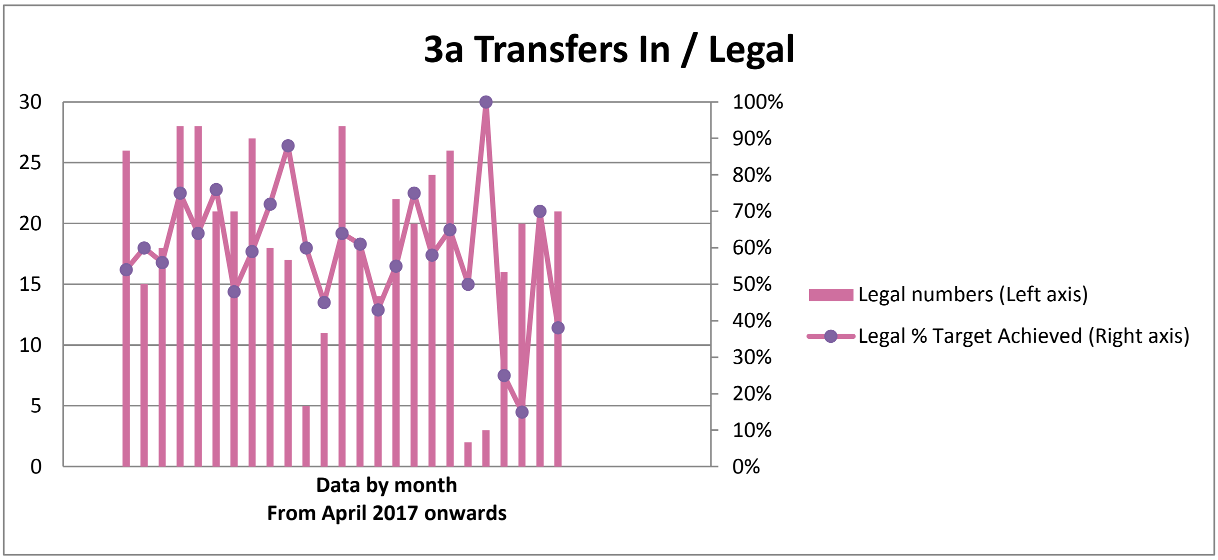
Key Performance Indicators - relating to 30 April 2019

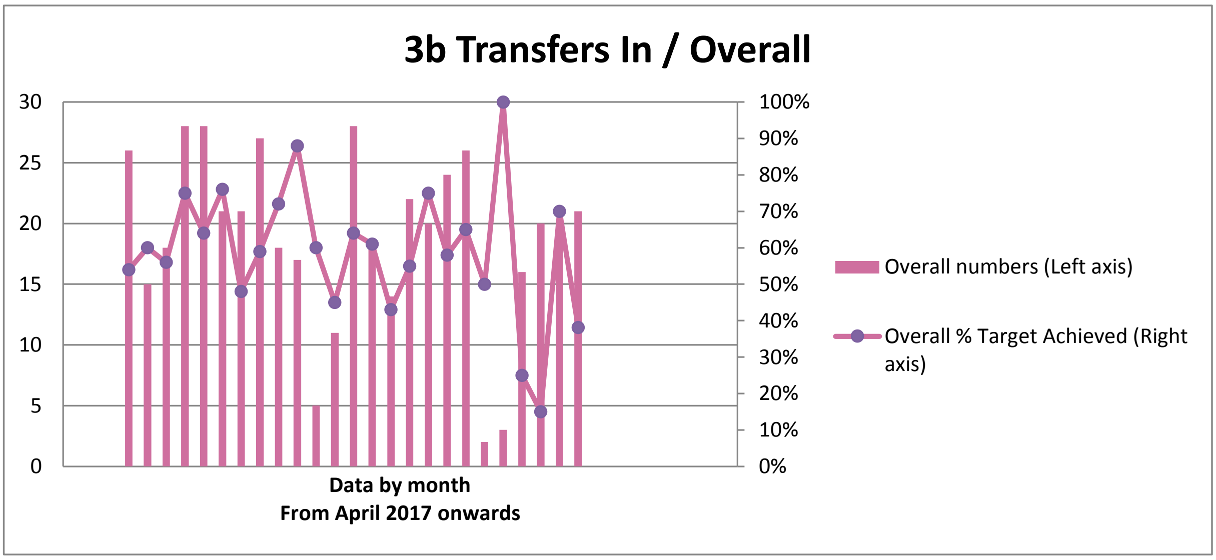


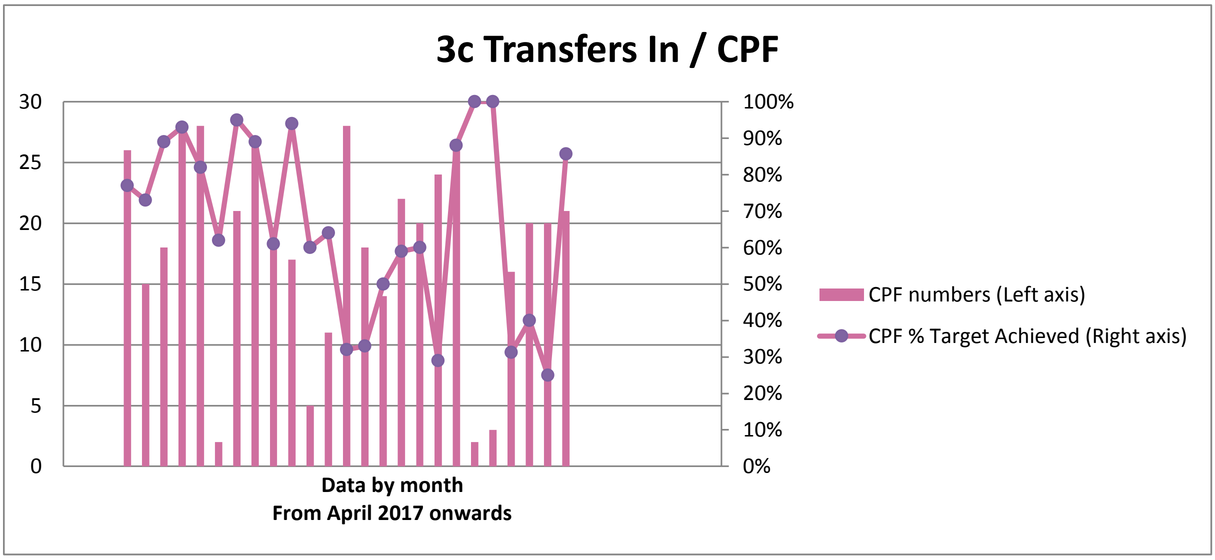




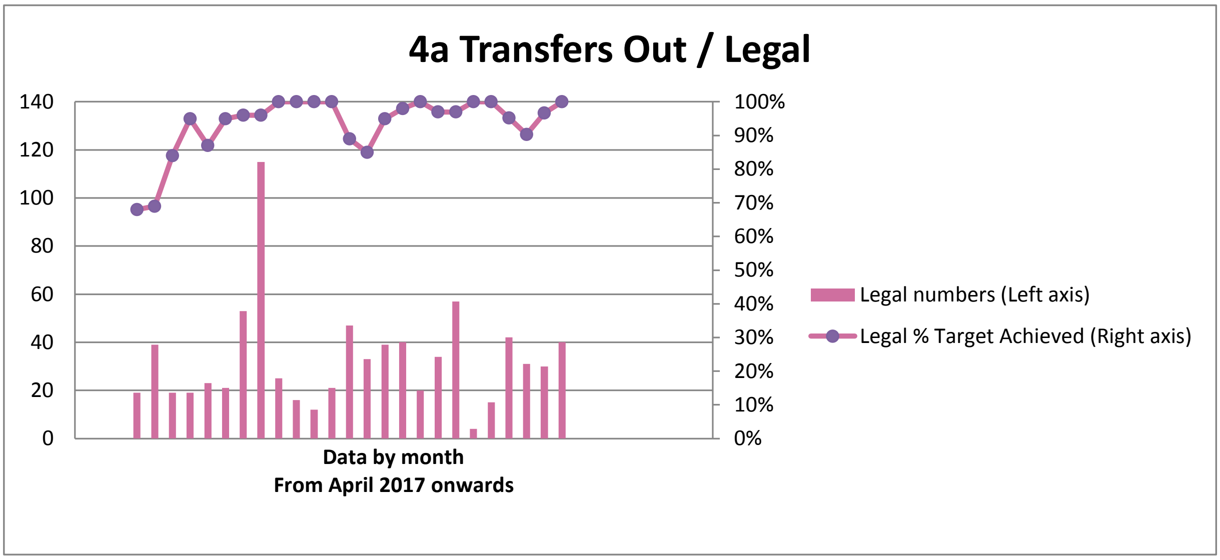
Key Performance Indicators - relating to 30 April 2019

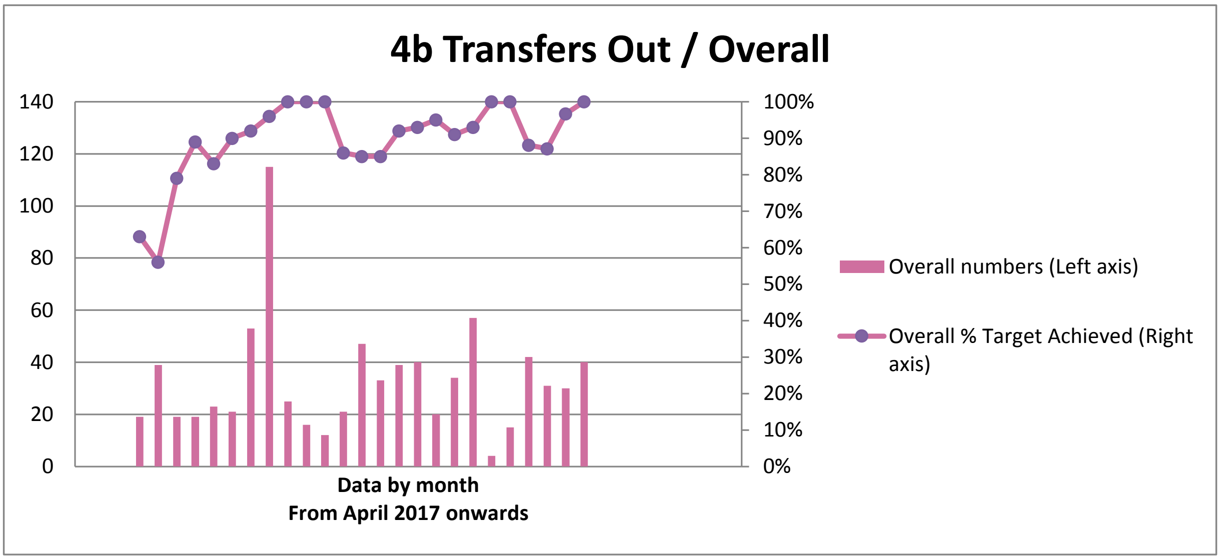


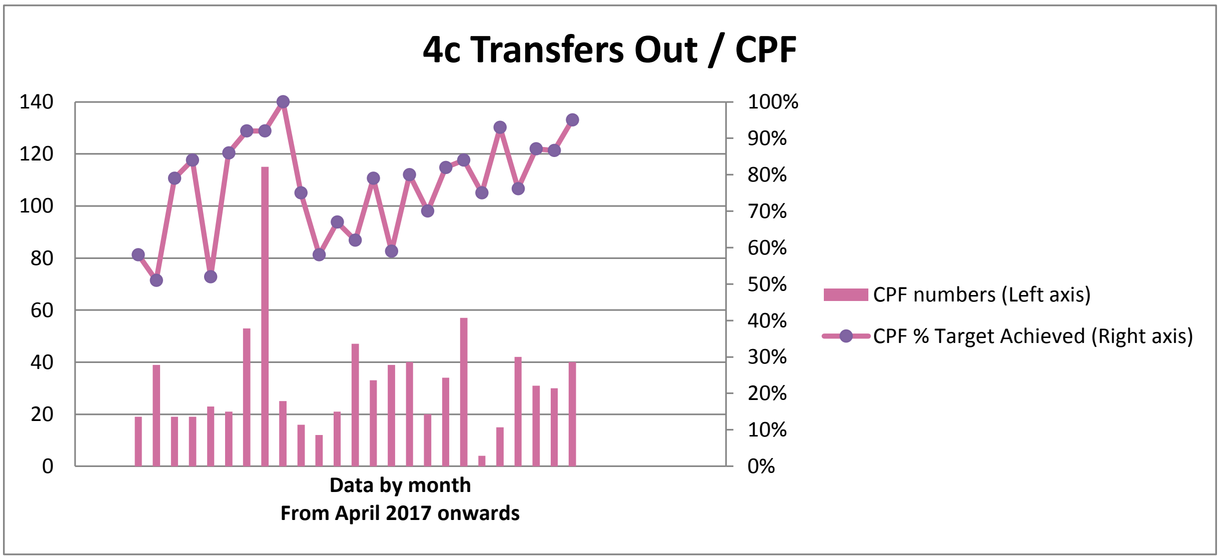




Key Performance Indicators - relating to 30 April 2019







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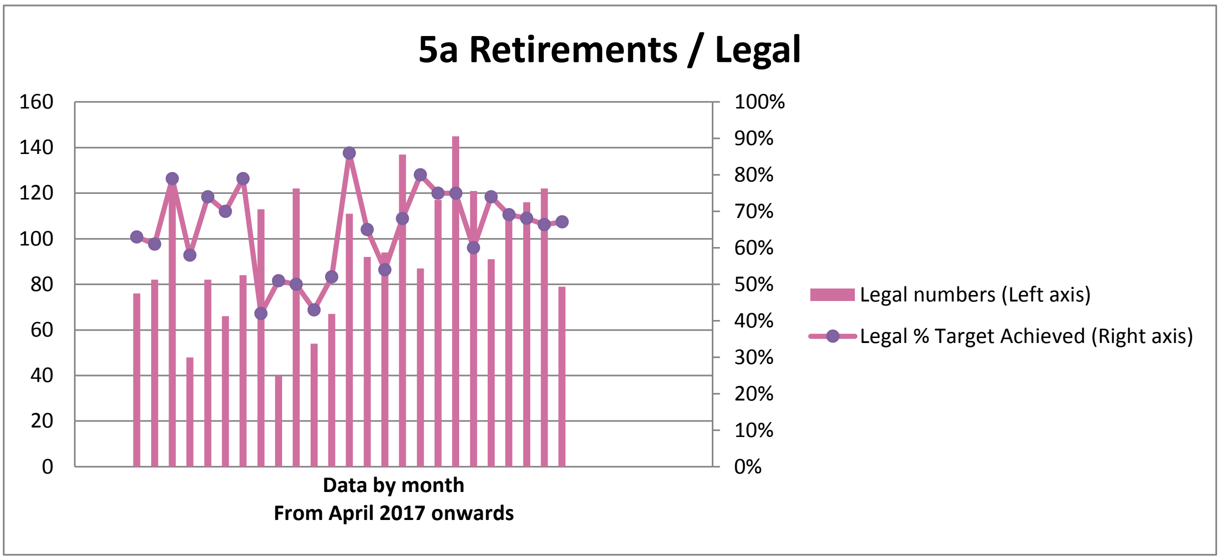
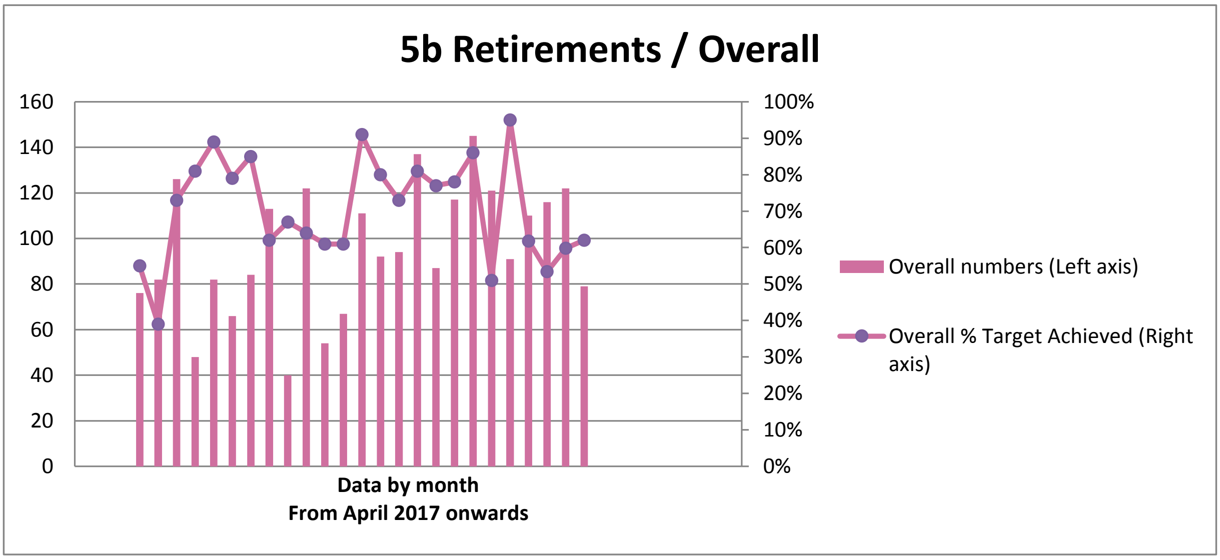
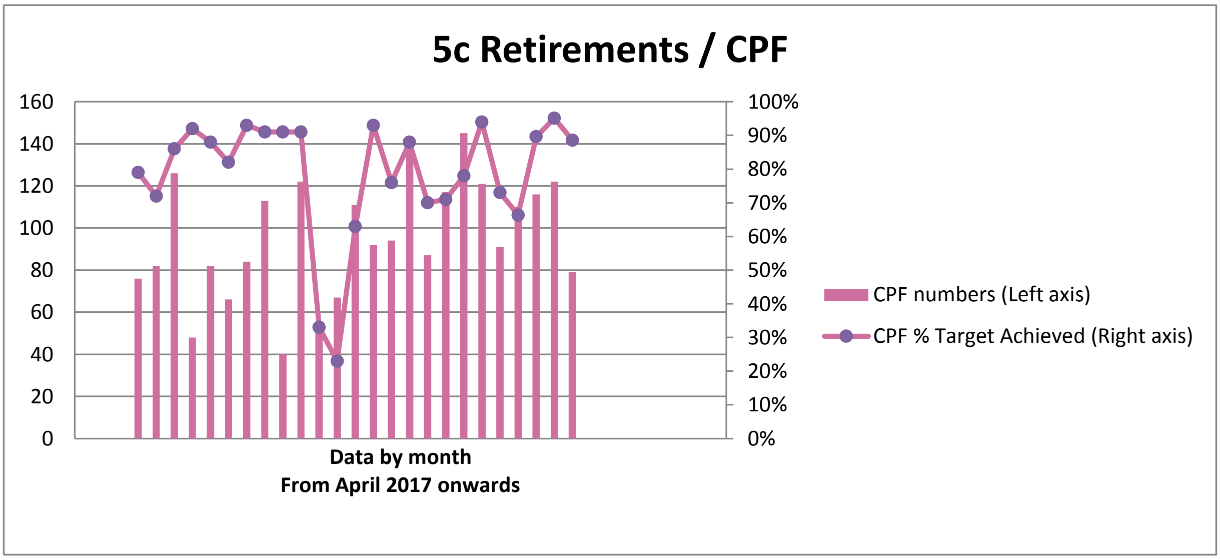
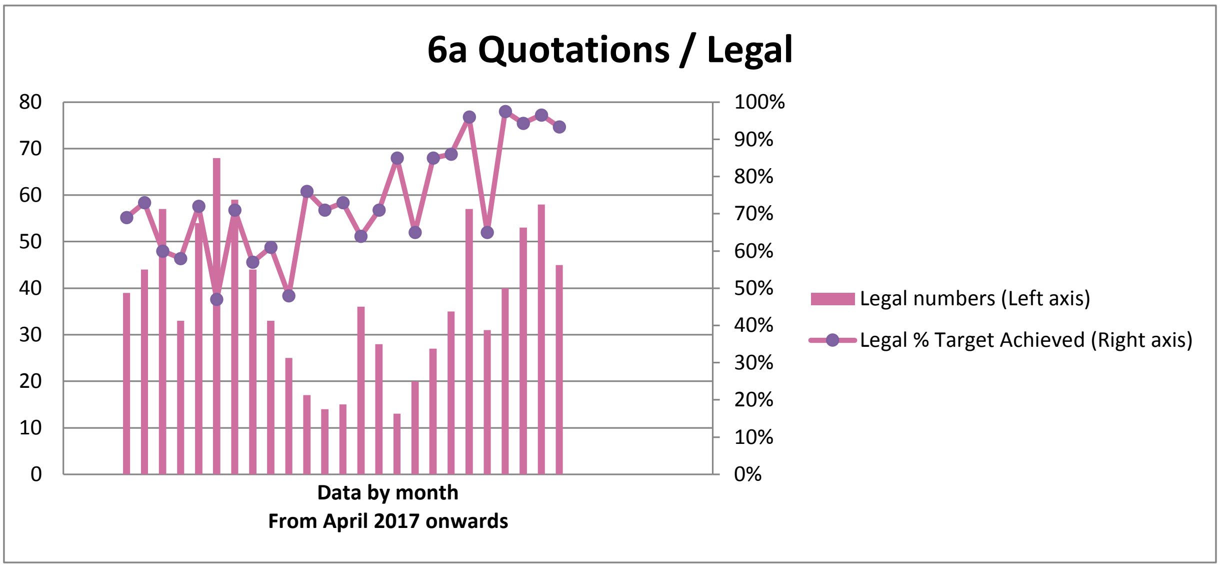
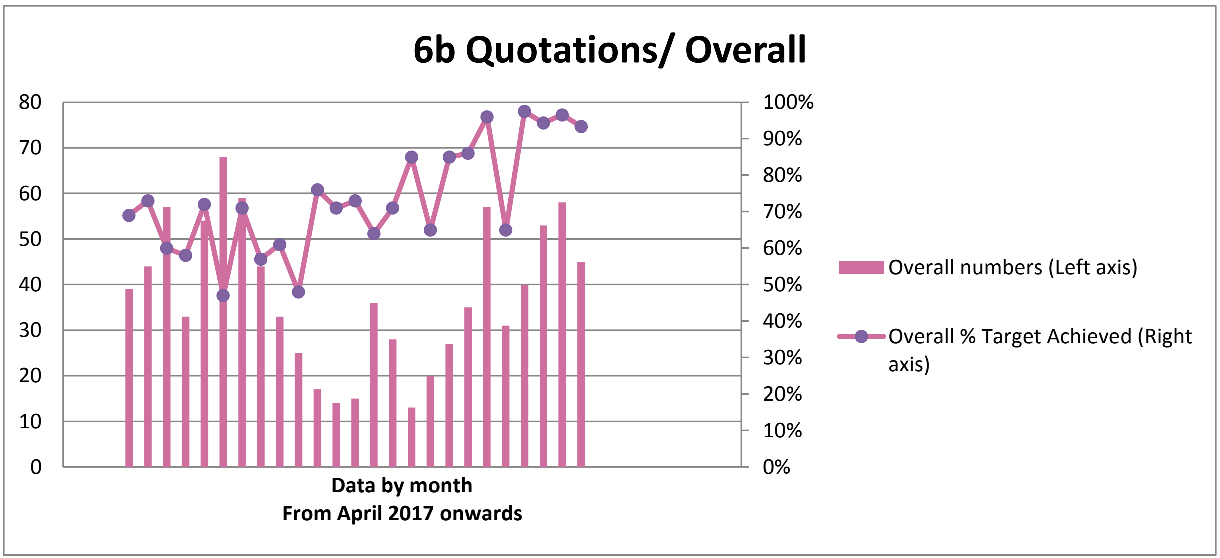


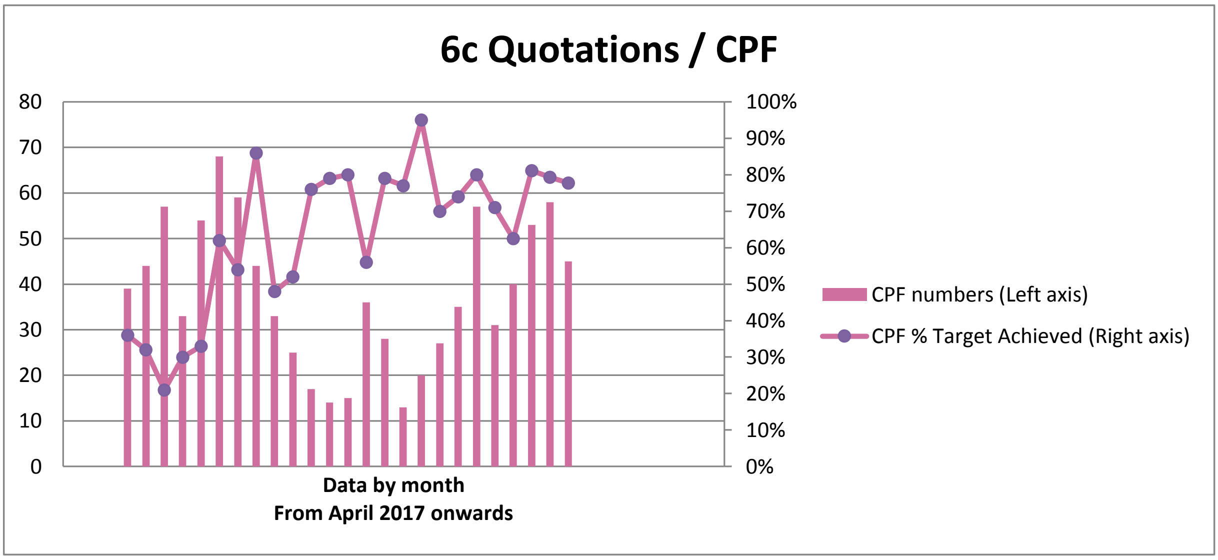




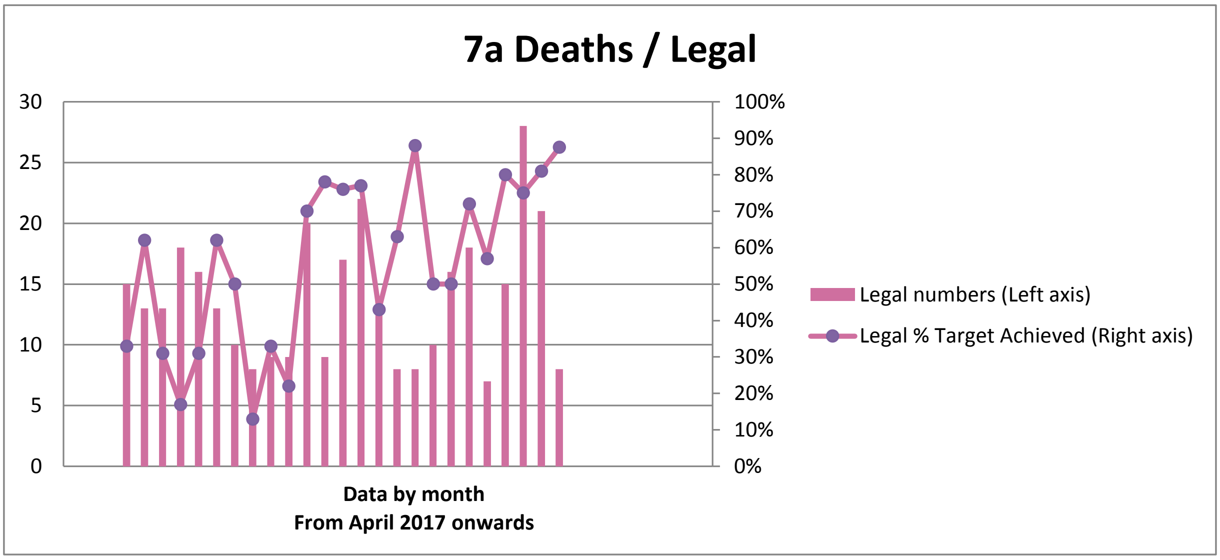
Key Performance Indicators - relating to 30 April 2019

