

# Clwyd Pension Fund

Annual Report 2015 - 16



LAPF Investments  
2015 Awards  
**WINNER**



LAPF Investments  
2016 Awards  
**FINALIST**

# **CLWYD PENSION FUND – AWARDS**

## **IPE Real Estate Awards – May 2011**

Won – Best Pension Fund in UK/Ireland (Country Awards)  
Won – Best Opportunistic Investment (Themed Awards – Europe-wide)  
Won – Best Small Real Estate Investor in Europe (Gold Awards – Europe-wide)  
Runner-up – Best European Real Estate Investor (Platinum Award – Europe-wide)

## **IPE Awards November 2011**

Won – Best Use of Real Estate (Themed Awards – Europe-wide)  
Runner-up – Best Use of Specialist investment Managers (Themed Awards – Europe-wide)  
Runner-up – Best Use of Hedge Funds (Themed Awards – Europe-wide)

## **IPE Real Estate Awards – May 2012**

Won – Best Portfolio Construction (Themed Awards – Europe-wide)  
Won – Best Medium Real Estate Investor in Europe (Gold Awards – Europe-wide)  
Runner-up – Best Pension Fund in UK/Ireland (Country Awards)  
Runner-up – Best Indirect Investment Strategy (Themed Award – Europe-wide)  
Runner-up – Best Opportunistic Investment (Themed Award – Europe-wide)

## **IPE Awards – November 2012**

Won – Best Public Sector Fund in Europe  
Won – Best use of Alternatives  
Runner-up – Best Fund in Europe  
Runner-up – Best use of Commodities  
Runner-up – Best use of Emerging Markets  
Runner-up – Best use of Hedge Funds  
Runner-up – Best use of Real Estate  
Runner-up – Best use of Specialist investment Managers

## **IPE Real Estate Awards – May 2013**

Won – Best Institutional Investor in UK/Ireland

## **LAPF Investments 2015 Awards – September 2015**

Won – Risk Management Project of the Year

## **LAPF Investments 2016 Awards – September 2016**

Finalist - Governance

# Contents

**Introduction by the Chief Executive and Chair of the Clwyd Pension Fund Committee**

**Governance Structure & Overview of the Clwyd Pension Fund**

**Overview of Pension Fund Risks**

**Independent Advisor Annual Report**

**Pension Board Annual Report**

**Financial Performance**

**Cash Flow**

**Investment Policy and Performance**

**Sustainability and voting**

**Actuarial, Funding and Flight Path**

**Administration Update**

**Other Information (for SAB)**

**Regulatory Documents**

- Clwyd Pension Fund Accounts 2015/16
- Governance Policy Statement
- Funding Strategy Statement
- Statement of Investment Principles
- Communication Policy Statement
- Statement from Wales Audit Office

**Best Practice Documents**

- Business Plan
- Administration Strategy
- Breaches Policy
- Risk Policy
- Conflicts of Interest Policy
- Training Policy

# Introduction

Welcome to the Clwyd Pension Fund Annual Report for 2015/16.

## 2015/16 Overview

2015/16 was another year of major changes for the Clwyd Pension Fund (the Fund) and the Local Government Pension Scheme (LGPS) as a whole, and this overview gives a flavour of some of the more important developments.

The Clwyd Pension Fund Pension Board was established, and held its first meetings. This new Board consists of representatives from employers and scheme members in the Fund, and is chaired by the Fund's Independent Adviser. Its first formal report is included in this annual report which explains its purpose and what it has been focusing on during the year.

We carried out our first compliance check against the Pension Regulator's new Code of Practice for public service pension schemes. This covers a range of areas including knowledge and skills, communicating with scheme members, record keeping and managing risk. The review concluded that the Fund is being well governed and is largely compliant with the various areas of the Code.

We have been working with the other seven Welsh LGPS Pension Funds to introduce "asset pooling", in order to meet new guidance from Central Government. This simply means that the Clwyd Pension Fund will increasingly invest collaboratively, rather than making our own individual investment arrangements. The aim is to reduce costs, increase efficiencies and further improve governance over the Welsh LGPS Pension Funds' investments. This will be a major change in how we operate, which we should have implemented by April 2018. This change will have no impact on scheme members' pensions or other benefits, nor on the way that we pay their pensions.

The year has been a challenging year for investments and the markets, and so it remains critically important that we continue to look for opportunities when managing the Clwyd Pension Fund assets and liabilities. We carried out a health check on our risk management strategy (a flight-path assessment) during the year, and as a result intend to introduce some changes during 2016/17 to ensure the strategy remains fit for purpose. Along with our investment consultant, we introduced new ways of working to identify opportunities so that we can benefit from tactical opportunities as they arise. We also appointed an operator to more efficiently manage our futures and hedge fund allocations, as well as working with the other Welsh LGPS Pension Funds to appoint a new passive asset provider, which will generate significant fee savings across all the funds.

In March, we formalised and launched the Fund's Administration and Communications strategies, which you will find in this report. Our strategies are aspirational and will take around two years to fully implement, but the objectives continue to be focused on providing a high quality customer focused service to our stakeholders, with clear concise communications using the most appropriate means of delivery.

A lot of preparatory work was undertaken during the year including:

- a review of internal procedures and the measurement of performance
- significant progress with updating a backlog of records for deferred members that had arisen

We were delighted to be one of only seven LGPS Funds in the UK to meet the legal timescale for issuing Annual Benefit Statements and to win the 2015 LAMP Investment Award for Risk Management Project of the Year which recognised the success of our risk management strategy (flight path). We were one of the first LGPS Funds to introduce such a strategy and it has benefited us by around £100m since its introduction in April 2014.

