

Cronfa Bensiynau Clwyd
Clwyd Pension Fund



FLINTSHIRE COUNTY COUNCIL

CLWYD PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

EXECUTIVE SUMMARY

July 2014

STATEMENT OF INVESTMENT PRINCIPLES

EXECUTIVE SUMMARY

1. The Clwyd Pension Fund adopted as best practice from April 1997 the production, publication and regular review of a Statement of Investment Principles (SIP). The Fund continued this practice in response to the Local Government Pension Scheme (Management and Investment)(Amendment) Regulations 1999, which required the formal publication of a SIP. This SIP now complies with Local Government Pension Scheme (Management and Investment)(Amendment) Regulations 2009, including a statement on compliance with the Myner's Principles, the Stewardship Code and a Sustainability Policy.
2. Flintshire County Council reviewed its Governance arrangements for the Clwyd Pension Fund in 2014. Prior to this date, the responsibility for the Clwyd Pension Fund rested with the Head of Finance who reported to the Clwyd Pension Fund Panel made up of elected members from Flintshire County Council, Denbighshire County Council and Wrexham County Borough Council. In addition the panel had non voting members including an independent adviser and a scheme member representative
3. As a result, in May 2014, the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pension Fund Advisory Panel. The Corporate Finance Manager is the Section 151 Officer has a statutory responsibility for the proper financial affairs of Flintshire County Council which including Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Officer (People and Resources). It is expected that this governance structure will be expanded later in 2014 or early 2015 as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. The Pension Fund Committee meets at least quarterly and is composed of nine members as follows:
 - Five Councillors of Flintshire County Council, determined by the Council.
 - Four co-opted members comprising:-
 - One Councillor of Wrexham County Borough Council, determined by that Council.
 - One Councillor of Denbighshire County Council, determined by that Council.
 - One Representative of the other Scheme Employers (not admission bodies) in the Clwyd Pension Fund as defined by Schedule 2 of the Local Government Pension Scheme 2013, as amended from time to time, appointed in accordance with procedures agreed by the Chief Officer (People and Resources) in consultation with the members of the Pension Fund Advisory Panel.
 - One Representative of the scheme members of the Clwyd Pension Fund, appointed in accordance with procedures agreed by the Chief Officer (People and Resources) in consultation with the members of the Pension Fund Advisory Panel.

The Council's Constitution permits named substitutes for Flintshire County Council members only, providing they satisfy the knowledge and skills policy of the pension fund. The terms of reference for the members range from four to six years, and members may be reappointed for further terms.

All members have equal voting rights.

4. The Fund's investment policy and management of the Fund will be directed at achieving and maintaining a fully funded scheme and, where practical, a stable employers' contribution rate.
5. Since 1 April 1996, the Clwyd Pension Fund has published a set of Corporate Governance Policy Guidelines, supported by other statements on social, environmental, ethical and governance-related investment issues. The Clwyd Pension Fund has incorporated all these areas into a Sustainability Policy.
6. In determining its detailed fund management arrangements and operations, the Pension Fund Committee adopt a positive engagement approach on sustainability. There will therefore be no direct investment restrictions applied and managers will have full freedom to invest. However, under the Fund's Sustainability policy, managers will be encouraged to take account of sustainability issues in their investment decisions and to use their influence with companies on behalf of the Fund to effect improvements. Their performance in these respects will be monitored and reported in accordance with the terms of the Sustainability Policy.
7. The Fund will pursue a policy of controlling risk through diversification of both investments and fund managers (see table below) and the Liability Hedging Portfolio. Fund managers will be given clear investment mandates, incorporating appropriate benchmarks and agreed targets, and will be employed on a fully discretionary basis within these mandates, subject to compliance with any legislative requirements and the Fund's stated policies.
8. Investment management arrangements will be reviewed periodically and as required. A full in-depth review will be carried out at least every four years. However, a conditional medium term asset allocation (CAA) has been introduced to manage major risks to the long term strategic asset allocation which may emerge between Fund Reviews.
9. The security of the Fund's assets will be closely monitored through its Global Custodian or the custodians of pooled vehicles.
10. The Fund's investment managers and custodians will be made aware of this Statement of Investment Principles.

Strategic Asset Allocation (SAA) and Implementation

SAA (%)	Scenario	Rebalancing Range	CAA Range
	Equity - Alpha Seeking		
6.5	PacRim – High Alpha	+/- 1	
6.5	Emerging Markets – Core	+/- 1	
1.0	Frontier Markets		
5.0	Global – High Alpha	+/- 1	
5.0	Other – High Alpha	+/- 1	
24.0		+/- 2	+/- 10
24.0	TOTAL EQUITY	+/- 3	+/- 15
	Fixed Interest		
15.0	Unconstrained	+/- 2	
0.0	Government Bonds		
0.0	Cash/Other	+/- 5	
15.0		+/- 2	+/- 15
15.0	TOTAL FIXED INTEREST	+/- 2	+/- 15
	Alpha-Seeking Alternatives		
8.0	Private Equity		
5.0	Hedge Fund of Funds		
2.0	Free		
15.0		+/- 3	
	Real Assets		
7.0	Property		
2.0	Infrastructure		
2.0	Timber/Agriculture		
4.0	Commodities		
15.0		+/- 3	
30.0	TOTAL OTHER ASSETS	+/- 5	+/- 5
	Tactical Asset Allocation		
6.0	GTAA	+/- 1	
3.0	DTAA	+/- 1	
3.0	Macro FOF	+/- 1	
12.0		+/- 2	
	TOTAL TAA	+/- 2	+/- 5
	Liability Hedging portfolio		
	Interest rate hedge		
	Inflation rate hedge		
	Collateral portfolio – Bonds/Cash		
	Collateral portfolio – Equity		
19.0	TOTAL HEDGING PORTFOLIO	0-35%	+20%

Manager	Asset Category	Benchmark	Target (Gross)
Stone Harbor	Unconstrained Fixed Interest	1 month Libor	+1.50%
Aberdeen	Asia Pacific (ex Japan) Equities	MSCI AC AP (ex Japan)	+3.50%
Wellington	Emerging Markets Equity	MSCI EM Free	+2.50%
Aberdeen	Frontier Markets Equity	MSCI Frontier Markets	+3.00%
Investec	Global Equity	MSCI AC World NDR	+3.00%
Duet	Global Equity	Absolute Return	+8-10%
Wellington	Commodities	GSCI Sectors	+2.00%
Blackrock	Global Tactical Asset Allocation	7 day LIBID	+15.00%
Bluecrest	Global Tactical Asset Allocation	Absolute Return	+10-15%
Pyrford	Global Tactical Asset Allocation	RPI	+5.00%
Liongate	Fund of Hedge Fund	Absolute Return	+8-10%
SSARIS	Fund of Hedge Fund	Absolute Return	+8-10%
Various	Property	IPD Balanced PUTS Weighted Average	
Various	Private Equity	Absolute Return	+15.00%
Insight	Liability Hedging portfolio	Scheme liabilities	Match