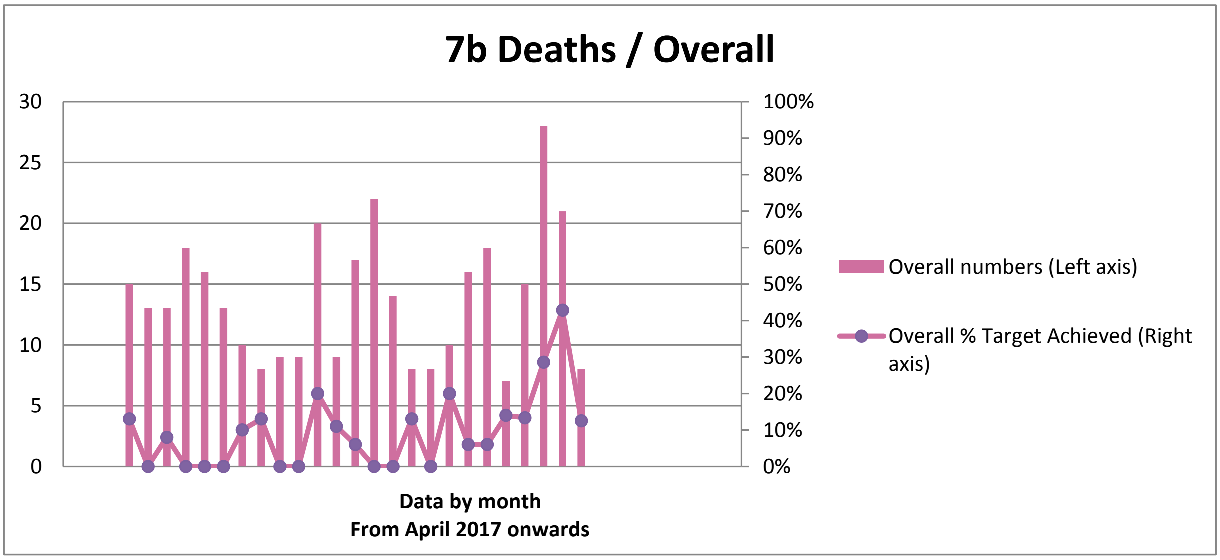


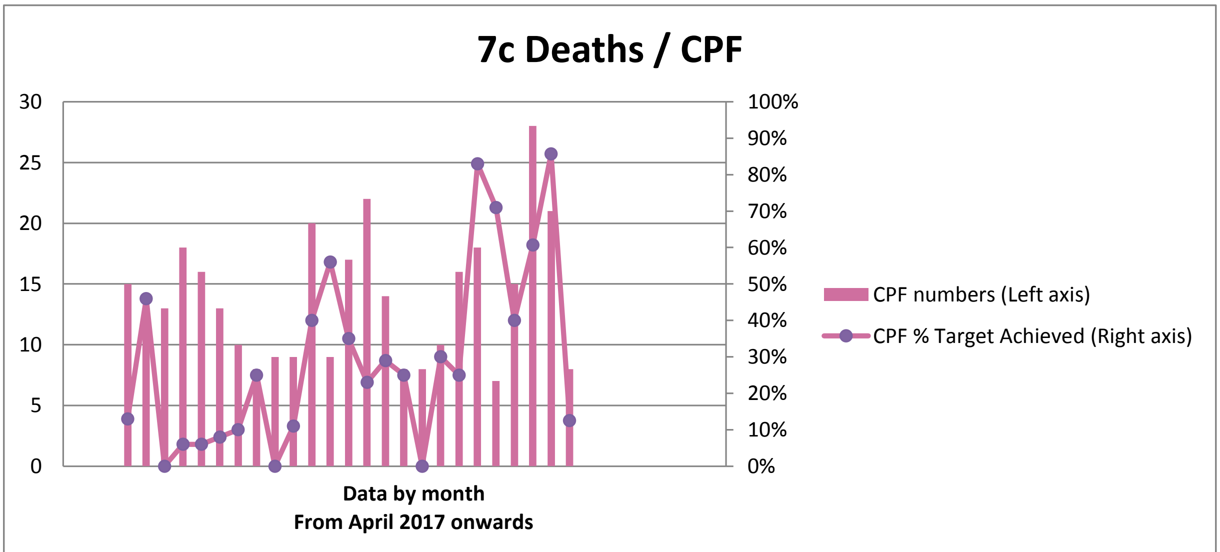




Key Performance Indicators - relating to 30 April 2019







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2019 Member Satisfaction Survey

2019: 87 posted / 8 responses (9.2%)
2019: 8888 MSS registered users / 89 responses (1.0%)

2018: 317 posted / 21 responses (6.6%)
2018: 7869 emails / 38 responses (0.5%)

		Strongly Disagree	Disagree	Agree	Strongly Agree	KPI > Agree	Achieved > Agree	+ / - from 2017
Administration	… offers documentation, guidance and information in a professional manner?	6 6.1%	12 12.3%	60 61.8%	19 19.5%		79 81.4%	-6.7%
	… is proactive in their approach to provide a service to members?	7 7.2%	22 22.6%	51 52.5%	17 17.5%		68 70.1%	-14.6%
	… gives an appropriately timed service with regular updates?	6 6.1%	27 27.8%	49 50.5%	15 15.4%		64 65.9%	-18.8%
	… is customer focused and meets the needs of its members	8 8.2%	21 21.6%	52 53.6%	16 16.4%		68 70.1%	-13.0%
	… has provided a high quality service throughout your membership?	7 7.2%	23 23.7%	49 50.5%	18 18.5%	90%	67 69.0%	-12.4%
Communications	… promotes the scheme as a valuable benefit and provide sufficient information so you can make informed decisions about your benefits?	10 10.3%	23 23.7%	50 51.5%	14 14.4%		64 65.9%	-22.2%
	… communicate in a clear and concise manner?	12 12.3%	22 22.6%	48 49.4%	15 15.4%		63 64.9%	-21.5%
	… use the most appropriate means of communication?	9 9.2%	18 18.5%	51 52.5%	19 19.5%		70 72.1%	-12.6%

Members who have elected to include comments, alongside their individual responses (30 out of 59)				
Strongly Agree	**Agree**	**Disagree**	**Strongly Disagree**	**Member Comments**
5	3			I do like the new website where I can easily access my information.
	1	7		To qualify my responses - until fairly recently I have not had any great need to scrutinise my pension in any great detail. The introduction of the self serve facility has been welcomed but due to a change of job in 2017 until very recently (last month or so) the information available via this service has been out of date. Attempts to contact the service electronically via the self-serve facility received no response. I would add however that in the past when contacting the service to speak to someone directly they have always been more than helpful.
5	2		1	The pension's online system is fantastic.
2	6			Hi - I would love it if self service could calculate my pension at a certain age if I were to leave today. It looks like it can tell you what your full pension would be at normal retirement age if you left today, but not if you wanted to leave today and take it at 55 (or any age other than NRA). Could this be looked at? I love the fact it does calculate what your pension will be at certain ages if you were to retire then and includes the reduction figures - thanks.
	2	2	4	I feel a bit harsh saying disagree / strongly disagree as you do have a website, newsletters, etc. The issue is they are written in very inaccessible, technical jargon and are not easy to understand. Even the examples don't really relate to, for example, my own circumstances no matter how I try to apply them. The newsletter in particular is very difficult to understand and to be honest it looks and sounds like it has been written by an accountant - being married to one I know these traits! It is unfortunately a boring subject to start with, but the newsletter and other items you send out does need to be looked at to make it more readable and understandable. A finance background employee may know what it is all about but does it make sense to a bloke (or woman) on the tools down at the Depot? Probably not. Perhaps get a Panel of staff together from all levels and departments and ask them what they think of it. Even this survey is a bit poor as it doesn't take into account the views of anyone who hasn't yet really engaged with you e.g. a 'not applicable' box. You used to do drop in advice surgeries, these helped us to understand in plain English what we were likely to be awarded, when we could retire and how the figures were reached. Go back to basics and keep anyone with an accountancy background in an anorak away from writing the final draft of the guidance or newsletter - test it on the average employee to see if they understand it.
		7	1	Visibility and communication are invisible!
	7	1		I can't say I have had any information sent to me it is up to members to go on the website and be pro-active.

	3	5		I have emailed with queries numerous times over the years and the time taken to respond is unacceptable in my opinion. I have always had to chase my queries which does not give me confidence in the service. Also the statements sent to me are not clearly explained. (Having spoken to colleagues many feel the same). It would be beneficial to have regular access throughout the year to speak to an advisor in my workplace regarding my pension where I can ask questions and receive advice.
		8		We only receive an update annually I have no idea what is going on with my pension at all.
	8			In my opinion clwyd pension fund provides a good service
			8	Never heard of it before! Also, there should be an option for 'neither agree or disagree.
	7		1	The MSS is proving very difficult to use. I have entered correct user name and passwords but it still won't let me access my records.
		6	2	I emailed the fund 10 days ago and have yet to receive a reply to my questions, I am beginning to wonder if my email was received.
	6	2		Happy overall, but I don't think that there are "Regular" updates on issues etc
7	1			It is such a complex area that is difficult to communicate in an ideal structure that everyone understands their specific pension details. Ideally it would be useful to sit with a pensions expert and discuss my individual pension, I am unsure if this is offered currently? Similar to a bank If I were thinking of opening a new product, to enable me to plan for the future. Thanks
	5	3		Long response times to queries sent and no follow up
6	2			Staff are always informative and helpful.

	5	3		Queries are not answered for weeks and then, sometimes only with prompting. When you do get a response, staff are lovely and very professional. I think the delay in response could have had something to do with staffing levels. It is really important for queries to be answered in a timely fashion because people are making life changing decisions and the response from the Pension Service can assist them in this. Don't like to criticise because when you do get to speak/get an e.mail response, staff couldn't be nicer but there are definite issues with response times. Thanks
	4	3	1	Pension information provided tends to be written in impenetrable language and terminology. I find both communications and statements very confusing and not written in plain uncomplicated language. More could be done to address this. I am also unhappy at the way my pension has been mis-calculated and how this was communicated. There were no FAQs included in the letter of explanation which was generic, so I had to try to find out myself any possible impact as this was not clear.
		7	1	There is poor communication, I have tried frequently to get someone to help me log in to the system, but very poor response.
		8		All still very confusing. Don't know how but it does need to be totally customer focused and user friendly. SIMPLE/ IDIOT GUIDE
	1	3	4	When members ask for their figures in order to make an informed decision about retirement then Clwyd Pension Fund need to respond much more promptly - at the present time the amount of time taken is much too long.
1	4	3		I have asked for an appointment to discuss my pension. Two weeks later still no response. I am still waiting for my annual statement which should have been available mid 2018.
	8			website is sometimes difficult to use with help for passwords etc
		5	3	- Communication is not timely - Website and information is very outdated and does not provide information in a clear, concise way - Performance and administration is poor, takes a disproportionate amount of time to have queries answered
	1	6	1	Last year I wanted my figures as my husband was unwell and wanted to look into retiring early to look after him but it took numerous emails and no response, I then emailed a specific person, whose job it wasn't to provide the information - before I could fully understand what I was entitled to. The service provided by the team simply isn't good enough but it was only the fact that this person did take the time to email me back and respond !

	2	6		Annual Statement undecipherable for the layman. Pension staff at Shire hall couldn't understand it and said it was incorrect. Online details too vague - unable to accurately estimate own forecast Very slow response time if requesting printed information Clients advised to visit shire hall in person but very poor response from department. I took half a days leave to visit, was brushed off initially by the member of staff and only when I was clearly annoyed that I had taken leave and visited, on their advice, was I dealt with properly and even then I came away not much clearer. How on earth can members be confident that they have been given correct/accurate information in order to make an informed decision?
		3	5	As a retained member it is difficult to get any information. No one will speak to you on the phone and information is only available online when not everyone is on line. Every other pension provider sends out yearly statements but you don't
		4	4	I have had no contact with my pension provider since it all went on-line. I don't have a computer at home and I don't have a lot of time on the works computer (outside manual worker), of which quite a few of us share. I also find it difficult to navigate my way around the computer when I do get time. Not all of us are comfortable with them and I feel that this has not been taken into account.
	1	5	2	I work for Aura Leisure & Libraries. I have asked for my pension to be split. I have been told I will receive a letter but nothing. I was supposed to have been sorted within 12 months of leaving FCC however 18 months on there is no sign of this happening. Apart from 1 roadshow meeting and 2 letters that where wrong I have heard nothing. I think this is poor in terms of customer service as I have time critical decisions to make without the information.

2019 Employer Satisfaction Survey

84 Surveys emailed (1 reminder sent) / 8 Responses (9.52%)
2018: 88 Surveys / 19 Responses (21.6%)

Employer Survey	Do you agree that the Clwyd Pension Fund…	Strongly Disagree	Disagree	Agree	Strongly Agree	KPI > Agree	Achieved > Agree	+ / - from 2017
	...offers documentation, guidance and information in a professional manner?	0 0.0%	0 0.0%	4 50.0%	4 50.0%	90%	8 100%	+5.2%
	...is proactive in their approach to provide a service to employers?	0 0.0%	1 12.5%	5 62.5%	2 25.0%		7 87.5%	-7.3%
	...gives an appropriately timed service with regular updates?	0 0.0%	1 12.5%	5 62.5%	2 25.0%		7 87.5%	-12.5%
	...is customer focused and meets the needs of its employers?	0 0.0%	1 12.5%	5 62.5%	2 25.0%		7 87.5%	-12.5%
	…has provided a high quality service to you in your role as employer?	0 0.0%	1 12.5%	4 50.0%	3 37.5%		7 87.5%	0%
	... ensures you are aware of your LGPS employer related roles and responsibilities for the administration of the Clwyd Pension Fund?	0 0.0%	2 25.0%	3 37.5%	3 37.5%		6 75.0%	-25.0%
	… communicates in a clear and concise manner?	0 0.0%	0 0.0%	5 62.5%	3 37.5%		8 100%	0%
	… uses the most appropriate means of communication?	0 0.0%	0 0.0%	4 50.0%	4 50.0%		8 100%	0%

Comments:

'As a clerk to a small council and not being experienced in Pensions, it can sometimes be very daunting to be expected to know all the ins and outs of pensions. Maybe some of the communication could be written in laymen terms.

'It would be useful to be provided with templates that ensure employers fulfill their requirements such as template LGPS Discretion Policy, additional guidance on the letters for Ill Health Retirement, concise clarification on how changes to regulations will impact on employers.
Guidance and support on Admissions Agreements for TUPE. This is going to be an increasing areas in the future and currently it takes so long to get the information back from the Actuaries etc it can impact on the timescales for TUPE. This is a highly complex area that needs clarification'

'Some issues initially with TUPE transfer but the service has improved over time, especially with regards to communications and engagement'

'In the past I have received numerous complaints about the processing of pension claims and regarding payment of benefits. It would be highly beneficial if you could provide a checklist of the action you take when notified of a pending retirement, through to the timescales expected for payment of the lump sum and monthly pension; this would greatly assist us when dealing with complaints.
If possible, a quarterly update on the administration activities would also be beneficial. For example, number of forecasts you provide and the timescale in supplying them; an indication of the level of queries and how quickly they are processed would also be beneficial.'
Please could you supply an up to date contact list.

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

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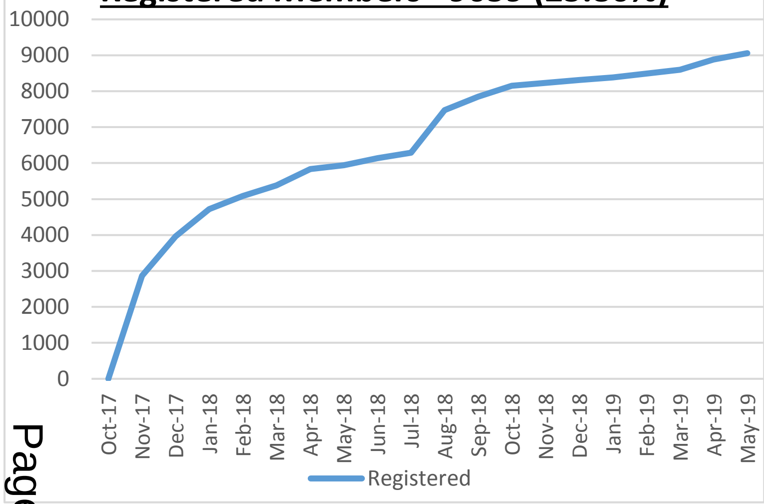
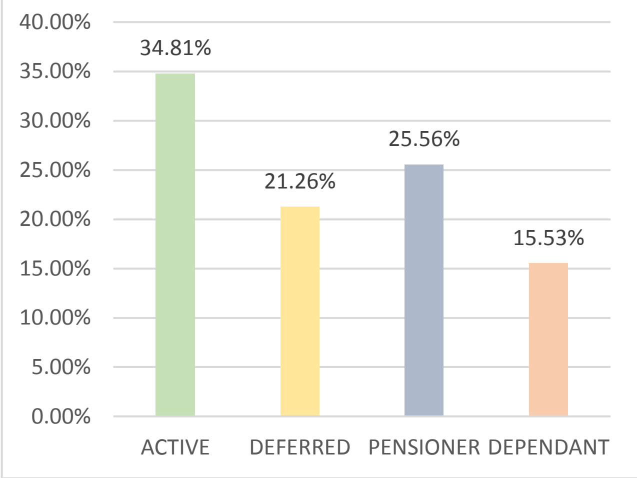
Cronfa Bensiynau Clwyd
Clwyd Pension Fund

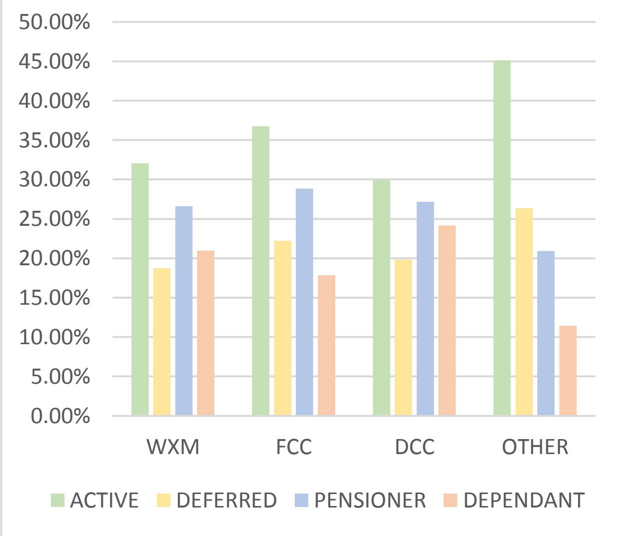
MEMBER SELF SERVICE – 12/06/2019



Registered Members - 9059 (25.86%)



Percentage by Status



% Split between status

Update from February 2019 to June 2019

Member take-up on MSS has increased substantially over the last 3 months due to recent correspondence being issued to all members. This correspondence promoted MSS and invited members to register to use it.

We have gained 673 new registered users since the last Committee meeting in February 2019.

The Regulations and Communications Team has started to visit our employers and give presentations and 1-2-1 sessions for our scheme members. This is proving to engage the members and employers and this is also reflected in the statistics highlighted in this document.

Statistics between

21/02/2019 to 12/06/2019 (112 days)

CONTACT US TASKS

231	MSSKEY	Key requests
90	MSSENQ	Enquiry tasks
12	MSSEST	Estimate tasks
38	MSSRET	Retirement tasks
11	MSSTVT	Transfer tasks
151	**Contact Us (1.35 p/day)**	
242	**MSSADD**	**Address update (new)**
12	**Bank details updated**	

BENEFIT PROJECTIONS

9,451 BENEFIT PROJECTIONS CALCULATED

Avg 84.38 per day

EXPRESSION OF WISH

250 CHANGES OF EXPRESSION OF WISH

2.23 per day

ELECTED FOR POSTAL CORRESPONDANCE

1,945 – 5.88% of overall members

222 have registered also

258	ACTIVE
76	DEFERRED
1409	PENSIONER
202	DEPENDANTS

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DELEGATED RESPONSIBILITIES

Delegation:	Delegated Officer(s):	Communication and monitoring of Use of Delegation
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 • some matters relating to admission bodies and bulk transfers as included in the scheme of delegation.	CFM and CE (having regard to the advice of the rest of the PAP)	Copy of policies to be circulated to PFC members once approved.

Action taken –

The Statement of Administering Authority Discretionary Policies as drafted was approved. In addition to the Statement the following background information was provided:

Administering Authority Discretionary Policies

There are a number of provisions in the Local Government Pension Scheme Regulations 2013 (as amended) and related legislation where administering authorities have some choice (or discretion) as to how matters are dealt with. There is a legal requirement to publish a statement of policy in relation to some of these, and it is good practice to collate a written statement of policy decisions in relation to all provisions. This provides transparency to scheme members as well as ensuring all officers work within agreed policies and procedures on a day to day basis. Prior to now, a full statement of policies has not been developed and key policy decisions have been made as and when required.

The statement lists all the relevant areas of policy and the recommended approach for the Clwyd Pension Fund. The approaches vary depending on the nature of the discretionary area and include:

- areas where a separate full written policy is agreed by the Pension Fund Committee (such as the Funding Strategy Statement and Administration Policy)
- areas where a clear approach is to be followed
- areas where a named officer(s) has delegated authority to consider the matter as each case arises (sometimes with regard to advice from the Fund's advisers)
- a combination of the last two points.

Delegation:	Delegated Officer(s):	Communication and monitoring of Use of

		Delegation
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 • some matters relating to admission bodies and bulk transfers as included in the scheme of delegation.	CFM and CE (having regard to the advice of the rest of the PAP)	Copy of policies to be circulated to PFC members once approved.

Action taken –

The Voluntary Scheme Pays Policy as drafted was approved. In addition to the Policy the following background information was provided:

Scheme Pays Policy

Annual Allowance is one of the limits set by the Government in relation to the level of an individual's pension savings, known as pension input, before a tax charge becomes due to HM Revenue and Customs (HMRC).

Scheme members are normally required to pay their tax charges directly to HMRC, however, where the member exceeds the standard annual allowance (currently £40,000) and their annual allowance charge in a tax year exceeds £2,000, members are entitled to elect to meet some or all of the tax charge from their future pension benefits. This is known as the Mandatory Scheme Pays (MSP) option. This option requires the Pension Fund to pay the tax charge on the member's behalf and then to reduce their future pension benefits accordingly.

Local Government Pension Scheme (LGPS) administering authorities now have the power to grant a member's request to pay their annual allowance charge even if they do not meet the criteria for MSP; this mechanism has become known as Voluntary Scheme Pays (VSP).

Voluntary Scheme Pays can apply where the member does not have an entitlement to MSP, , and the member may ask the Pension Fund to pay their annual allowance tax charge on a voluntary basis via the Voluntary Scheme Pays option with a corresponding reduction to their LGPS benefits. This would include those members adversely affected by HMRCs tapering rule (i.e. members with taxable income in excess of £150,000 in any year which is likely to mean they have an annual allowance of less than £40,000) and could also be used where the member's tax charge is less than £2,000. This, however, is subject to the Administering Authority's approval which is discretionary. There are a number of other circumstances where voluntary scheme pays would be permitted.

The draft CPF policy has been developed to allow voluntary scheme pays in circumstances where it will not result in a major amount of additional work for the CPF Administration Team and where the charge purely relates to membership in CPF (i.e. not also relating to other pension arrangements). It is considered this approach is fair to the scheme member and the exceptions are justifiable.

This policy, as drafted, would therefore permit voluntary scheme pays in the following circumstances:

- A member is subject to the Tapered Annual Allowance or the Money Purchase

Annual Allowance and has a tax charge of more than £2,000 relating to input in the Clwyd Pension Fund, and the irrevocable election is received by 30th November following the end of the tax year in which the input arises (i.e. 30th November 2019 for input in the 2018/19 year).

- A member meets all the criteria for Mandatory Scheme Pays but was unable to meet the 31st July deadline due to an administrative error or omission by Flintshire County Council, in its role as administering authority, (i.e. the member was not notified of their pension input in time for them to meet the deadline). In these circumstances the application for Voluntary Scheme Pays should be made within 2 months of the member receiving notification of their pension input.

The draft policy also outlines some situations where voluntary scheme pays should not be permitted. In particular it is not considered practical to allow voluntary scheme pays where charges are partly due to pensions growth in other schemes, as this could result in complications and a large amount of administration compared to CPF only cases. The excluded scenarios are as follows:

- The member's tax charge relating to pension input in the LGPS in England & Wales is less than £2,000, but they have applied for Voluntary Scheme Pays because their total tax charge when taking input from other arrangements into account is more than £2,000.
- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but has also asked the Fund to pay a tax charge relating to input in a separate pension arrangement.
- The member's tax charge is less than £2,000.

A member did not meet the 31st July deadline for applying for Mandatory Scheme Pays, and this failure to meet the deadline was **not** due to any administrative error or omission by Flintshire County Council, in its role as administering authority.

Delegation:	**Delegated Officer(s):**	**Communication and monitoring of Use of Delegation**
June 2018 PFC Delegation relating to administration staffing structure: "That the Committee approve that the Chair and Chief Executive or Corporate Finance Manager under delegation approve further staffing resources upon receipt of a more detailed business case."	Chair and either CFM or CE.	Updated via delegation form at next Committee meeting.

Action taken –

Approved:

- the increase to the vacant Pension Officer post from 3 days to 5 days.

- 2 x Pension assistant posts on 12 month temporary contracts.

Background information

Following a review of current resource and workload, it was recommended that the current Pension Officer vacancy (3 days) be increased to a full time staff member (5 days) to assist with the increased volume of work within the operational team dealing with Retirement and Death cases.

Additional workload streams due to regulation changes have impacted on KPI results and the long term impact is not yet clear. To avoid backlogs developing, the appointment of temporary Pension Assistants would alleviate the problem in the short term. Close monitoring of the situation will be undertaken and reviewed monthly in conjunction with the KPI reporting.

Delegation:	**Delegated Officer(s):**	**Communication and monitoring of Use of Delegation**
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.

Action taken –

Approved the write off of the overpayment of pension and lump sum to 3 pensioner members totalling approx. £3500 and communications to members. This is as a result of a combination of system and manual error. An over/underpayments policy is separately being developed.

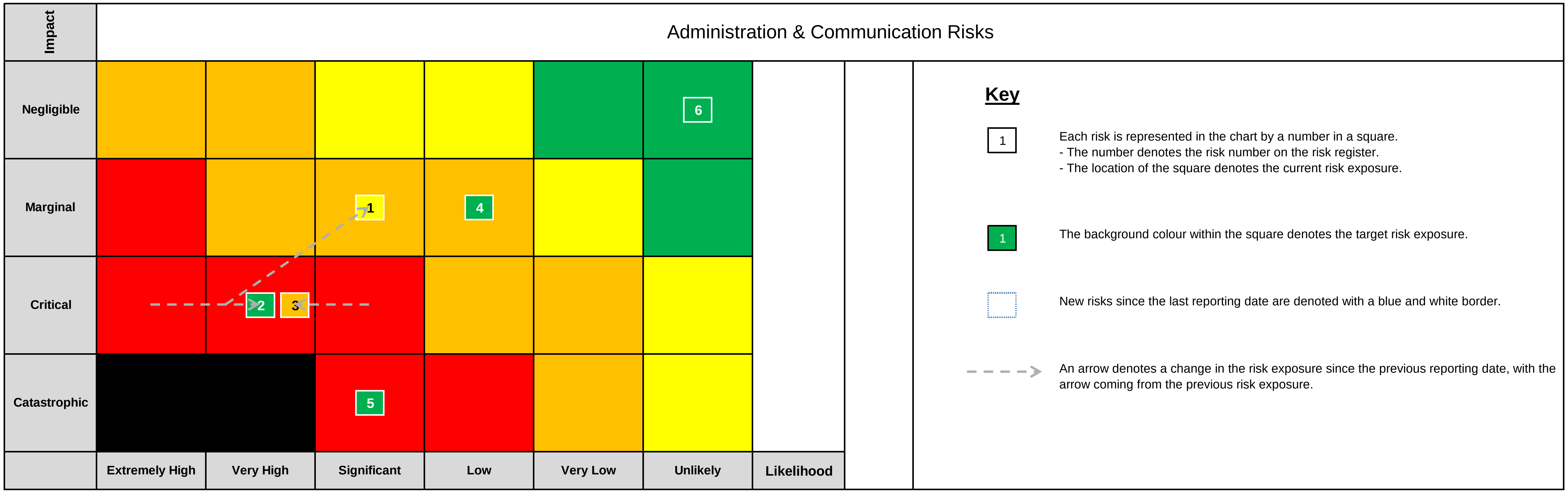
Background information

This request asked for the approval to write-off overpayments to 3 pensioner members whilst awaiting clarification within the under/ overpayments policy.

