Cronfa Bensiynau Clwyd
Clwyd Pension Fund

Sir y Fflint
Flintshire

FLINTSHIRE COUNTY COUNCIL

Administering Authority for CLWYD PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

JUNE 2015

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1. Introduction

Background

Flintshire County Council is the Administering Authority responsible for maintaining and managing the Clwyd Pension Fund (the Fund) on behalf of its stakeholders; the scheme members and employers participating in the Fund. These responsibilities are primarily set out in Local Government Pension Scheme regulations.

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).

The Local Government Pension Scheme (LGPS), which is subject to Regulations made under the Superannuation Act 1972 and the Public Service Pensions Act 2013 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.

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 These regulations have been replaced by, the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009.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 (if at all) 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) attaching to investments, if the Authority has any such policy
- stock lending.

The SIP is designed to comply with guidance given by the Secretary of State. It incorporates a 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. The SIP also details the Fund’s responsibilities in respect of the FRC UK stewardship Code.

The SIP is effective from June 2015 and will be reviewed every six months with any material changes published.

The SIP should be read in conjunction with the following statutory documents:

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- Clwyd Pension Fund Annual Report and Accounts
- Clwyd Pension Fund Actuarial Valuation.

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

Aims and Objectives

Flintshire County Council recognises the significance of its role as Administering Authority to the Clwyd Pension Fund on behalf of its stakeholders which include:

- around 40,000 current and former members of the Fund, and their dependants
- around 29 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

The Fund's Mission Statement is:

- to be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers
- to have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources
- to work effectively with partners, being solution focused with a can do approach.

2. Objectives

Primary Funding and Investment Objectives

The primary funding and investment objectives of the Clwyd Pension Fund can be summarised as the following:

- Achieve and maintain assets equal to 100% of liabilities within an 18 year average timeframe, within reasonable risk parameters
- 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
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination.

In order that these primary objectives can be achieved, the following funding and investment principles have been agreed.

Funding Principles

The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2014 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.

A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013. 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 http://www.clwydpensionfund.org.uk/. The funding strategy will be monitored during 2014/17.

In managing the Fund, the key funding objectives are:

- to aim for a funding level of 100% and
- to aim for long term stability in employers' contribution rates.

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.

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.

The investment principles of the Fund are intended to strike the appropriate balance between the strategy 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.

Investment Principles

The key investment objectives for the Fund are to aim for sufficient excess investment returns relative to the growth of liabilities to meet the funding objectives set out above on an ongoing basis, whilst striking the appropriate balance between long-term consistent investment performance and the funding objectives.

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.

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.

The latest Fund review was undertaken in 2014 and changes as a result of this are in the process of being implemented. Details of the revised investment strategy are included in following sections.

3. Investment Roles & Responsibilities

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.

Clwyd Pension Fund Committee's Roles & Responsibilities

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
- Investment 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

Investment Consultants Roles & Responsibilities

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.
- Assisting the Clwyd Pension Fund Committee in relation to the Tactical Allocation Portfolio.
- 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 Pension Advisory Panel on changes to the managers that may be required.

- Maintaining and updating the Statement of Investment Principles.

Investment Managers Roles & Responsibilities

The Investment 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 and consultants.
- Providing details, as required, to the Fund’s custodian and independent performance measurer.

Custodians Roles & Responsibilities

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 monthly valuations of the Scheme's assets, details of all transactions during the month, bank statements and all other relevant documentation.

Actuaries Roles & Responsibilities

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.

Independent Adviser Roles & Responsibilities

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.

4. Investment Strategy

Setting Investment Strategy

The Committee have determined their investment strategy to meet the objectives outlined in Section 2 of this Statement. This includes consideration for the Fund's liability profile and the Committees' attitude to risk.

The strategic benchmark highlighted later in this section takes account of the risk and return characteristics of each asset class and provides a reasonable long-term balance appropriate to the liabilities of the Fund.

The 2014 Review

The 2014 review showed, using JLT Market Forecast Group output for Quarter 2 2014, that the expected market returns over the coming ten year period would mean that the Fund could be expected to generate a return of 7.2% p.a..