FLINTSHIRE COUNTY COUNCIL

CLWYD PENSION FUND

A REFERENCE GUIDE TO THE FUND'S STATEMENT OF INVESTMENT PRINCIPLES

JULY 2014

1. INTRODUCTION

- 1.1 The Pensions Act 1995 requires Trustees of private sector pension schemes to prepare and keep up to date a written statement recording the investment policy of the Pension Fund, through a Statement of Investment Principles (SIP).
- 1.2 The Local Government Pension Scheme (LGPS), which is subject to Regulations made under the Superannuation Act 1972 and which regulates some of the same issues, was initially exempt from this requirement of the 1995 Act. Nevertheless, the creation, consideration and periodic review of a Statement of Principles on Investment and Fund Management was considered best practice for all funds and one with which the Clwyd Pension Fund voluntarily complied with from 1 April 1997.
- 1.3 With effect from 1 July 2000, LGPS Funds were required by the Local Government Pension Scheme (Management and Investment)(Amendment) Regulations 1999, to publish a SIP. These regulations have been replaced by, the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009. The Regulations state the SIP must include the following:
 - the types of investments held
 - the balance between different types of investments
 - risk, including ways risks are measured and managed
 - the expected return on investments
 - the realisation of investments
 - the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
 - the exercise of the rights (including voting rights), if any, attaching to investments
 - stock lending
- 1.4 The SIP is designed to comply with guidance given by the Secretary of State. It incorporates a newly formulated Sustainability Policy, covering social, environmental, ethical and governance-related investment issues and, as required, details the Fund's degree of compliance with the Myners 6 principles.
- 1.5 The SIP is effective from 1 July 2014 and will be reviewed every six months with any material changes published.
- 1.6 The SIP should be read in conjunction with the following statutory documents:
 - Funding Strategy Statement implemented from 1st April 2014
 - Governance Policy and Compliance Statement
 - Communications Policy Statement
 - Clwyd Pension Fund Annual Report and Accounts
 - Clwyd Pension Fund Actuarial Valuation as at 31st March 2013

All the above statements and documents can be found on the Fund's web site at www.clwydpensionfund.org.uk

2. STATUTORY FRAMEWORK & GOVERNANCE BACKGROUND

- 2.1 Flintshire is designated as Lead Authority for the Clwyd Pension Fund by Regulations made under the Local Government (Wales) Act 1995, which dealt with the reorganisation of Local Government in Wales, effective from 1 April 1996.
- 2.2 The administration of the Clwyd Pension Fund is a statutory duty laid upon the authority by Regulations made under the Superannuation Act 1972. The Fund is simply a Fund of the Council, albeit closely regulated by statutory instruments, and has no separate legal identity from the Council.
- 2.3 It follows, therefore, that Elected Members are not Trustees of the Fund, even though convenient usage sometimes results in that term being applied to them. Elected Members do, however, have a duty of care to the beneficiaries, employers and the local taxpayers, which is analogous to the responsibilities of Trustees in the private sector. They could therefore be more accurately described as "Quasi-Trustees". The term Quasi-Trustee will be used throughout this document in order to distinguish those responsible for the Fund from contributor, pensioner and deferred members of the Fund who will, collectively, be termed beneficiaries.
- 2.4 The Clwyd Pension Fund, as a statutory LGPS Fund, is set up to provide death and retirement benefits for Local Government employees in North East Wales, other than teachers, police and fire fighters. In addition, employees of certain other qualifying bodies which provide services similar to that of Local Authorities have been admitted to membership of the LGPS and hence the Fund. The latest Regulations made under the Superannuation Act 1972 are the LGPS Regulations 2014, which came into effect from 1 April 2014. These are amended from time to time to take account of scheme changes.
- 2.5 In the discharge of this function, in May 2014, the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pension Fund Advisory Panel. The Corporate Finance Manager is the Section 151 Officer and has a statutory responsibility for the proper financial affairs of Flintshire County Council including Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Officer – People and Resources. It is expected that this governance structure will be expanded later in 2014 or early 2015 as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. Further details of the Fund's governance arrangements can be found in Fund's separate Governance Policy & Compliance Statement.
- 2.6 As noted above, in administering the investments of the Fund, the Chief Officer (People and Resources) and Quasi-Trustees have a duty of care. That duty has been expressed as seeking, ".....to maximise the return on the invested funds so far as it can do so without incurring unacceptable risks" (McFadyen QC 5/90).
- 2.7 The investment responsibilities of the, Clwyd Pension Fund Committee and other third parties involved with the investment management and funding of the Fund are set out below.

The constitution of the administering authority delegates the following investment responsibilities to the Clwyd Pension Fund Committee:

- Approving the Statement of Investment Principles which includes investment strategy, Sustainability Policy, Myners Compliance Statement, setting of investments targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite .
- Monitor the implementation of these policies and strategies on an on-going basis
- Selection, appointment and dismissal of the Fund's, investment consultants, global custodian, fund managers, and lawyers

As allowed for in the Constitution the Clwyd Committee Fund Committee delegates certain functions relating to the above responsibilities to officers who in turn must take advice where required from the Investment Consultant and/or Pension Advisory Panel. The outcomes from these delegated functions are reported to the Committee

They are listed below:

- Rebalancing and cash management
- Implementation of strategic allocation including use of ranges
- Implementation of flight-path triggers
- New mandates and emerging opportunities
- Ongoing monitoring of Fund Managers
- Selection, appointment and dismissal of Fund Managers
- Other urgent (or non- urgent) matters as they arise

The Investment Consultant is responsible for:

- Providing the Clwyd Pension Fund Committee with advice regarding the strategic asset allocation for the Fund.
- Providing the Clwyd Pension Fund Committee with advice regarding the investment structure of the Fund required to meet the investment objectives agreed.
- Monitoring the performance of the strategy and advising the Clwyd Pension Fund Committee on changes to the strategy or asset allocation that may be required.
- Monitoring the performance of the underlying fund managers and advising the the Pension Advisory Panel on changes to the managers that may be required.
- Maintaining and updating the Statement of Investment Principles.

The Fund Managers are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation, and each Manager's detailed Investment Management Agreement or Investment Memorandum.
- Where allowed, tactical asset allocation around the benchmarks, as set out in the Investment Management Agreements or Investment Memorandum.
- Stock selection within asset classes (purchases and realisations).
- Preparation of a quarterly review of investment performance.
- Attending review meetings with the Fund's officers, advisors and quasi-trustees.
- Providing details, as required, to the Fund's custodian and independent performance measurer.
- Reporting on compliance with this SIP, including the Sustainability Policy.

The Global Custodian is responsible for:

- Where the Fund holds segregated assets, the safekeeping of assets, the collection of income, the voting of shares and the execution of transactions in accordance with the Custody Agreement and the Fund's corporate governance guidelines within the Sustainability Policy.
- Its own compliance with prevailing legislation.
- Providing the Fund with quarterly valuations of the Scheme's assets, details of all transactions during the quarter, bank statements and all other relevant documentation.

The Actuary is responsible for:

- Providing the Clwyd Pension Fund Committee with advice as part of the establishment of strategic asset allocation benchmarks.
- Providing the Clwyd Pension Fund Committee with advice as to the maturity of the Fund, its funding level and flight-path implementation.
- Working with the Fund at each actuarial valuation to produce a Funding Strategy Statement (FSS).
- Performing the triennial valuations.

The Independent Adviser is responsible for:

- Reporting on the investment governance arrangements for the Fund including the performance of the Committee and Advisory Panel
- Monitoring the management of investment risks
- Assist the Chief Officer (People and Resources) with the implementation of the Fund's Knowledge and Skills Policy.