Whilst completing Project Apple, 3 pensioner members were identified as having been overpaid pension and lump sum due to issues outside of the project. The payment errors were caused due to a combination of a system error at that time and manual input. The system error has since been rectified and additional steps to check benefit calculations have been put in place. These members do not fall within the Principles of Project Apple so require separate authorisation.

The member records have been rectified and the correct pension amount will be paid from the 1st April 2019. All members will be notified accordingly of this correction and that no recovery of the overpayments will be made.

Administration and Communication Risks Heat Map and Summary



30 May 2019

Clwyd Pension Fund - Control Risk Register
Administration & Communication Risks

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

A1 Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
A2 Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
A3 Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
A4 Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
A5 Maintain accurate records and ensure data is protected and has authorised use only
C1 Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
C2 Communicate in a clear, concise manner
C3 Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders
C4 Look for efficiencies in delivering communications through greater use of technology and partnership working
C5 Regularly evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues	That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	All	Marginal	Significant		1 - Training Policy, Plan and monitoring in place 2 - BP 2017/18 improvements assist with staff engagement 3 - Benefit consultants available to assist if required 4 - Ongoing task/SLA reporting to management/AP/PC/LPB to quickly identify issues 5 - Data protection training, policies and processes in place 6 - System security and independent review/sign off requirements 7 - ELT established 8 - Temporary staff changed to permanent, and further resource increase/recruitment to new posts 9 - Ongoing monitoring of ELT and Ops resource/workload for backlogs	Negligible	Low		😐 Current impact 1 too high Current likelihood 1 too high	01/07/2016	Sep 2019	1 - Ongoing training (SB/JT) 2 - Ongoing bedding in of aggregation team and use of Mercers with backlogs (SB/JT/KW) 3 - Ongoing consideration of resource levels post recruitment of new posts (KW) 4 - Review structure of Technical team (KW)	Pensions Administration Manager	30/09/2019	30/05/2019
2	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues	Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Very High		1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT 6 - Increased data checks/analsyis (actuary and TPR)	Negligible	Very Low		☹ Current impact 2 too high Current likelihood 3 too high	01/07/2016	Mar 2020	1 - Ongoing roll out I-connect (KW) 2 - Ongoing monitoring of ELT resource/workload (KR) 3 - Implement further APP data checks to identify issues (KW/KR) 4 - Develop and roll out APP training - in house and employers (KM) 5 - Update Admin Strategy to include a compliance declaration and focus on availability of payroll system/information (KW) 6 - Identify other employer data issues and engage directly with employers on these (KW/SB)	Pensions Administration Manager	30/09/2019	30/05/2019
3	Unable to meet legal and performance expectations due to external factors	Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	A1 / A4 / A5 / C2 / C3 / C4 / C5	Critical	Very High		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required 3 - Recruitment to new posts	Marginal	Low		😐 Current impact 1 too high Current likelihood 2 too high	27/08/2018	Sep 2019	1 - Ongoing consideration of resource levels post recruitment of new posts (KW)	Pensions Administration Manager	30/09/2019	30/05/2019
4	Scheme members do not understand or appreciate their benefits	Communications are inaccurate, poorly drafted or insufficient	C1/ C2 / C3	Marginal	Low		1 - Communications Strategy in place 2 - Annual communications survey for employees and employers 3 - Specialist communication officer employed 4 - Website reviewed and relaunched (2017) 5 - Member self service launched (2017) 6 - Recruitment of Comms Officer	Negligible	Very Low		😐 Current impact 1 too high Current likelihood 1 too high	01/07/2016	Mar 2020	1 -Ongoing promotion of member self service (KR) 2 - Ongoing identification of data issues and data improvement plan (SB/KW) 3 - Review of effectiveness of new website/iConnect planned for 2019/20 (KM)	Pensions Administration Manager	30/09/2019	30/05/2019
5	High administration costs and/or errors	Systems are not kept up to date or not utilised appropriately, or other processes inefficient	A2 / A4 / C4	Catastrophic	Significant		1- Business plan has number of improvements (I-connect/MSS etc) 2 - Review of ad-hoc processes (e.g. deaths and aggregation) 3 - Participating as a founding authority on national framework for admin systems (if it proceeds) 4 - Procurement of Altair on business plan 5 - Joined latest Heywood Testing Party	Negligible	Very Low		☹ Current impact 3 too high Current likelihood 2 too high	01/07/2016	Mar 2020	1 - Ongoing roll out of iConnect (KW) 2 - Ongoing identification of data issues and data improvement plan (SB/KW) 3- Review of effectiveness of new website/iConnect planned for 2019/20 (KM) 4 - Implementation of other Altair modules in 2018/19 business plan (KW) 5 - Increased engagement with Heywood about change in their business model (KW) 6 - Development of pension admin system national framework as a founder member (KW)	Pensions Administration Manager	30/09/2019	30/05/2019
6	Service provision is interupted	System failure or unavailability	A1 / A4 / C2	Negligible	Unlikely		1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented 3 - Implement lump sum payments via pensioner payroll facility	Negligible	Unlikely		☺			1 - Ongoing checks relating to interface of recovery plan with non-pensions functions (KW) 2 - Resolve other areas identified by last disaster recovery test (KW) 3 - Redo disaster recovery test (KW) 4 - Develop business continuity policy for CPF (KW)	Pensions Administration Manager	30/09/2019	30/05/2019

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12th June 2019
Report Subject	Employer CARE pay issue
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of this report is to provide a final update on the issue relating to the incorrect CARE pay for LGPS members who are currently working, or previously worked for, Flintshire County Council, which was first highlighted to the Committee at the June 2018 meeting. The project has now concluded and this report considers:

- The final information on the impact this has had; both financial and in relation to the number of members affected,
- A summary of the contact received from affected scheme members during the project,
- Contact we have had from the Pensions Regulator regarding this matter,
- Officers' final conclusions in relation to how the project was undertaken.

RECOMMENDATIONS	
1	That the Committee note this report.

REPORT DETAILS

1.00	CURRENT ISSUE
	Background
1.01	As first reported at the June 2018 Committee meeting, an error was identified relating to information provided by Flintshire County Council (FCC) via their payroll system, iTrent. For confidentiality purposes, this project is referred to as Project Apple. The project dealing with the rectification of this error has now concluded and this report provides a final overview of the issue and how it was resolved.
1.02	One of the individual items of information that is provided by employers to the CPF Administration Section is the CARE pay for scheme members. This figure is used to calculate the scheme member's accrued pension for each year that they are in the scheme. Usually this is just the scheme member's pay for the year, but where a scheme member has had a period of reduced pay child related leave, or reduced or no pay sick leave, then (in simple terms) a notional pay figure is used for CARE pay which is a higher amount than the actual pay received. This is called "assumed pensionable pay" or "APP". Each employer is responsible for notifying the CPF Administration Section of APP for its scheme members.
1.03	Unfortunately the Employer Liaison Team discovered that the APP figure being extracted from FCC's iTrent payroll system was incorrect for some members. In some cases the APP was being overstated and in other cases the APP was understated. In many cases the APP was incorrectly generated and included where there was no drop in pay. The issue affected APP since the new CARE scheme was introduced from 1 April 2014.
1.04	Several individuals from the Clwyd Pension Fund team and the FCC Payroll team worked together to investigate and resolve this issue and the Chief Executive also received regular briefings. There were two key stages that were considered: • the need to ensure that the issue was corrected on iTrent going forward – this was a matter for FCC, as the employer, to resolve • identifying and correcting the benefits in relation to scheme members that had been affected up to the point the issue was corrected on iTrent.
1.05	As highlighted at previous Committees a set of principles was developed which outlined key matters in relation to how this error was resolved. Key points included: • FCC (as the employer) would calculate the correct APP figure for these cases using a notional pay figure (effectively an estimate of what the member would have received if they had not been absent) – this work would be carried out by the Employer Liaison Team (ELT) on behalf of FCC. • Given the options in relation to how APP could be calculated, a tolerance level of the smaller of £1,000 or 2.5% (of the original figure used in the pension scheme benefit calculation) was adopted to determine which cases were incorrect. Where the difference was

	greater than the tolerance, the benefit was not rectified. • No overpayments of pension, lump sum retirement grant, trivial commutation, transfer value or death grant would be reclaimed. • An overstated pension amount would be reduced to the correct level but the member would be given advanced notice, so it would not apply until the following month's pension payment. • All understated pension or other payments would be recalculated and the correct amount put into payment. Balances of underpayments to that point would be paid including interest (which is a requirement of the LGPS regulations). • FCC (the employer) would pay the costs relating to the Employer Liaison Team doing the rectification work, the balance of any underpaid pensions or other benefits (including interest), all written off overpayments that were not being reclaimed, any HMRC charges and any compensation payments for distress or maladministration. All these costs, other than compensation payments, were to be recharged via the employer contribution rate. • Decisions in relation to this project that required to be made by FCC in its role as employer were to be made by Colin Everett (FCC Chief Executive), delegated as appropriate to Sharon Carney (Senior Manager, Human Resources and Organisational Development). The Committee agreed at a previous meeting that decisions in relation to the Clwyd Pension Fund were to be made by Phil Latham, the Clwyd Pension Fund Manager.
1.06	**Process and Impact** The process to investigate and rectify these cases involved calculations that fell into two stages: 1. Recalculating the APP figure to determine if the case was incorrect in the first place 2. Where the case was incorrect, then calculating the impact on the member's total pension benefits and communicating the changes to the scheme member. There were a number of systems and processes that were developed to ensure the work was carried out as efficiently as possible.
1.07	At the February Committee meeting we notified that there were potential pays for investigating of 2,465 (up to end of January 2019), relating to 1,458 scheme members but that not all 2,465 pays/1,458 members would transpire to be incorrect. As the underlying issue with iTrent had not been rectified at that point, we were updating the master list of potential cases affected each month. The final information relating to the members affected by the error is attached at Appendix 1. As can be seen from the information in the Appendix: • The final number of members who were potentially impacted and therefore required to be reviewed was 1,458, albeit 258 were identified as not requiring checks as they were either resolved automatically via a fix within the payroll system or they related to members who had already received a refund of contributions (which is not impacted by the error). • Out of those, 782 required recalculations, but only 536 required a communication notifying them of the error (as the remainder had their annual benefit statement supressed and they had not

	previously received any incorrect information). • Of those that needed rectifying, 58 were pensioners and 42 of these pensioners were subject to an overall reduction in their pension. The remaining 16 pensioners receiving an overall increase in their pension. The largest reduction to annual pension for a member who was receiving their pension was £115.08 per annum. However most pensioners had a reduction to their pension in payment of less than £25 per annum.
1.08	**Communications and member experience** Of central importance to the project has been the member experience, with much attention paid to providing affected members with clear information on the error and reassurance that their position has been corrected. This was particularly challenging given the complexity of APP and the error. Communications were designed to be focused by careful segmenting members in accordance with their status and in some cases their personal circumstances. Very early on in the project, the letters were refined to clarify one point that members had been asking about.
1.09	There were only 16 members who made contact throughout the project, and in all but 1 case, this was to seek clarification on items in their letters rather than to make a complaint. It was concluded that the member experience had been as positive as it could have been, given that was only one complaint case, and this was more in relation to their circumstances surrounding ill health early retirement than the APP error. This complaint did not give rise to a need to follow the complaints process and no further action was required.
1.10	**The Pensions Regulator Breach Report** As mentioned in previous reports, the Clwyd Pension Fund Manager made a formal report to The Pensions Regulator on 10 July regarding this breach of the law by the Clwyd Pension Fund which referred to the incorrect calculation of benefits. Similarly, the FCC (as an employer) also reported a breach relating to their role in notifying incorrect CARE pay information. Throughout the project, officers of CPF were required to share project plan updates and Committee reports with The Pensions Regulator. In addition there were a total of five conference call updates with The Pensions Regulator.
1.11	On 8 May 2019, the Pensions Regulator confirmed that they had considered all the information provided to them during the project, no regulatory action would be taken and they would be closing their file. The following text was included in the letter from the Regulator: "*We would like to take this opportunity to thank you for the open and transparent way in which you have dealt with The Pensions Regulator (TPR). We find this collaborative way of working helps resolve matters and improve member outcomes more efficiently.*"
1.12	**Final conclusions** The officers carried out a review of the project in May and they concluded the project had been carried out successfully which was enabled in the

	main by the following: • the existing governance structure of the CPF including quick decision making through the scheme of delegation and useful input from scheme member representatives • the Council's operational model based around in-house provision of pension and payroll, supported by some outsourcing and professional advice, and in particular the Employer Liaison Team • the high level of knowledge and skills of the pensions and payroll officers involved, as well as their dedication and considerable goodwill throughout the project. Some lessons have been noted around earlier escalation of issues and the gathering and interpreting of data. In addition, the project identified two risks for which there are further actions being taken forward.

2.00	**RESOURCE IMPLICATIONS**
2.01	The issue identified resulted in a large amount of unexpected work for both the CPF Employer Liaison team and Operations Team, some of which was outsourced to Mercer, the Fund's actuaries and benefit consultants. There are no further ongoing resource implications on the Pension Fund as a result of this project.
2.02	The costs of the project which are to be charged to FCC are being calculated by the Fund Actuary.

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

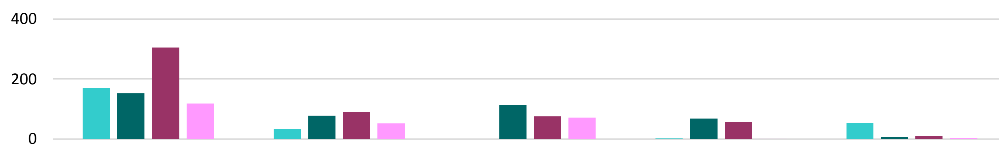
4.00	**RISK MANAGEMENT**
4.01	The Fund's risk register continues to highlight the risks of not being able to meet the legal and performance expectations including: • due to employers not understanding or meeting their responsibilities. This has been updated to reflect additional training that will be given to all employers on calculation of APP. • due to insufficient staff, which incorporates the impact on resources of this project.

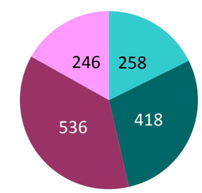
5.00	**APPENDICES**
5.01	Appendix 1 – Summary statistics of cases reviewed and how impacted.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Agreed Principles for Rectification and Treatment of Scheme Members – available on request from Clwyd Pension Fund Manager. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (e) **CARE** – **Career Average Revalued Earnings –** With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement. (f) **APP – Assumed Pensionable Pay** - where a scheme member has had a period of reduced pay child related leave, or reduced or no pay sick leave, then (in simple terms) a notional pay figure is used for CARE pay which is a higher amount than the actual pay received. This is called "assumed pensionable pay" or "APP".

	Active scheme members		Unprocessed leavers		Deferred members		Retired members		Other categories		Totals	
Numbers of members:												
Total members potentially impacted	745		252		259		128		74		**1458**	
Less members not requiring further checks[1]	170	23%	33	13%	0	0%	2	2%	53	72%	258	18%
Cases requiring stage one recalculation	575		219		259		126		21		1200	
Of these...												
Members within tolerance (no rectification needed)	152	20%	78	36%	113	44%	68	54%	7	33%	418	35%
Members outside tolerance (require rectification):												
- rectification communication issued	305	41%	89	41%	75	29%	57	45%	10	48%	536	45%
-rectification communication not issued[2]	118	16%	52	24%	71	27%	1	1%	4	19%	246	21%





	Active scheme members	Unprocessed leavers	Deferred members	Retired members	Other categories	Totals
Corrections made (£ pa) :						
Total pension uplifts from year of accrual	£4,055.05	£2,448.12	£1,125.08	£621.85	£213.93	£8,464.03
Total pension downlifts from year of accrual	-£20,717.61	-£7,557.07	-£3,061.72	-£1,169.74	-£398.82	-£32,904.96
Net pension revisions	-£16,662.56	-£5,108.95	-£1,936.64	-£547.89	-£184.89	-£24,440.93
Individual member pension revisions (£ pa) :						
Maximum upward revision to a member's pension	£261.89	£279.47	£93.25	£80.37	£69.70	£279.47
Maximum downward revision to a member's pension	-£898.23	-£933.23	-£153.94	-£115.08	-£49.13	-£933.20
Average revision to a member's pension	-£39.39	-£36.23	-£13.26	-£9.45	-£13.21	-£31.25

Notes:

1 - These are members either purely affected in relation to 2018/19 (and so automatically resolved via the payroll fix) or who received a refund of contributions (so benefits paid are not impacted)

2 - Some members did not need to be notifed of the error as they had their 2018 annual benefit statement had been suppressed, meaning they had not been provided with incorrect information.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12th June 2019
Report Subject	Investment and Funding Update
Report Author	Deputy Head, Clwyd Pension Fund

EXECUTIVE SUMMARY

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

(a) The Business Plans 2018/19 update for quarter 4 (January to March 2019) and 2019/20, quarter 1 (April to June 2019) are attached as Appendix 1 and 2. All tasks are on target.

(b) Current Developments and News – News and development continues to be dominated by the Pooling across the LGPS which has been covered in agenda item 7.

(c) Delegated responsibilities (Appendix 3). This details the responsibilities which have been delegated to officers since the last Committee meeting. These can include, cash management, short term tactical decisions, investments in new opportunities and monitoring of fund managers. There are no items of exception to report.

RECOMMENDATIONS	
1	That the Committee consider and note the update for delegated responsibilities and provide any comments.

REPORT DETAILS

1.00	**INVESTMENT AND FUNDING RELATED MATTERS**
1.01	**Business Plan Update** Appendices 1 & 2 provide a summary of progress against the Investment and Funding section of the Business Plans for 2018/19 (up to March 2019) and 2019/20 (up to the end of quarter 1 to 30 June 2019). All projects are ongoing and on target.
1.02	**Policy and Strategy Implementation and Monitoring** The Advisory Panel receive a detailed investment report from the Fund's Investment Consultants, Mercer, which shows compliance with the approved Investment Strategy Statement and reports on fund manager performance. A summary of this performance is shown in the Mercer report included in agenda item 15. The Advisory Panel also receive reports from the following groups: • Tactical Asset Allocation Group (TAAG) • Funding and Risk Management Group (FRMG) • Private Equity and Real Assets Group (PERAG) Any delegations arising from these meetings are detailed in Appendix 3.
1.03	**Additional Voluntary Contributions** The AVC landscape continues to change and over the coming months there will be significant changes at both Prudential and Equitable Life, which will impact on the Clwyd Pension Fund (CPF). The current position is set out below. **<u>Prudential</u>** **Background** Following an internal review of lifestyle options available to members, Prudential has decided to fully close their "Optimiser" lifestyle plans later this year. Their review took into account the impact of pension freedom changes in 2015 and also experience of how the AVC Funds were being used by all members (across all Schemes). Although the CPF introduced two new lifestyle arrangements in 2017 to replace the "Optimiser" plans that were previously available (following a review of the Fund's AVC arrangements), there are CPF members with investments in the "Optimiser" plans. Once the "Optimiser" plans have been fully closed, any funds invested in these plans need to be moved to new arrangements. The CPF needs to make a decision on what lifestyle arrangement the "Optimiser" plans will be switched to. Once notified, Prudential will make the necessary changes / issue the relevant communications later this year. The deadline for making the decision was 1 June 2019.

	Current Position / Next Steps The two lifestyle arrangements opted for in 2017 were principally the ““Dynamic Growth Lifestyle Targeting Cash” and the “Dynamic Growth Lifestyle Targeting Retirement Options”. In light of: • The pension freedoms available to members upon retirement • Since 2017 the majority of members have opted to join the “Targeting Cash” arrangement and • Following discussions with Mercer (who conducted the 2017 review) Members will be invited by Prudential to make a decision as to which lifestyle arrangement they would like their funds to transfer to. In the absence of any positive decision the Fund will advise Prudential to default to a transfer to the “Targeting Cash” lifestyle arrangement in light of the points made above. **<u>Equitable Life</u>** **Background** As part of their Spring Announcement in 2018, Equitable Life announced their intention to transfer all policies to Reliance Life, with the transfers taking place during the latter part of 2019. Reliance Life have since been rebranded as Utmost Life and Pensions Limited. As part of the transfer deal, the Equitable Life With Profits Fund will close and will be disinvested, initially into a deposit fund, but then into unit linked funds. It was expected that the 35% Capital Distribution (the enhancement to disinvestments from the With Profits Fund that was in place previously for Equitable Life policyholders) would increase to 60%-70%. **Current Position / Next Steps** Equitable Life has recently stated that (for most investors in a policy with a 3.5% guaranteed interest rate) the Capital Distribution referred to above is now expected to increase further, although full details have yet to be confirmed. Equitable Life are now in the process of contacting LGPS Funds with further details of the proposed transfers. The attached note, prepared by Mercer, provides further information on the transfer and the expected timetable over which the changes will take place. As indicated in the note, it has been recommended that the CPF consider obtaining regulated investment advice in order to make the decisions that will be needed. Officers will be liaising with Mercer to consider the options available in the coming weeks.
1.04	**Delegated Responsibilities** The Pension Fund Committee has delegated a number of responsibilities to officers or individuals. Appendix 3 updates the Committee on the areas of delegation used since the last meeting. To summarise: • Cashflow forecasting identified low short term liquidity which resulted in redeeming a further £10m from the Insight LDI collateral pool. The Funds cashflow continues to be monitored closely and is being investigated in more detail with the Fund’s Consultant and Actuary.

	• Shorter term tactical decisions continue to be made by the Tactical Asset Allocation Group (TAAG). • Within the "In House" portfolio, 1 commitment has been made in the Infrastructure portfolio which follows the strategy agreed by the Advisory Panel for this asset class.

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

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

4.00	**RISK MANAGEMENT**
4.01	Appendix 4 provides the dashboard and risk register highlighting the current risks relating to Investments and Funding matters.
4.02	Three of the eight risks are currently at their overall target risk albeit F1, the individual current likelihood risk is slightly higher than target. Four of the risks are now significant, F2, F3, F4 and F6. All are investments and Funding and substantially different to the target risks. Risk F6 relates to matters related to Pooling and Brexit and risks 2, 3 and 4 relate to the value of assets and liabilities not being as expected - The Likelihood score reflects the increased risks associated with Brexit given the uncertainty. This may well be a short term position and we have implemented hedging of the currency risk to mitigate risks associated with the exit. F8 is low risk and only one step away from its target and relates to employer covenants which will be addressed as part of the Actuarial Valuation..

5.00	**APPENDICES**
5.01	Appendix 1 - 2018/19 Business plan update Appendix 2 - 2019/20 Business plan update Appendix 3 – Delegated Responsibilities Appendix 4 – Risk dashboard and register – Investments and Funding

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	None.

	Contact Officer: Debbie Fielder, Deputy Head, Clwyd Pension Fund **Telephone:** 01352 702259 **E-mail:** Debbie.a.fielder@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund - Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee - Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **TAAG – Tactical Asset Allocation Group** – a group consisting of The Clwyd Pension Fund Manager, Pensions Finance Manager and consultants from JLT Employee Benefits, the Fund Consultant. (e) **AP – Advisory Panel** – a group consisting of Flintshire County Council Chief Executive and Corporate Finance Manager, the Clwyd Pension Fund Manager, Fund Consultant, Fund Actuary and Fund Independent Advisor. (f) **PERAG – Private Equity and Real Asset Group** – a group chaired by the Clwyd Pension Fund Manager with members being the Pensions Finance Managers, who take specialist advice when required. Recommendations are agreed with the Fund's Investment Consultant and monitored by AP. (g) **In House Investments –** Commitments to Private Equity / Debt, Property, Infrastructure, Timber, Agriculture and other Opportunistic Investments. The due diligence, selection and monitoring of these investments is undertaken by the PERAG. (h) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (i) **ISS – Investment Strategy Statement** – the main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund. (j) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (k) **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. (l) **GMP** – **Guaranteed Minimum Pension** – This is the minimum level of pension which occupational pension schemes in the UK have to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme (SERPS) between 6 April 1978 and 5 April 1997. (m) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement. (n) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (o) A full glossary of Investments terms can be accessed via the following link. http://www.fandc.com/uk/private-investors/tools/glossary/

Business Plan 2018/19 to 2020/21 – Q4 Update
Funding and Investments

Key Tasks

Key:

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

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2018/19 Period				Later Years	
		Q1	Q2	Q3	Q4	2019/20	2020/21
F1	Asset Pooling Implementation	x	x	x	x	x	
F2	Flightpath Review	x				x	x
F3	Interim Funding Review		x	x			
F4	Employer Risk Management Framework		x	x			

Funding and Investments (including accounting and audit) Task Descriptions

F1 –Asset Pooling Implementation
What is it?
To enable the Wales funds to pool assets an operator has been appointed to provide the investment infrastructure and advice for the Wales Pensions Partnership ("WPP"). A plan will be developed in relation to what and when assets will transition. Then we will need to adapt internal processes and methods as assets transition, and ensure reporting received from the Operator and WPP. The timescales shown below are best estimates and subject to change when the WPP business plan and asset transition plan have been developed.

Timescales and Stages

Develop and agree on initial asset transition plan (reserved matter)	2018/19 Q1
Understand and feed into the development of the role, responsibilities and discretions of the Operator	2018/19 Q1/2
Identify impact on and develop internal processes and resources	2018/19 Q1
Approve the WPP's business plan (reserved matter)	2018/19 Q1 (to be confirmed)
Review and feed into suitability of reporting and performance monitoring templates (including meeting the Fund's Responsible Investment Policy and Cost Transparency requirements)	2018/19 Q1/2
Review of how accounts and finances relating to investments - recording, preparation and publishing	2018/19 Q1 - 4, and 2019/20 Q1/2
Understand infrastructure opportunities	2018/19
Develop process to capture WPP cost versus existing costs to identify benefits and savings of asset pooling	2018/19
Develop and agree any supplementary transition plans (reserved matter)	2018/19 (to be confirmed)

Resource and Budget Implications

2018/19 and future budgets will include the cost of the Operator. For 2018/19 a provisional amount of £50k has been included for a proportion of the year. Along with budgeted WPP costs of £24k. The Consultant and Adviser budgets include an additional estimated amount of £192k for expected ongoing advice during the transitional period. The remaining costs will be covered within the internal resource budget.

F2 –Flightpath Review

What is it?

The Administering Authority implemented a “Flightpath” risk management investment strategy with effect from 1 April 2014, with the aim of more effectively controlling and limiting interest and inflation risks (as these factors can lead to significant changes to liability values and therefore the deficit). The overall funding Flightpath strategy is to consider and structure the investment strategy to determine a balance between return-seeking and risk-hedging assets. Further details are in the Fund’s Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS).

A regular review is carried out to ensure its aims remain appropriate and it is still fit for purpose. As a result monitoring of the restructuring of the mandate is done on a monthly basis. This will continue to be reviewed in conjunction with insight to maximise operational efficiency and the delivery of further added value to the mandate. The current equity protection contract expires on 26th April 2018. The review and implementation of a replacement contract or other arrangement will be undertaken prior to the expiry. The main objective is to protect contribution outcomes for the employers of the Fund at the 2019 and potentially subsequent valuations.

Timescales and Stages

An annual health-check of flightpath structure	Q1 2018, 2019 and 2020
Review of Equity protection structure	Q1 2018, 2019 and 2020

Resource and Budget Implications

To be resourced through the Funding Risk Management Group, which will result in additional costs that are estimated within the budgets provided.

F3 – Interim Funding Review

What is it?

It is important for the Fund to consider the possible implications that the 2019 valuation will have on employers, especially as employer budgets are often set well in advance of the valuation year. The review will allow for the latest market outlook and investment returns. It will also incorporate:

- Any membership changes / movements for employers including large outsourcings
- the potential impact of any removal of pay restraint for Councils
- appropriate updates to Fund policies
- updated cash flow projections
- outcomes for individual employers (as necessary) to feed into budgets and also the employer risk management framework.