In addition, the Fund was also shortlisted as a Finalist for the Governance award in the 2016 LAMP Investment Awards

Overall we can look back on 2015/16 in a positive light, as we continued to meet most of the Fund's objectives within a very challenging environment, and made good progress at introducing a number of improvements to benefit the Fund and its stakeholders in the future. Hopefully, this annual report illustrates the progress that has been and is being made in managing the various complex risks across the Fund.

### **The future**

Looking to the future, we know there are still ongoing challenges for us to overcome. Our business plan for the next three years has four key themes:

- completing the March 2016 actuarial valuation and reviewing our future funding and investment strategies
- continuing the preparatory work for the introduction of asset pooling by April 2018
- implementing new ways of working to improve our administration and communications, including on-line functionality for scheme members and employers
- pre-empting, where possible, the potential impact of Brexit and putting in place any necessary safeguards, particularly in relation to our asset allocation

### **This annual report**

We hope you find this annual report useful. Our aim is to be as representative and transparent as practically possible. In it you will find much more detail relating to the points we have highlighted above, as well as all of our main strategy and policy statements. It also includes information on how we manage the Fund, including its governance and operational aspects. Our three key advisers also include their own reports to provide us with greater external assurance on how we are running the Fund. More information about the Fund can be found on our pension fund web-site [clwydpensionfund.org.uk](http://clwydpensionfund.org.uk). We welcome any comments or questions on the content of this report.

Our intention is to seek continuous improvement in line with the Fund's Mission Statement as shown below. On that note, we invite any stakeholder to contact us with any comments or suggestions for improvement on any aspect on the management of the Fund.

Finally, we would like to thank all those involved with the management and administration of the Fund for their continuing hard work and dedication through what has been a challenging last decade.

**Cllr Alan Diskin**

**Colin Everett**

**Chair of the Clwyd Pension Fund  
Committee**

**Chief Executive**

**August 2016**

## **Mission Statement**

We will be known as forward thinking, responsive, pro-active and professional, providing excellent customer focused, reputable and credible service to all our customers.

We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.

We will work effectively with partners, being solution focused with a can do approach.

# Governance Structure & Overview of the Clwyd Pension Fund

## Administering Authority: Flintshire County Council

In May 2014 the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. Additionally, the representation of stakeholders, with full voting rights, on the Committee was widened. In performing their role the Committee takes advice from an advisory panel of officers and professional advisors. The Committee has a scheme of delegation to officers to ensure efficient implementation and receives monitoring reports at each quarterly Committee on governance, funding, investment, administration and communication strategies and progress with the 3 year Business Plan. The minutes of each Committee are available on the Flintshire County Council website

<http://cyfarfodyddpwyllgor.siryfflint.gov.uk/ieListMeetings.aspx?CId=445&Year=0&LLL=undefined>.

The membership of both the new Committee and Advisory Panel are shown below.

The Public Service Pensions Act 2013, which has been incorporated into the Local Government Pension Scheme (LGPS) regulations, included the establishment of Local Pension Boards. The report establishing the Local Pension Board for the Clwyd Pension Fund, pursuant to a recommendation from the Flintshire Constitution Committee was approved by Flintshire County Council on the 3<sup>rd</sup> March 2015. This established the Local Pension Board in time to meet the imposed 1<sup>st</sup> April 2015 deadline. Regulations also required that the first meeting took place before the 1<sup>st</sup> August 2015; this was achieved and the membership is detailed below.

The role of the Board as defined in Regulation is to secure compliance with regulation and legislation and ensure effective and efficient governance. The minutes of Board meetings are included in the Committee agenda papers and Board members attend Committee, making an important contribution to debates and discussion. The first Board annual report is included within this Annual Report.

The protocol for the Local Board can be found on the Fund's web-site, [www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk).

## Clwyd Pensions Fund Committee

Committee Members		Voting Rights
Flintshire County Council	Cllr Alan Diskin (Chair)	✓
	Cllr Haydn Bateman (Vice Chair)	✓
	Cllr Ron Hampson	✓
	Cllr Brian Dunn	✓
	Cllr Matt Wright	✓
Denbighshire County Council	Cllr Huw Llewelyn Jones	✓
Wrexham County Borough Council	Cllr Steve Wilson	✓
Scheduled Body Representative	Cllr Andrew Rutherford	✓
Member Representative	Mr Steve Hibbert	✓

## Advisory Panel

Panel Members	
Chief Executive (FCC)	Colin Everett
Corporate Finance Manager/ S151 Officer (FCC)	Gary Ferguson CPFA
Clwyd Pension Fund Manager (FCC)	Philip Latham
Investment Consultant (JLT Group)	Kieran Harkin
Fund Actuary (Mercer)	Paul Middleman FIA
Independent Advisor (Aon Hewitt)	Karen McWilliam FCIPP

## Clwyd Pension Fund Local Board

Local Board Members		Voting Rights
<b>Independent Chair</b>	Karen McWilliam	X
<b>Employer Representatives</b>	Mark Owen	✓
	Steve Jackson	✓
<b>Scheme Member Representatives</b>	Gaynor Brooks	✓
	Jim Duffy	✓

## Investment Managers

Investment Managers	Address
Aberdeen Asset Management Plc	Bow Bells House, 1 Bread Street, London
Insight Investment	160 Queen Victoria Street, London
Investec Asset Management	2 Gresham Street, London
Man FRM	Riverbank House, 2 Swan Lane, London
Pyrford International Ltd	95 Wigmore Street, London
Stone Harbor Investment Partners (UK), LLP	48 Dover Street, London
Wellington Management International Ltd	Cardinal Place, 80 Victoria Street, London

The Fund has a number of investments with managers investing in Property, Private Equity, Infrastructure, Timber & Agriculture which are listed in the Investment Policy & Performance section of this report.