Investigations showed that no radical re-organisation of the current investment structure was required and the portfolio was well diversified and the introduction of the de-risking framework and Flightpath was well designed and its implementation ahead of the majority of other LGPS funds.

However, there were opportunities to reduce risk without sacrificing return.

These opportunities led to four main areas of change.

- The current Hedge Fund portfolio be re-structured to incorporate exposure to a Managed Futures account to provide protection against market volatility (particularly on the downside). Also, the overall level of exposure to this area should be reduced;
- An increase in the exposure and flexibility of the current Tactical Portfolio and the cessation of the current GTAA portfolio;
- Remove Commodities and Asia Pacific ex Japan Equities as long terms strategic allocations;
- Exposure to major economic regions should be managed through the Global Equity exposure.

These changes, based on the recommended allocation for the Tactical Allocation Portfolio, meant that expected return could be maintained, with the deficit risk being reduced by c. 4%.

Further details in relation to the revised investment strategy are outlined in this Section.

Investment Decisions

The Committee distinguish between three types of investment decision: strategic, tactical and security-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

The Committee take all such decisions themselves. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Fund benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are ultimately the responsibility of the Committee. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund. Furthermore, the Committee have delegated certain powers to the Clwyd Pension Fund Manager taking advice from the Tactical Asset Allocation Group. The purpose of the Tactical Allocation Portfolio is to take advantage of short term (approximately one year) opportunities that are consistent with the long term risk and return goals of the Fund. The Tactical Allocation Group are bound by the Tactical Allocation Portfolio Terms of Reference.

Security Selection Decisions

All such decisions are the responsibility of the investment managers of the funds in which the Fund is invested.

Types of Investments Held

The Fund may invest in any type of investment permitted under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). Consideration of each asset class or investment approach will include potential risk adjusted return expectations and an assessment of non-financial risks, liquidity, product structure and management costs.

The Fund is permitted to invest across a wide range of asset classes, including (but not exclusively) the following:

- UK and overseas equities
- UK and overseas government bonds, fixed and inflation linked
- UK and overseas corporate bonds
- Convertible bonds
- Property
- Commodities
- Timber
- Agriculture
- Hedge funds (including via a managed account platform)
- Managed futures
- Private equity
- Infrastructure
- High yield bonds
- Emerging market debt
- Diversified growth funds
- Liability driven investment products
- Cash (including currency)

The use of derivatives is as permitted by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

The Fund currently only invests in pooled funds but may also invest in segregated portfolios. In addition, the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

Balance between different types of investments

The Regulations require the administering authority to have regard for the diversification of the Funds investments.

The Fund will, at all times, invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing.

The Fund may invest via pooled and segregated portfolios based on the appropriateness for each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

The investment structure agreed in the 2014 investment strategy review is detailed in the table below.

Manager/Fund	**Mandate**	**Objective (net of fees)**	**Strategic allocation (%)**
Investec - Global Strategic Equity	Unconstrained Global Equities	MSCI AC World NR Index + 2.5% p.a.	8
Wellington - Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index + 1.0% p.a.	3.25
Wellington - Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index + 2.0% p.a.	3.25
Aberdeen - Frontier Market	Frontier Markets Equities	MSCI Frontier Equities Index + 1.5% p.a.	2.5
Stone Harbor - LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR + 1.0% p.a. (1)	15
In-House – Property	Property	IPD Balanced Funds Weighted Average	7
In-House - Infrastructure	Infrastructure	3 Month LIBOR + 5.0% p.a.	2
In-House - Timber / Agriculture	Infrastructure	3 Month LIBOR + 5.0% p.a.	2
In-House - Private Equity & Opportunistic	Private Equity	3 Month LIBOR + 5.0% p.a.	10
Pyrford - Global Total Return	Global Tactical Asset Allocation	UK Retail Price Index + 4.5% p.a. (2)	5
Investec – Diversified Growth Fund	Global Tactical Asset Allocation	UK Consumer Price Index + 4.6% p.a.	5
Tactical Allocation Portfolio*	Tactical Allocation	UK Consumer Price Index + 3.0% p.a.	9
TBC - Managed Account	Managed Account		9
	Managed Futures	*1 Month LIBOR + 4.0%*	
	Hedge Funds	*1 Month LIBOR + 3.0%*	
Insight – LDI	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19
TOTAL			**100**

(1) FTSE A Gilts All Stocks Index until 31 March 2014.
(2) UK Retail Price Index + 4.4% p.a. until 31 March 2015.