3. FUNDING LIABILITIES AND INVESTMENT POLICY

- 3.1 The LGPS is a public sector statutory defined benefit Pension Scheme that provides benefits related to the final salary of members. Each member's pension is specified in terms of a formula, based on salary and service, and is unaffected by the investment return achieved on the Fund's assets. Full details of Scheme benefits are set out in the LGPS Regulations.
- 3.2 All active members of the Scheme are required to make banded pension contributions dependent on salary.
- 3.3 The employing bodies are responsible for meeting the balance of costs necessary to finance the benefits payable under the Scheme and their contribution rates are determined on a triennial basis (Actuarial Valuation). These contribution rates take account of both assets and estimated liabilities, both of which are subject to volatility.
- 3.4 Beneficiaries have an interest in the extent to which the Fund's assets are sufficient to meet accrued benefits, albeit that their benefits are guaranteed by the Regulations. The employers, however, have a direct financial interest in the investment return achieved on the Fund's assets and movements in liabilities, since both can have a direct bearing on their own costs.
- 3.5 The existence of surpluses or deficits from previous valuation periods can reduce or increase the contributions made by employers. Given constraints on employer spending, volatility in the employers' contribution rate is undesirable.
- 3.6 In managing the Fund, therefore, the overall investment objective should be:
- to aim for a funding level of 100%;
 - to aim for long term stability in employers' contribution rates.
- 3.7 The Clwyd Pension Fund was funded at 68% of liabilities (2013 Actuarial Valuation) and employers' rates are currently structured to achieve a gradual return to 100% funding by 2031.
- 3.8 Whilst stability of costs from the employers' rates has the higher priority, absolute cost to the employer is also important. This implies that :
- the cost of administering the Fund will be constrained by the adoption of best management practice;
 - employers will adopt appropriate and economic policies in those areas where they have discretion and where the costs of their actions fall on the Fund;
 - the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will continue to take an active risk relative to its liability profile.
- 3.9 The investment policy of the Fund is intended to strike the appropriate balance between the policy most suitable for long-term consistent performance and the funding objectives. A favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

- 3.10 At a more detailed level, the Fund's membership comprises approximately 44% contributors and 56% pensioners (including deferred and frozen pensions). The best asset match for index-linked pensions would be index linked gilts, with perhaps some conventional bonds. This would be a "least risk" investment strategy but would also result in an increase in employer contributions. A departure from this "least risk" strategy, particularly the inclusion of equity-type investments, increases risk but also adds the potential for higher returns, which should over time reduce the contribution requirements. The Fund is a long-term investor and can favour the latter.
- 3.11 The Fund's current profile also shows that the extent of contributions will exceed the cost of benefits in payment and administration expenses, producing a positive cash flow of over £10 million per annum. This means that there will be no immediate necessity to draw down money from investments to pay pensions in the near future.
- 3.12 This positive cash flow means there is no pressure to switch to fixed interest stocks to ensure an income stream for benefit payment purposes and a longer-term investment view can be maintained. However the Clwyd Pension Fund is continuing to mature gradually in terms of its scheme member mix and there is therefore a limited window of opportunity to seek higher returns in order to get back to 100% funding from the 68% level noted above.
- 3.13 The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2013 includes a number of investment return assumptions :
- An investment return (discount rate) for the funding target of gilts + 1.4% (assumed 4.6%) *
 - An investment return for the future service contribution rate of 5.6% (Inflation + 3.0%)

Over a three-year period an investment return above these assumptions will contribute to reducing the funding deficit and thus employer contributions, providing that liability assumptions such as longevity and inflation remain on target. The Fund's triennial Valuation considers all these factors when determining employer contribution rates. New employer rates were implemented from 1st April 2014. The next Actuarial Valuation will be as at 31st March 2016,

- 3.14 A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 35 of the Local Government Pension Scheme Regulations 2008. The Statement outlines the strategy for recovering the funding deficit over 18 years. A copy of the FSS can be obtained from the Fund's web site at www.clwydpensionfund.org.uk. The funding strategy will be monitored during 2014/17.

4. INVESTMENT STRATEGY & RISK

- 4.1 On the basis of the above consideration, the following would appear to be the key factors to be taken into account when determining an appropriate investment strategy for the Fund :
- The Fund is a long-term investor.
 - Capital gain is more important than income generation and liquidity.
 - The Fund needs to take investment risk.
 - The level of out-performance would need to be in excess of gilt returns by more than 1.4% to contribute to the Fund's deficit. For future service liabilities, an investment return of 5.6% per annum is required, so a return in excess of this is needed to contribute to the Fund's deficit.
 - Risk or volatility should be constrained as far as possible, consistent with the achievement of the returns required.
- 4.2 Risk, though defined in many ways, generally refers to the volatility of returns or their tracking error in the context of investments. Investment theory suggests that different asset classes, such as equities and bonds, behave in different ways and that diversifying the asset mix within a Fund can reduce overall risk at total fund level.
- 4.3 The Fund's overall strategic risk and return profile is currently determined through its strategic asset allocation.. In establishing the Fund's long-term strategic asset allocation or strategic benchmark, the key factors are the overall level of return being sought, the minimum level of risk consistent with this and the impact of diversification in reducing this risk further. At asset class or mandate level, asset class weightings, appropriate benchmarks and out-performance targets are the key building blocks in framing this overall Fund strategy.
- 4.4 It is Fund policy to carry out a fundamental review of the Fund's structure and management arrangements at least every four years. The review includes research on market views for the longer-term risk, return and correlation profiles for different asset classes and a more tactical view on the global economic and market environment over the next three to five years. This research is used to determine an optimum future balance between the various assets classes and hence the Fund's fixed strategic benchmark.
- 4.5 The last fundamental Fund Review was in 2010, implemented, in the main, from 1st April 2011 and monitored each quarter. A mandate with Insight to provide protection against the volatility of interest rate and inflation rate changes was implemented in March 2014. In addition a funding and risk management "Flightpath" was implement embedding longer term objectives relating to the control of the volatility of funding outcomes. The optimisation model used in 2010 to determine the strategic benchmark suggests that the asset mix and the requirement for fund managers to deliver out-performance against market indices should produce a long-term return in the region of gilts + 5% with volatility of around 10%. This equates to an information ratio (the return per unit of risk) just below 1 or 100%.
- 4.6 The latest Fund Review exercise commenced in early 2009, but with economic, fiscal and market indicators extremely unclear so soon after 2008 and the credit crunch, the exercise was postponed. The Fund Review was recommenced in early 2010/11 and implemented from 1 April 2011. The new strategic asset allocation with both rebalancing ranges and Conditional Asset Allocation ranges follows. The next review will commence in September 2014.