This will enable major employers to plan for any contribution changes and capture any affordability concerns in advance of the 2019 valuation and facilitate further discussions.

Timescales and Stages

Results and discussion with employers	Q2/3 2018/19

Resource and Budget Implications

This exercise will be performed by the Fund Actuary. It is an important exercise for the Fund and will involve input from both the Clwyd Pension Fund Administration and Finance teams. It will also involve discussions with the Fund's employers. The Fund Actuary's costs in relation to this exercise have been included in the budget.

F4 – Employer Risk Management Framework

What is it?

The Fund is subject to funding risks in respect of employers on an ongoing basis and in particular who cease to participate without being able to recover the full exit contributions due under the Regulations. The Fund is in the process of setting up a monitoring framework to capture any employers that pose a significant risk. The framework will categorise employers into different risk profiles based on their covenant and funding positions. This will allow officers to identify any potential risk of unrecoverable debt and affordability restraints on contribution requirements,

The framework will also consider the outcome of the tier 3 review performed by the Scheme Advisory Board which is expected during 2018 (tier 3 employers are those that do not have tax-payer backing; i.e. colleges, universities, housing associations, charities, admission bodies that do not have a guarantee from a Council, etc.). For the Fund, the potential impact is restricted to colleges and universities.

Timescales and Stages

Monitoring will be performed alongside the 2018 interim review	
Preliminary Covenant Work	Q1 2018/19
Further development of risk framework	Q2&3 2018/19

Resource and Budget Implications

Managing employer risk will require support from the Fund Actuary. It will involve the officers gathering financial information from all employers regularly to monitor covenant strength and funding positions to inform on which employers pose the greatest risk to the Fund and the remedial actions necessary. The Fund Actuary costs in relation to this exercise have been included in the budget.

Business Plan 2019/20 to 2021/22 – Q1 Update
Funding and Investments

Key Tasks

Key:

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

Funding and Investments (including accounting and audit) Tasks

Ref	Key Action –Task	2019/20 Period				Later Years	
		Q1	Q2	Q3	Q4	2020/21	2021/ 22
F1	Review CPF's Responsible Investment Policy	x	x	x			
F2	Cash Flow and Liquidity Analysis	x	x	x	x		
F3	Triennial Actuarial Valuation and associated tasks	x	x	x	x		
F4	Review of Investment Strategy	x	x	x	x	x	
F5	Asset Pooling Implementation	x	x	x	x	x	

Funding and Investments (including accounting and audit) Task Descriptions

F1 –Review CPF's Responsible Investment Policy
What is it?

The Fund has had in place a Responsible Investment policy/Sustainability Policy for several years, and this is contained within the Investment Strategy Statement. Responsible Investing or investing in a sustainable way has moved into the mainstream in recent years. It is now generally accepted that, at the very least considering Environmental, Social and Governance (ESG) factors/risks within the investment process is entirely appropriate for institutional investors. As the market has moved significantly in recent years, it is appropriate for CPF to review its existing policies to ensure they remain appropriate, and relevant. As part of the review CPF will need to consider, and input into, the policies being created by the Wales Pension Partnership, as this will be the implementation vehicle.

Timescales and Stages

Responsible Investing Training session for CPF Committee	2018/19 Q4
Work with consultants/advisers to review existing policies	2019/2020 Q1/2
Present revised policies to CPF Committee	2019/2020 Q2/3

Resource and Budget Implications

Costs and resources for the review are contained within existing plans/budgets. Officers will review with support from Investment consultant.

F2 –Cash Flow and Liquidity Analysis

What is it?

The Fund has a significant number of factors to consider when looking at cash-flow requirements. These include contributions from employees and employers, payments to pensioners and transfer values in and out. On the investment side this includes income/dividends receivable from investments, commitments to Private Markets require regular draw-downs and repayments of investments, and transition of existing investments can also require cash.

As a result of all of these moving parts it is to ensure that the Fund has sufficient cash flow to meet all its commitments, but without maintaining a significant balance in cash which would, potentially be a drag on investment returns.

This assessment of cash flow and liquidity therefore has a number of elements, including input from the Actuary's analysis of the Fund's assets and liabilities as at 31 March 2019. This process will form the basis of information for the Funding and Risk Management Group which will be working to assess how the cash flow requirements of the Fund can be best met through a designated asset allocation structure within the risk management framework.

In addition to this, the CPF's Investment Consultant, JLT is undertaking a review of the In-house Private Markets portfolio within the first few months of 2019, and this will include a significant focus on future cash flow requirements to meet existing and future commitments.

The final piece in the analysis will be incorporated into the review of the Fund's Investment Strategy. As part of the work on reviewing the strategy the Fund's Investment Consultant will review the liquidity of the asset portfolio versus the projected cash flow requirements.

All of these individual elements will ensure that CPF is well placed in terms of cash flow and will be able to design and implement an efficient mechanism to manage the demands/requirements going forward.

Timescales and Stages

Actuarial assessment of benefits cash flows (in conjunction with the 2019 valuation)	2019/20
Funding Risk Management Group	2019/20
Review of Private Markets cash flow requirements	Concluding Q2 2019/20
Review of Investment Strategy	2019/20

Resource and Budget Implications
The cost of this work is included within the Fund's budgets for 2019/20 and will include significant input from the Actuary and Investment Consultant.

F3 – Triennial Actuarial Valuation and associated tasks
What is it?
It is the formal actuarial valuation of the Fund detailing the solvency position and other financial metrics. It is a legal requirement of the LGPS Regulations. It determines the contribution rates payable by the employers to fund the cost of benefits and make good any existing shortfalls as set out in the separate Funding Strategy Statement. The exercise will include cash flow projections.

Timescales and Stages
Effective date	31 March 2019
Initial whole Fund results (expected)	2019/20 Q2
Individual Employer results (expected)	2019/20 Q2&3
Deadline for agreement of all contributions and sign-off	31 March 2020

Resource and Budget Implications
Exercise will be performed by the Fund Actuary and it will determine contribution requirements for all participating employers from 1 April 2020. It is a major exercise for the Fund and will take a lot of input from the Administration and Finance teams. Employers will be formally consulted on the funding strategy as part of the process. The Fund Actuary's costs in relation to this exercise will be included in the 2019/20 budget.

F4 – Review of Investment Strategy
What is it?
This relates to the triennial review of the Investment Strategy once the Actuarial Valuation has been finalised and the Funding Strategy agreed. If required, there may be a need to undertake a light touch review (asset modelling scenarios) of the Fund's strategy and asset allocation position to feed into the actuarial valuation process.

Timescales and Stages
Triennial review	2019/20 Q1,2 & 3
Implement changes to Investment Strategy	2019/20 Q4 & 2020/21 Q1

Resource and Budget Implications
The majority of work will be carried out by JLT as Investment Adviser together with the CPF Manager and Deputy Head of Clwyd Pension Fund prior to final submission of proposals to Advisory Panel and Pension Fund Committee. Costs of the review are included within the budgets shown.

F5 –Asset Pooling Implementation
What is it?
To enable the Wales funds to pool assets an operator has been appointed to provide the investment infrastructure and advice for the Wales Pension Partnership ("WPP"). A plan will be developed in

relation to what and when assets will transition. Then we will need to adapt internal processes and methods as assets transition, and ensure reporting received from the Operator and WPP. The timescales shown below are best estimates and subject to change when the WPP business plan and asset transition plan have been developed.

Timescales and Stages

Undertake and feed into discussions with the Operator regarding structure of underlying asset class options.	2019/20 & 2020/21
Ongoing development and approval of the asset transition plan (reserved matter)	2019/20 & 2020/21
Contribute to the development of the WPP RI Policy and ensure it enables implementation of the CPF RI Policy.	2019/20
Identify impact on and develop internal processes and resources	2019/20 & 2020/21
Approve the WPP's business plan (reserved matter)	2019/20 Q1 (to be confirmed)
Review and feed into suitability of reporting and performance monitoring templates (including meeting the Fund's Responsible Investment Policy and Cost Transparency requirements)	2019/20 Q1/2
Review of how accounts and finances relating to investments - recording, preparation and publishing	2019/20
Understand infrastructure opportunities	2019/20

Resource and Budget Implications

2019/20 and future budgets will include the cost of the Operator. For 2019/20 a provisional amount of £109k has been included for a proportion of the year. Along with budgeted WPP costs of £59k. The Consultant and Adviser budgets include an estimated amount of £42k for expected ongoing advice during the transitional period. The remaining costs will be covered within the internal resource budget.

DELEGATED RESPONSIBILITIES

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

Rebalancing Asset Allocation

Background

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

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

Action Taken

In the quarter to March 2019 the cashflow forecasting identified low short term liquidity at the end of March which resulted in redeeming £10m from the Insight LDI collateral pool to assist with cash-flow. This was actioned on 15th March 2019

Cash Management

Background

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

Action Taken

The cash balance as at 31st March 2019 was £5.8m (£12.7m at 31st December 2018). As reported above, the cash flow forecasting identified the possibility that the Fund may experience a negative cash position and as such redeemed £10m from the Insight collateral pool. Cash balance as at 31st May 2019 was £18.1m. The cash flow is monitored to ensure there is sufficient monies to pay benefits and capital calls for investments. It was expected that cash flows would be a challenge given that some employers paid their 3 year deficit payment up front in 2017/18 and this is proving to be the case. Work is ongoing with the Consultant and Actuary to monitor the situation and be aware of any unforeseen issues. Monthly cash flows for the financial year to March 2019 are shown graphically at the end of the delegations appendix.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.042	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 only transactions agreed within the portfolio were:

- Partial Redemption of BlackRock US Opps Fund –£ 10.0m (crystallised +11.2%)
- Additional investment of £10.0m in LGIM Sterling Liquidity Fund

The current allocations within the portfolio following the transactions are:

- US Equities (1.9%)
- Emerging Market Equities (1.1%)
- European Equities (0.9%)
- Japanese Equities (0.9%)
- Commodities (1.1%)
- Real Estate (1.7%)
- Infrastructure (1.8%)
- Emerging Market Bonds (1.0%)
- Liquidity Fund (0.6%)

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

As at the end of March 2019, the Best Ideas portfolio 1 year performance was +5.3% against a target of +5.0% and the 3 year performance was +8.6% against a target of +5.3%.

	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
1.043	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 4%. 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.

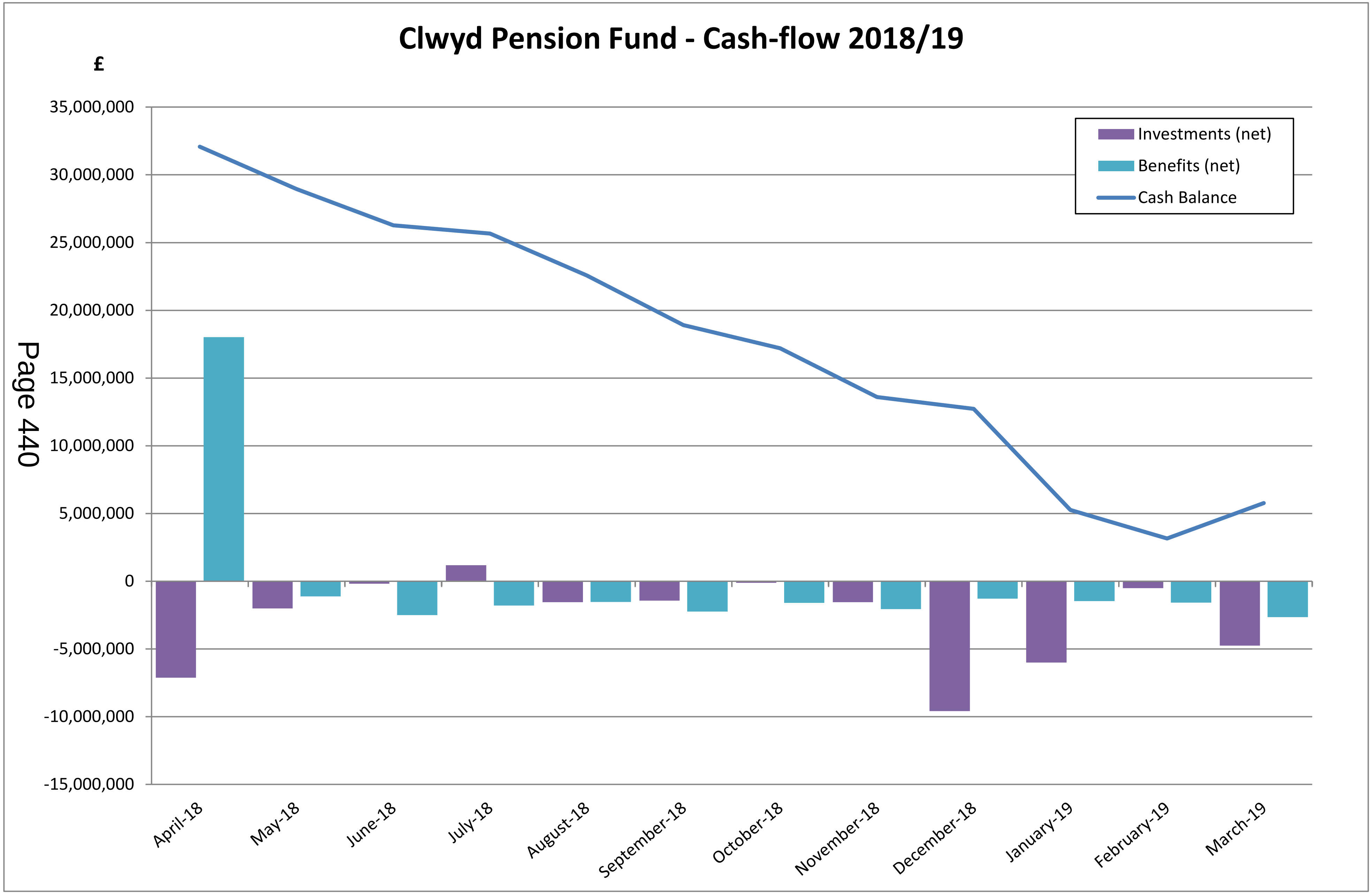
The Private Equity & Real Estate Group (PERAG) of officers and advisor meet quarterly and are responsible for implementing and monitoring the investment strategy and limited partnerships across these asset classes. The investments in total are referred to as the 'In-House portfolio'. There is particular 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 the following Infrastructure Fund, which is an existing managers included in our forward work program, coming back to the market with a follow on Fund The following commitment has been made under delegated authority since the last Committee:

- $10 million to North Haven Infrastructure Fund III (Infrastructure Fund targeting 8 – 10% Net IRR)



Clwyd Pension Fund - Cash-flow 2018/19
£
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
-5,000,000
-10,000,000
-15,000,000
Investments (net)
Benefits (net)
Cash Balance
April-18
May-18
June-18
July-18
August-18
September-18
October-18
November-18
December-18
January-19
February-19
March-19

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

Funding & Investment Risks (includes accounting and audit)

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

Likelihood

Key

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

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

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

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

03 June 2019

Clwyd Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

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

F1 Achieve and maintain assets equal to 100% of liabilities within the 15 year average timeframe whilst remaining within resonable risk parameters
F2 Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
F6 Ensure net cash outgoings can be met as/when required
F7 Minimise unrecoverable debt on employer termination.
F8 Ensure that its future strategy, investment management actions, governance and reportin gprocedures take full account of longer-term risks and sustainability
F9 Promote acceptance of sustainability principles and work tougher with others to enhance the Fund's effectiveness in implementing these.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Employer contributions are unaffordable and/or unstable	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Critical	Low		1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process	Critical	Very Low		Current likelihood 1 too high	31/03/2016	Dec 2019	1 - Finalise employer covenant monitoring and ill health captive (DF)	CPFM	31/08/2019	31/05/2019
2	Funding level reduces, increasing deficit	Movements in assets and/or liabilities (as described in 3,4,5) in combination	F1 / F2 / F3 / F4 / F5 / F7	Critical	Significant		See points within points 3,4 and 5	Marginal	Low		Current impact 1 too high Current likelihood 1 too high	31/03/2016	Sep 2019	1 - Equity Protection Strategy to be kept under review (PL) - See points within points 3,4 and 5	CPFM	31/08/2019	31/05/2019
3	Investment targets are not achieved therefore reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	F1 / F2 / F3 / F4 / F7	Critical	Significant		1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring of funding position versus flightpath targets 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of Investment opportunities available 7 - Consideration and understanding of potential Brexit implications. 8 - Equity Protection Strategy in place to protect equity gains and potentially reduce volatility of contributions.	Critical	Low		Current likelihood 1 too high	14/02/2019	Sep 2019	1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG) (DF)	Dep. Head of CPF	31/08/2019	31/05/2019
4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	F1 / F2 / F4 / F5 / F7	Critical	Significant		1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee. 5 - Consideration and understanding of potential Brexit implications.	Marginal	Very Low		Current impact 1 too high Current likelihood 2 too high	31/03/2016	Sep 2019	1 -The level of hedging will be monitored and reported regularly via FRMG (DF)	Dep. Head of CPF	31/08/2019	03/06/2019
5	Value of liabilities/contributions change due to demographics being out of line with assumptions	This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	F1 / F2 / F5 / F7	Marginal	Very Low		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low					1 - Assumptions and experience are being reviewed as part of the 2019 valuation (DF)	Dep. Head of CPF	31/08/2019	31/05/2019
6	Investment and/or funding objectives and/or strategies are no longer fit for purpose	Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7	Catastrophic	Significant		1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS 4 - Particiaption in National consultations and lobbying	Marginal	Low		Current impact 2 too high Current likelihood 1 too high	31/03/2016	Mar 2020	1 - Ensure proactive responses to consultations etc. (PL)	Dep. Head of CPF	31/08/2019	31/05/2019
7	Insufficient assets to pay benefits	Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs. Further risk presented with the introduction of Exit Credits for exiting employers in the 2018 Regulations update.	F1 / F6	Negligible	Very Low		1 - Cashflow monitoring to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding liquid assets 4 - Monitor cashflow requirements 5 - Treasury management policy is documented	Negligible	Very Low					1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place). (DF) 2 – Remind major employers to highlight the change and ensure any potential contract end dates are notified to the Fund in sufficient time so that the risk of large payments can be reduced (i.e. through a contribution rate review in advance of the contract end date) (DF)	Dep. Head of CPF	31/08/2019	31/05/2019
8	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist with insufficient funding (bond or guarantee)	F5 / F7	Marginal	Very Low		1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely		Current likelihood 1 too high	31/03/2016	Dec 2019	1 - Employer risk management framework to be finalised (DF)	Dep. Head of CPF	31/08/2019	31/05/2019

CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12 June 2019
Report Subject	Economic and Market Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the report is to provide Committee Members with an economic and market update for the quarter.

This report covers the period ending 31 March 2019

After a dismal end to proceedings in 2018, markets have rebounded well in the first quarter of 2019. Significantly, after starting the year in positive fashion, equities managed to push on to produce one of the sharpest two month corrections in several years. Despite the strength of equity returns, many investors understandably seem resistant to buy into this rally after being severely wounded in October and December. Due to these bruising returns last year this rally remains somewhat unloved.

Markets saw positive returns across the board and were led by developed equity markets. The US market saw returns of 11.3% in the quarter, which contributed to a twelve month return of 17.5%. In the UK the FTSE All-Share Index delivered a return of 9.4% outpacing many other developed markets (with the exception of the US). This follows 2018, where the UK lagged most other developed markets for much of the year, due in part to the Brexit cloud.

It is clear from the data that the global economy is slowing. Economists are regularly lowering their GDP growth forecasts this year and next. Forward looking data supports the view that the current cycle has further to run, with PMIs, in a number of countries, starting to rebound from recent lows. Also slower growth is not automatically a bad thing.

A continuation of the economic cycle, clear visibility on central banks' interest rates and marginally reduced uncertainties on the global horizon are all reasons to be positive at present.

RECOMMENDATIONS	
1	To note and discuss the Economic and Market Update 31 March 2019.
2	To note how the information in the report effectively "sets the scene" for what the Committee should expect to see in the Investment Strategy and Manager Summary report in terms of the performance of the Fund's asset portfolio.

REPORT DETAILS

1.00	INVESTMENT AND FUNDING RELATED MATTERS
1.01	**Economic and Market Update 31 March 2019** The economic and market update for the quarter from the Fund's Investment Consultant is attached and will be presented at Committee. The report contains the following sections: • **Market Background** – section contains key financial markets data during the period in question including performance of specific markets including equities, bonds, inflation and currencies. • **Economic Statistics** – section contains key economic statistics during the period in question including Gross Domestic Product (GDP) Growth, Inflation, Unemployment and Manufacturing • **Market Commentary** – section provides detailed commentary on the economic and market performance of major global regions and financial markets (including alternative assets).

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

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

4.00	RISK MANAGEMENT
4.01	None.

5.00	APPENDICES
5.01	Appendix 1 – Economic and Market Update Period Ending 31 March 2019.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Economic and Market Update Period Ending 31 December 2018. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields. (d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf

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CLWYD PENSION FUND

ECONOMIC AND MARKET UPDATE
PERIOD ENDING 31 MARCH 2019

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1 MARKET BACKGROUND
PERIOD ENDING 31 MARCH 2019

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	9.4	6.4	9.5
Overseas Developed	9.6	11.3	15.2
North America	11.3	17.5	17.1
Europe (ex UK)	8.1	2.9	11.2
Japan	4.5	-0.9	12.3
Asia Pacific (ex Japan)	7.7	4.8	13.6
Emerging Markets	7.9	1.9	14.5
Frontier Markets	3.5	-15.4	7.0
Property	0.4	5.0	6.5
Hedge Funds**	5.1	-1.2	3.6
Commodities**	14.1	-5.0	4.5
High Yield**	6.3	3.5	7.1
Emerging Market Debt	0.6	-0.5	6.7
Senior Secured Loans**	4.5	1.0	3.9
Cash	0.2	0.6	0.4

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	6.0	4.7	6.3
Index-Linked Gilts (>5 yrs)	6.3	5.7	9.1
Corporate Bonds (>15 yrs AA)	7.1	6.2	7.6
Non-Gilts (>15 yrs)	7.8	4.9	7.3

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	2.31	-7.11	-3.22
Against Euro	4.16	1.74	-2.74
Against Yen	3.22	-3.32	-3.71

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	-0.2	2.4	3.0
Price Inflation – CPI	-0.1	1.9	2.2
Earnings Inflation*	0.1	3.2	2.6

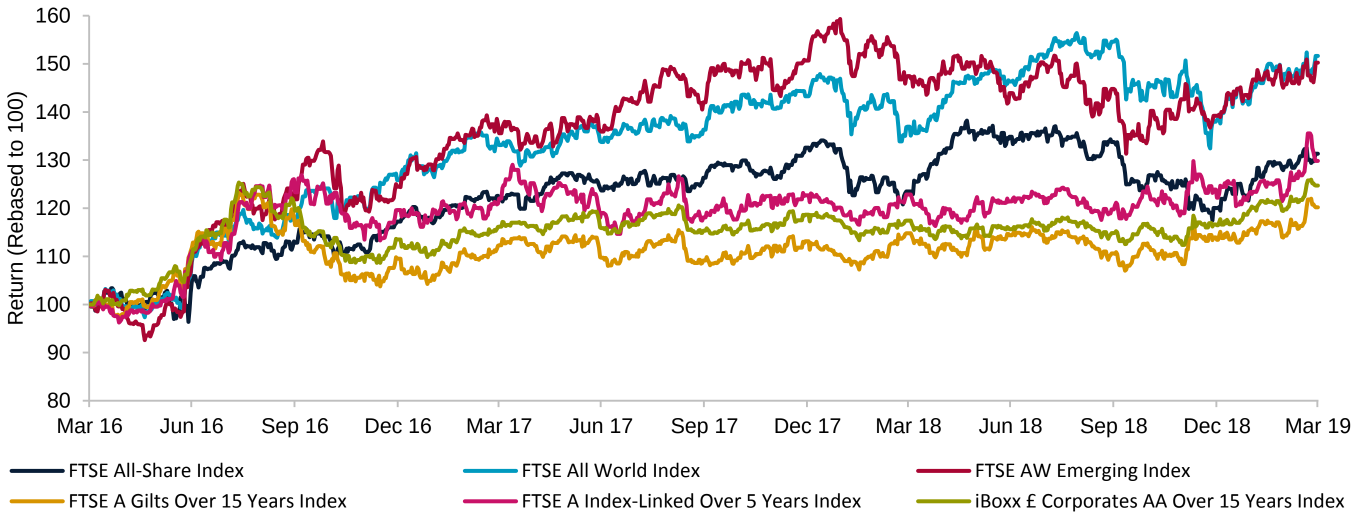
Yields	% p.a.
UK Equities	4.22
UK Gilts (>15 yrs)	1.48
Real Yield (>5 yrs ILG)	-1.86
Corporate Bonds (>15 yrs AA)	2.36
Non-Gilts (>15 yrs)	2.92

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.24	0.37	0.45
UK Gilts (>15 yrs)	-0.28	-0.15	-0.69
Real Yield (>5 yrs ILG)	-0.27	-0.20	-0.88
Corporate Bonds (>15 yrs AA)	-0.41	-0.22	-1.00
Non-Gilts (>15 yrs)	-0.44	-0.10	-0.79

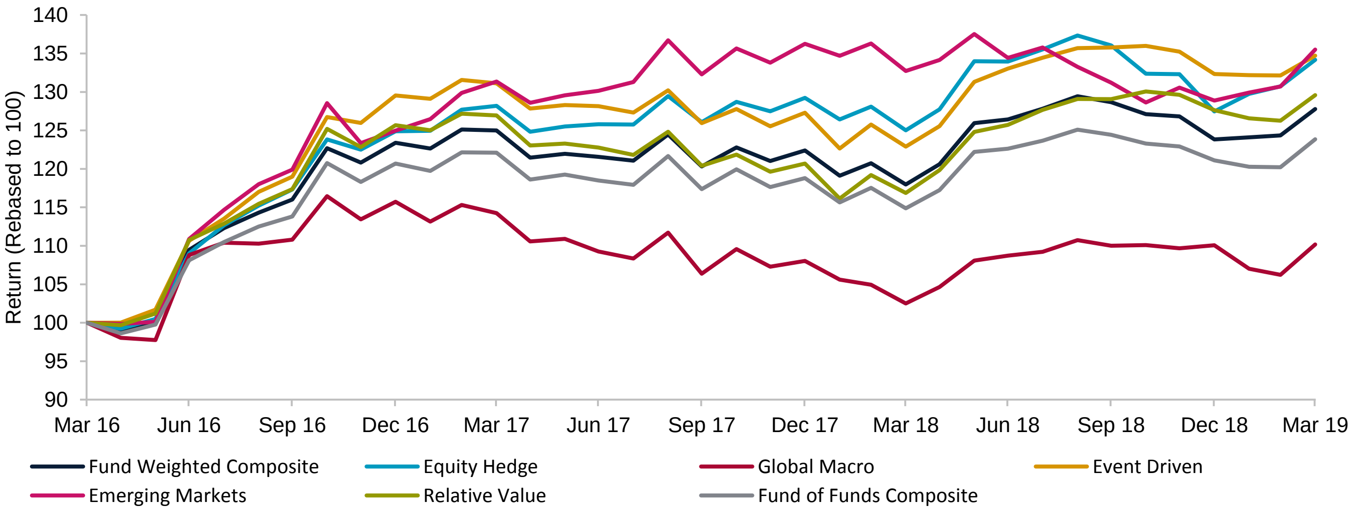
Source: Thomson Reuters.
Notes: * Subject to 1 month lag ** GBP Hedged