## Other

Service	Address
<b>Custodian:</b> Bank of New York Mellon	160 Queen Victoria Street, London
<b>Actuary:</b> Mercer Ltd	Old Hall Street, Liverpool
<b>Consultant:</b> JLT Employee Benefits	7 Charlotte Street, Manchester
<b>Independent Advisor:</b> AON Hewitt	122 Leadenhall Street, London
<b>Performance Measurement:</b> WM Company	525 Ferry Road, Edinburgh
<b>External Auditors:</b> Wales Audit Office	Unit 4, Evolution, Lakeside Business Village, St. David's Park, Ewloe
<b>Bank:</b> National Westminster Bank plc	48 High St., Mold
<b>Legal Advisors:</b> Varies depending on the issue and can include the Flintshire County Council in-house legal team as well as organisations listed on the Framework Agreement (see below).	

AVC Providers	
Prudential	Lancing, BN15 8GB
Equitable Life ( <i>closed to new entrants</i> )	PO Box 177, Walton St., Aylesbury, Bucks., HP21 7YH

**Framework Agreement** – the following can be contacted for advice as and when required.

Organisation	Address
Squire Patton Boggs	7 Devonshire Square, London
Aon Hewitt	122 Leadenhall Street, London
Mercer Human Resource Consulting	Tower Place West, London
JLT Benefit Solutions	7 Charlotte Street, Manchester
Allenbridge	60 Goswell Road, London
bFinance	26-27 Oxendon Street, London

Clwyd Pension Fund Officers	Post	Contact details
<b>Philip Latham</b>	Clwyd Pension Fund Manager	(01352) 702264
<b>Helen Burnham</b>	Pensions Administration Manager	(01352) 702872
<b>Debbie Fielder</b>	Pensions Finance Manager	(01352) 702259
<b>Alwyn Hughes</b>	Pensions Finance Manager	(01352) 701811
<b>Pensions Administration Team</b>	pensions@flintshire.gov.uk	(01352) 702761
<b>Pensions Finance Team</b>	pensionsinvestments@flintshire.gov.uk	(01352) 702812

	Cllr A Diskin	Cllr H Bateman	Cllr R Hampson	Cllr B Dunn	Cllr M Wright	Cllr H. Jones	Cllr S Wilson	A Rutherford	S Hibbert
Strategy Day (Business Plans, Risk, Administration Strategy)		✓	✓	✓		✓	✓	✓	✓
Annual Employer Meeting (4hrs)		✓				✓	✓		
Pooling Briefing (2hrs)	✓	✓	✓				✓	✓	✓
Pensions Regulator Modules									
Conflicts of Interest							✓	✓	✓
Conferences									
LGC Investment Summit (1.5 days) Sept 2015	✓	✓							
LAPFF Annual Conference (1.5 days) Dec 2015									✓
LGC Seminar (1.5 days) March 2016	✓	✓			✓		✓		
Fees & Charges (2hrs)	✓	✓	✓	✓		✓	✓	✓	✓
Private Equity & Opportunistic (1hr)	✓	✓	✓	✓		✓	✓	✓	✓
Property, Infrastructure, Timber & Agriculture (1hr)	✓	✓	✓	✓		✓	✓	✓	✓
Pensions Regulator Code of Practice (2hrs)	✓	✓	✓	✓		✓	✓	✓	✓
Key Performance Indicators	✓	✓	✓			✓	✓		✓

**Committee Training and Activity 2015/16**



## Clwyd Pension Fund Training Policy 2015/16

At a national level, there are expanding requirements for LGPS Pension Committee members, Pension Board members and officers to have an appropriate level knowledge and skills. These are being driven by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Pensions Regulator (tPR) and legislation

The Fund developed a Training Policy which details the proposed training strategy for members of the Pension Fund Committee, Pension Board and senior officers responsible for the management of the Fund. It has been created to provide a formal framework and greater transparency on the training regime in accordance with the national requirements. It will aid existing and future Pension Fund Committee members, Pension Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the Clwyd Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills. The full Training Policy is included in the Best Practice section within this Annual Report.

In order to monitor the knowledge and skills and identify whether we are meeting the objectives of this policy, we will compare and report on attendance at training based on the following:

- a) Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
- b) Hot Topic Training – attendance by at least 80% of the required Pension Fund Committee members and senior officers at planned hot topic training sessions. This target may be focused at a particular group of Pension Fund Committee members, Pension Board members or senior officers depending on the subject matter.
- c) General Awareness – each Pension Fund Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
- d) Induction training – ensuring areas of identified individual training are completed within six months.

The previous table details all the training provided to Members of the Committee to satisfy the requirements of the Training Policy. This includes committees attended and relevant training sessions, conferences and seminars. All four new Local Board Members have also received and completed relevant training in line with the Policy, details of which are included in the Pension Board annual report. The Fund has a Training Plan which is provided to both Committee and Local Board Members and details all the training to be covered during the year.

In line with the Training Policy the follow measures relate to 2015/16 in relation to all Pension Committee, Local Board and senior officers (a total of 19 persons):

- a) Individual Training Needs – all but one have completed the required training on all key elements in the last three years. ,
- b) Hot Topic Training - Of the 8 additional training sessions offered, the attendance was as follow:

▪ 1 session	89%
▪ 4 sessions	84%
▪ 1 session	79%
▪ 1 session	74%
▪ 1 session	72%
- c) General Awareness – Out of the total of 19 members (Committee and Board) and officers, 10 of them completed at least one general awareness day in accordance with the policy.
- d) Induction training – The induction training element applied only to the new Local Board members during 2015/16. All Local Board members undertook the induction training during the required six months.

# Overview of Pension Fund Risks

The Clwyd Pension Fund (CPF) has embedded risk management into the governance of the Fund. The Risk Policy and the Risk Register are enclosed in the appendix of this Annual Report.

These risks are reviewed each quarter at the Advisory Panel and reported within the agenda at each Committee and Board.

There are risks whose impact or likelihood of materialisation are currently higher than our target level of risk. These are explained in more detail within the Risk Register but a summary of the higher risks follows:

## Governance

### Risk

- There are a number of external factors which may impact on the Fund meeting its objectives and legal responsibilities.