Strategic Asset Allocation

SAA (%)	Scenario	Rebalancing Range	CAA Range
	Equity - Alpha Seeking		
6.5	PacRim – High Alpha	+/- 1	
6.5	Emerging Markets – Core	+/- 1	
1.0	Frontier Markets		
5.0	Global – High Alpha	+/- 1	
5.0	Other – High Alpha	+/- 1	
24.0		+/- 2	+/- 10
43.0	TOTAL EQUITY	+/- 3	+/- 15
	Fixed Interest		
15.0	Unconstrained	+/- 2	
0.0	Government Bonds		
0.0	Cash/Other	+/- 5	
15.0		+/- 2	+/- 15
15.0	TOTAL FIXED INTEREST	+/- 2	+/- 15
	Alpha-Seeking Alternatives		
8.0	Private Equity		
5.0	Hedge Fund of Funds		
2.0	Free		
15.0		+/- 3	
	Real Assets		
7.0	Property		
2.0	Infrastructure		
2.0	Timber/Agriculture		
4.0	Commodities		
15.0		+/- 3	
30.0	TOTAL OTHER ASSETS	+/- 5	+/- 5
	Tactical Asset Allocation		
6.0	GTAA	+/- 1	
3.0	DTAA	+/- 1	
3.0	Macro FOF	+/- 1	
12.0		+/- 2	
	TOTAL TAA	+/- 2	+/- 5
	Liability Hedging portfolio		
	Interest rate hedge		
	Inflation rate hedge		
	Collateral portfolio – Bonds/Cash		
	Collateral portfolio – Equity		
19.0	TOTAL HEDGING PORTFOLIO	0-35%	+20%

- 4.7 Although there is no long-term strategic allocation to cash/other assets, a tactical range has been included to accommodate exceptional economic/stock market circumstances, where it is not considered appropriate to re-balance the portfolio or where cash is held temporarily to meet investment commitments in alpha seeking alternatives and real assets.
- 4.8 Once the asset allocation is agreed, there is a need to keep the Fund's actual position under review. Re-balancing of the Fund to keep it in line with the benchmark will incur costs and such changes need therefore to be considered in light of the relevant costs and benefits. As a result, re-balancing will only take place quarterly when an asset class has moved outside the re-balancing ranges shown in the table above, except in circumstances outlined above.
- 4.9 In addition, the 2010 Fund Review introduced a medium term asset allocation (Conditional Asset Allocation). The purpose is to manage major risks to the long term strategic asset allocation which may emerge between Fund Reviews. The Pension Fund Committee has delegated authority to implement these changes to the Clwyd Pension Fund Manager after taking advice from the Investment Consultant.
- 4.10 The 2010 Fund Review also concentrated on risk diversity in place of asset diversification, especially for inflation risk. Hence, new asset class groups have been created for real assets and alpha seeking alternatives.

5. IMPLEMENTATION OF INVESTMENT STRATEGY AND RISK

- 5.1 When implementing investment strategy, the Fund must comply with the Investment Regulations laid before Parliament, which include:
- The definition of an investment manager
 - Manager appointments and terms
 - Diversification of fund managers
 - The review of fund manager performance
 - Restrictions and limits on investments
 - Use of fund money by an Administering Authority
- 5.2 The policy of the Fund is to out-source the implementation of the investment strategy of the Fund to professional fund managers. These fund managers are appointed by following EU procurement legislation. In selecting managers, the Fund gives weight to their past performance, risk and compliance, investment and administration processes, key people, fees and degree of compliance with the Fund's Sustainability Policy.
- 5.3 On appointment, fund managers are delegated the power under the appropriate client agreement (Investment Management Agreement, Investment Memorandum) to make such purchases and sales as they deem appropriate within their mandate. Each fund manager mandate has either a benchmark or target to outperform or achieve over three-year rolling periods. A quarterly update is received from each of these funds managers and regular meetings are arranged, as outlined in the Fund's Governance and Compliance Statement.
- 5.4 There are exceptions to the above arrangements. Funds selected within the allocations to alpha seeking alternatives and real assets are treated as specific investment decisions and therefore outside the scope of EU Procurement Regulations. Here, investment funds are selected for recommendation to the Pension Advisory Panel after appropriate due diligence by the Fund's officers and Investment Consultant, with criteria similar to those noted for fund manager appointments. These investments are usually the subject of detailed Limited Partnership agreements or Investment memoranda that set out the arrangements for their operation. As a minimum, an annual review on these investments is undertaken but valuations are provided quarterly for the most part. Although, a size limit for individual investments is not noted within the Fund's policy statements, the commitments made are usually in the region of £5m-£8m.
- 5.5 In terms of historic background, the Fund has for many years now pursued a policy of lowering risk by diversifying both investments and fund managers. As a result of a fundamental fund management review carried out in 1992, a specialist approach was adopted and three fund managers were appointed with effect from 1 April 1993 to manage specific portfolios, with prescribed benchmarks and out-performance targets. This structure was reviewed again during 1997 and a number of changes were introduced, including the appointment of a fourth manager, aimed primarily at marginally reducing risk and increasing diversification. A further exercise was carried out in 1999 to review detailed asset allocation processes and manager performance on a couple of specific portfolios. No manager changes were proposed as a result of the review but a further exercise in 2000 resulted in the Japanese portfolio being awarded to Fidelity from 1 April 2001. The 2003 Fund Structure Review resulted in an increased allocation to alternative investments.

- 5.6 The 2006 Fund Review exercise was implemented, in the main, from 1st April 2007. The Fund made no fundamental structural adjustments but there were changes in the method of delivery, aimed at further diversification from, and less constraint on, traditional asset classes. New investment approaches, tools and products were also utilised to improve returns further and reduce volatility. All the investments were in pooled vehicles rather than segregated accounts.
- 5.7 The only change before the 2010 review was in fund manager arrangements relating to the hedge fund of fund mandates. Pioneer and BlackRock were replaced by Liongate and SSARIS during 2009, although for liquidity reasons some assets still remain with the original managers at this time. BlackRock acquired BGI mandates via a business merger of the companies.

Manager	Asset Category	Benchmark	Target (Gross)
Stone Harbor	Unconstrained Fixed Interest	1 Month LIBOR	+1.50%
Aberdeen	Asia Pacific (ex Japan) Equities	MSCI AC AP (ex Japan)	+3.50%
Wellington	Emerging Markets Equity	MSCI EM Free	+2.50%
Aberdeen	Frontier Market Equity	MSCI Frontier Markets	+3.00%
Investec	Global Equity	MSCI AC World NDR	+3.00%
Duet	Global Equity	Absolute Return	+8-10%
Wellington	Commodities	GSCI Sectors	+2.00%
BlackRock	Global Tactical Asset Allocation	7 day LIBID	+15.00%
Bluecrest	Global Tactical Asset Allocation	Absolute Return	+10-15%
Pyrford	Global Tactical Asset Allocation	RPI	+5.00%
Liongate	Fund of Hedge Fund	Absolute Return	+8-10%
SSARIS	Fund of Hedge Fund	Absolute Return	+8-10%
Various	Property	IPD Balanced PUTS Weighted Average	
Various	Private Equity	Absolute Return	+15.00%
Insight	Liability Hedging portfolio	Scheme liabilities	Match

- 5.8 The current investment strategy is framed by the 2010 Fund Review exercise and implemented from the 1st April 2011. The following are the main changes made:
- Equity exposure was reduced but tactical asset allocation, which will include some equity exposure, was increased.
 - Equity exposure to Pacific Rim and Emerging Markets has increased.
 - Global active equity was increased but otherwise active regional equity managers in developed markets have been replaced by one passive manager.
 - Continued exposure to alpha seeking alternative managers.
- 5.9 As a result the Fund redeemed from 6 fund managers and appointed 4 new managers:
- SSgA – Passive Equity, UK, Europe, US and Europe
 - Duet Group – Global Equity – High Alpha
 - Bluecrest – Tactical Asset Allocation
 - Pyrford – Tactical Asset Allocation
- 5.10 In April 2012, the Fund tendered for a £7 million Frontier Equity manager and appointed Aberdeen in May 2012.