* 9% to be tactically allocated according to shorter-term market views. This can be implemented by increasing the allocation to any of the funds listed above or by separate fund(s) in any type of investment permitted under the regulations. This allocation is made through consultation with the Tactical Allocation Group, which is bound by the Tactical Allocation Portfolio Terms of Reference. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

The legacy funds in the table below do not form part of the long-term strategy but may be used in the interim as part of the Tactical Allocation Portfolio, in line with the Terms of Reference of the Tactical Allocation Group.

Manager/Fund	Mandate	Objective (net of fees)	Strategic allocation (%)
Duet - Global Opportunities	Unconstrained Global Equities	3 Month LIBOR + 4.5% p.a.	
BlackRock - GASL - Global Ascent (Sterling) Ltd	Global Tactical Asset Allocation	3 Month LIBOR + 4.5% p.a.	
Bluecrest - AllBlue Ltd	Global Tactical Asset Allocation	3 Month LIBOR + 4.0% p.a.	
Pioneer - Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR + 5.0% p.a.	
SSARIS - Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR + 3.0% p.a.	
Liongate - Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR + 5.0% p.a.	
Aberdeen - Asia Pacific ex Japan	Asia Pacific ex Japan Equities	MSCI AC Pacific (ex Japan) Index + 2.75% p.a.	
Wellington – Commodities	Commodities	S&P GSCI Equal Weighted (Hedged) + 1.0% p.a.	

The Fund's investment managers are remunerated either by way of an ad valorem fee, i.e. the fee is a percentage of the value of assets under management, or a combination of an ad valorem and performance-related fee. The principle of performance-related fees is that the base fee is lower and that the manager is only paid a higher fee if the performance objective set by the Fund is met or exceeded.

The majority of the Fund's investment managers are remunerated on an ad valorem fee basis, with the fee being incorporated in the unit price of the fund invested in. Currently, only two of the Fund's investment managers have their fees paid by explicit payment of an invoice rather than the fees being incorporated in to the unit price.

Asset Allocation and Long Term Expected Return on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under- or out-performance compared to the long term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored (‘Strategic Allocation’). In addition there are ranges for each asset category that allow limited deviation within the framework (‘Strategic Range’). The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing.

In addition to the Strategic Allocation and Strategic Ranges, a conditional medium term asset allocation (Conditional Range) exists, to manage major risks to the long term strategic asset allocation which may emerge between Fund Reviews.

The Fund’s strategic benchmark, as set out below, does not assume any outperformance from the investment managers. The expected returns stated in this table are as at the date of the 2014 strategic review.

Asset Class	Strategic allocation (%)	Strategic range (%)	Conditional range (%) **	Expected return above Government Bonds p.a.***
Developed Global Equity	**8.0**	**5.0 – 10.0**	**0 – 30**	**+4.0%**
Emerging Market Equity	**6.5**	**5.0 – 7.5**	**0 – 15**	**+5.0%**
Frontier Market Equity	**2.5**	**1.0 – 4.0**	**0 – 5**	**+6.0%**
Multi-Asset Credit	**15.0**	**12.5 – 17.5**		**+2.0%**
Government Bonds			0 – 30	+0.0%
Corporate Bonds			0 – 30	+1.0%
Overseas Government Bonds			0 – 30	+1.0%
Emerging Market Debt			0 – 30	+2.1%
High Yield Debt			0 – 30	+2.1%
Property	**7.0**	**5.0 – 10.0**	**5 – 15**	**+3.0%**
Infrastructure	**4.0**	**2.0 – 7.0**	**2 – 10**	**+3.1%**
Private Equity	**10.0**	**8.0 – 12.0**	**8 – 12**	**+5.1%**
Tactical Allocation Portfolio *	**19.0**	**15.0 – 25.0**	**10 – 30**	**+2.0%**
Commodities			0 – 10	+2.2%
Managed Account	**9.0**	**7.0 – 11.0**		
Managed Futures			0 – 15	+4.0%
Hedge Funds			0 – 10	+3.0%
Cash	**-**	**0.0 – 5.0**	**0 – 30**	**+0.0%**
Liability Hedging****	**19.0**	**10.0 - 30.0**	**10 - 30**	**+4.0%**