### Action

- These are monitored by the Advisory Panel and the Fund responds to consultation on changes.

## Funding and Investment

### Risk

- The current low interest rate environment and expectation of low economic growth and investment returns may in turn result in higher cost to employers which may become unaffordable.

### Action

- These risks will be considered during the actuarial valuation. Management of Investment and Funding risks are expanded in the Funding Strategy Statement and Statement of Investment Practice (SIP) which are appended to this Annual Report; both these documents are being reviewed in 2016/17.
- The Fund takes proper advice from its Actuary and Investment Consultants. The Actuary determines the return required to meet both past and future liabilities. The Investment Consultant recommends a strategic asset allocation to meet long term returns at acceptable levels of risk.
- Both the Actuary and the Investment Consultant work together on a risk management strategy which advises the Fund on when to de-risk the investment strategy. This is known as a funding flightpath which is explained in the Actuary's report. The funding strategy and SIP are approved by the Committee.
- The Investment Consultant reports each quarter to both the Advisory Panel and Committee on the Fund's investment return and asset performance as well as on the Fund's investment managers' performance compared with their target return. The Actuary reports each quarter to Committee on the funding position and flightpath.
- The Investment Consultant also advises on tactical investment opportunities which are implemented through a best ideas portfolio. The Committee have delegated implementation to the Clwyd Pension Fund Manager (CPFM).
- The Fund has a number of investments in property, private equity and infrastructure funds. These are monitored by the Private Equity and Real Assets Group. The Committee has delegated new investment decisions to the CPFM, Section 151 Officer or Chief Executive Officer after taking proper investment advice from the Investment Consultant.

## **Administration and Communication**

### Risk

- The Fund is unable to meet its legal and performance expectations.

### Action

- The Fund has implemented and Administration and Communications Strategy from April 2016 which will measure the performance of the Funds Administration Service and the employers who provide the member data to the Fund. Methods of improving the transfer of data between employers and the Fund are included in the current business plan.

CIPFA also asks LGPS Funds to report on certain specific areas explained below:

## **Managing Third Party Risks**

### Risk

- There are a number of risks the Fund must manage as a result of working with third parties, such as the employers that participate in the Fund, and our external suppliers and fund managers.
- Employer risk falls into two distinct areas:
  - Employers not carrying out their administrative responsibilities.
  - Employers not paying their contributions. Late payment of contributions could, if the contributions paid late were significantly large, directly put a strain on the Fund. However, more importantly, this may also be an indication of underlying problems, such as an employer that is going through financial difficulties. Should this lead to employers ceasing to participate in the Fund due to financial difficulties, this may result in unpaid liabilities which can then have implications on other employers in the Fund.

### Action

- Monitoring receipt of contributions and taking action to quickly pursue arrears. Late payments are captured as part of our monitoring of breaches in the law and our administration strategy so we quickly identify any trends which may indicate underlying problems. Late payments for 2015/16 are shown in the Administration section of the Annual Report.
- Considering the strength of covenant of our employers as part of the triennial valuation exercise, ensuring funding plans are appropriately set, which in turn dictate the amount of contributions due and when. Most employers in the Fund have a strong covenant, however, improvement in the procedures for monitoring employer risk is included in the 2016/17 Business Plan.
- Our external suppliers are wide ranging and include fund managers, custodian, consultants and information system suppliers. We carry out ongoing monitoring of all our suppliers appropriate to the type of service they provide, such as ensuring that all their fees are in line with the agreed contract, performance measuring against agreed objectives or benchmarks, regular review of their contracts, generally through tender processes, and review of fund manager annual reports. Our custodian and fund managers provide us with internal control reports which we regularly review.

# Independent Adviser

## Introduction

*This is my second annual report in my role as Independent Adviser to the Clwyd Pension Fund (the Fund), focusing on the year 2015/16.*

## My role

I was appointed in early 2014 as Independent Adviser to the Fund, and the intention was that I would become a 'critical friend' to the Fund. My remit was to advise the Fund and report annually to stakeholders on whether the administering authority is managing all risks associated with governance, investments, funding, administration and communication, although it should be noted that I am not required to be, nor indeed am, an expert in all of these areas. In particular, the Fund already has an appointed actuary to advise on funding matters and an appointed investment consultant to advise on investment matters, and I therefore use my working knowledge in these areas (and close working relationship with the appointed advisers) to specifically advise on the governance of these areas rather than on these areas themselves.

This is my second annual report, and it sets out my views on the management and administration of the Fund and, in particular, how it this has evolved during 2015/16 (April to March), but also touches on some developments that have taken place after March 2016. I also highlight some of the ongoing challenges Flintshire County Council will face in the future, in its role as Administering Authority to the Fund, both in the short term and in the longer term.

## Overview

Building on the significant changes last year, there have continued to be further significant challenges to the management and operations of the Fund since April 2015. As before, some have been driven by national changes to the LGPS (and public service schemes in general), whereas others, particularly relating to planned improvements to and evolution of the management of the Fund, have been driven by Flintshire County Council. Once again, my view is that a significant amount has been achieved in an extremely short period of time, which continues to be of great credit to all involved.