- 5.11 In March 2014, the Fund established a Liability Hedging programme covering both nominal and inflation linked interest rates. A Flightpath for increasing the level of protection of the hedges was agreed along with other funding level triggers. Insight Investment Management were appointed to manage this hedging portfolio in relation to market yield triggers and the Pension Fund Advisory Panel monitors the funding level triggers relating to the overall funding and investment risk management.
- 5.12 As part of the above changes the passive equity exposure with SSGA was sold and the cash transferred to a unit trust managed by Insight Investments. This cash was used as collateral to replicate the equity exposure through total return swaps and to buy exposure or assets to match the Fund's liabilities. Also, the benchmark for the unconstrained fixed income mandate was changed from a gilt benchmark to an absolute return benchmark from April 2014.

6. CASH STRATEGY

- 6.1 From 1st April 2011 Investment Regulations require the Pension Fund to have a separate bank account from the Local Authority. Therefore a new policy is required on the management of the Pension Fund's cash which was previously deposited together with Council monies following the Council's Treasury Management Policy.
- 6.2 The Pension Fund does not have a strategic allocation to cash for investment purposes but holds surplus cash for paying:
- Benefits and transfers as per the Regulations.
 - The administration costs of the Fund.
 - The Investment management fees.
 - Commitments to real assets and alpha seeking alternative asset managers.
- However in extreme market conditions cash could be used as part of the Conditional Asset Allocation.
- 6.3 The aim is to avoid requiring to borrow for liquidity purposes, although Investment Regulations allow Pensions Funds to borrow for a maximum of 90 days.
- 6.4 The cash could be deposited in one of the following, subject to cash flow requirements:
- The Pension Fund bank account with the National Westminster bank for daily liquidity.
 - A deposit account with the National Westminster Bank with access up to 180 days notice.
 - A BlackRock AAA Money Market Fund for unexpected liquidity requirements or higher rates of return.
- 6.5 The Clwyd Pension Fund Manager will arrange for the daily implementation of the cash strategy.

7. SUSTAINABILITY

- 7.1 The issue of social, environmental, ethical investment and corporate governance has been considered on a regular basis since 1996. On 1 April 1996, the Clwyd Pension Fund published a set of Corporate Governance Policy Guidelines incorporating requirements on social, ethical and environmental awareness. Further updating has been carried out on a regular basis since then and further supporting statements have been issued. From 1st July 2010 the Clwyd Pension Fund has incorporated all these areas and others into its new Sustainability Policy.
- 7.2 Committee members are firm supporters of the need for social, environmental and ethical improvements by companies and, subject to its primary fiduciary duties, have a clear view that the investment process should be used as a means of encouraging and achieving this. The key issue, considered at length by the Chief Officer (People and Resources) and the Committee, is how these aims could be best met and the outcome is the new all-embracing Sustainability Policy.
- 7.3 At its simplest sustainability is about focusing attention on longer-term issues. More specifically for Pension Fund investors, it concerns delivering the long-term returns required to fund long-term liabilities by ensuring that the long-term risks inherent in investments are recognised and, where possible, addressed. These risks are many and varied but include environmental, social, ethical and governance issues.
- 7.4 In framing an approach to sustainability, the key focus has to be on the application to the Fund's operation of the United Nations Principles on Responsible Investment (UNPRI) and specifically principles 1 and 2, as these underlie most investment and governance processes.
- 7.5 The aims of the Fund's Sustainability Policy, therefore, will be both to ensure that the Fund's future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability and to promote acceptance of sustainability principles, working together with others to enhance the Fund's effectiveness in implementing these.
- 7.6 In order to achieve its stated objective, the Clwyd Pension Fund will apply a series of guidelines covering most aspects of pension fund investment, structured in accordance with UNPRI principles 1-6 and covering –
- Investment strategy (UNPRI 1)
 - Company engagement & voting (UNPRI 2)
 - Investment management & performance monitoring (UNPRI 3)
 - Investment manager selection & contracts (UNPRI 4)
 - Collaboration (UNPRI 5)
 - Reporting & disclosure (UNPRI 6)
- 7.7 As part of the Policy, the Clwyd Pension Fund continues to believe in an active engagement approach to the pursuit of its sustainability objectives and thus will not adopt a negative approach to sustainability, which involves screening and excluding investment opportunities nor will it invest in pooled vehicles constructed using this same approach. It will encourage its managers to adopt a long-term approach that involves working with companies to encourage improvement in all sustainability areas, will monitor the performance of managers in pursuing such objectives and will invest directly in specific vehicles and investment areas that clearly match its sustainability objectives.

8. COMPLIANCE WITH GUIDANCE

- 8.1 The Investment Regulations require the Fund to explain the extent to which it complies with guidance given by the Secretary of State. The most significant guidance published in 2009 is CIPFA's "Investment Decision Making and Disclosure", a guide to the application of the revised Myner's Principles. The six Myner's Principles are:
- Effective Decision Making
 - Clear Objectives
 - Risk and Liabilities
 - Performance Assessment
 - Responsible Ownership
 - Transparency and Reporting
- 8.2 The Fund's compliance statement on these Myner's Principles is attached, explaining the extent of compliance with each Principle and the reasons for this. In summary the statement demonstrates near full compliance with all six Principles. In areas where compliance is only partial, the statement also identifies areas for review and improvement. The information in the SIP itself provides more details on the application of the Principles.
- 8.3 The Financial Reporting Council (FRC) has published a Stewardship Code. The aim is to set out best practice principles in respect of shareholder engagement with companies and disclosure of such activity. It is intended that shareholders adhere to these principles using a 'comply or explain' approach. The extent of the Fund's compliance with each of the seven principles is attached. In summary the statement demonstrates full compliance with five of the principles and identifies areas for possible improvement for two of the principles.
- 8.3 The Investment Regulations require an administering authority to make a statement about its policy on stock lending. The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. However, there may be, subject to the governing document for the pooled vehicle, an option to stock lend within that pooled fund.
- 8.4 The Secretary of State has indicated that there may be further consultation on changes to the Investment Regulations or further points of guidance issued. The SIP will be updated on a six monthly basis to reflect these and any other changes.
- 8.5 The Fund's Annual Report and Accounts sets out current details relating to the following areas, as determined by the LGPS Regulations 2008 :
- A report on the management and financial performance of the Fund
 - A report explaining the investment policy and performance
 - A report on the administration arrangements
 - An actuarial statement including the funding level
 - Funding Strategy Statement
 - Statement of Investment Principles (SIP)
 - Governance Compliance statement
 - Pension Fund Accounts
 - Pension Fund Administration strategy
 - Communication Policy statement

SUSTAINABILITY POLICY

Definition

At its simplest sustainability is about focusing attention on longer-term issues. More specifically for pension fund investors, it concerns delivering the long-term returns required to fund long-term liabilities by ensuring that the long-term risks inherent in investments are recognised and, where possible, addressed. These risks are many and varied but include environmental, social, ethical and governance issues.