MARKET SUMMARY CHARTS

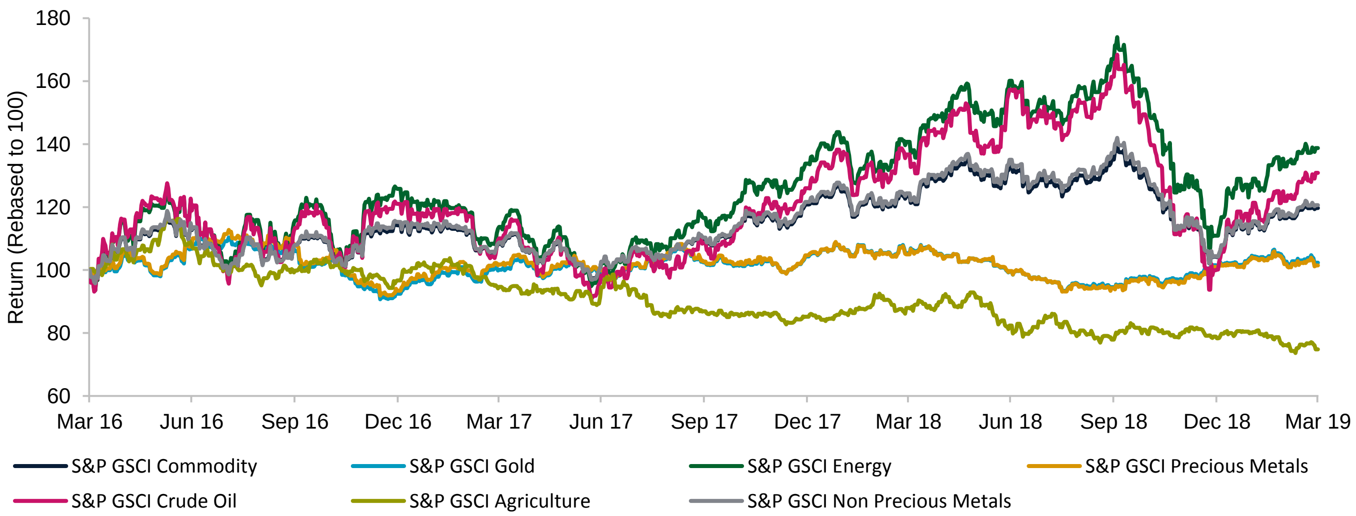
Market performance – 3 years to 31 March 2019



Hedge Funds: Sub-strategies performance – 3 years to 31 March 2019

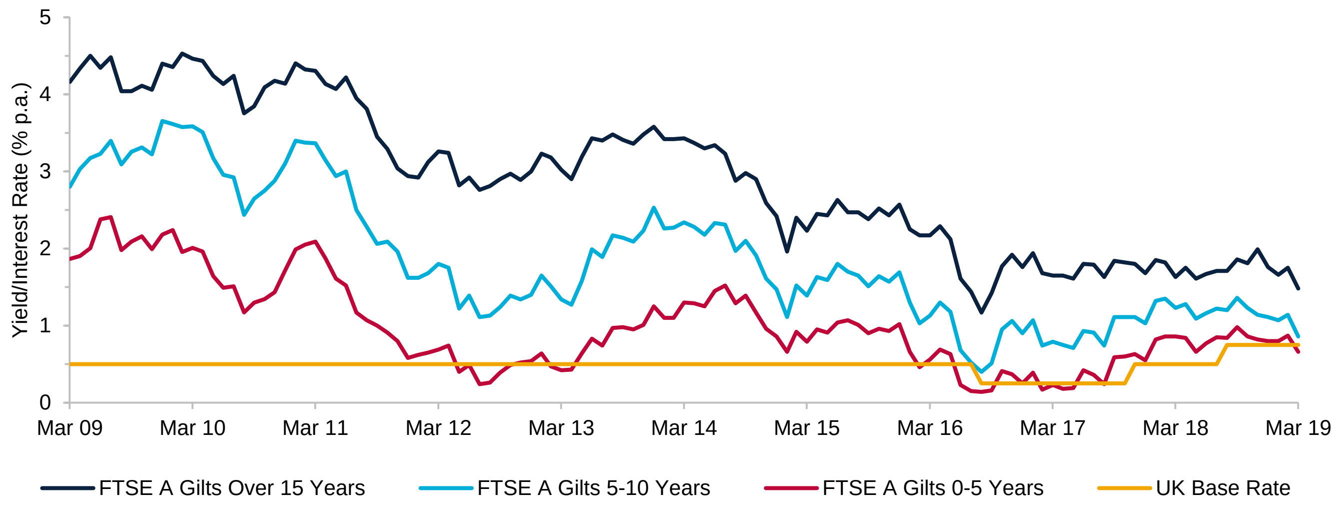


Commodities: Sector performance – 3 years to 31 March 2019

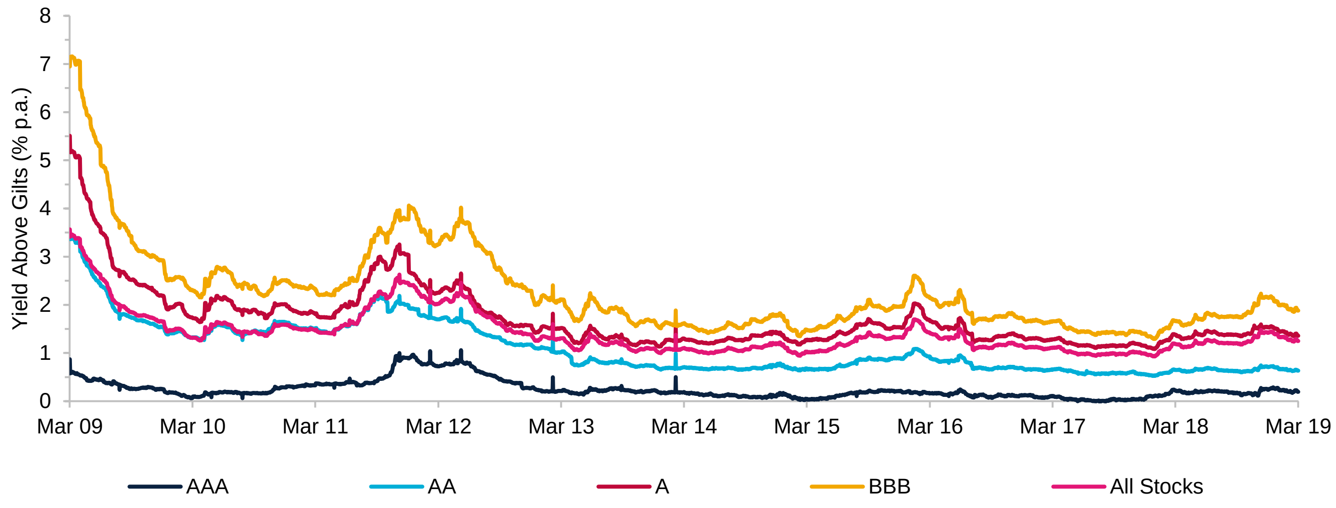


Source: Thomson Reuters

UK government bond yields – 10 years to 31 March 2019



Corporate bond spreads above government bonds – 10 years to 31 March 2019



Source: Thomson Reuters

2 ECONOMIC STATISTICS

Economic Statistics as at:	31 Mar 2019			31 Dec 2018			31 Mar 2018		
	UK	Euro[1]	US	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	1.4%	2.7%	3.0%	1.6%	3.0%	3.0%	1.6%	4.0%	2.5%
Annual Inflation Rate[3]	1.9%	1.4%	1.9%	2.1%	1.5%	1.9%	2.5%	1.4%	2.4%
Unemployment Rate[4]	3.9%	7.8%	3.9%	4.0%	7.9%	3.8%	4.2%	8.5%	4.1%
Manufacturing PMI[5]	55.1	47.5	52.4	54.3	51.4	53.8	54.8	56.6	55.6

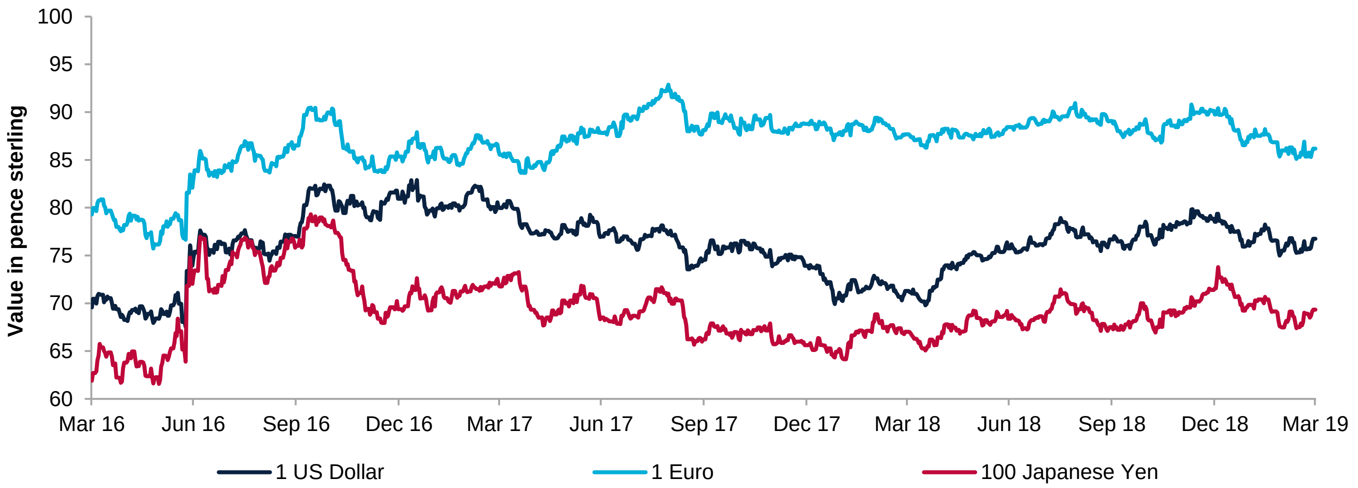
Change over periods ending:	3 months			12 months		
31 March 2019	UK	Euro[1]	US	UK	Euro[1]	US
Annual Real GDP Growth[2]	-0.2%	-0.3%	0.0%	-0.2%	-1.3%	0.5%
Annual Inflation Rate[3]	-0.2%	-0.1%	0.0%	-0.6%	0.0%	-0.5%
Unemployment Rate[4]	-0.1%	-0.1%	0.1%	-0.3%	-0.7%	-0.2%
Manufacturing PMI[5]	0.8	-3.9	-1.4	0.3	-9.1	-3.2

Notes: 1.Euro Area 19 Countries. 2. GDP is lagged by 3 months. 3. CPI inflation measure. 4. UK unemployment is lagged by 1 month. 5. Headline Purchasing Managers Index.

EXCHANGE RATES

Economic Statistics as at:	Value in Sterling (Pence)			Change in Sterling	
	31 Mar 19	31 Dec 18	31 Mar 18	3 months	12 months
1 US Dollar is worth	76.74	78.52	71.29	2.3%	-7.1%
1 Euro is worth	86.17	89.76	87.67	4.2%	1.7%
100 Japanese Yen is worth	69.33	71.57	67.03	3.2%	-3.3%

Exchange rate movements – 3 years to 31 March 2019



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

3 MARKET COMMENTARY

INTRODUCTION

After a dismal end to proceedings in 2018, markets have rebounded well in the first quarter of 2019. Significantly, after starting the year in positive fashion, equities managed to push on to produce one of the sharpest two month corrections in several years. Despite the strength of equity returns, many investors understandably seem resistant to buy into this rally after being severely wounded in October and December. Due to these bruising returns last year this rally remains somewhat unloved.

UNITED KINGDOM

- UK stocks were lifted throughout the quarter as the likelihood of Brexit actually occurring on the self-imposed 29 March deadline diminished rapidly over the period.
- The FTSE All-Share Index delivered a return of 9.4% outpacing many other developed markets after lagging behind international counterparts for large parts of 2018.
- Economic data coming out from the UK economy has been rather mixed over the period. Brexit uncertainty has unquestionably hindered GDP growth as Q4 figures came in at 0.2% below market estimates of 0.3%. For the year as a whole, the GDP growth rate was just 1.4%, its lowest rate since 2013.
- The picture ahead looks equally uninspiring as the Bank of England recently lowered their annualised forecasts for this year and next from 1.7% (2019) and 1.7% (2020) to 1.2% and 1.5% respectively, although these are based on assumptions and could well be revised as events occur.
- The UK jobs market continues to be a bright spot with the labour market continuing to expand in the quarter.
- A tighter labour market has also ensured that wage growth has remained firm and ahead of general inflation which declined to a two year low at the start of the year. Elsewhere retail sales surprisingly rebounded in January after a lacklustre Christmas trading period.

NORTH AMERICA

- Although US stocks were later than most to join the recovery, the S&P 500 Index, the broad based US basket, produced a gain of 13% in local currency terms this quarter.
- The slow start was largely self-inflicted with a federal logjam causing the longest government shutdown in history and the second of Trump’s presidency.
- The US economy also grappled with an overhang from the US-China trade spat, coupled with a revision to US earnings growth expectations for 2019.
- There has been a softening of corporate earnings growth during this reporting season (when compared to the incredible run-rate previously set in the first three quarters of 2018). Nonetheless, corporations in the US still extended earnings growth by 13.1% over the fourth quarter of 2018 posting a fifth consecutive quarter of double-digit gains.
- Tax reforms played a major role in growth during 2018 which clearly will not be repeated going forward.
- Expectations for earnings growth this year stand at approximately 4.5%; and a high single digit rise is more likely given a stable monetary policy backdrop, increases to wage growth and consumer spending forecasts.
- Dovish Federal Reserve (Fed) policy appears well priced into markets after recent returns and, with US equities trading marginally below their 5 year averages, valuations do not currently appear stretched.
- Resolution on global trade and disputes between China and the US could provide a mild catalyst to equities.

EUROPE (EX UK)

- Against a difficult economic backdrop it has been a strong quarter for Eurozone equities. The FTSE All World Developed Europe (ex UK) Index returned 8.1% during the first quarter, largely lifted by improving sentiment around US-China trade negotiations.
- Although Europe has clearly been caught up in US and Chinese trade cross-winds. Investors also took encouragement from Europe's own progress on trade this quarter.
- Cecilia Malmstrom, European Union trade head, confirmed plans in January for a zero-tariff trade agreement with the US that crucially included cars.
- Despite shares rallying in Europe, underlying data remains extremely soft. Germany, the Bloc's economic leader and bellwether, marginally avoided a technical recession with zero growth in the final quarter of 2018.
- Despite budget resolutions with Brussels, Italy slipped into an economic recession for the third time in a decade.
- The Spanish economy was one relatively shining light with growth of 0.7% in the fourth quarter, however investors must now brace themselves for further uncertainly after Pedro Sanchez, the Spanish Prime Minister, called an unexpected snap election for the end of April after their parliament rejected his proposed budget - a move that feels a little like Groundhog Day, given the events in Italy last year.
- European manufacturing and service surveys were mixed over the period. Manufacturing looks a particular concern with several purchasing managers' indices across the region slipping into contractionary territory.
- Consumer confidence surveys continue to look slightly more encouraging and furthermore, the regions labour market offers some reassurance as do lower energy prices across the Bloc, which together with robust wage inflation, should support consumer spending.
- Markets are hopeful that the ECB may recommence their practice of offering cheap loans to banks which could aid efforts to lend to the broader economy. From a valuation perspective despite the recent rally, equities are still not particularly expensive when looking at historic averages.
- A lack of analyst earnings downgrades, relative to other markets, may lead to limited earnings surprises this year given the current corporate market sentiment. Overall catalysts remain short on the ground for this region.

JAPAN

- Japanese equities regained some positive momentum during the quarter after a dismal December. The country's leading stock index, the Nikkei 225 Index, posted gains of 7.7% in local currency terms yet lagged behind a number of developed market returns for the quarter.
- Japanese equities have been boosted as fears continued to ease over a global economic slowdown and reduced tensions around trade.
- A weakening currency, as risk appetite continues to grow, has provided a gentle tailwind for blue-chip stocks.
- In similar fashion to Europe, the first quarter of 2019 was somewhat disappointing from a data perspective. The forward looking manufacturing PMI fell into contraction in February for the first time since 2016.
- Meanwhile, consumer confidence for the same month came in below market expectations.
- Japanese businesses look markedly inexpensive when compared to other markets as they are currently trading below their 10 year forward price earning averages. Furthermore, Japanese corporate debt (leverage) has come down significantly over the last two years.

ASIA PACIFIC (EX JAPAN) / EMERGING MARKETS

- Emerging market equities are, in part, tied to the performance of the US dollar. With the Fed indicating their preference to pause rate hikes this year, dramatic upside US dollar moves appear (at least for now) to be behind us. This in part, together with a possible trade tariff resolution, has helped drive a number of emerging markets higher this quarter.

- In particular China and Hong Kong performed strongly over the first quarter. Away from a more dovish Fed, Chinese equities were boosted by the MSCI's decision to increase China listed 'A' shares within its range of benchmarks. Such a move should help improve liquidity and increase fund flows into the domestic market.
- Chinese stocks have been buoyed by the policy response (part of Beijing's response to US tariffs) from late last year on the fiscal tax cuts together with increased public spending and looser monetary policy in the form of lower capital requirement levels for domestic banks.
- Asia continues to produce quality growth in earnings and sales.

FIXED INCOME

- US Treasury yields moved lower over the quarter as the Fed declared a 'wait and see' approach to interest rate rises this year.
- Unsurprisingly with an increased level of uncertainly surrounding Brexit, Gilts have been volatile this quarter.
- The general direction of travel for the 10-year UK gilt yield has been to broadly move lower (yields come down and prices go higher), as the likelihood of an extension to Article 50 became a reality in March.
- Notably, inflation-linked bonds performed extremely strongly as the possibility of a stagflation type of scenario (low growth and high inflation), post Brexit, led investors to flock into Index-Linked Gilts over the period.
- Within the Eurozone, bonds received a boost after the ECB confirmed that it will not raise interest rates in 2019. Moreover, expectation that it will re-introduce a further liquidity programme also helped keep yields low.

ALTERNATIVES

- Hedge Funds rebounded in the first quarter, as all strategies posted gains in both Sterling and US dollar terms. Overall, Hedge Funds returned 5.6% in US dollar terms and 5.1% in Sterling terms. Equity Hedge were the best performing strategies, returning 7.7% (US dollar) and 5.3% (Sterling). Global Macro strategies, albeit positive over the quarter, were the worst performing strategies, returning 2.4% (US dollar) and 0.1% (Sterling).
- Commodities saw strong returns over the quarter, returning 14.1% in Sterling terms (15.0% in US dollar terms). Crude Oil rebounded from its decline in Q4 2018, returning 27.7% in Sterling terms (30.7% in US dollar terms). Precious Metals declined 1.7% in Sterling terms (and rose just 0.6% in US dollar terms). Agriculture was the worst performing commodity sector returning -6.6% in Sterling terms (-4.5% in US dollar).
- Property returned 0.4% over quarter as the slowdown in the market continued into 2019. The slowdown can be attributed to the uncertainty around Brexit; in particular, concerns over commercial property have resurfaced as investors appear to increase withdrawals. Property returned 5.0% over the 12 month period to 31 March 2019.

OUTLOOK

It is clear from the data that the global economy is slowing. Economists are regularly lowering their GDP growth forecasts this year and next. Forward looking data supports the view that the current cycle has further to run, with PMIs, in a number of countries, starting to rebound from recent lows. Also slower growth is not automatically a bad thing.

A continuation of the economic cycle, clear visibility on central banks' interest rates and marginally reduced uncertainties on the global horizon are all reasons to be positive at present.

Diversification will continue to be important and will help portfolios weather any such volatility should it resurface. Asset classes such as fixed interest, continue to help portfolio diversification while providing an income stream, while absolute return funds offer prospects of capital protection in downward equity markets, should they occur.

4 INDICES USED IN THIS REPORT

Asset	Index
Growth Assets	
UK	FTSE All-Share Index
Overseas Developed	FTSE World (ex UK) Index
North America	FTSE North America Index
Europe (ex UK)	FTSE AW Developed Europe (ex UK) Index
Japan	FTSE Japan Index
Asia Pacific (ex Japan)	FTSE AW Developed Asia Pacific (ex Japan) Index
Emerging Markets	FTSE All Emerging Index
Frontier Markets	FTSE Frontier 50 Index
Property	IPD UK Quarterly Property Index
Hedge Funds	HFRI Fund Weighted Composite Index (GBP Hedged)
Commodities	S&P GSCI TR Index (GBP Hedged)
High Yield	ICE BoAML Global High Yield Index (GBP Hedged)
Emerging Markets Debt	JPM GBI-EM Global Diversified Composite Index
Senior Secured Loans	S&P Leveraged Loan Index (GBP Hedged)
Cash	IBA GBP LIBOR 7 Day 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	UK Retail Price Index (All Items NADJ)
Price Inflation – CPI	UK Consumer Price Index (All Items NADJ)
Earnings Inflation	UK Average Weekly Earnings Index (Whole Economy excluding Bonuses NADJ)
Exchange Rates	
USD / EUR / JPY vs GBP	WM/Reuters 4:00 pm Closing Spot Rates

Note: All indices above are denominated in Sterling unless stated otherwise.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12 June 2019
Report Subject	Investment Strategy and Manager Summary
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

The purpose of the Investment Strategy and Manager Summary is to update Committee Members on the performance of the Fund's investment strategy and performance of the Fund's investment managers.

The report covers the quarter ending 31 March 2019.

From an Investment Strategy perspective, the Equity portfolios and the Tactical Allocation portfolios were the best performing in absolute terms. At a Strategic level there were no areas that suffered negative performance; the lowest absolute performance was the In-house assets which returned 0.2%. Key facts covered in the report are as follows:

- Over the 3 months to 31 March 2019, the Fund's total market value increased by £82.1m to £1,866,157,609

- Over the quarter, total Fund assets returned 4.5% ahead of the composite target which returned 3.0%.

The benchmarks are reflective of the Fund's strategic weightings, although commitments to Private Credit will take some time to be fully invested.

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

RECOMMENDATIONS	
1	To note and discuss the investment strategy and manager performance in the Investment Strategy and Manager Summary 31 March 2019.
2	That the Committee considers the information in the Economic and Market Update report to provide context in addition to the information contained in this report.

REPORT DETAILS

1.00	**INVESTMENT AND FUNDING RELATED MATTERS**
1.01	**Investment Strategy and Manager Summary 31 March 2019** Over the 3 months to 31 March 2019, the Fund's total market value increased by £82.1m to £1,866,157,609; almost recovering all of the ground lost in the previous quarter. Total Fund assets returned 4.5% over the quarter, outperforming the composite target which returned 3.0%. Over the one year period, Total Fund assets returned 5.0%, compared with a composite target of 5.7%. Over the last three years, Total Fund assets returned 9.9% p.a., ahead of the composite target of 8.9% p.a. The strongest absolute returns over the quarter came from the Funds Equity assets, with returns of 8.8%. In addition, there was strong absolute and relative performance from the Tactical Allocation Portfolio over the quarter, with a return of 6.5% compared to the benchmark return of 0.6%. In contrast to the previous quarter all elements of the Strategy produced positive returns, with the In-house assets producing the lowest absolute return at 0.2% in the quarter. The Fund's asset portfolio is broadly within the strategic ranges set for the asset classes as agreed in the strategy review. As previously reported the Private Credit portfolio will take some time to get to the target weight due to the nature of the asset class. The largest overweight position is within the LDI portfolio which is being reviewed as part of the wider assessment of the Fund's risk management strategy.
1.02	At this time, there are no immediate concerns with any of the Fund's investment managers and there are regular meetings held with the managers to discuss individual mandates. As reported at the last meeting, as part of the Funds Strategic Asset Allocation review scheduled for later in 2019, individual manager mandates will be reviewed. The Fund will need to be conscious of the plans of the Wales Pension Partnership when assessing its investment managers, as the costs of transitioning to new management arrangements ahead of any potential move to the Pool could be significant. This work will take place with the Fund's investment consultant in conjunction with the 2019 Actuarial Valuation.

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

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

4.00	RISK MANAGEMENT
4.01	The Fund's investment strategy has been designed to provide an appropriate trade off between risk and return. The Fund faces three key investment risks: Equity risk, Interest Rate Risk and Inflation Risk. Diversification of the Fund's growth assets away from equities seeks to reduce the amount of the equity risk (though it should be recognised that Equities remain an important long term source of expected growth). The implementation of the Fund's De-Risking Framework (Flightpath) has been designed to mitigate the Fund's Interest Rate and Inflation Risks.

5.00	APPENDICES
5.01	Appendix 1 – Investment Strategy and Manager Summary 31 March 2019

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Investment Strategy and Manager Summary 31 December 2018. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	A list of commonly used terms are as follows: (a) **Absolute Return –** The actual return, as opposed to the return relative to a benchmark. (b) **Annualised –** Figures expressed as applying to 1 year. (c) **Duration –** The weighted average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.

	(d) **Market Volatility –** The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change and inflation impact. (e) **Money-Weighted Rate of Return –** The rate of return on an investment including the amount and timing of cashflows. (f) **Relative Return –** The return on a fund compared to the return on index or benchmark. This is defined as: Return on Fund minus Return on Index or Benchmark. (g) **Three-Year Return –** The total return on the fund over a three year period expressed in percent per annum. (h) **Time-Weighted Rate of Return –** The rate of return on an investment removing the effect of the amount and timing of cashflows. (i) **Yield (Gross Redemption Yield) –** The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the value of future cashflows. **A comprehensive list of investment terms can be found via the following link:** http://www.barings.com/ucm/groups/public/documents/marketingmaterials/021092.pdf

CLWYD PENSION FUND
INVESTMENT STRATEGY AND MANAGER SUMMARY
PERIOD ENDING 31 MARCH 2019

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1 IMPACT ON CLWYD PENSION FUND INVESTMENT STRATEGY

This report is produced by JLT Employee Benefits ("JLT") to assess the performance and risks of the investment managers of the Clwyd Pension Fund (the "Fund"), and of the Fund as a whole. The report does not comment on the Fund's Liability Driven Investment ("LDI") portfolio, as information in respect of this allocation is produced separately by Mercer.

OVERALL

Over the 3 months to 31 March 2019, the Fund's total market value increased by £82.1m to £1,866,157,609.

Over the quarter, total Fund assets returned 4.5%, ahead of its target of 3.0%. Total Fund (ex LDI) returned 3.8%, also ahead of its target of 2.1%.

All sections within the portfolio posted positive returns; total Equities generated the highest returns within the portfolio, returning 8.8%, followed by the Tactical Allocation Portfolio which rose by 6.5%. Total Credit increased by 3.2%, whilst the Managed Account Platform and In-House assets rose by 0.8% and 0.2%, respectively.

In relative terms, total Fund assets were ahead of their target by 1.5%, mainly attributable to the Best Ideas Portfolio which outperformed its target by 8.1%, adding 0.9% to total relative performance.

Total Equities outperformed its target by 1.0%, contributing 0.1% to total relative performance.

Total Credit outperformed its target by 2.6%, returning 3.2% against a target of 0.6%. Overall, this added 0.4% to total relative performance. The Multi-Asset Credit sub-portfolio returned 3.6% against its target of 0.4%, whilst the Private Credit sub-portfolio increased with a return of 0.3% over the period

Managed Futures and Hedge Funds increased by 0.7%, underperforming its target by 0.4%. This made a marginally negative contribution to overall relative performance.

In-House assets returned 0.2%, underperforming its target by 1.0%; positive returns from Property, Infrastructure and Timber/Agriculture sub-portfolios was partially offset by declines in the Private Equity and Opportunistic assets.

Insight's LDI portfolio increased by 6.7% over the quarter, due to a combination of falling yields and rising equity markets. Overall, the overweight allocation to the LDI portfolio added 0.2% to relative performance.

EQUITIES

Markets have rebounded well in the first quarter of 2019; as equities managed to push on to produce one of the sharpest two month corrections in several years. Chinese equities recovered from being the worst performing market in 2018 to lead global equity performance over the period.

The more dovish Fed approach at the start of 2019 encouraged risk appetite amongst investors, as US, European and Asian stocks experienced double digit returns over the quarter.

Emerging Market equities were outperformed by Developed Market equities, albeit still generating strong positive returns, whilst Japanese equities continued to lag behind their regional counterparts.

In Developed Markets, North American equities led regional performance (+11.3%) followed by UK equities (+9.4%). Europe (ex UK) equities rose by 8.1% whilst Asia Pacific (ex Japan) equities posted gains of 7.7%. Japanese equities continued to lag the other developed markets, increasing by 4.5%.

Over the last 12 months, all Developed Equity markets grew with the exception of Japan which fell by 0.9%. North America achieved the largest returns, increasing by 17.5% over the period.

Emerging and Frontier Markets delivered returns of 7.9% and 3.5%, respectively over the quarter. Over the last 12 months, Emerging Markets returned 1.9% whilst Frontier Markets declined by 15.4%.