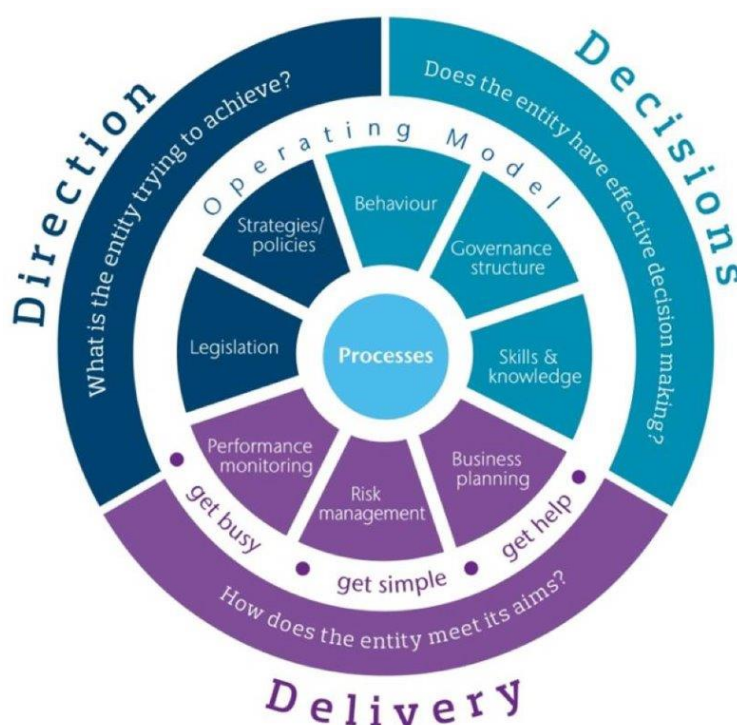
## Effective Governance

There are some key benefits from having effective governance in place, including:

- Robust risk management that can assist in avoiding issues arising or at least reducing their impact
- Ensuring resources and time are appropriately focussed
- Timely decision making and implementation of change
- A clear view of how the Fund is being operated for the Pension Fund Committee (or equivalent).

The approach I take in advising Flintshire County Council in its role as Administering Authority to the Fund is to consider its approach to governance against the Aon Hewitt governance framework. The Aon Hewitt governance framework incorporates our beliefs about what it takes to achieve good governance, and considers the following key areas:

- Direction – having clear strategies and policies that also meet legislative requirements are fundamental
- Delivery – having a clear plan for implementing the Fund's strategies and policies, together with appropriate monitoring as to whether they are being achieved, and good risk management ensure effective and efficient delivery
- Decisions – having an appropriate governance structure, involving the right people, with the right attitude and the appropriate skills and knowledge is critical.



In relation to each of these elements, I consider the key responsibilities for the Fund, in particular:

- the overall **governance** (aka management and decision making) of the Fund
- having an appropriate approach to **funding** the liabilities
- the safeguarding and **investment** of assets
- the **administration** of the scheme members' benefits and
- **communications** with the Fund's stakeholders

My thoughts on each of these areas are set out in the next section.



## Observations

*In this section I consider the progress made in the key areas of focus for the Fund as well as highlighting my thoughts for the future.*

## Governance

### Key achievements:

- mainly compliant check against The Pension Regulator's Code of Practice
- successfully bedded in Pension Board with excellent engagement
- engagement with asset pooling matters.

In my report last year, I highlighted that the Council had made some fundamental changes and improvements to the governance of the Clwyd Pension Fund. I believe 2015/16 saw the benefits from the strong governance structure and key governance related policies put in place in 2014/15. During 2015/16, Flintshire County Council continued to deliver strong governance of the Clwyd Pension Fund, implementing further improvements including:

- A number of areas which were planned exercises from the Fund's business plan:
  - Although the Pension Board Protocol was established before 1 April 2015 (in line with the regulatory timescales), the act of populating and implementing the Clwyd Pension Board took place in 2015/16. I was heavily involved in the member application process, and then in interviewing potential candidates, and I was delighted with the calibre of candidates applying. As such, I had high expectations (which were met) that the appointed individuals would be extremely helpful in relation to all areas of governance, including initiatives such as increasing employer engagement and evolving the Fund's administration and communications strategies. In addition to the excellent member and employer representatives, I was privileged to be asked to Chair the Clwyd Pension Board (a role I continue to fulfil), and over the year there were 3 meetings with 100% attendance by all members and excellent engagement during Board meetings. The Clwyd Pension Board has now produced its first annual report setting out the areas it has been involved with over 2015/16.
  - The Fund continued its work on meeting the requirements of its Training Policy. A key element of this was induction training for all the Pension Board members. In addition, training was held for Pension Fund Committee and Pension Board members on key topics such as the Pension Regulator's Code of Practice, alternative investments and fees and charges relating to investments. I feel confident that the Committee and Board are receiving relevant training in a timely manner.
  - My colleagues and I, from Aon Hewitt, were commissioned to undertake an independent review of how the Clwyd Pension Fund compares with the requirements set out in the Pension Regulator's Code of Practice. As part of this we worked with all officers in carrying out a fundamental review of their practices against the Code. The review found that overall the Fund complied very well with the Code of Practice (compared to other LGPS Funds). There were a few (generally minor) non-compliant areas to be kept under investigation or where further work was required – such as the need to better monitor and meet legal communication timescales – which are currently being worked on. The results

of this compliance review were presented to the Pension Fund Committee, the Pension Board and the Advisory Panel, all of whom were happy with the results and the minor areas for improvement. Going forward, a review against the TPR Code will be carried out annually to monitor improvement in previously non-compliant areas, and also to ensure that any previously compliant areas do not become non-compliant.