Legal Framework, Constraints & Considerations

In framing a Sustainability Policy, the following are pertinent –

- There already exists a regulatory requirement to include in the Fund's Statement of Investment Principles (SIP) details of its policy on social, ethical and environmental issues. This Sustainability Policy encompasses such issues and will be updated as required to take account of relevant new regulatory requirements.
- The Fund is required to fulfil its overriding fiduciary duty to focus as a primary consideration on financial performance and the maximisation of Fund returns, after taking full account of all existing and future financial risks. Such risks increasingly include sustainability issues.
- As the Fund uses third part providers for the most part and invests largely through pooled vehicles, its level of active engagement with underlying investment companies and its control over governance issues is limited to some extent.
- The investment industry tends to focus on short term factors in terms of company interaction, shares prices and performance, and fund managers incentives tend to reflect this rather than being aligned with the longer-term objectives of pension fund investors.

Objective

Objective

Within the above legal framework, constraints and considerations, the Clwyd Pension Fund's objective aim will be to –

- *Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability;*
- *Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.*

United Nations Principles for Responsible Investing (UNPRI)

Details of the UNPRI are attached as an Appendix A to this Sustainability policy document. Given the constraints outlined above and particularly the pooled nature of many of the Fund's investments, it would be difficult for the Fund to become a formal signatory to the UNPRI.

United Nations Principles for Responsible Investing (UNPRI)

The Clwyd Pension Fund –

- *Is committed to the principles underlying the United Nations Principles for Responsible Investing (UNPRI) and will be an active supporter of these;*
- *Will encourage its external managers to become signatories to the UNPRI.*

Application of Sustainability Principles

In order to achieve its stated objective, the Clwyd Pension Fund will apply a series of guidelines covering most aspects of pension fund investment under the following headings –

- ❑ Sustainability approach
- ❑ Investment strategy (UNPRI 1)
- ❑ Company engagement & voting (UNPRI 2)
- ❑ Investment management & performance monitoring (UNPRI 3)
- ❑ Investment manager selection & contracts (UNPRI 4)
- ❑ Collaboration (UNPRI 5)
- ❑ Reporting & disclosure (UNPRI 6)
- ❑ Review

The paragraphs below set out the Fund's thought processes in establishing such guidelines and detail the guidelines adopted as part of this Sustainability Policy document.

Sustainability Approach

In framing an approach to sustainability, the key focus has to be on the UNPRI principles 1 and 2 as these underlie most investment and governance processes. Sustainability-related issues have been considered on a regular basis for many years, with broad corporate governance policy guidelines in place from 1996. More recently these form part of the Fund's SIP and are reviewed annually.

The Clwyd Pension Fund approach has always been and continues to be based upon "active engagement". This involves the Fund's managers researching and forming a view on the sustainability credentials of companies, taking this into account in investment decisions and, where there are sustainability concerns, on environmental, social, ethical or governance grounds, engaging with companies to seek and achieve positive change.

Sustainability Approach

The Clwyd Pension Fund believes in an active engagement approach to the pursuit of its sustainability objectives and, on this broad basis, it –

- ❑ *Will not adopt a negative approach to sustainability which involves screening and excluding investment opportunities;*
- ❑ *Will not invest in pooled vehicles constructed using this same approach;*
- ❑ *Will encourage its managers to adopt a long-term approach that involves working with companies to encourage improvement in all sustainability areas;*
- ❑ *Will monitor the performance of managers in pursuing such objectives;*
- ❑ *Will invest directly in specific vehicles and investment areas that clearly match its sustainability objectives.*

Investment Strategy

The Clwyd Pension Fund recognises that there is a relationship between good environmental, social, ethical and governance practices and long-term sustainable business profitability and in its investment strategy aims to place a strong focus on this. It is recognised that, whilst there are links, the three main sustainability areas, environmental, social and ethical, each raise their own issues, although the approaches and guidelines appropriate to each are similar.

Environmental

The impact of poor environmental practices on profit sustainability is very clear. There are direct costs in terms of fines for pollution etc. and increasingly now for carbon-charging and waste disposal that can have major impacts on business models. In addition there are potential indirect costs from bad publicity and reputational risk. On the positive side, however, there are opportunities to promote sustainability through investment in new technologies aimed at cleaner solutions.

Social

This concerns areas such as employee relations, community relations and health & safety and again can lead to direct financial costs from health and safety breaches and strike action etc, as well as more subtle risks to company operations, reputation and long-term profitability.

Ethical

This is a difficult area as ethical views can vary considerably but there are some areas that are widely accepted for inclusion. These include supply chain issues that reflect potential breaches of human rights and especially the employment of children, bribery and corruption and operations in certain world areas such as Zimbabwe.

Investment Strategy

On forming and implementing its investment strategy, the Clwyd Pension Fund –

- Will encourage its managers to use their own resources or specifically-focused research agencies to identify at company level actual or potential financial risks attributable to sustainability issues – environmental, social or ethical;*
- Will seek, through its managers, to engage with companies that have questionable environmental, social or ethical practices in order to seek improvements;*
- Will seek, through its managers, to engage with companies that have a carbon-intensive or water-intensive focus in order to promote alternative approaches and longer-term reductions;*
- Will encourage the adoption of the best environmental standards amongst its property and infrastructure managers;*
- Will, subject to fiduciary duties, make selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry etc.*

Company Engagement & Voting

Getting the Board right with the right behaviours and structures means that better decisions are more likely and this adds value over the longer-term. The Fund's former broad corporate governance policy guidelines, whilst touching upon environmental, social and ethical issues, were largely designed to address these Board factors and related voting issues. Myners Principle 5 is also relevant here. This requires that trustees adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. The Institutional Limited Partners Association (ILPA) has authored the ILPA Private Equity Principles, a document that contains best practice concepts and that speaks to issues relating to the alignment of interest between general partners and limited partners, fund governance, transparency and reporting.

Company Engagement & Voting

The Clwyd Fund –

- ***Will aim to comply with the Myners Principle 5 on shareholder activism and become more engaged as an active investor, especially with companies where sustainability factors are a matter of concern;***
- ***Will adopt, ensure that its managers adopt or ascertain their level of compliance with the ISC Statement of Principles on the responsibilities of shareholders/agents;***
- ***Will adopt, ensure that its managers adopt or ascertain their level of compliance with the ILPA private equity principles;***
- ***Will, wherever practical, exercise voting rights through its managers based upon the following broad criteria –***
 - ***The prime consideration must be financial and the protection of the Fund's assets in the long term;***
 - ***There should be a properly structured Board including an appropriate number of contributing independent non-executive directors;***
 - ***Unless there are strong arguments to the contrary and adequate safeguards guidelines, no director should hold the posts of Chairman and Chief Executive at the same time or be in a position of unaccountability by virtue of having absolute control;***
 - ***All Directors should be subject to at least three-yearly re-election;***
 - ***In view of their stewardship role, non-executive directors should normally be independent in terms of other links to the company and other directorships;***
 - ***The issue of shares with reduced or non-existent voting rights often disadvantages the majority of shareholders and should not normally be supported;***
 - ***Existing shareholders in a company should have a right to subscribe for new equity capital raised by a company, normally in proportion to their existing share of the company's equity capital;***
 - ***Unless financial criteria dictate otherwise, the general policy on take-over bids should be to support incumbent management in good standing;***
 - ***Directors' remuneration packages in different companies should reflect relative performance taking business size and complexity into account;***
 - ***A properly constituted Remuneration Committee is the best judge of what is necessary to recruit, train and motivate;***
 - ***If not already in place, companies should be working towards one year fixed term contracts for executives;***
 - ***There should be a properly constituted Audit Committee;***
 - ***No return that is rightfully the Fund's should be diverted to political donations;***
 - ***Charitable donations are acceptable if they are reasonable and have public relations values.***
- ***Will periodically review these criteria and inform investment managers of changes, should there be any.***

Investment Management & Monitoring of Performance

Investment managers need to be made aware of the Fund's Sustainability Policy and related guidelines in order that these can be taken account of in their investment management decision-making processes. In order to monitor the performance of external managers in terms of their degree of compliance with the guidelines and the performance of underlying investments with the Fund's sustainability objectives, there needs to be regular reporting and disclosure on sustainability issues, particularly areas of concern, as well as actions taken to address these. A similar approach needs to be adopted on in-house managed investments.