Total Equity assets returned 8.8% compared to a composite target of 7.8%. All funds increased over the quarter; Wellington Emerging Market (Core) and Wellington Emerging Market (Local) were the only funds to outperform their target over the quarter, returning 8.7% and 9.1% against a target of 7.7% and 8.0%, respectively. BlackRock World Multifactor returned 8.1% against its benchmark which returned 8.4%. In January, the holding in Investec's Global Strategic Equity Fund was redeemed and transferred to the Russell WPP Global Opportunities Fund.

In the Emerging Markets portfolio, the allocation to small-cap stocks and stock selection in the Healthcare, Industrial and Technology sectors weighed on returns. Negative contributions included Cigna, Centene and Humana. Overweight positions in emerging market financial companies ICICI Bank and HDFC Bank proved to be beneficial, whilst stock selection and asset allocation in South Korea and China contributed the majority of gains in EM equities.

Both Wellington Emerging Market equity funds were behind their 3 year performance objectives

CREDIT

Global credit markets rose over the quarter as monetary policies pivoted in a dovish direction, fuelling concerns of a global slowdown in growth. In the US, the US Federal Reserve (Fed) downgraded both its growth and inflation forecasts and projected that interest rates will remain steady throughout 2019. Additionally, the Fed announced that balance sheet normalisation will conclude in September 2019. In Europe, the European Central Bank postponed its first interest rate hike until 2020 and announced extended liquidity operations for banks. The Bank of England kept interest rates at 0.75%, expressing less confidence in the domestic economy due to uncertainty around Brexit.

Global bond yields declined sharply on the back of these dovish shifts, nominal gilt yields fell to their lowest levels since Brexit and index-linked gilt yields dropped to an all-time low. The long end of the US Treasury curve collapsed and the inversion of the front end of the curve extended further out, triggering a signal of impending recession.

Over the quarter, Long Dated Conventional Gilts, Index-Linked Gilts and UK Corporate Bonds increased by 6.0%, 6.3% and 7.1% respectively. Emerging Market Local Currency Debt and Emerging Market Hard Currency Debt returned 0.1% and 4.2%, respectively. Global High Yield increased by 4.1% over the period.

Total Credit returned 3.2% over the quarter, 2.6% ahead of its target. This added 0.4% to total relative performance due to the Multi-Asset Credit sub-portfolio. The impact of being underweight to Private Credit (which is currently in its commitment phase) was negligible as the Private Credit sub-portfolio delivered a gain of 0.3% over the quarter.

Permira Credit Solutions III Fund (European mandate) and BlackRock Middle Market Senior Fund (North American mandate) were c.87% and c.29% funded at the end of March 2019 as capital deployment continues for each fund

In Investment Grade Credit, performance was mainly driven by attractive valuations at the start of 2019 as well as supportive monetary policies, significant domestic demand and foreign inflows. Refining, Independent Energy and Gaming were the best performing sectors.

US High Yield posted the highest first quarter return since 1992. 18 out of the 36 industry sectors outperformed the index led by Transportation (excluding Air and Rail), Retail and Banking.

In Emerging Market Debt, all regions posted gains led by Africa and Latin America. In Africa, the top performers were Kenya, Nigeria and Angola, where spreads narrowed almost twice as much as the benchmark. Venezuela was the best performing in Latin America, despite US sanctions which halted sales to US persons.

HEDGE FUNDS

Hedge Funds rebounded in the first quarter with all strategies posting gains in both Sterling and US dollar terms. Overall, Hedge Funds returned 5.6% in US dollar terms and 5.1% in Sterling terms. Equity Hedge were the best performing strategies, returning 7.7% (US Dollars) and 5.3% (Sterling). Global Macro strategies, albeit positive over the quarter, were the worst performing strategies, returning 2.4% (US Dollars) and 0.1% (Sterling).

Over the last 12 months, performance from the various strategies was mixed in US Dollar terms, however, all strategies generated positive returns in Sterling terms. Relative Value strategies were the best performing strategies over the 12 months, posting 10.9% in Sterling terms and 3.0% in US Dollar terms.

ManFRM's Managed Futures & Hedge Funds strategy grew by 0.7%, behind its target by 0.4%. ManFRM Hedge Funds (Legacy) consists of Liongate and previously included Pioneer and Duet (S.A.R.E.) until August 2016 and November 2018, respectively. The assets generated a return of 15.1% over the quarter.

TACTICAL ALLOCATION PORTFOLIO

DIVERSIFIED GROWTH

Total Diversified Growth assets increased by 3.9% over the quarter, ahead of its target of 1.0%.

Pyrford returned 2.7%, outperforming its target by 1.8%. Performance was mainly driven by equity holdings, as the primary contributors were British American Tobacco, Legal & General Group, SSE and National Grid. Holdings in Telecom stocks proved to be a major detractor from returns. Within its bond portfolio, UK bonds added value, whilst the overseas bond positions fell slightly due to Sterling appreciation. Currency hedging had a positive impact due to the appreciation of Sterling, and downside risk was protected as the entire overseas bond portfolio is hedged.

Investec returned 5.1%, against a target of 1.0%. 'Growth' strategies were the largest overall contributor as equities rallied strongly. The total return equity basket was the largest contributor, due to its high allocation to Technology and Industrial stocks. 'Uncorrelated' strategies contributed modestly; the yield curve flattener positions in Germany and Sweden benefited performance whilst US and Mexican yield curve steepeners detracted from performance. 'Defensive' strategies detracted; the relative value German vs. France bond position detracted as French bonds outperformed German bonds. Additionally, a long exposure to Japanese Yen detracted as the Yen depreciated.

BEST IDEAS PORTFOLIO

The Best Ideas Portfolio recovered strongly over the quarter, returning 8.7%, ahead of its target by 8.1%. 12 month and 3 year portfolio returns were above the target, returning 5.4% and 8.6%, respectively.

All the funds within the portfolio posted positive returns, led by LGIM North American Equities (Unhedged) which rose by 12.4% and outperformed its target by 11.9%. LGIM Listed Infrastructure, LGIM Global REITS and Investec Global Natural Resources saw double digit returns of 12.2%, 12.1% and 10.4%, respectively. All the sub-funds (with the exception of BlackRock Japanese Equities) outperformed their targets for the quarter.

In January, £6.33m was disinvested from each of the following funds: BlackRock European Equity (Unhedged), BlackRock Japanese Equity (Unhedged) and LGIM North American Equity (Unhedged). Proceeds totalling £19m were subsequently invested into the PIMCO Emerging Market Local Bond (Unhedged) Fund.

IN-HOUSE ASSETS

Total In-House assets returned 0.2%, behind its target by 1.0%. Overall this detracted 0.3% from total relative performance. The two sub-sections of the In-House assets; the Real Assets Portfolio and the Private Markets Portfolio returned 2.3% and -1.8%, respectively.

Private Equity and Opportunistic assets within the Private Markets Portfolio declined over the quarter, returning -2.0% and -1.0% respectively against a target of 1.4% for both assets. All assets within the Real Assets Portfolio rose over the quarter.

Within the Real Assets Portfolio, Property led performance, returning 3.0% and outperforming its target by 2.6%. Infrastructure and Timber/ Agriculture also contributed positively, producing returns of 1.4% and 0.7% respectively.

2 STRATEGIC ASSET ALLOCATION
31 MARCH 2019

Allocation by underlying asset class

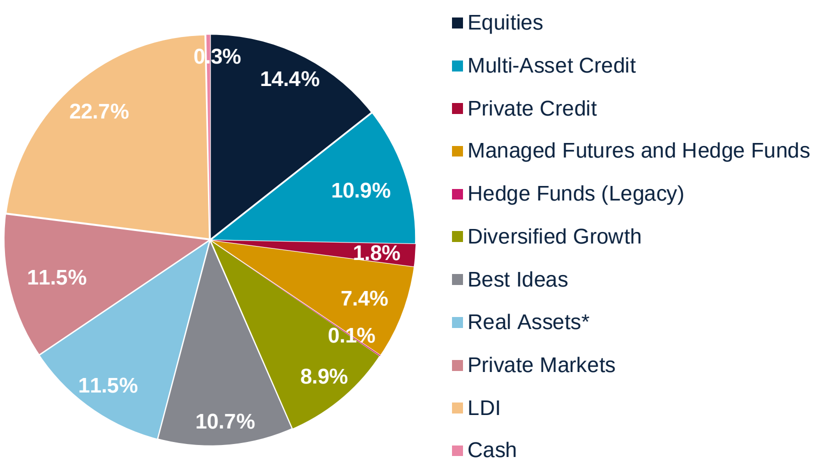
Asset Class	Market Value £	Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	149,722,640	8.0	8.0	0.0	5.0 – 10.0
Emerging Market Equities	118,827,884	6.4	6.0	+0.4	5.0 – 7.5
Multi-Asset Credit	203,789,795	10.9	12.0	-1.1	10.0 – 15.0
Private Credit^	32,959,645	1.8	3.0	-1.2	2.0 – 5.0
Managed Futures and Hedge Funds	137,809,208	7.4	9.0	-1.6	7.0 – 11.0
Hedge Funds (Legacy)*	1,131,137	0.1	0.0	+0.1	–
Diversified Growth	166,885,977	8.9	10.0	-1.1	8.0 – 12.0
Best Ideas	198,870,949	10.7	11.0	-0.3	9.0 – 13.0
Property	122,829,203	6.6	4.0	+2.6	2.0 – 6.0
Infrastructure / Timber / Agriculture	91,003,231	4.9	8.0	-3.1	5.0 – 10.0
Private Equity / Opportunistic	213,709,697	11.5	10.0	+1.5	8.0 – 12.0
LDI & Synthetic Equities	422,853,630	22.7	19.0	+3.7	10.0 – 30.0
Cash	5,764,613	0.3	0.0	+0.3	0.0 – 5.0
TOTAL CLWYD PENSION FUND	**1,866,157,609**	**100.0**	**100.0**	**0.0**	

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

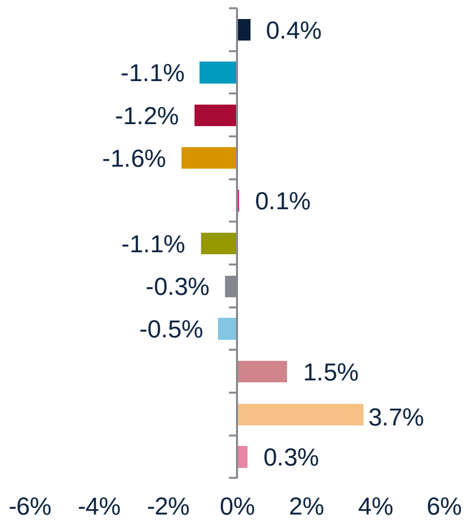
Points to note

- Permira Credit Solutions III Fund (European mandate) and BlackRock Middle Market Senior Fund (North American mandate) were c.87% and c.29% funded at the end of March 2019.
- Total allocation to LDI remains overweight by 3.7% relative to its strategic allocation.

Strategic Asset Allocation as at 31 March 2019



Deviation from Strategic Allocation



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

3 VALUATION AND ASSET ALLOCATION
AS AT 31 MARCH 2019

Manager	Fund	Market Value £	Weight %	Strategic Allocation %	Strategic Range %
Russell	WPP Global Opportunities	78,672,640	4.2	4.0	5.0 – 10.0
BlackRock	ACS World Multifactor Equity	71,050,000	3.8	4.0	
Wellington	Emerging Markets (Core)#	57,360,616	3.1	3.0	5.0 – 7.5
Wellington	Emerging Markets (Local)#	61,467,268	3.3	3.0	
Total Equity		**268,550,524**	**14.4**	**14.0**	
Stone Harbor	LIBOR Multi-Strategy	131,655,520	7.1	12.0	10.0 – 15.0
Stone Harbor	Multi-Asset Credit	72,134,276	3.9		
Multi-Asset Credit Portfolio		**203,789,795**	**10.9**	**12.0**	**10.0 – 15.0**
Permira	Credit Solutions III	26,760,054	1.4	1.8	2.0 – 5.0
BlackRock	Middle Market Senior	6,199,591	0.3	1.2	
Private Credit Portfolio		**32,959,645**	**1.8**	**3.0**	**2.0 – 5.0(1)**
Total Credit		**236,749,440**	**12.7**	**15.0**	**10.0 – 20.0**
ManFRM	Managed Futures & Hedge Funds	137,809,208	7.4	9.0	7.0 – 11.0
ManFRM	Hedge Funds (Legacy)*	1,131,137	0.1	0.0	–
Managed Account Platform		**138,940,345**	**7.4**	**9.0**	**7.0 – 11.0**
Pyrford	Global Total Return	83,524,306	4.5	5.0	8.0 – 12.0
Investec	Diversified Growth	83,361,671	4.5	5.0	
Diversified Growth Portfolio		**166,885,977**	**8.9**	**10.0**	**8.0 – 12.0**
BlackRock	US Opportunities	28,881,009	1.5	11.0	9.0 – 13.0
BlackRock	Japanese Equities	16,288,557	0.9		
BlackRock	Emerging Markets Equities	19,699,433	1.1		
Investec	Global Natural Resources	19,922,935	1.1		
LGIM	Infrastructure Equities MFG (Hedged)	32,504,525	1.7		
LGIM	Global Real Estate Equities	32,476,215	1.7		
LGIM	Sterling Liquidity	10,059	0.0		
LGIM	North American Equities (Unhedged)	14,868,955	0.8		
BlackRock	European Equities (Unhedged)	15,268,653	0.8		
PIMCO	Emerging Market Debt Local	18,950,609	1.0		
Best Ideas Portfolio		**198,870,949**	**10.7**	**11.0**	**9.0 – 13.0**
Tactical Allocation Portfolio		**365,756,926**	**19.6**	**21.0**	**15.0 – 25.0**
In-House	Property	122,829,203	6.6	4.0	2.0 – 6.0
In-House	Infrastructure	67,526,982	3.6	8.0	5.0 – 10.0
In-House	Timber / Agriculture	23,476,249	1.3		
Real Assets Portfolio		**213,832,434**	**11.5**	**12.0**	**10.0 – 15.0**
In-House	Private Equity	165,485,483	8.9	10.0	8.0 – 12.0
In-House	Opportunistic	48,224,214	2.6		
Private Markets Portfolio		**213,709,697**	**11.5**	**10.0**	**8.0 – 12.0**
Total In-House Assets		**427,542,131**	**22.9**	**22.0**	
Insight	LDI Portfolio	422,853,630	22.7	19.0	10.0 – 30.0
Total Liability Hedging		**422,853,630**	**22.7**	**19.0**	**10.0 – 30.0**
Trustees	Cash	5,764,613	0.3	-	0.0 – 5.0
TOTAL CLWYD PENSION FUND		**1,866,157,609**	**100.0**	**100.0**	

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

4 PERFORMANCE SUMMARY
PERIODS ENDING 31 MARCH 2019

	Manager	Fund	3 months %		12 months %		3 years % p.a.		3 Yr Performance
			Fund	Target	Fund	Target	Fund	Target	vs Objective
n/a	Russell	WPP Global Opportunities	n/a	n/a	n/a	n/a	n/a	n/a	n/a
n/a	BlackRock	World Multifactor Equity Tracker	8.1	8.4	5.7	4.0	n/a	n/a	n/a
●	Wellington	Emerging Markets (Core)#	8.7	7.7	-2.6	1.0	15.4	15.9	Target not met
●	Wellington	Emerging Markets (Local)#	9.1	8.0	-2.9	2.0	14.9	17.1	Target not met
Total Equity			**8.8**	**7.8**	**1.7**	**6.6**	**14.9**	**16.7**	
●	Stone Harbor	LIBOR Multi-Strategy	2.8	0.4	-0.4	1.7	3.2	1.4	Target met
n/a	Stone Harbor	Multi-Asset Credit	5.1	0.4	0.0	1.7	n/a	n/a	n/a
Multi-Asset Credit Portfolio			**3.6**	**0.4**	**-0.3**	**1.7**	**2.9**	**1.5**	
n/a	Permira	Credit Solutions III	0.4	1.4	7.3	6.0	n/a	n/a	n/a
n/a	BlackRock	Middle Market Senior	0.0	2.1	n/a	n/a	n/a	n/a	n/a
Private Credit Portfolio			**0.3**	**1.5**	**6.9**	**6.1**	**n/a**	**n/a**	
Total Credit			**3.2**	**0.6**	**0.4**	**2.1**	**3.1**	**1.7**	
●	ManFRM	Managed Futures & Hedge Funds	0.7	1.1	-5.8	4.3	-2.5	4.0	Target not met
n/a	ManFRM	Hedge Funds (Legacy)*	15.1	1.1	-72.8	4.3	-44.4	4.0	Target not met
Managed Account Platform			**0.8**	**1.1**	**-7.9**	**4.3**	**-4.6**	**4.0**	
●	Pyrford	Global Total Return	2.7	0.9	3.4	7.0	2.9	7.7	Target not met
●	Investec	Diversified Growth	5.1	1.0	-1.6	6.6	2.5	7.0	Target not met
Total Diversified Growth			**3.9**	**1.0**	**0.9**	**6.8**	**2.7**	**7.3**	
●	**Best Ideas Portfolio**		**8.7**	**0.6**	**5.4**	**5.0**	**8.6**	**5.3**	**Target met**
Tactical Allocation Portfolio			**6.5**	**0.6**	**3.3**	**5.0**	**5.7**	**5.3**	
●	In-House	Property	3.0	0.4	10.2	5.0	7.6	6.5	Target met
●	In-House	Infrastructure	1.4	1.4	19.5	5.8	14.6	5.6	Target met
●	In-House	Timber / Agriculture	0.7	1.4	4.4	5.8	4.6	5.5	Target not met
Real Assets			**2.3**	**1.1**	**11.9**	**5.5**	**8.6**	**5.3**	
●	In-House	Private Equity	-2.0	1.4	16.2	5.8	13.6	5.5	Target met
●	In-House	Opportunistic	-1.0	1.4	11.3	5.8	7.6	5.6	Target met
Private Markets Portfolio			**-1.8**	**1.4**	**15.2**	**5.8**	**12.7**	**5.5**	
Total In-House Assets			**0.2**	**1.2**	**13.6**	**5.6**	**10.6**	**5.5**	
n/a	Insight	LDI Portfolio	6.7	6.7	8.2	8.2	20.3	20.3	n/a
Total (ex LDI)			**3.8**	**2.1**	**4.0**	**5.2**	**7.0**	**6.8**	
TOTAL CLWYD PENSION FUND			**4.5**	**3.0**	**5.0**	**5.7**	**9.9**	**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 (Q1 2019 forecasts based on conditions at 31 December 2018). Current long term 10 year CPI assumption is 2.1% p.a.

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

5 STRATEGIC ASSET CLASSES
PERFORMANCE TO 31 MARCH 2019

Strategy	3 months %	12 months %	3 years % p.a.
Total Equities	**8.8**	**1.7**	**14.9**
Composite Objective	7.8	6.6	16.7
Composite Benchmark	7.6	5.4	14.8
Total Credit	**3.2**	**0.4**	**3.1**
Objective	0.6	2.1	1.7
Benchmark	0.5	1.1	0.7
Managed Account Platform	**0.8**	**-7.9**	**-4.6**
Objective	1.1	4.3	4.0
Benchmark	1.1	4.3	4.0
Total Hedge Funds (Legacy)	**15.1**	**-72.8**	**-44.4**
Composite Objective	1.1	4.3	4.0
Composite Benchmark	1.1	4.3	4.0
Total Diversified Growth	**3.9**	**0.9**	**2.7**
Composite Objective	1.0	6.8	7.3
Composite Benchmark	1.0	6.8	7.3
Best Ideas Portfolio	**8.7**	**5.4**	**8.6**
Objective	0.6	5.0	5.3
Benchmark	0.6	5.0	5.3
Total In-House Assets	**0.2**	**13.6**	**10.6**
Composite Objective	1.2	5.6	5.5
Composite Benchmark	1.2	5.6	5.5
Total LDI Portfolio	**6.7**	**8.2**	**20.3**
Composite Objective	6.7	8.2	20.3
Composite Benchmark	6.7	8.2	20.3
Total (ex LDI)	**3.8**	**4.0**	**7.0**
Composite Objective	2.1	5.1	6.8
Composite Benchmark	2.0	4.8	6.3
Total Clwyd Pension Fund	**4.5**	**5.0**	**9.9**
Composite Objective	3.0	5.7	8.9
Composite Benchmark	2.9	5.4	8.5

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
Russell	WPP Global Opportunities	Global Developed Equities	MSCI World Index NDR	4.0%
BlackRock	World Multifactor Equity Tracker	Global Developed Equities	MSCI World Diversified Multi-Factor Index Midday Net	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.	1.8%
BlackRock	Middle Market Senior	Private Credit	Absolute Return 9.0% p.a.	1.2%
Total Credit Portfolio			**Composite Weighted Index**	**15.0%**[4]
ManFRM	Managed Futures & Hedge Funds	Managed Account Platform	3 Month LIBOR Index +3.5% p.a.	9.0%[3]
Managed Account Platform			**3 Month LIBOR Index +3.5% p.a.**	**9.0%**
Pyrford	Global Total Return	Diversified Growth	UK Retail Price Index +4.5% p.a.[2]	5.0%
Investec	Diversified Growth	Diversified Growth	UK Consumer Price Index +4.6% p.a.	5.0%
Best Ideas	Best Ideas	Best Ideas Portfolio	UK Consumer Price Index +3.0% p.a.	11.0%
Tactical Allocation Portfolio			**UK Consumer Price Index +3.0% p.a.**	**21.0%**
In-House	Private Equity	Private Markets	3 Month LIBOR Index +5.0% p.a.	8.0%
In-House	Opportunistic	Private Markets	3 Month LIBOR Index +5.0% p.a.	2.0%
In-House	Property	Property	IPD UK Monthly Property Index[5]	4.0%
In-House	Infrastructure	Infrastructure	3 Month LIBOR Index +5.0% p.a.	6.0%
In-House	Timber / Agriculture	Infrastructure	3 Month LIBOR Index +5.0% p.a.	2.0%
Total In-House			**Composite Weighted Index**	**22.0%**
Insight	LDI Portfolio	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19.0%
Total Liability Hedging			**Composite Liabilities & Synthetic Equity**	**19.0%**

Notes: 1 FTSE A Gilts All Stocks Index until 31 March 2014. 2 UK Retail Price Index +4.4% p.a. until 31 March 2015. 3 Strategic Allocation represents the composite benchmark for the Managed Account Platform. 4 Committed but uninvested element of the Private Credit strategic allocation is represented by 1 Month LIBOR Index +1.0% p.a. 5. IPD Quarterly Property Index sourced from Schroders has been used to calculate the performance between 31 March 2018 and 31 March 2019.

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday,12th June 2019
Report Subject	Funding, Flightpath and Risk Management Framework Update
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

Members should note that:

- On consistent actuarial assumptions, the estimated funding position at the end of April is 91% which is around 10% ahead of the expected position from the 2016 actuarial valuation. However, there still remains uncertainty regarding future inflation and investment return expectations, especially given the recent market volatility. The valuation assumptions are being reviewed as part of the 2019 valuation and further details are contained in a separate report on the 2019 valuation.

- The level of hedging remains at 20% for interest rate and 40% for inflation at 30 April 2019.

- No triggers have been breached since the interest rate triggers were re-structured in September 2017. Mercer recommended no change to the interest rate trigger levels as part of the flightpath healthcheck.

- The dynamic equity protection strategy was implemented on 24 May 2018. As at 30 April 2019, the strategy had made a gain of £13m or 3.5% since inception of the strategy. The Fund is protected from falls in equity markets of 21% or more from current levels. More detail is provided separately in the Mercer report in Appendix 1.

- The Officers, with the advice of and the combined teams at Mercer decided to implement a collateral waterfall structure to increase the efficiency of the collateral position within the Insight QIAIF in a low governance manner, but without impacting the overall risk management profile of the flightpath strategy. The collateral waterfall is now fully in place and introduces two new funds at Insight; the Global ABS Fund (c. £44m confirmed investment) and the Secured Finance II fund (c. £50m confirmed investment). It has also been decided that c. £30m will be released from the Insight QIAIF to be invested in infrastructure in due course.

- A currency hedging solution has been implemented on 8 March 2019 to protect the Fund against a strengthening pound which would have a

	detrimental impact on the Fund's deficit as overseas assets would be worth less. The Officers agreed that hedging the currency risk of the market value of the synthetic equity portfolio would provide the Fund with broadly the 50% strategic hedge ratio that we would recommend. The total market value at inception on 8 March 2019 was -£13.7m, which has risen to +£13m at 30 April 2019. Between inception and 30 April 2019 the currency hedging has detracted £0.1m from the gain in the synthetic equity portfolio, however we expect volatility from currency movements to be reduced going forwards which was the key reason for implementing the strategy.

RECOMMENDATIONS	
1	That the Committee note the updated funding position (on assumptions consistent with the 2016 valuation) and hedging position for the Fund and the progress being made on the various elements of the Risk Management Framework.
2	That the Committee note that Insight have implemented the collateral waterfall process previously agreed with the Officers and their advisors. It has also been agreed that c. £30m will be removed from the Insight QIAIF to be invested in infrastructure as directed in due course.
3	That the Committee note that any currency risk associated with the market value of the synthetic equity portfolio with the Flightpath strategy has now been hedged.

REPORT DETAILS

1.00	**FUNDING, FLIGHTPATH AND RISK MANAGEMENT STRUCTURE UPDATE**
1.01	***Update on funding and the flightpath framework*** The monthly summary report as at 30 April 2019 from Mercer on the funding position and an overview of the liability hedging mandate is attached in Appendix 1. It includes a "traffic light" of the key components of the Flightpath and hedging mandate with Insight. The report will be presented at the meeting including a reminder of the principle objectives of the framework.
1.02	The estimated funding level is 91% with a deficit of £191m at 30 April 2019 which is 10% ahead of the expected position when measured relative to the 2016 valuation expected funding plan Uncertainty continues to be prevalent in the investment environment due to ongoing external political and fiscal factors. To illustrate the impact, a reduction of 0.25% p.a. in the assumed future investment return/real discount rate would reduce the funding level by c. 4% to c. 87% with a corresponding increase in deficit of £90m to £281m. For the purposes of this report the funding position has been measured on consistent actuarial assumptions with the 2016 valuation. The actuarial assumptions are being reviewed as part of the 2019 valuation and the initial estimated results are set out in the separate report.