- A new staffing structure was implemented within the pensions administration team which provided greater opportunities to review ways of working and staffing levels (this is covered in more detail in the administration section below)
- My general feeling is that the new governance structure is now very much bedded in, and is working as intended. There was a slight setback when two meetings needed to be cancelled as they would not have been quorate (due to unavoidable personal circumstances), but this has not reoccurred since. It was pleasing to see that the urgency delegations (which had previously been set up) worked smoothly to avoid any issues arising as a result of these cancellations. It is also good to see that over the year the level of engagement in relation to critical areas has remained high. This is well demonstrated in the area of Asset Pooling in the LGPS, where all parties have been working well to consider the key challenges and risk areas – it is clear to see that the Fund is benefiting from a wide range of expertise in deciding how best to manage this, as well as where and how to challenge decisions / issues where appropriate. Based on my experience and work elsewhere, this process is being undertaken extremely effectively.
- There was a significant senior officer change at the beginning of the year, when Colin Everett, Chief Executive took over Helen Stappleton's role as senior officer involved in pension fund matters. I was very sad to see Helen having to step back from this role due to illness and the Fund has very much benefited from her dedication in recent years. However, I was very pleased to see that Colin has readily embraced his new responsibilities, by taking ownership and leadership in the role and he has provided clear and useful insight during the year.
- As mentioned briefly above, there was significant work done this year regarding asset pooling in the LGPS. Despite this not being part of the Fund's original business plan (as it was driven by Government with very short timescales), Flintshire County Council recognised the need to be involved at an early stage and was adaptable enough to incorporate this in their work plan. The Fund very quickly identified the need to minimise the risk of an operating model being adopted which might impact on the Fund delivering its investment strategy. Fund Officers took the time to consider and research alternatives and, above all, pushed for a well-structured project from the beginning, and managed this project to the best of their ability, particularly given the challenges relating to working with seven other partner Funds. It was particularly pleasing to see the involvement of Clwyd Pension Fund officers (such as Debbie Fielder and Alwyn Hughes) on national asset pooling working groups.
- The Risk Register was reviewed based on feedback received from the Pension Board, and the general feel at Advisory Panel that it wasn't as effective as it could have been, mainly due to including too much detail. This demonstrates that the critical oversight role provided by these two bodies is working effectively. The process for agreeing the new Risk Register should result in greater involvement at all levels, which is important to ensure this now becomes embedded in day to day management.

- The officers of the Fund held a strategy meeting to develop the Fund's Business Plan, involving both Pension Fund Committee and Pension Board members – it was considered useful to involve Committee and Board members in discussing the key challenges (and the business as usual) before finalising the draft business plan. As expected, it was an extremely positive experience for all parties, as the members were very engaged with the process, and the input of different opinions helped officers to ensure the draft business plan would really focus on the key issues in a timely manner.
- The Fund's Breaches Procedure was agreed, and is currently being implemented, although there is still some work to do on how to identify some of the more detailed breaches (e.g. administration legal deadlines), and this work will continue into 2016/17. In common with a lot of areas of good governance, the Clwyd Pension Fund was again one of the first LGPS Funds to put a Breaches Procedure in place.

My general opinion is that the Clwyd Fund compares well to the Aon Hewitt Governance Framework. The Fund identifies and sets out good clear objectives in all areas, measures itself effectively against these objectives, and has a good attitude to Business Planning and to Risk Management. The Fund's governance structure now works well, as mentioned above, and the individuals charged with managing the Clwyd Fund are unanimously well engaged, committed to their roles and well trained. The Fund's Conflicts of Interest Policy is now also well bedded in and I consider that all potential conflicts are identified at an early stage and managed appropriately. Transparency has been key to this and I commend all those involved for their openness and willingness to embrace this.

#### **Looking to the future:**

- Although the Committee and Board members now have a relatively good level of pensions knowledge and understanding, there is a general acknowledgement that there is still a lot to learn, particularly in the ever changing LGPS marketplace, so we need to ensure that everyone remains focused on training as a priority, and that the Clwyd Pension Fund continues to provide special training on the job. This will be of particular importance with the potential for a number of new Pension Fund Committee members after the Welsh elections in 2017.
- As mentioned above, there has been a lot of progress regarding asset pooling, but there are still some issues to address as this is a hugely significant project, and the eight Welsh LGPS Funds need to ensure they agree on the operation and structure of their pool. The Clwyd Pension Fund has a very different investment strategy to many other Funds, so they need to be assured that both the Operator and the pooling arrangements themselves can deliver to the Fund's requirements. Equally, the Clwyd Pension Fund also needs assurance that the governance structure and the role of the Joint Governance Committee do not take away from local decision making (whilst on the other hand accepting the operator manager appointments without unnecessary challenge). The crucial barometer of success is whether or not the move to asset pooling will result in savings for all funds, and this must be kept under close consideration.

- The Fund needs to be mindful of the Scheme Advisory Board's role in the future. There is currently quite a lot of uncertainty over their work plan for the year, other than valuation related matters, but any governance (or other non-valuation) related areas that arise will need to be considered.
- I will also be observing how the Fund will prepare and respond to the impact of Brexit. Obviously, at time of writing, there is much uncertainty around what may happen and how this might affect LGPS Funds, but as things develop they will need to monitor the situation and act appropriately.
- With so much going on, and so much uncertainty, I continue to recognise the pressures on all those involved. I have a number of concerns about the pressure, particularly, on staff resources but also on the time in Pension Fund Committee meetings. It is fair to say that officers are already prioritising workloads and it will be necessary to continually review the risks should certain tasks be considered as a lower priority or not able to be completed at all.

## Funding and Investments (including accounting and financial investment)

### Key achievements:

- Review of in-house investments
- Implementation of managed account platform
- Good use of Tactical Asset Allocation Group.

I work closely with both the actuary and the investment consultant to the Fund, and each will produce his own report, so this area of my report focuses on how things are done, rather than the detail of what is done. Key areas in relation to investment and funding this year have included:

- A number of areas which were planned exercises from the Fund's business plan:
  - Regular projects such as the 2015 funding review and the flightpath health check – these are very positive as they highlight opportunities appropriately dependent on market movements. Also, the funding review and meeting the backlog have instigated a central steering group involving the three main employers in the Fund, which allows greater engagement with these employers in relation to funding and administration matters, which will hopefully make things more efficient during the actuarial valuation process.
  - The Fund undertook quite a radical review of its in-house investments – this was carried out quickly and efficiently, taking advice from external consultants who made clear recommendations which were then implemented.
  - The Fund benefitted from the good working relationships it has developed with other LGPS Funds (working with Cornwall in this instance) to establish a managed account platform. This demonstrates the collaborative nature of the LGPS in continuing to look for innovative solutions and to make use of an existing development rather than reinventing the wheel.
  - The Tactical Asset Allocation Group is now well bedded in, and there is evidence of it working well, with the robust terms of reference around the delegated responsibilities allowing them to ensure they are completed appropriately, in a timely manner and with a

robust audit trail. The Advisory Panel reviews this on an ongoing basis, and it should also be noted that the group is working well with PERAG (Private Equity Real Asset Group).