Investment Management & Monitoring of Performance

The Clwyd Pension Fund –

- ❑ ***Will endeavour to ascertain the extent to which its fund managers are formal signatories to, support and comply with the UNPRI;***
- ❑ ***Will encourage its fund managers to produce policy statements on sustainability issues and report formally on these.***
- ❑ ***Will seek, through its managers, to ensure the full disclosure of environmental, social and ethical policies and practices by companies in which the Fund is invested;***
- ❑ ***Will ask investment managers for statements on their degree of compliance with the ISC Statement of Principles on the responsibilities of shareholders and agents;***
- ❑ ***Will request policy statements and practical evidence of the adoption of the best environmental standards amongst its property and infrastructure managers;***
- ❑ ***Will ask private equity managers for statements on their degree of compliance with the ILPA private equity principles;***
- ❑ ***Will ensure that investment managers regularly report records of voting on the Fund's investment and periodically produce statements on compliance or otherwise with the broad corporate governance elements of the Fund's Sustainability Policy;***
- ❑ ***Will assess the performance of managers both in terms of financial returns and on sustainability issues over a time frame that adequately reflects the Fund's sustainability objectives.***

Investment Manager Selection & Contracts

The Fund's standard selection process for managers has always incorporated broad questions on sustainability issues but the main focus has been on investment philosophy, process, personnel and performance. Within process, there has been some limited focus on sustainability inputs to investment decision-making but risk has tended to be quite narrowly defined and linked to shorter-term financial rather than longer-term sustainability considerations. As a result, sustainability has never been a main factor in the comparative assessment of managers prior to appointment or in the formal appointment process itself. This approach has now been reviewed with a view to incorporating into the selection and contracting process a far greater focus on sustainability issues.

Investment Manager Selection & Contracts

As an active part of this process, the Clwyd Pension Fund –

- ❑ *Will require from potential managers formal statements of their objectives, policies and practices on sustainability and related factors;*
- ❑ *Will ascertain from potential managers the degree to which sustainability factors are taken into account in the investment decision-making process;*
- ❑ *Will seek from potential managers details and the level of in-house tools, agency inputs and other resources on sustainability factors used in their investment processes;*
- ❑ *Will review with potential managers the quality, integration and impact of such research on their investment processes and performance;*
- ❑ *Will consider the record of potential managers on active engagement with companies, voting and governance issues generally;*
- ❑ *Will, in the assessment of potential managers, give appropriate weight to all these sustainability and related factors;*
- ❑ *Will, where relevant and appropriate, build elements of the Fund's Sustainability Policy and detailed guidelines into investment management agreements.*

Collaboration

The Clwyd Pension Fund is already a committed member of the Local Authority Pension Fund Forum (LAPFF), a body that seeks improvements in corporate governance, promotes socially responsible investing (SRI) and, with the Fund's active encouragement, is devoting considerable resources to environmental issues and climate change in particular. LAPFF is already a signatory to the UNPRI. The Fund has also had contact with other relevant bodies on sustainability issues both directly and through its managers.

Collaboration

The Clwyd Pension Fund –

- *Will join and/or collaborate with organisations that are relevant to pursuit of the Fund's sustainability objectives;*
- *Will, subject to regulatory and operational constraints, seek relevant information from and share relevant information with such organisations in order to further the effective delivery of its Sustainability Policy.*

Reporting & Disclosure

The Clwyd Pension Fund Annual Report already includes copies of various regulatory documents, including various policy statements and the Fund's SIP. The latter includes details of the Fund's current policy statements on social, environmental and ethical considerations and corporate governance issues. The Annual Report is circulated widely and all these documents are also published on the Fund's website. It is already accepted that approaches on sustainability and other policy areas tend to evolve and develop over time. It is essential therefore to keep policies and practices under continual review so as to improve their efficacy.

Reporting & Disclosure

The Clwyd Pension Fund –

- Will, through its quarterly meeting procedure, report regularly and as appropriate on relevant sustainability issues;*
- Will, once a year, report formally on managers' level of compliance with the its Sustainability Policy, progress made in the year and areas where further progress needs to be made;*
- Will, once a year, review its Sustainability Policy in the light of best practice and agree any proposed changes through its governance procedure;*
- Will circulate this revised document to relevant bodies and particularly its managers;*
- Will incorporate this revised document into its SIP and publish its contents both in the Annual Report and on its website.*

MYNERS PRINCIPLES – 2014 / 2015 COMPLIANCE

Principle 1

Administering authorities should ensure that :

- ❑ Decisions are taken by persons or organizations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation, and
- ❑ Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Key Areas and Guidance	Comment & Actions	Compliance
It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.	The administering authority delegates investment decisions to the Clwyd Pension Fund Committee. The Committee delegates functions to Officers who take investment advice as required from a Pension Advisory Panel who provide appropriate focus and skills on investment decision making. Representatives and roles are defined in the SIP. <i>This new governance structure was implemented from May 2014.</i>	Full
The board should have appropriate skills for effective decision-making.	Training is given priority status through compliance with CIPFA Knowledge and Skills Code of Practice for elected members and ongoing sessions provided regularly through managers, collaboration and seminars. <i>A needs assessment process is to be introduced for members of the new Committee.</i>	Partial Compliance
There should be sufficient internal resources and access to external resources for trustees and boards to make effective decisions.	The Committee has access to experienced and trained officers and an Advisory Panel of professionals qualified to provide proper advice.	Full
There should be an investment business plan with progress regularly evaluated.	The investment business plan is included in the Fund's Annual Service Plan which is approved by the Committee who then receive updates on progress each Committee.	Full
The remuneration of trustees should be considered.	Remuneration and expenses are reviewed, considered and set by Council.	Full
Particular attention should be paid to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).	The investment consultant, actuary and independent adviser all have contracts which are regularly reviewed. Performance of the investment consultant and actuary will be monitored by the independent adviser. <i>The investment consultant and independent adviser contracts have been tendered in 2013/14 and new provider contracts commenced in April 2014</i>	Full