* The Tactical Portfolio can be invested in any asset class permitted by the regulations. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

** The Conditional ranges are at a total fund level, including the Tactical Allocation Portfolio but excluding the Liability Hedging mandate.

*** Expected return is expressed as an excess long-term return over UK government bonds of an appropriate duration or the "premium over gilts" to reflect the extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2014 strategic review. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.

**** The Liability Hedging Portfolio is a combination of Liability Driven Investment (LDI) and an equity overlay which will be managed as part of a de-risking approach. As the funding level improves, the equity exposure will be reduced and the LDI hedge ratio increased in a pre-determined way. Given the nature of this mandate i.e. protection against liability changes, it is not intended to rebalance the allocation, which can lead to a movement away from the initial strategic benchmark allocation of 19% at inception of the mandate.

The inclusion of a diversified range of assets and the scope for tactical allocation in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund’s expected long term return. This was the case when modelling the revised investment strategy in 2014.

Cash is included in the strategic benchmark but in principle the Fund will aim to be fully invested. Cash is held by the managers, at their discretion within their investment guidelines, and internally to meet working requirements. The strategic benchmark allows cash to be held for tactical or operational reasons.

The strategic policy and the medium term performance of the managers are monitored at quarterly Advisory Panel and Committee meetings.

LDI flightpath strategy

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. An LDI manager was 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.

As mentioned above, the Liability Hedging Portfolio is a combination of Liability Driven Investment (LDI) and an equity overlay, which will be managed as part of the de-risking approach. As the funding level improves, the equity exposure will be reduced and the LDI hedge ratio increased, in a pre-determined way. More detail is set out in the Funding Strategy Statement and separate flightpath monthly and quarterly reports.

Realisation of investments

The Fund’s investment policy is structured so that the majority of its investments (in equities, DGFs and bonds) can, except in the most extreme market conditions, be readily realised.

However, the availability of alternative investment vehicles enables the Fund to invest in less liquid asset classes and to build well-diversified portfolios. Investments such as property, infrastructure and private equity are long term investments which the Fund will not be able to realise in a short period. “Lock-up” periods are normal practice in hedge funds (to manage the in/out flows to ensure existing clients’ capital is protected) which means that these investments are not readily realisable either.

Notwithstanding this, the Fund maintains sufficient investments in liquid assets to meet its liabilities in the short and medium term as they fall due.

Cash Strategy

From 1st April 2011 Investment Regulations require the Pension Fund to have a separate bank account from the Local Authority.

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.

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.

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.
- The Insight Liquidity Fund for unexpected liquidity requirements or higher rates of return.

The Clwyd Pension Fund Manager will arrange for the daily implementation of the cash strategy.

Stock Lending

The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund.

5. Risk

Types of Risk

The Committee are aware, and seek to take account, of a number of risks in relation to the Fund's investments.

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence, if the investment returns are less than that required in the funding strategy the funding level will deteriorate, all else being equal. The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is controlled through diversification of asset holdings.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely manager, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is discussed in Section 7 – Sustainability of the SIP.

Manager Risk

The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's investments are managed by external investment managers who are required to invest the assets in line with the investment guidelines set by the Fund, appropriate for each mandate. Independent custodians safekeep the assets on behalf of the Fund.

Market Risk

Investment risk is controlled through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers. As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.

Credit Risk

Credit (and counterparty) risk arises in the bond portfolios, the management of cash balances and the trade settlement process. At all times the Fund ensures it appoints reputable and creditworthy external suppliers and that credit management policies are adhered to.

Liquidity Risk

Liquidity risk is the risk that the Fund cannot realise its assets as needed. As a result, the Fund limits its investment in less liquid asset classes such as property, hedge funds, private equity and infrastructure.