My general opinion is again that the Clwyd Fund compares well to the Aon Hewitt Governance Framework in this area. The Fund identifies and sets out good clear objectives, has improved their measurement of these by having the Investment Consultant incorporate the in-house investments into their main reporting structure, and has a good attitude to Business Planning and to Risk Management. The Fund's governance structure works well, with appropriate delegations allowing the Pension Fund Committee to spend their time focusing on strategy. The Fund makes good use of consultants as appropriate, but the knowledge and understanding of individuals within the Fund continues to be excellent, allowing the Fund to benefit from the best ideas from all sources.

### **Looking to the future:**

- As mentioned previously, a significant focus next year will be on asset pooling and ensuring that the Fund's investment strategy can continue to be delivered.
- The 2016 valuation and review of funding strategy/investment strategy will be significant exercises throughout the next year. I will be particularly interested to see whether employers participating in the Fund feel engaged through this exercise, as there will be a number of changes from an employer perspective in relation to how this exercise is carried out.
- The Fund is due to undertake an AVC review (this has actually been deferred in recent years due to workloads, changes in the LGPS and reviewing of funds with the current provider). I am keen to see a review undertaken this year, and also to ensure that this is carried out on a regular basis in future.

## **Administration and Communications**

### **Key achievements:**

- Excellent progress made with reducing the historical backlog of administration tasks
- One of few administering authorities to issue annual benefit statements by the legal timescale.

I am pleased to report that, during 2015/16, Flintshire County Council continued to improve the administration and communications of the Clwyd Pension Fund, working hard across a large number of different areas, including:

- A number of areas which were planned exercises from the Fund's business plan:
  - Made considerable headway in dealing with historical backlogs, which was identified as a key piece of work for the year. In last year's report I set out that the Fund should plan for this to be resolved over a 24 month period, and the work that has been undertaken this year includes:
    - Identifying exactly what the current position was, and breaking this down into various work streams. As part of this, due to the volume of historical cases, it was decided that older backlog cases (pre March 13) would be outsourced to Mercer, a decision that I strongly supported.

- Commencing this outsourced element with Mercer early in the year, ensuring they had the correct processes in and liaising with employers to gather the necessary data. The robustness of the process was ensured by the Fund's pension administration team spot checking some of Mercer's calculations. The timescale (just over a year) was tight in my opinion, and hence hugely challenging for all parties – it is important to recognise the integral role that some employers in the Fund have had to play and I am delighted at how they have engaged with and made the time for this exercise. The Pension Administration team receive monthly updates from Mercer to ensure they are aware of how this is progressing.
- Dealing with a significant amount of the remaining backlog (such as transfers / aggregation) in-house by the Flintshire Pension Administration Team, which is now nearly complete.
- Linking closely to the administration review (mentioned below), including the development and establishment of performance management measures. This exercise is now nearly complete, and already provides a much clearer picture of the amount of work required, how this is trending on a monthly basis, and how much of this work is outstanding, in order to hopefully prevent future backlogs arising.
- Overall, I am delighted to note that the Flintshire Pension Administration Team has excelled this year in meeting this huge (and important) challenge of reducing the backlog.
- In order to effectively establish and implement the Administration and Communications strategies, the Fund held a workshop with various stakeholders, and then separately consulted with scheme employers. In noting this, I would particularly like to acknowledge the high aspirations and standards of the Pensions Administration team, and also commend them for starting to implement such radical changes within their team over such a short period of time.
- Extremely thorough Disaster Recovery testing was carried out, which provides reassurance that the Fund's systems and processes are robust enough to cope with all eventualities.
- Preparing for the introduction of i-connect, which is an online administrative module that allows information to be submitted by employers more directly and efficiently into the pension administration system from their own payroll systems. I believe this will be invaluable to the Fund and its employers. The first stage that the Fund has been working on is ensuring that the correct member records are held on the administration system before entering into testing and live roll out of the system. The intention is that i-connect will be available to all large employers of the Fund.
- The pension administration team has started to identify all historical cases that are eligible for trivial commutation, to communicate with them to determine whether they would like to commute their pensions for lump sums, and to update their processes for all future retirements. If members who are entitled to small pensions elect to give up the entirety of these pension and instead receive their benefit as single lump sum payments, this should reduce the administrative burden on the Fund of paying a large number of very small

pensions over a number of years as well as providing greater clarity from a funding perspective.

- Initial work took place on the GMP reconciliation exercise, including working to develop software with the software supplier.
- Ongoing administration exercises such as the year-end exercise, Annual Benefit Statements, Pension Increases, CARE revaluation were completed effectively during the first year of the new LGPS benefit structure. In addition, the Fund was one of only seven LGPS Funds nationwide to issue their Annual Benefit Statements within the legal timescale, for which the Pensions Administration team deserves huge credit.
- Outside of the exercises from the Business Plan, my colleagues and I from Aon Hewitt undertook an independent review of the efficiency and effectiveness of the pension team's administration processes. A number of the findings of this review linked to other initiatives that are often already underway, but other changes were also recommended (and instigated), including establishing dedicated teams for answering calls and putting in place processes for wider knowledge and skills requirements in the team.
- It was particularly pleasing to see the involvement of Flintshire County Council officers at a national level, such as Helen Burnham on IT system management and Flintshire County Council themselves as a founding authority on the national Third Party Administration framework.