Principle 2

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Key Areas and Guidance	Comment & Actions	Compliance
Benchmarks and objectives should be in place for the funding and investment of the scheme.	The Fund's SIP sets out its investment and funding objectives as well as its overall strategic customized benchmark, asset class targets and Conditional Asset Allocation.	Full
Fund managers should have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.	Fund managers operate to detailed written mandates based in the main on 3-year rolling performance targets, some market-based with others more absolute return in nature. These are stated in the SIP.	Full
Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.	The Fund has always looked very widely at available asset classes and its extremely diversified structure reflects this. Whilst competitive deals are always sought with managers, fee levels have been less of a consideration on the grounds that, in optimizing structures, returns have always been considered on a net basis and that such costs are anyway offset by minimal additional performance. Other fund costs are very carefully considered and monitored.	Full
Trustees should consider the strength of the sponsor covenant.	The Fund is effectively Government-backed but the Fund impact on stakeholders receives appropriate attention.	Full

Principle 3

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Key Areas and Guidance	Comment & Actions	Compliance
Trustees should have a clear policy on willingness to accept underperformance due to market conditions.	Most managers have market-related benchmarks. There is clear acceptance of the fact that markets can be volatile in the short term. The setting of the Fund's strategic benchmarks is based upon the probable long-run performance of specific asset classes. Similarly, whilst the Fund's aim is that managers will outperform their benchmarks at all times, periods of under-performance are accepted as long as longer-term performance remains intact. <i>As noted above, in terms of changing managers, performance should not be the sole criterion. The cost and timing of change possibly need to be recognized more as key factors.</i>	Full
Trustees should analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.	At each Fund Review exercise, optimization techniques are used that take account of probable performance and risk factors as well as asset class correlations and the Fund's actuarial position. The implementation of the flight-path strategy now requires regular monitoring of the funding position <i>Such issues will be looked at again as part of the next Fund Structure review.</i>	Full
Trustees should take into account the risks associated with their liabilities' valuation and management.	These risks are considered as part of the Fund's flight-path strategy for managing funding risks such as interest rates and inflation. Each Fund Review exercise is aimed at achieving an overall long-term rate of return adequate to cover liability growth (pay/price inflation, interest rate changes and mortality) and to return, in time, to full funding status.	Full
Trustees have a legal requirement to establish and operate internal controls.	Committee members receive regular independent reports from Internal Audit and External Audit on internal controls. Any actions recommended by these bodies are actioned promptly.	Full
Trustees should consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.	The Fund's investment strategy is considered as part of the regular actuarial process used to review and set employers' rates of contribution and consistency between the two is an important factor.	Full

Principle 4

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Key Areas and Guidance	Comment & Actions	Compliance
There is a formal policy and process for assessing individual performance of trustees and managers.	The performance of the Committee is assessed by the Independent Adviser and published in the Annual Report. In line with the SIP, the performance of the Fund and its fund managers is formally monitored by the Investment Consultant and Officers.	Full
Trustees should demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).	Records of attendance at Committee and training events are maintained and reported in the Annual Report. Participation is recorded in the Committee minutes.	Full
The chairman should address the results of the performance evaluation.	All current performance evaluation documents (Training records, Independent Adviser, risk, Audit) are brought to Committee. The Chairmen has a key role in this and appropriate actions are agreed.	Full
There should be a statement of how performance evaluations have been conducted.	These are partly covered in the SIP and through specific reports to Committee but there is no statement that brings all these together. <i>The independent adviser will address this as part of the annual review of performance.</i>	Partial
When selecting external advisers, relevant factors including past performance and price should be taken into account.	Advisers are selected competitively, based on performance, price and other factors.	Full

Principle 5

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.

Key Areas and Guidance	Comment & Actions	Compliance
Policies regarding responsible ownership should be disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.	The Fund's Sustainability Policy is included as part of the SIP. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which considers responsible investment on a collaborative basis..	Full
Trustees should consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.	In formulating investment strategy, the Fund is always mindful of sustainability issues and these are an increasing focus for the Fund across all asset classes. Similarly, when appointing managers, questions are asked about engagement and sustainability although this is probably not given sufficient weight in the evaluation of managers for selection. To ensure best practice, the Fund has produced its own Sustainability Policy which will need to be regularly monitored and managed. In the future greater weight needs to be given to such matters in the manager appointment process.	Full
Trustees should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.	A questionnaire has been issued to all fund managers on their sustainability policy and their replies explain their approach.	Full
Trustees ensure that investment consultants adopt the ISC's Statement	The investment consultant adopts the ICS's statement.	Full

Principle 6

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

Key Areas and Guidance	Comment & Actions	Compliance
Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.	Details of the Fund's Communication Policy Statement and all other key reports – SIP, Annual Report, Corporate Governance Policy Guidelines, Funding Strategy Statement, Governance Compliance Statement and Myners Principles Compliance Statement are all published on the Fund's website. The Annual Report, which incorporates many of these documents, is also available in hard copy. A newsletter is also published periodically. The other two main sponsors (Denbighshire and Wrexham) have representation on the Committee along with an employee representative and other employer representative to ensure transparency.	Full

FRC STEWARDSHIP CODE 2014 / 15 COMPLIANCE

Principles	Comment & Actions	Compliance
Principle 1		
<p>Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.</p>	<p>The Clwyd Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too. In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and other agents and through membership of collaborative groups. The Fund makes this explicit in Section 7 of its Statement of Investment Principles (SIP) and through its recently introduced Sustainability Policy document. The Fund's investment strategy seeks long-term returns from investing in a highly diversified portfolio of assets and appoints asset managers who best reflect this long-term sustainability approach in their investment philosophy and process.</p>	Full
Principle 2		
<p>Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.</p>	<p>Through its Sustainability Policy, the Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest when it comes to matters of stewardship. The Fund requires all those who are directly involved in its management and governance to disclose any interest in any company, or other entity, in which the Fund has an ownership interest.</p>	Full
Principle 3		
<p>Institutional investors should monitor their investee companies.</p>	<p>Day-to-day responsibility for managing our equity holdings is delegated to the Fund's appointed asset managers. The Fund expects them to monitor companies, and intervene where necessary, and to report back regularly on activity undertaken. Quarterly review meetings with the Fund's asset managers provide an opportunity for particular company issues and, under the Fund's Sustainability Policy, managers will be required annually to report any areas of concern.</p>	Full

Principles	Comment & Actions	Compliance
Principle 4		
Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	Whilst there is broad guidance in the Fund's SIP and Sustainability Policy, as noted earlier, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.	Full
Principle 5		
Institutional investors should be willing to act collectively with other investors where appropriate.	The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which engages with companies on environmental, social and governance issues on behalf of its member authorities. The LAPFF is signatory to the United Nations Principles for Responsible Investing.	Full
Principle 6		
Institutional investors should have a clear policy on voting and disclosure of voting activity.	Whilst all the Fund's holding are through pooled voting, it takes its voting responsibilities seriously and its voting policy is detailed as part of its SIP and in its Sustainability Policy document. Within this constraint, the Fund seeks to exercise the voting rights attaching to all its UK equity holdings and, where practical, its overseas stocks. Voting records are reported quarterly to the Pension Fund Panel. <i>There is currently no disclosure on voting in the Funds Annual Report and Accounts or on the Fund's web site.</i>	Full, but further improvements are possible
Principle 7		
Institutional investors should report periodically on their stewardship and voting activities.	The Fund reviews its SIP and Sustainability Policy document on an annual basis and publishes these both in the Annual Report and Accounts and on the Fund's web site. In addition, the activity undertaken by the LAPFF is reported quarterly to the Pension Fund Panel as are summary voting records from managers. <i>However, there is currently no external publication of the Fund's voting record nor is there any retrospective review of stewardship generally.</i>	Partial