Liability Based Risk

The investment strategy provides some protection against the liability based risks, mainly interest rates and inflation. The LDI and bonds (to some extent) provide interest rate and inflation hedges. Infrastructure, property and, to a lesser extent, timber, agriculture, equities and DGFs, provide an inflation hedge over the medium to longer term. The Fund is not hedged against mortality risk.

Risk Budgets

In formulating the revised investment strategy, expected risk and return figures were utilised for each asset class. The figures used in the 2014 strategic review are as follows.

Asset Class	**Expected return above Government Bonds p.a.***	**Expected Risk (Volatility) p.a.****
Developed Global Equity	**+4.0%**	**14%**
Emerging Market Equity	**+5.0%**	**21%**
Frontier Market Equity	**+6.0%**	**20%**
Multi-Asset Credit	**+2.0%**	**6%**
Government Bonds	+0.0%	10%
Corporate Bonds	+1.0%	9%
Overseas Government Bonds	+1.0%	10%
Emerging Market Debt	+2.1%	12%
High Yield Debt	+2.1%	10%
Property	**+3.0%**	**5%**
Infrastructure	**+3.1%**	**10%**
Private Equity	**+5.1%**	**28%**
Tactical Allocation Portfolio	**+2.0%**	**9%**
Commodities	+2.2%	15%
Managed Account		
Managed Futures	+4.0%	6%

Hedge Funds	+3.0%	6%
Cash	**+0.0%**	**1%**
Liability Hedging	**+4.0%**	**21%**

* Expected return is expressed as an excess long-term return over UK government bonds or the "premium over gilts" to reflect the extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2014 strategic review. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.

** Expected risk is based on 10 year historic returns and volatility

Risk Register

The Clwyd Pension Fund has a Risk Policy and Risk Register in place.

The Clwyd Pension Fund Risk Register has a section dedicated to Funding & Investment Risks (including accounting and audit). Specific asset/investment risks highlighted in the risk register include those around investment markets, the failure of managers to achieve their objectives, missing out on market opportunities, and liquidity.

The risk register is kept up to date and ongoing consideration of key risks is undertaken at Committee and Advisory Panel meetings.

Regulatory limits

The regulations impose certain limits on the way in which the Fund's assets can be invested. In principle these are designed to ensure diversification and reduce risk.

For example there are limits on the amounts which can be invested in partnerships, unlisted securities, unit trusts and life funds. There is a two tier system of limits. The first tier is the "normal" limit; the second tier is a set of higher limits which can only be utilised once the Committee has passed a resolution, having complied with certain conditions.

6. Monitoring of Investment Advisers and Manager

Investment Advisers

All advisers have fixed term contracts and the performance of contract specifications is reviewed annually as part of the overall governance review.

Further details in relation to this are included in the latest Business Plan.

Investment Managers

The Advisory Panel and Committee receive at least quarterly monitoring reports on the performance of their investment managers against their specific benchmark. In addition, the Investment Consultant carries out ongoing research with investment managers and highlights changes that could impact on future performance. Officers also meet with investment managers on a frequent basis.

7. Sustainability

Responsible Investing Policy

The Clwyd Pension Fund recognises that responsible investing (RI) issues can have a material impact on the value of the investments held by the Fund. It also believes it has a responsibility to carry out its stewardship activities effectively. As a result the Committee have incorporated this into the investment decision-making process.

The Clwyd Pension Fund has incorporated these areas and others into its Sustainability Policy, a copy of which is included in Appendix A.

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

The Fund has adopted the FRC UK Stewardship Code which aims to enhance the quality of engagement between institutional investors and companies. The aim is to improve long-term returns to shareholders and by setting out good practice on engagement with investee companies, improve governance standards. The Fund seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to adopt the Code.

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum, a collaborative body seeking to promote best practice in corporate governance.

Exercise of Voting Rights

The Fund recognises its responsibility as a shareholder to actively encourage good corporate governance standards in the companies in which it invests as poor governance can negatively impact shareholder value.

Whilst all the Fund's holding are through pooled voting, it takes its voting responsibilities seriously.