1.03	None of the interest rate triggers have been satisfied since they were re-structured in September 2017.
1.04	The level of hedging was around 20% for interest rates and 40% for inflation at 30 April 2019. The hedging implemented to date provides access to a lower risk investment strategy but maintaining a sufficiently high real yield expectation to achieve the funding targets.
1.05	Based on data from Insight, our analysis shows that the management of the Insight mandate is rated as "green" meaning it is operating in line within the tolerances set by our strategic risk advisors. The LIBOR Plus Fund is rated "amber" due to the temporary limit on future investments into the fund. This should not affect the operation of the mandate but it will be kept under watch. Going forwards this section will be reclassified as the Cash Plus Fund section to monitor the three funds that sit within the collateral waterfall framework: LIBOR Plus fund, Global ABS fund and the Secured Finance II fund. The collateral and counterparty position is rated "green"; collateral is within the agreed constraints and the Officers have taken action with their advisors to improve the efficiency of the collateral position (see section 1.07).
1.06	***Update on Risk Management framework*** (i) Dynamic equity protection implementation and progress It was previously approved by Committee that, subject to fair market pricing, protection against potential falls in the equity markets via the use of Equity Options should be implemented. This was to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall although it is recognised it will not protect the Fund in totality. It should be noted that, having an equity protection policy in place will protect from any large changes in equity markets which is currently prevalent given the significant rally of equity returns that we have seen over Q1 2019 following the sharp downturn seen in Q4 2018. Importantly over the longer-term the increased security allows the Actuary to include less prudence in the Actuarial Valuation assumptions; this would translate into lower deficit contributions at the 2019 valuation whilst maintaining equity exposure supports a lower cost of accrual than under traditional de-risking methods. As at 30 April 2019, the dynamic protection strategy had increased by c. £13m or 3.5% since inception of the strategy. Relative to investing in passive equities (and assuming no costs to do so), the strategy has underperformed by c. £10.7m or 3.6% since inception. It should be noted that the strategy did outperform passive equities by providing protection during the December equity market downturn; the subsequent equity market rally since the turn of the year, however, has meant that this protection is now less valuable and hence the underperformance. The strategy provides protection from equity market falls of 21% or more. If

	such a downside event occurred, then the protection structure should outperform passive equities. The protection will be monitored on an ongoing basis and the Committee papers have been updated as part of the reporting in Appendix 1.
1.07	(ii) Collateral position Due to the positive performance of the flightpath framework since its implementation, Mercer indicated that there was an opportunity to increase the efficiency of the collateral in the QIAIF by implementing a collateral waterfall process at Insight. The Officers, with the advice of the combined team at Mercer, completed implementation of this structure in Q1 2019. The waterfall introduces two new funds, namely the Global ABS Fund (confirmed £44m investment) and the Secured Finance II fund (confirmed £50m investment). Mercer calculated, and Insight have confirmed, the minimum level of collateral required whilst still supporting the current positions and maintaining the flightpath strategy to be £170m. This would still leave sufficient collateral in the event of market moves or in the event of any triggers being hit in line with the agreed guidelines. The waterfall at outset can be summarised as follows: • Tier 1: c. £215m in cash and gilts to support collateral requirements on a day to day basis • Tier 2: c. £100m of additional collateral that acts as a buffer invested high quality liquid funds (Global ABS fund and Libor Plus fund) • Tier 3: £50m of excess collateral that is invested in high quality but illiquid assets (Secured Finance II fund) Approximately £30m will be released from the QIAIF to be invested in infrastructure assets as directed in due course. The waterfall requires that Insight hold at least £170m in Tier 1 assets at any time and if the value falls below that amount, they have discretion to sell assets from Tier 2 to top this up. Tier 2 funds are daily traded and can act as a ready source of collateral as required whilst generating a higher expected yield in the meantime. The value of the Tier 1 assets as at 31 March 2019 is £262.2m. The Fund could withstand a combined 1.9% fall in inflation expectations and a 20% fall in the equity markets, or a 3% rise in interest rates and a 20% fall in equity markets before all collateral is extinguished. This approach is expected to generate an additional yield of £3m p.a. versus the previous structure whilst still providing adequate security that the collateral position is managed effectively. A collateral waterfall ensures that the Insight QIAIF provides the necessary collateral requirements but makes those assets work harder, increasing yield in a low governance manner. (iii) Implementation of currency hedging Currency risk is a major risk to the Fund and a strengthening pound would have a detrimental impact on the Fund's deficit as overseas assets would

	be worth less in sterling terms. Analysis shows that a 50% currency hedge ratio has historically led to the maximum reduction in volatility for sterling investors. The equity exposure is broadly split 50/50 between physical equities and the synthetic equity portfolio managed by Insight (with JP Morgan as counterparty). The nature of the synthetic equity portfolio means there are no physical underlying assets, therefore there is no currency risk on the notional exposure. However, the market value of the synthetic equity portfolio, which is c. 75% USD denominated and c. 25% EUR denominated, is exposed to currency risk as the excess returns need to be converted back to sterling. The Officers agreed that hedging the currency risk of the market value of the synthetic equity portfolio would provide the Fund with broadly the 50% strategic hedge ratio that we would recommend. This was implemented on 8 March 2019 in a practical and cost efficient manner, with the Fund paying slightly more in transaction costs (JP Morgan has estimated on average 3bps p.a. on the notional exposure), however there are no additional costs for implementation or management fees. Given the market value of the synthetic equity portfolio is relatively small at the moment, the currency hedge as only had a small impact to date. However, as the market value increases, the Fund is at greater risk of adverse currency movements negatively impacting the market value and this approach future-proofs the synthetic equity portfolio from a risk perspective. Between inception on 8 March 2019 and 30 April 2019 the currency hedging has detracted £0.1m from the gain in the synthetic equity portfolio, however we expect volatility from currency movements to be reduced going forwards which was the key reason for implementing the strategy.

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

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

4.00	**RISK MANAGEMENT**
4.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
4.02	The Flightpath Strategy manages/controls the interest rate and inflation rate impact on the liabilities of the Fund to give more stability of funding outcomes and employer contribution rates. The Equity option strategy will

	provide protection against market falls for the synthetic equity exposure via the Insight mandate only. The collateral waterfall framework is intended to increase the efficiency of the Fund's collateral, and generating additional yield in a low governance manner. Hedging the currency risk of the market value of the synthetic equity portfolio will protect the Fund against a strengthening pound which would be detrimental to the Fund's deficit.

5.00	**APPENDICES**
5.01	Appendix 1 - Monthly monitoring report – April 2019

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	Report to Pension Fund Committee – Flightpath Strategy Proposals – 8 November 2016, Report to Pension Fund Committee – 2016 Actuarial Valuation and Funding/Flightpath Update – 27 September 2016 and Report to Pension Fund Committee – Funding and Flightpath Update – 22 March 2016.
6.02	Report to Pension Fund Committee – Overview of risk management framework – Previous monthly reports and more detailed quarterly overview. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
7.01	(a) **The Fund – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region. (b) **Administering Authority or Scheme Manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **The Committee – Clwyd Pension Fund Committee -** the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund. (d) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (e) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (f) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by Pension Funds to provide advice on financial related

	matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (g) **ISS – Investment Strategy Statement** The main document that outlines our strategy in relation to the investment of assets in the Clwyd Pension Fund Further terms are defined in the Glossary in the report in Appendix 1

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HEALTH WEALTH CAREER

CLWYD PENSION FUND

RISK MANAGEMENT FRAMEWORK MONTHLY MONITORING REPORT 30 APRIL 2019

May 2019

Paul Middleman FIA

MAKE TOMORROW, TODAY MERCER

OVERRIDING OBJECTIVES

Stable and affordable contribution rate

versus

Achieve returns in excess of CPI required under funding arrangements

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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

Green	**Overall funding position** • Ahead of existing recovery plan • Funding level below the first soft trigger	In absolute terms the funding position is c.11% ahead of target. However there is continuing uncertainty in the outlook for future returns which could impact on the future funding requirements.
Green	**Liability hedging mandate** • Insight in compliance with investment guidelines • Outperformed the benchmark over the quarter and since inception • Hedge ratios marginally below target levels	No action required.
Green	**Synthetic equity mandate** • Insight in compliance with investment guidelines • Outperformed the benchmark over the quarter and since inception • Maturity constraints as expected	A new dynamic protection structure was implemented in Q2 2018. This is being monitored in terms of performance and protection levels.
Amber	**LIBOR Plus Fund** • Underperformed over the quarter but broadly in line since inception • Management team stable and no change in manager rating • Allocation of £56m remains appropriate	No action required. The temporary limit on future investments into the Fund at any weekly dealing point remains in place - to be kept under review.
Green	**Collateral and counterparty position** • Collateral within agreed constraints • The Insight QIF can sustain at least a 1.25% rise in interest rates and fall in inflation, in combination with a 35% fall in equity markets without eliminating all collateral	Collateral waterfall framework was implemented in Q1 2019. We will provide an update on this in future reports once data becomes available.

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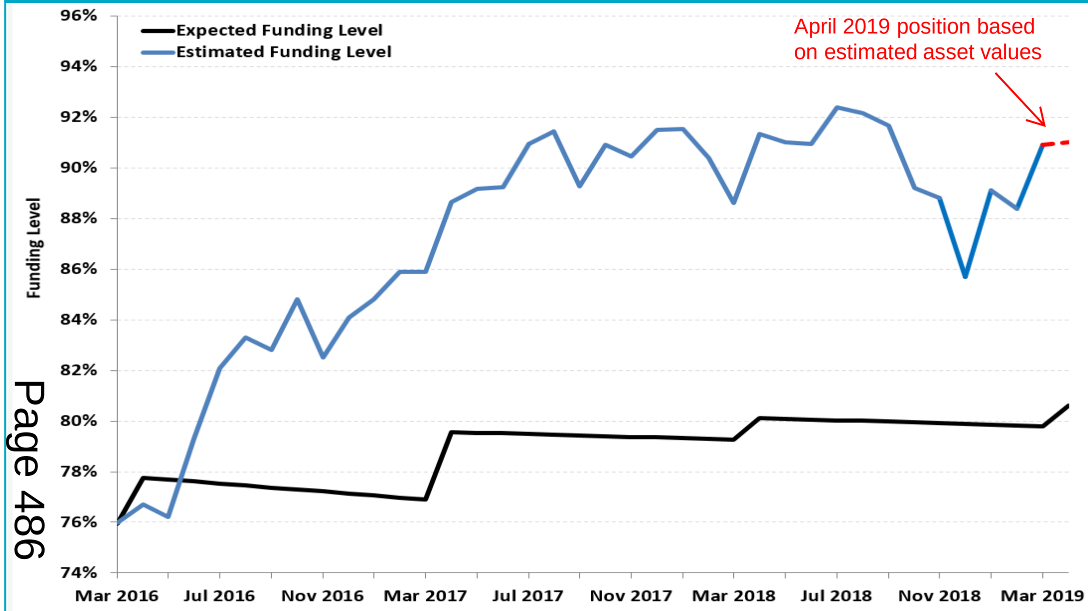
FUNDING LEVEL MONITORING TO 30 APRIL 2019

Estimated funding position since 31 March 2016



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The positions from April 2018 onwards have been adjusted to reflect the actual 2018 revaluation/pension increase awarded.

Funding Level Triggers

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

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

Comments

The **black line** shows a projection of the *expected* funding level from the 31 March 2016 valuation based on the assumptions (and contributions) outlined in the 2016 actuarial valuation. The *expected* funding level at 30 April 2019 was around 81%.

The **blue line** shows an estimate of the progression of the funding level from 31 March 2016 to 31 March 2019. The **red line** shows the progression of the estimated funding level over April 2019. At 30 April 2019, we estimate the funding level and deficit to be:

91% (£191m*)

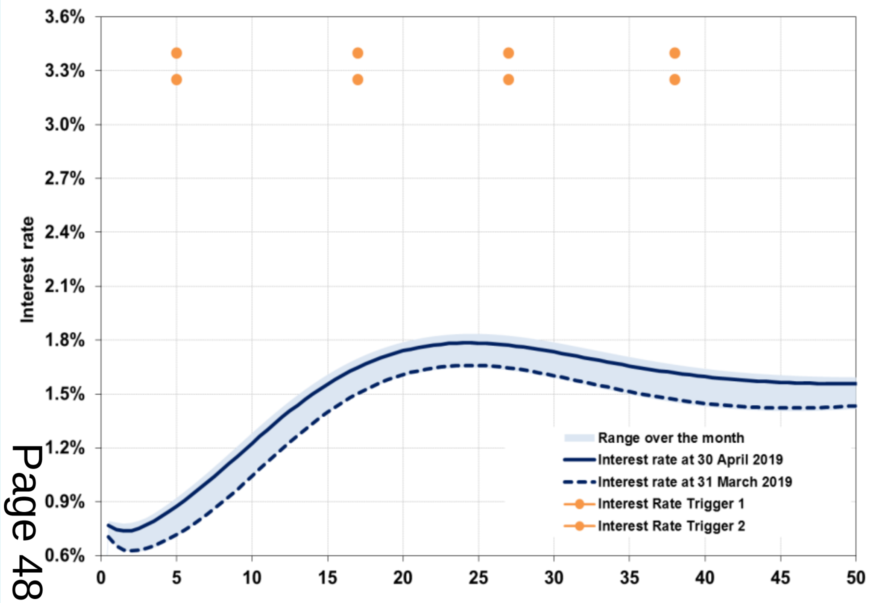
This shows that the Fund's position was ahead of the expected funding level at 30 April 2019 by around 10% on the current funding basis.

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.87% with a corresponding increase in deficit of £90m to £281m.

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 31 March 2019 to 30 April 2019. 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



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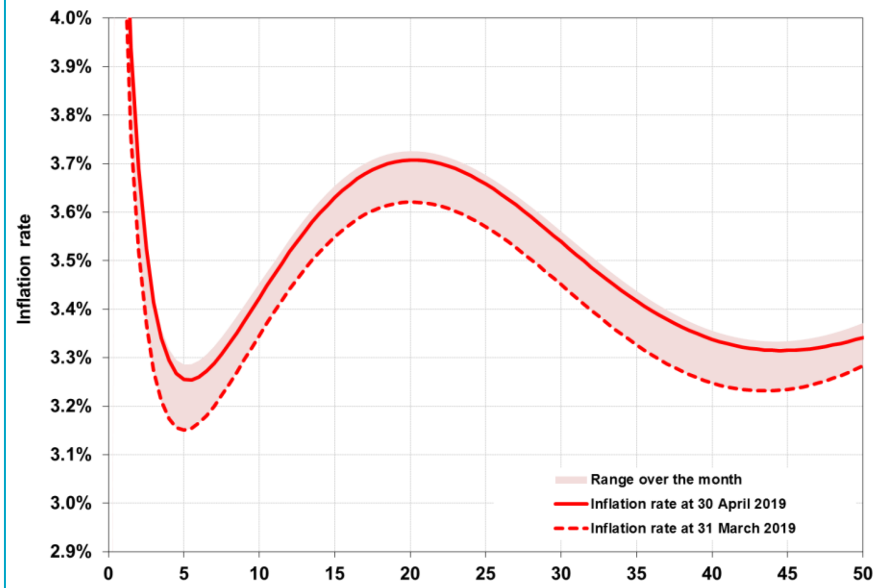
Date	Band 1	Band 2	Band 3	Band 4	Actual
31 December 2018	23.2%	19.4%	19.5%	20.8%	20.3%

Change in inflation rates (note: different scale)



Date	Band 1	Band 2	Band 3	Band 4	Actual
31 December 2018	38.6%	43.0%	36.3%	43.5%	40.7%

Comments

Interest rates rose across the curve over April 2019, with an average increase of 0.1% p.a. observed.

Based on market conditions as at 30 April 2019, yields would need to rise by c.1.5% p.a. before the Fund would hit any of the revised interest rate triggers implemented by Insight in Q3 2017.

Comments

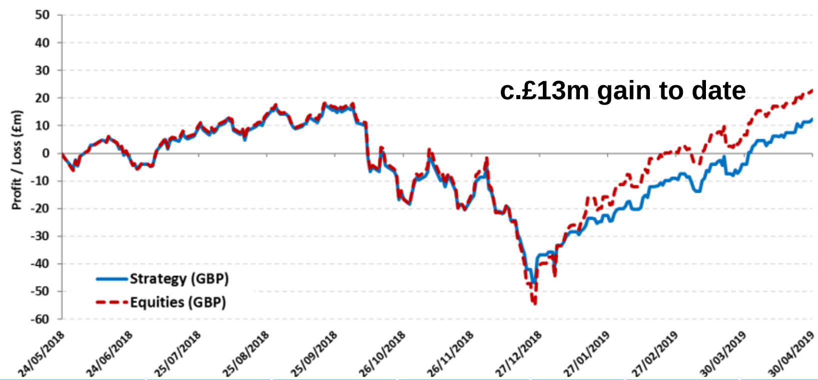
Inflation expectations rose at all durations over the month, with an average increase of 0.1% p.a. observed across the curve.

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 EQUITY PROTECTION MANDATE

Strategy versus equity index

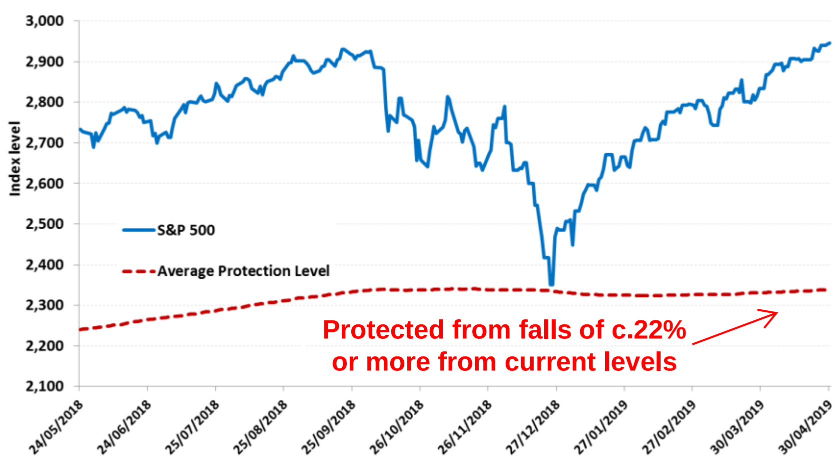


GBP returns	Equity return	Hedging return	Financing return	Costs	Overall return	Relative return
MTD	4.96%	(0.37%)	0.00%	(0.02%)	4.55%	(0.41%)
YTD	20.43%	(4.08%)	(1.46%)	(0.11%)	14.74%	(5.69%)
Since Inception	7.09%	(2.59%)	(0.63%)	(0.27%)	3.52%	(3.57%)

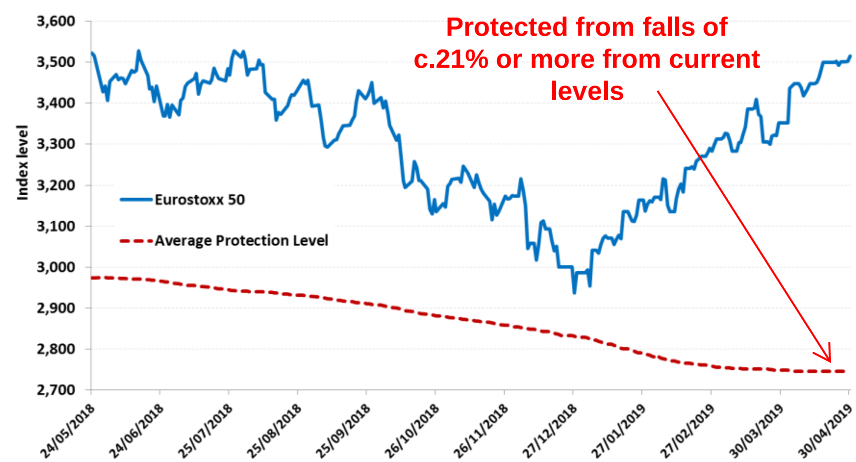
Comments

- The Fund implemented a dynamic equity protection strategy on 24 May 2018 with exposure of £362m. As at 30 April 2019, there was a gain incurred of c. £13m on the strategy since inception, relative to a c. £23m gain had the Fund invested in passive equities (with no frictional costs).
- Continuing positive equity returns meant that the strategy exhibited a negative hedging return over April as the protection has not been needed and expired worthless. This was the main driver of the underperformance versus equity markets.
- Further, due to the ongoing market rally since the turn of the year, the Fund has experienced losses on the financing return due to markets rising by more than the monthly cap, which has more than offset any premium collected since inception.
- The rise in equity markets over April means that the strategy is now c.21% from the protection levels at a combined level. If markets fall by this amount or more, the protection will “kick in”.

US equity exposure



European equity exposure



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.
- Dynamic protection strategy – Strategy to provide downside protection from falls in equity markets where the protection levels vary depending on evolution of the market.
- Equity option – A financial contract in which the Fund can define the return it receives for movements in equity values.
- 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 QIAIF (Insight Qualifying Investor Alternative Investment 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.

IMPORTANT NOTICES

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CLWYD PENSION FUND COMMITTEE

Date of Meeting	Wednesday, 12th June 2019
Report Subject	2019 Actuarial Valuation
Report Author	Clwyd Pension Fund Manager

EXECUTIVE SUMMARY

This is the first report of what is anticipated to be a series of regular reports for all future Committee meetings throughout 2019/20 until the conclusion of the actuarial valuation project. Future reports will be updated as progress is made and developments occur. The purpose of the report is to provide an update on the actuarial valuation project as at June 2019. The actuarial valuation project is critical to the good governance of the Clwyd Pension Fund (CPF).

The main progress so far on the project has been made in the following areas:

- Meetings have taken place to discuss the high level valuation indications with Fund officers (9th May) and the Unitary Authorities finance representatives (21st May).

- The Actuary has performed the demographic analysis calculations for the Fund. The Actuary has communicated the summary impact to Fund officers and employers as part of the meetings above. The estimated funding level based on a provisional set of revised assumptions was 91.1%. A summary of the initial estimated valuation outcome and associate issues is set out in Appendix 2.

- A consultation on "Changes to the Local Valuation Cycle and Management of Employer Risk" was published on 8th May 2019 with a close date for responses of 31 July 2019. This is primarily a consultation on moving the LGPS valuation cycle from 3 to 4 years from 2024 and introduces the ability for Administering Authorities to undertake interim valuations and/or employer contribution reviews mid-valuation cycle if certain conditions are met in the Funding Strategy Statement. This is a critical consultation for the Fund as the valuation is a critical part of the governance structure. A draft response to the consultation from the Fund is enclosed as Appendix 3 for approval.

The Committee will be kept updated regularly on the progress of the valuation at future meetings.

RECOMMENDATIONS	
1	It is recommended that all Committee members note this report, the progress being made with the actuarial valuation project and the planned meetings with employers.
2	That Committee members consider the draft response to the consultation and provide comments and required amendments. The Committee is asked to then delegate the finalisation of the response to officers.

REPORT DETAILS

1.00	2019 Actuarial Valuation Update
1.01	**Background** Legislation requires that every three years, an actuarial valuation is performed by the Fund Actuary in order to assess the overall funding position of the Fund, and to determine the employer contributions for the following three years. The actuarial valuation represents a major activity in managing the Clwyd Pension Fund and acts as a key governance tool to shape its direction. The effective date of the actuarial valuation is 31 March 2019, and the employer contributions that will be certified by the Fund Actuary are expected to be for the three-year period 2020/23 (or potentially a 5 year period depending on the outcome of the consultation). There are a number of national issues that will affect the 2019 actuarial valuation: • **The Cost Management Process** - The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions. As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension. The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to the McCloud case discussed below. • **McCloud/Sergeant** – These are age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other public sector schemes).

	It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board issued guidance which sets out how the McCloud case should be allowed for within the 2019 valuation. The potential impact of the judgement/cost management outcome will need to be quantified and communicated to employers to ensure that they are able to make provisions within their budgets accordingly. The Committee will be updated on the progress of the case throughout the valuation process. During previous valuations, the Clwyd Pension Fund Officers and the Clwyd Pension Fund Committee have conducted the process in an open and transparent way by working closely with key stakeholders at the Fund employers. This has worked well from all perspectives, and it is planned that the same partnership-orientated approach will be adopted for the 2019 valuation.
1.02	**<u>Process</u>** The valuation project can generally be split into three categories: • **Initial planning and strategy** for the Fund and employers - includes the review and update of the Funding Strategy Statement (FSS) in the light of discussions. • **Data provision and actuarial calculations**, including collection of the renewal data from the employers, quality testing and the actuarial calculations. • **Finalise results and formally certify contribution requirements** - includes the conclusion of the FSS consultation and its ratification by the Committee. The employers can consider their results and liaise with the Fund (including the actuary as required) to arrive at the final results within agreed parameters as documented in the FSS. Appendix 1 provides an overview of the project plan in relation to the 2019 actuarial valuation which now includes the known scheduled meeting dates for 2019/20 and also highlights the key milestones in the coming months with regard to data provision and the delivery of results.
1.03	**<u>Progress to date</u>** The Fund provided membership data to the Actuary in order to commence the demographic analysis exercise. This exercise determined the appropriate assumptions to adopt for the future e.g. the future life expectancy, expected ill health retirement rates, expected withdrawal rates from the Fund etc. The calculations have been completed and the final recommendations are currently being completed. During May 2019, the Actuary updated Fund officers and Councils on the indicative results for the whole Fund and Councils. A summary of these results and associated issues is set out in Appendix 2. This was based on market conditions at the valuation date (31 March 2019), initial return expectations and the initial results of the demographic analysis. Full analysis and proposals on the actuarial assumptions is being completed by

	the Actuary over the next few months. In addition, data is being gathered to analyse the covenant (including contribution affordability) of all employers. This will inform the outcome of the valuation at employer level. The estimated funding level based on a provisional set of revised assumptions was 91.1%. A summary of the initial estimated valuation outcome and associate issues is set out in Appendix 2. The next stage of the actuarial valuation process will see the Actuary and Fund officers commence discussions regarding the updates required for the Funding Strategy Statement. The consultation with employers is expected to commence during September/October 2019. As part of the consultation on the FSS the Fund will continue dialogue with all employers over the coming months. We expect that the membership data required for the actuarial valuation calculations will be provided to the Actuary during early July. The formal calculations will commence at that point with employer results expected during September 2019. The PFC is asked to note the contents of the 2019 actuarial valuation Project Plan, the outline above of the discussions that have taken place over 2019 and the estimated position at 31 March 2019 based on the provisional set of actuarial assumptions.

2.00	**Changes to the Local Valuation Cycle and the Management of Employer Risk**
2.01	On 8 May the MHCLG announced a consultation under the title "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk". The full document can be found here. It is a series of 19 questions which each require a response. The key proposals in the consultation are as follows: • to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one with effect from 2024. The MHCLG's preferred option for transitioning into this is to allow the 2019 valuation to complete as anticipated (with an output of three years' contribution requirements), and then have an out-of-cycle valuation performed in 2022 (with an output of two years' contribution requirements). • the introduction of a power for LGPS funds to undertake interim valuations (in full or in part). • the widening of the power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations. • the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant. • allowing an exit payment calculated on a full "buy-out" basis to be recovered over a period of time for cases where 'deferred employer'

	status might not be appropriate. • a review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an employer. • a removal of the requirement for further education corporations, sixth form college corporations and higher education corporations (in England **only**) to offer membership of the LGPS to their non-teaching staff for new entrants
2.02	The actuarial valuation and management of employer risk is a key governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements. It is therefore critical that the Fund and employers respond to the consultation to ensure that the outcome is fit for purpose and provides us with the ability to manage cost and risk effectively in the short and long term. The implementation of the outcome of the consultation will need to be done as part of the 2019 valuation as the Fund will need to amend existing policies and implement new polices as a consequence. These will be documented in the Funding Strategy Statement.
2.03	In conjunction with the Fund Actuary a response to the consultation has been drafted for approval by the Committee. The Committee is requested to provide comments and amendments required so officers can update the response and submit this by the consultation end date.

3.00	**RESOURCE IMPLICATIONS**
3.01	None directly as a result of this report. Significant resource requirements will be required from the administration and investment teams to complete the process.

4.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
4.01	The Fund is required to consult with employing bodies over the development of the FSS and overall framework of the actuarial valuation. Data is also required to be supplied to the GAD to complete their Section 13 actuarial valuation requirements for all LGPS valuations.

5.00	**RISK MANAGEMENT**
5.01	This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part): • Governance risk: G2 • Funding and Investment risks: F1 - F6
5.02	The actuarial valuation is a key Governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements. The funding strategy (along with the investment strategy) which comes from the actuarial valuation is a key determinant of the overall financial risk levels in the CPF.

5.03	The recent market volatility has increased the relative risk levels in relation to the Fund's solvency position and the required contribution rates from 1 April 2020.