8. Compliance with Guidance

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

The Fund's compliance statement on these Myners Principles is attached in Appendix B, explaining the extent of compliance with each Principle and the reasons for this.

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 Appendix C.

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

Approval, Review and Consultation

The investment strategy of the Clwyd Pension Fund was reviewed by its Committee and Advisers in November 2014. Representatives of employers and scheme members who are Pension Fund Committee members were involved in the review.]

This Statement of Investment Principles was approved at the Clwyd Pension Fund Committee on 21 May 2015. It will be formally reviewed and updated at least every six months or sooner if the matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Governance Policy and Statement, please contact:

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Appendix A – 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

<u>Objective</u> 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)

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.

The Fund Objective stated above already encompasses most of 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.

<u>Sustainability Approach</u>

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 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.

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 ensure that its managers adopt or ascertain their level of compliance with the ISC Statement of Principles on the responsibilities of shareholders/agents;
- Will 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 made aware of the Fund's Sustainability Policy

A similar approach needs to be adopted on in-house managed investments.

<u>Investment Management & Monitoring of Performance</u>

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.

<u>Investment Manager Selection & Contracts</u>

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.

> <u>Collaboration</u>
>
> 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.

> <u>Reporting & Disclosure</u>
>
> The Clwyd Pension Fund –
>
> - Will, through its quarterly meeting procedure, report regularly and as appropriate on relevant sustainability issues;
> - Will, periodically, 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.

Appendix B – Myners Principles – 2014/15 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 delegate functions to Officers who take investment advice as required from a Pension Advisory Panel who provide appropriate focus and skills on investment decision making. Further, a Tactical Allocation Group has been formed to take advantage of short term opportunities that are consistent with the long term risk and return goals of the Fund. Representatives and roles are defined in the SIP. This new governance structure was implemented from May 2014.	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. The Fund has produced a training policy for Members and Senior Officers. A needs assessment process will be introduced for members of the new Committee.	Partial
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 three year business plan includes an investment business 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. The Investment Consultant and Independent Adviser contracts were tendered in 2013/14 and new provider contracts commenced in April 2014	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 objectives, some market-based with others more absolute return in nature. The Liability Hedging portfolio has a liability based benchmark. 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. The Fund monitors each of the participating LGPS employers and admitted bodies.	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. A Tactical Allocation Portfolio, which looks to take advantage of short term opportunities that are consistent with the long term risk and return goals of the Fund, form part of the new investment strategy.	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 Such issues will be looked at again as part of the next Fund Structure review.	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. The Investment Consultant provides regular performance monitoring reports to both the Advisory Panel and Committee. .	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 Chairman has a key role in this, but also taking input from Officers and the Advisory Panel, with appropriate actions being agreed. .	Full
There should be a statement of how performance evaluations have been conducted.	Investments and Investment Managers are monitored on a quarterly basis by Committee and Advisory Panel. All advisers have fixed term contracts and the performance of contract specifications is reviewed annually as part of the overall governance review.	Full
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 is regularly monitored and managed. In all manager selection exercises undertaken, the sustainability policy that fund managers apply to their investments is reviewed.	Full
Trustees should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.	The Fund is aware of the voting policies of its underlying managers. A questionnaire is issued periodically 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 supports and adheres to the standard agreed with the investment consulting industry	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. A newsletter is also published periodically. The other two main Scheduled Bodies (Denbighshire and Wrexham) have representation on the Committee along with an employee representative and other employer representative to ensure transparency.	Full

Appendix C – FRC UK Stewardship Code – 2014/15 Compliance

Principles	Comment & Actions	Compliance
Principle 1		
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	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 through its 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.	Full
Principle 2		
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.	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.	Full
Principle 3		
Institutional investors should monitor their investee companies.	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. Regular review meetings with the Fund's asset managers provide	Full

	an opportunity for particular company issues to be discussed. Under the Fund's Sustainability Policy, managers are required to report any areas of concern.	
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 a 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. A summary of manager voting is included in the Fund's Annual Report.	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 to the Pension Fund Advisory Panel as are summary voting records from managers. All managers provide details of voting activity and a summary is provided in the Fund’s Annual Report.	Partial