6.00	**APPENDICES**
6.01	Appendix 1 – Actuarial Valuation Project Plan Appendix 2 – Short paper on the indicative valuation results Appendix 3 – Draft Response to the consultation on the "Changes to the Local Valuation Cycle and the Management of Employer Risk"

7.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
7.01	Current FSS and 2016 Actuarial Valuation report. **Contact Officer:** Philip Latham, Clwyd Pension Fund Manager **Telephone:** 01352 702264 **E-mail:** philip.latham@flintshire.gov.uk

7.00	**GLOSSARY OF TERMS**
8.01	(a) **CPF – Clwyd Pension Fund** – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region (b) **Administering authority or scheme manager** – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund. (c) **PFC – Clwyd Pension Fund Committee** - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund (d) **LPB or PB – Local Pension Board or Pension Board** – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund. (e) **LGPS – Local Government Pension Scheme** – the national scheme, which Clwyd Pension Fund is part of (f) **FSS – Funding Strategy Statement** – the main document that outlines how we will manage employers contributions to the Fund (g) **Actuarial Valuation** - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good

	any existing shortfalls as set out in the separate Funding Strategy Statement. (h) **Actuary -** A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise. (i) **GAD – Government Actuary's Department -** The Government Actuary's Department is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

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			2019												2020			
	2019 VALUATION TIMETABLE	Owner	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Comments and Actions
	COMMITTEE MEETING DATES			20th	20th			12th			4th		28th			11th	18th	
	OTHER MEETING DATES (INCLUDING AJCM)						9th				16th/26th		12th		10th			
	ADVISORY PANEL MEETING DATES		15th	20th			16th			6th		31st			9th			
	STEERING GROUP MEETINGS		31st				21st					1st						
	VALUATION PROCESSING																	
1	Demographic analysis	NG / PM																Data and scope provided
2	Consideration of data requirements by employers	NG / DF																
3	Provision of preliminary valuation data to Actuary:																	
(a)	- Employer cashflows (Schedule 1)	DF																
(b)	- Reconciliation of employers in Fund - update employer information spreadsheet as at March 2019 (Schedule 2)	SB / KW																
(c)	- Employer reorganisations (Schedule 3 if applicable)	SB / KW																
(d)	- Financial information including investment returns and ISS	DF																
(e)	- Other miscellaneous data requested	SB / KW																
4	Indicative results provided based on preliminary data only	NG / PM																
5	Provision of full data covering all individual members and employers to the Fund Actuary	KW / RJ																Data expected to be provided by 30 June 2019
6	Provision of 2019 Data Quality Report	NG / PM																
7	Processing the whole Fund calculations and provide results and sensitivities	NG / PM																
8	Processing major employer calculations and provide results	NG / PM																
9	Processing the other individual employer calculations and provide results	NG / PM																Delivery method to employers to be agreed
10	Submission of standardised results information to the SAB, data to GAD and KPI info to National Board	NG / PM																Awaiting confirmation of timescales from GAD
11	Final sign off of results on the basis of the final approved FSS	PM																
12	Provision of formal report and actuarial certificates	PM																
	FUNDING STRATEGY REVIEW & COVENANT																	
13	Covenant assessment work	TB / DF / NG																Send data requests Q1/2 2019
14	Preliminary discussions with officers regarding assumptions, including results of demographic analysis	All					9th											
15	Discussions with officers regarding indicative approximate results	All					9th											
16	Meetings with required employers regarding indicative results	All					21st											
17	Draft the Funding Strategy Statement	All																
18	Formal review and update of the FSS by Committee at meeting	PL / PM									4th							Draft of FSS agreed by Pension Fund Committee at the September 2019 meeting
19	FSS consultation with other interested parties	PL / PM											consultation					Taking into account outcomes of preliminary discussions
20	Review of responses to FSS consultation and formal ratification of FSS by Pension Fund Committee	PL / PM														11th		Finalise FSS at the February 2020 Pension Fund Committee meeting
	COMMUNICATIONS, TRAINING AND OTHER																	
21	Plan management of results:																	
(a)	- Planning meeting	PL / PM			21st													
(b)	- PFaroe training	PL / PM																
(c)	- Discussions regarding the database and draft letters for distributing results	DF / NG																
(d)	- Assistance with employer results	DF / NG																
22	Consideration of the current equity protection structure	All																
23	Consider updates to the Flightpath strategy and LDI framework	All																
24	Valuation / FSS training for Pensions Committee / Local Board	PL / PM																Fund to confirm date
25	Major employer results / discussions with FDs regarding the outcomes, affordability and likely impact on budgets	All																
26	Final individual employer results and contribution requirements for all remaining employers	NG / PM																
27	Fund disseminate results	DF / NG																
28	AJCM to discuss the valuation results	PL / PM											12th					
29	Presentation of whole Fund results to the Pensions Committee	PL / PM									4th		28th					
30	Instruct employers for rates	DF / PL																
31	Identify employers prepaying lump sums	DF / PL																

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CLWYD PENSION FUND 2019 ACTUARIAL VALUATION

ESTIMATED WHOLE FUND RESULTS

MAY 2019

CURRENT NATIONAL ISSUES
KEY CONSIDERATIONS

Initial outcomes from the **cost management process** indicated benefit improvements and/or member contribution reductions were needed, but then the process was paused due to……

The **McCloud discrimination case** which relates to the protections provided to members close to retirement. The Court of Appeal found that these protections were unlawful on the grounds of age discrimination for the judges/firefighters. The impact of this judgement is currently unknown.

Exit Credits - Impacts on the Fund's admission / termination policies and also potentially on funding strategy in some cases

Other Legislative changes – GMP Equalisation, Fair Deal, 4 year valuation cycle, Deferred Debt Arrangements, change of status for HE/FE employers and many more!

Public sector **pay cap** removed and an increased focus on **data quality**

WHERE ARE WE NOW?
DEMOGRAPHIC ASSUMPTIONS UPDATE

Analysis	Effect on Deficit (Whole Fund)	Effect on Future Service Rate (Whole Fund)	Comment in relation to Fund
Life Expectancy			Analysis indicates reductions from last time. Build in some prudence for rates to reverse?
Ill-Health Retirement			General increase in numbers observed across LGPS. CPF at the higher end of observed trend. Change assumption?
Withdrawal			No material change so maintain assumption
Retirement Rates (pre 14 benefits)			General trend for members to retire slightly earlier based on data. Allow for?
Commutation			Slight trend upwards in terms of commutation. Possibly increase average assumption. Minor impact.
Proportions Married / Dependants			No material change so maintain assumption.

WHERE ARE WE NOW?
ESTIMATED RESULTS & SENSITIVITIES – CURRENT BENEFITS

		31 March 2019	
	2016 valuation	Updated Return Outlook Updated Mortality Minimum 2% Short Term Pay (A)	"A" with 0.25% Reduction in Past and Future Service Discount Rates (B)
Assets	*£1,381m*	£1,863m	£1,863m
Liabilities	*£1,818m*	£2,045m	£2,135m
Surplus / Deficit	*-£437m*	-£182m	-£272m
Funding Level	*76.0%*	91.1%	87.2%
Future Service Rate (% of pay)	*15.3%*	17.7%	19.1%
Deficit Recovery period	*15 years*	12 years	12 years

Real Discount Rate (Past)	*2.00% p.a.*	1.75% p.a.	1.50% p.a.
Real Discount Rate (Future)	*2.75% p.a.*	2.25% p.a.	2.00% p.a.
Short Term Pay	*2016 Valuation (2 years remaining)*	2016 Valuation with 2% minimum p.a. for 2 years	2016 Valuation with 2% minimum p.a. for 2 years
Life Expectancy Assumptions	*CMI 2015 1.75% (males) 1.5% (females)*	CMI 2018 1.75% (males) 1.75% (females)	CMI 2018 1.75% (males) 1.75% (females)

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WHERE ARE WE HEADING?
WHAT WE CURRENTLY KNOW…

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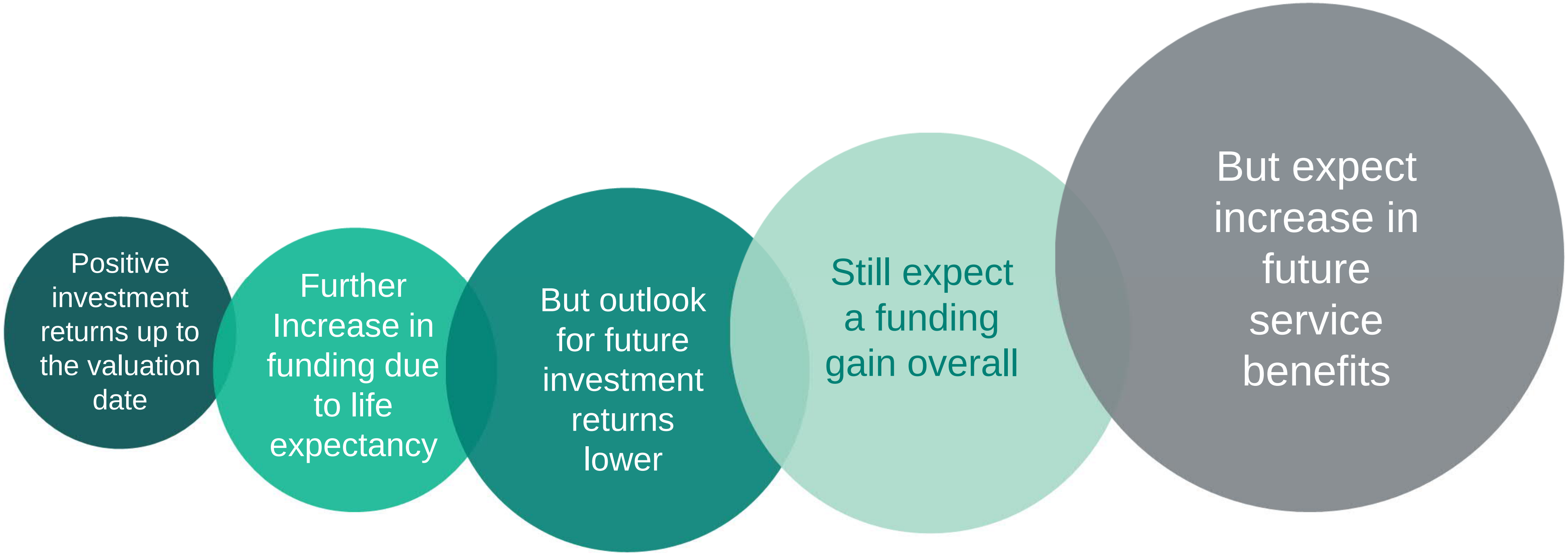

WHERE ARE WE HEADING?
WHAT WE NEED TO PLAN FOR…

Initial assumptions, McCloud/cost cap outcomes

4 year valuations & interim reviews & trigger framework

How covenant and affordability will change and how we react

Ongoing improvements in data quality

FSS/ISS NEEDS TO CAPTURE HOW WE DEAL WITH THIS…

APPENDIX

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FUND MEMBERSHIP
MEMBERSHIP ANALYSIS

	31 MARCH 2016	31 MARCH 2018
ACTIVE MEMBERS		
Number	16,199	16,309
Total Pensionable Salaries (£000s p.a.)	224,423	216,597
Average Pensionable Salary (£ p.a.)	13,854	13,281
Average age (weighted by pension)	49.7	50.3
DEFERRED PENSIONERS (INCLUDING UNDECIDEDS)		
Number	14,030	17,979
Total deferred pensions revalued to valuation date (£000s p.a.)	14,940	21,498
Average deferred pension (£ p.a.)	1,065	1,196
Average age (weighted by pension)	48.3	48.7
CURRENT PENSIONERS AND DEPENDANTS		
Number	11,464	11,038
Total pensions payable (£000s p.a.)	53,762	58,772
Average Pension	4,690	5,325
Average age (weighted by pension)	70.3	70.9

NOMINAL FINANCIAL ASSUMPTIONS

Market yields	31 March 2016	31 March 2018	31 March 2019
Fixed interest gilt yield	2.20% p.a.	1.60% p.a.	1.50% p.a.
Index-linked gilt yield	-1.00% p.a.	-1.70% p.a.	-1.90% p.a.
Assumed CPI price inflation (derived by differencing yields on fixed-interest and index-linked gilts less 1% p.a.)	2.20% p.a.	2.30% p.a.	2.40% p.a.
Assumptions used for Liabilities			
Derivation of Discount Rate/Expected Return	CPI plus 2.00% p.a. (past) CPI plus 2.75% p.a. (future)	CPI plus 1.80% p.a. (past) CPI plus 2.25% p.a. (future)	CPI plus 1.75% p.a. (past) CPI plus 2.25% p.a. (future)
Discount rate:	4.20% p.a. (past) 4.95% p.a. (future)	4.10% p.a. (past) 4.55% p.a. (future)	4.15% p.a. (past) 4.65% p.a. (future)
Inflation: Consumer Prices Index (CPI)	2.20% p.a.	2.30% p.a.	2.40% p.a.
Long term pay growth assumption	3.45% p.a.	3.55% p.a.	3.65% p.a.
Pension increases	2.20% p.a.	2.30% p.a.	2.40% p.a.
Short term pay growth assumption (for two years to 31 March 2020)	1% per annum	2% per annum	2% per annum
Fund investment return	A total return of c33% over the period from 1 April 2016 to 31 March 2019.		

ACTUARIAL ADVICE

- We have prepared this document for the Administering Authority for the purpose of updating the funding position of the Fund
- “Technical Actuarial Standard 100: Principles for Technical Actuarial Work” issued by the Financial Reporting Council applies to this presentation and the associated work, and we confirm compliance with this standard. This presentation should be read in conjunction with our report on the actuarial valuation of the Fund as at 31 March 2016.
- Unless otherwise stated, we have relied on the information and data supplied to us in preparing the information, without independent verification. We will not be responsible for any inaccuracy in the advice that is a result of any incorrect information provided to us.
- Mercer does not accept any liability or responsibility to any third party in respect of this report.
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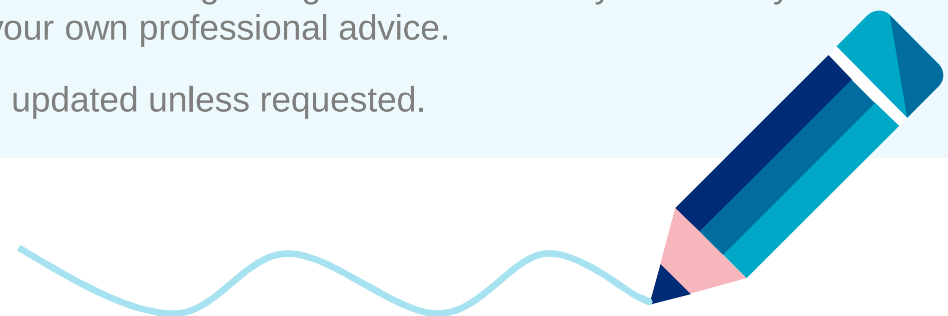
- This presentation is correct as at May 2019. It will not be updated unless requested.



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MAKE TOMORROW, TODAY

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CLWYD PENSION FUND

CONSULTATION - CHANGES TO THE LOCAL VALUATION CYCLE AND THE MANAGEMENT OF EMPLOYER RISK

This response is from Flintshire County Council as Administering Authority of the Clwyd Pension Fund. Our response has been agreed by the Pension Fund Committee on 12th June 2019 after taking professional advice from our Actuary (Mercer Ltd).

We set out below our response to each of the questions posed in the consultation document issued on 8 May.

A summary of the proposals is follows:

- to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one with effect from 2024. The MHCLG's preferred option for transitioning into this is to allow the 2019 valuation to complete as anticipated (with an output of three years' contribution requirements), and then have an out-of-cycle valuation performed in 2022 (with an output of two years' contribution requirements).
- the introduction of a power for LGPS funds to undertake interim valuations (in full or in part).
- the widening of the power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations.
- the introduction of a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant.
- allowing an exit payment calculated on a full buy-out basis to be recovered over a period of time for cases where 'deferred employer' status might not be appropriate.
- a review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an employer.
- a removal of the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff for new entrants. There are no changes for further education corporations and higher education corporations in Wales (and, by implication sixth form colleges in Wales, although there are very few of these in practice).

For the most part, these seem to us sensible proposals although there are some aspects which are Government policy which is outside the remit of the role of the Administering Authority. When taken in isolation we do not agree with moving the local valuations on to a four year cycle, as we believe it is a weakening of the ability of the Administering Authority to govern the Fund and manage risk effectively. Equally, we believe employers (including public sector bodies) are demanding a more dynamic approach to managing risk and cost effectively on their behalf and extending out the valuation period does not help us achieve this. However, when coupled with the additional flexibility around additional valuations and reviewing employer contribution rates, we feel it is an overall approach which is acceptable as long as the ability to review contributions is not overly constrained and we can formulate a policy which suits the objectives of our Fund which is to manage cost and risk dynamically as we have been doing for many years through our Flightpath strategy which manages funding, investment and covenant risk. Therefore, it is critical that the guidance expected is flexible enough for us to achieve these objectives.

We have followed the format of the consultation document in our response.

CHANGES TO THE LOCAL FUND VALUATION CYCLE

Q1	RESPONSE
As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?	Being a funded scheme, we do not believe it is appropriate for funding and risk management policies for the LGPS to be set by reference to what happens in the unfunded schemes. Our preference would be to retain the existing three year cycle, as we feel this is an appropriate period over which to set the contribution rates for employers and manage the resultant risks, before reviewing them again at the next actuarial valuation. Equally, we believe employers (including public sector bodies) are demanding a more dynamic approach to managing risk and cost effectively on their behalf and extending out the valuation period does not help us achieve this. In our view, four years is too long a period for both the Fund and employers to manage cost and risk effectively. However, when combined with the other measures in this consultation around interim valuations and reviewing employer contributions in between formal actuarial valuations the proposal is in our view acceptable overall as long as the ability for us to do this is not overly constrained (further comments are made in response to later questions).

Q2	RESPONSE
Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?	The accounting standards IAS19 and FRS102 normally require figures to be based on actuarial valuations carried out at least triennially, and as a result auditors would require the accounting liabilities to be assessed more accurately as a result . Further, as a result of pressure from the FRC auditors are becoming more prescriptive about the approaches they will accept, and this also adds some weight to valuation cycles not being extended. Even if CIPFA were to relax their own requirements it is unlikely that any such relaxation could be extended to employers other than councils/authorities as CIPFA does not have jurisdiction for such employers. There is therefore a risk that, in effect, auditors will require interim valuations perhaps every two years after the formal one so we could end up by default in a situation where biennial valuations (albeit more limited in scope) are required. This would go some way to offset any marginal savings from extending out the valuation cycle. The move to a 4 year cycle for the statutory valuation will by nature mean that governance is weakened unless a LGPS Fund's policy in relation to interim valuations and/or review of employer contribution rates is robust and fit for purpose. It is therefore critical that the guidance encourages the adoption of robust policies for all Funds to improve the governance for the LGPS generally and is fair to employers in relation to managing risk on their behalf.

Q3	RESPONSE
Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?	We do not see any reason why this is necessary and do not subscribe to the view that it allows the quality of the data provided to the GAD to be better improved as the majority of LGPS Funds have improvement plans over much shorter timescales. We appreciate that the cost management process may cause changes in benefits or member contributions outside the actuarial valuation cycle, but this is something which Funds have to contend with in any event (e.g. changes due to GMP equality issues, changes in State Pension Ages and court/tribunal cases such as McCloud can all give rise to changes in benefits or member contributions outside of a normal actuarial valuation). A simpler solution in our view would have been to retain the three year cycle and

	introduce the ability to review contribution rates for any changes from the cost management process (or other changes).

TRANSITION TO A NEW LGPS VALUATION CYCLE

Q4	RESPONSE
Do you agree with our preferred approach to transition to a new LGPS valuation cycle?	If it is decided that four year cycles will be introduced from 2024 then we agree with the preferred approach to transitioning by doing a valuation at 2022 and then 2024. Indeed, if the outcome was to not do this and have a five year gap between valuations we would intend to perform a full interim review valuation in any event as we would need to do this to fit in with our existing flightpath strategy to manage risk and cost effectively,

ABILITY TO CONDUCT AN INTERIM VALUATION OF LOCAL FUNDS

Q5	RESPONSE
Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?	Yes, irrespective of the 4 year cycle change, we feel it is essential to Funds' governance and procedures that there should be a mechanism for reassessing employer funding positions and contribution outcomes when the circumstances warrant it. The Fund is managing a complex set of risks and the level of employer contributions is a key component of the effective management in conjunction with the employers. We think it is essential that Funds are given the flexibility to do this when the circumstances warrant it. We do not believe however that the only option for reviewing the statutory employer contributions would be through a full interim valuation.

Q6	RESPONSE
Do you agree with the safeguards proposed?	We do agree that there should be some safeguards but care needs to be taken on how these are applied consistently. At a high level the facility needs to be sufficiently flexible that it can be called on in the event that there is a significant change in financial markets or Scheme benefits, to the extent that an interim valuation/funding update is merited, yet there need to be safeguards on the governance of the arrangements. For example, it would be wrong to perform an interim valuation to ease employer budgets when the outcome is expected to be favourable but never when the outcome is less favourable. The safeguards proposed are that the valuation/update should only be permitted in the circumstances set out in the Funding Strategy Statement, (FSS) but with some additional flexibility in the event of exceptional circumstances. In our view, this is correct but the guidance needs to ensure its clear that Funds need to be robust in determining the criteria in conjunction with their Actuary. This will need to documented in the FSS at the 2019 valuation if the proposal in the consultation proceeds so timing of any guidance needs to be formatted before the FSS is finalised to avoid having to update the FSS soon after the valuation is signed off.

REVIEW OF EMPLOYER CONTRIBUTIONS

Q7	RESPONSE
Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?	We strongly support the principle of allowing more frequent reviews of employer contribution rates. Again, at a high level the facility needs to be sufficiently flexible that it can be called on in the event that there is a significant change in financial markets, Scheme benefits or employer circumstances e.g. change in covenant, to the extent that a review is is merited. In line with the proposed approach for interim valuations we believe that the Funding Strategy Statement should set out the circumstances in which a review of employer contributions can or should be carried out. These circumstances might be wider than as outlined in the consultation document, which focuses strongly on changes in employer covenant, and we would suggest that other areas that materially affect the cost (for the employer) and risk (to the Fund) should be

	included. This can be such aspects as a significant change in market outlook, changes in Scheme benefits and change in affordability of contributions which could be to the detriment of the viability of an organisation. In practice, the distinction between an interim valuation and a review of employer contributions across the entire employer types is very small although the triggers for a review will vary between employer depending on circumstances. A simpler route would be to allow the more general power of reviewing contributions to apply to any employer or group of employers. The criteria for doing this would be set out in the FSS in line with the relevant guidance. We feel this would achieve the desired objectives in the consultation as well as being simpler to implement from a regulatory and guidance viewpoint as you would cover all aspects. With regards to costs the proposals in the consultation seem to us to strike an appropriate balance.

GUIDANCE ON SETTING A POLICY

Q8	RESPONSE
Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?	Our preference would be for Funds to have the flexibility to set the parameters for carrying out interim valuations and/or employer contribution reviews within their Funding Strategy Statements, which would lead to an open and transparent approach. However, SAB guidance would be helpful to provide consistency of treatment as well as ensuring all Funds do apply a common level of governance in managing the overall financial risks. We would therefore be happy to have SAB guidance in the areas suggested in the consultation. However we would have a very strong preference for this to be principle based and not prescriptive to allow us to apply to our own specific circumstances.

Q9	RESPONSE
Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?	There are no additional areas that need covering on the basis that the guidance is principle based and these principles would form the basis for each Fund agreeing the parameters to trigger and interim valuation and/or an employer contribution rate review. We would strongly prefer that any such guidance should take the form of being enabling, and avoid being overly prescriptive/restrictive. It would seem that the SAB would be best placed to provide this guidance given its overarching governance role for the LGPS. We would also recommend that our Actuary (Mercer) has significant input into the formation of the guidance so it is comprehensive and practical to implement.

FLEXIBILITY ON EXIT PAYMENTS

Q10	RESPONSE
Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?	First of all, it is important to bear in mind that no Fund calculates exit payments on a "full buy-out basis" as far as we are aware which is a term used where a scheme insures the benefits with an third party insurance company. To avoid confusion going forward in any guidance or explanatory literature we would recommend that this terminology is dropped and replaced by "termination basis" given Funds do not all use the same approach. The approach depends on the policy adopted by the individual Fund and in some cases the investment strategy backing the exit liabilities.. In relation to the specific question on flexibilities we agree that flexibility is very important as circumstances are very varied, although we would note that there are already flexibilities for the spreading of exit payments and adjustment of contributions in the run-up to exit. These are covered in Regulation 64(4) and the definition of "exit payment" within Regulation 64, so we do not think there any is necessity for further material regulation change in this particular area except to allow a review of the exit payments over the spread period to reflect any change in circumstances e.g. market conditions or employer circumstances.

	We do not believe any other protections are required as the critical aspect is the ongoing assessment of the covenant to ensure the exit payments are recovered.

DEFERRED EMPLOYER STATUS AND DEFERRED EMPLOYER DEBT ARRANGEMENTS

Q11	RESPONSE
Do you agree with the introduction of deferred employer status into LGPS?	Yes as this will allow us to better manage our employer risk and therefore risk to taxpayers in conjunction with the employer. Provided that the administering authority is given sufficient flexibility to be able to manage such provisions and these are documented in the Fund policies we believe this will be an extremely valuable addition to the Regulations which will help both Funds and employers.

Q12	RESPONSE
Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?	In general, yes we agree with the proposed approach. However, there appears to be an over emphasis on employer covenant, and whilst important it is not the only factor that should determine the approach to deferred debt arrangements – for example also adopting a lower risk investment strategy would assist in the overall management of risk in a deferred debt arrangement. We would prefer Funds to be allowed to set their own policies and guidance around this could easily be included in the guidance on the arrangements). One particular aspect of the current arrangements is that employers will sometimes retain a single active member under an admission agreement in order to avoid triggering an immediate exit payment. A properly implemented deferred debt arrangement could avoid this artificial approach and assist Funds and employers in properly managing the risks around exit.

PROPOSED APPROACH TO IMPLEMENTATION OF DEFERRED EMPLOYER DEBT ARRANGEMENTS

Q13	RESPONSE
Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?	We agree that the Regulations should be "enabling" in nature only, and not prescriptive or restrictive. We agree that statutory guidance will be helpful in some cases in ensuring that Funds are able to take a sufficiently robust approach with employers as long as this is on a principles basis. The more detailed operational aspects should be covered off in each Fund's policies in line with these principles.

SUMMARY OF OPTIONS FOR MANAGEMENT OF EMPLOYER EXITS

Q14	RESPONSE
Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?	Yes, we agree that these options should exist as alternatives. However, as highlighted above we believe that administering authorities should be able to determine the circumstances in which option 3 may apply and covenant (including ongoing review) is critical to this. We also believe that under option 2 the repayment schedule can be periodically reviewed (as opposed to being fixed) if circumstances warrant it e.g. a significant change in market conditions and/or affordability of the repayments.

Q15	RESPONSE
Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?	As covered in our response to question 13, we believe that statutory guidance will be helpful in some cases in ensuring that Funds are able to take a sufficiently robust approach with employers on the basis that this is a principle based approach only. More detailed operational aspects can be covered off by Fund policies.

EXIT CREDITS UNDER THE LGPS REGULATIONS 2013

Q16	RESPONSE
Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?	Yes we are in absolute agreement as this is fair in the context of the overall responsibility of cost and risk between the exiting employer and the scheme employer. However, we believe that there should be a regulatory provision for the Scheme employer to ensure the information on these risk sharing arrangements is supplied to the Administering Authority so the correct treatment can be applied in a timely manner. This will avoid any conflict between the scheme employer and fund over the inadvertent incorrect application due to lack of provision of the information.

Q17	RESPONSE
Are there other factors that should be taken into account in considering a solution?	No other factors come to mind.

FURTHER EDUCATION CORPORATIONS, SIXTH FORM COLLEGE CORPORATIONS AND HIGHER EDUCATION CORPORATIONS

Q18	RESPONSE
Do you agree with our proposed approach?	Given that there are no material changes in relation to Wales, this is not an area in which we have a particularly strong view at the current time. We note that the consultation is silent on the issue of sixth form colleges in Wales (we therefore presume there are no changes proposed for them), but again we do not have a particular view as this does not affect our Fund. However, we would make some general comments in the interests of developing the policy for the LGPS as a whole in England. We regard the determination of the employers which are required to offer LGPS membership as being a policy area for Government (and each individual employer), and in particular those areas of Government which provide funding to those specific employers. The effect will vary from Fund to Fund but it will need to be noted that this proposal (if enacted), if

	employers decide to adopt this approach, will lead to a gradual maturing of those employers' LGPS liabilities. This will generally increase contribution rates initially for these employers due to the closed nature of the membership. Equally the cash flows for these employers and the Fund will be affected over time and the impact will depend on the relative size of these employers in a particular Fund. A Fund will need to ensure that their existing employer risk management policies are sufficiently robust to deal with this change. We believe that if the existing and new policies that could be implemented as part of this consultation are introduced then this would sufficiently allow for this issue to be managed effectively.

PUBLIC SECTOR EQUALITY DUTY

Q19	RESPONSE
Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?	No equality issues occur to us in the context of our operation of the Fund. The change in the status of the education employers as per Q18 would create inequality at an employer level but that is a matter for the employers not our Fund.

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