My general opinion is again that the Clwyd Fund compares well to the Aon Hewitt Governance Framework in this area. The Fund identifies and sets out good clear objectives, (with some of the measuring still in the process of being developed) and has a good attitude to Business Planning and to Risk Management. The knowledge and understanding of individuals within the Fund continues to be excellent, and the Pension Fund Committee's engagement on administration is improving (with the Pension Board being very engaged in this area too).

### **Looking to the future:**

- The existing backlog needs to be cleared and monitoring finally implemented, and I will be interested to see how the administration team monitors workloads going forward to ensure that no further backlogs occur (or at least are very quickly dealt with) in future.
- The GMP reconciliation exercise will be hugely time consuming, and I completely agree that outsourcing this project is the best way to ensure that this is completed accurately and within the very tight timescales.

I look forward to seeing progress in the implementation of the new administration strategy, which will include introducing i-connect (intended to benefit scheme employers as well as the Administering Authority) and member self-service (intended to benefit scheme members as well as the Administering Authority). Both of these developments will be critical in bringing the administration service up to the levels aspired to in the administration strategy.

## Final Thoughts

I once again want to say a huge thank you to the Pension Fund Committee, Pension Board, officers and other stakeholders of the Fund for continuing to make me extremely welcome, and for being so open and receptive to my many suggestions. In particular;

- the officers' hard work and dedication remains inspiring, particularly in a period where there is so much uncertainty, and
- Pension Fund Committee and Pension Board members have dedicated many hours to Committee / Board business and attending additional training events.

## Contact Information

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## About Aon

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# **Clwyd Pension Fund Board**

## **Annual Report 2015/16**

### **Introduction**

This is the first annual report of the Clwyd Pension Fund Board based on the financial year from 1 April 2015 to 31 March 2016.

### **Establishment of the Clwyd Pension Fund Board**

The Public Service Pensions Act (PSPA) 2013 introduced a number of changes to public service pension schemes, including a number of key changes impacting on the governance of public service pension schemes. One of the key changes was the requirement for each Administering Authority in the LGPS to create a local Pension Board.

Each LGPS Administering Authority was required to establish their local Pension Board no later than 1 April 2015, and the Clwyd Pension Fund Board was established by Flintshire County Council on 3 March 2015.

In order to fill the positions on the Pension Board, Flintshire County Council (as administering authority) undertook an extensive recruitment process, involving interviews with all potential candidates. Following these interviews, we were appointed to the following positions:

- Two Employer Representatives (Mark Owen and Steve Jackson)
- Two Scheme Member Representatives, one of whom is nominated by the joint trade unions (Jim Duffy), and one who is a member of the Clwyd Pension Fund (Gaynor Brooks)

We will undertake these roles for a period of between three and five years, although we may be reappointed for future terms if we are selected again through the recruitment process.

Flintshire County Council decided that the Chair of the Pension Board should be the Independent Adviser for the Clwyd Pension Fund, subject to the Pension Board members agreeing, which we did. Accordingly, Karen McWilliam, the Independent Adviser chairs all the Pension Board meetings. The Chair is a non-voting role.

### **The Role of the Pension Board**

Legislation states that the role of the Pension Board is to assist the Administering Authority with securing compliance with regulations and with requirements imposed by the Pensions Regulator, as well as assisting in ensuring effective and efficient governance and administration of the Scheme. This has generally been interpreted as the Pension Board having an oversight role but not a decision making role. For the Clwyd Pension Fund, we have very much embraced this role as being about partnership. We work closely with the Pension Fund Committee and officers of the Fund in the hope that the questions we ask, and the challenge we sometimes provide, will assist in ensuring that the Fund is managed in the best interests of its scheme members and employers.

### **Meetings, training and attendance**

During 2015/16 we held three Pension Board meetings (in July 2015, October 2015 and March 2016) which were all attended by all representatives (and also by Pension Fund Officers who support the Pension Board).

As members of the Pension Board, we have all committed to following the requirements of the Clwyd Pension Fund's Training Policy. We have undertaken a range of training during the year, including three days of induction training arranged by Pension Fund officers covering the recommended CIPFA training competencies and including such as areas as Governance, Funding and Investments.

In addition, we are invited to attend the Pension Fund Committee meetings (the decision making committee for the Pension Fund) and their training events.

Our full record of attendance at meetings, training and events up to 31 March 2016 is shown below:

Event	Mark Owen	Steve Jackson	Gaynor Brooks	Jim Duffy
<b>Pension Boards</b>				
July 2015	✓	✓	✓	✓
October 2015	✓	✓	✓	✓
March 2015	✓	✓	✓	✓
<b>Committees</b>				
November 2015	✓	✓	✓	
March 2016	✓	✓	✓	✓
<b>CIPFA Framework</b>				
Governance	✓	✓	✓	✓
Funding & Actuarial	✓	✓	✓	✓
Investments	✓	✓	✓	✓
Accounting	✓	✓	✓	
<b>Additional &amp; Hot Topics</b>				
Budget Freedoms	✓	✓	✓	✓
Fees & Charges	✓	✓	✓	✓
Private Equity	✓	✓	✓	✓
Real Assets	✓	✓	✓	✓
Pension Regulator Code of Practice	✓	✓	✓	✓
Key Performance Indicators	✓	✓	✓	
Strategy Day (Business Plans, Risk, Administration)	✓	✓	✓	✓
Annual Employer Meeting	✓	✓	✓	
Pooling	✓	✓		
<b>Conferences</b>				
LGC Seminar		✓	✓	

## **What has the Pension Board done during 2015/16?**

The Pension Board held its first meeting in July 2015, so (as expected) a significant portion of the first part of year was focussed on our training and considering how we would operate. This included us adopting the Clwyd Pension Fund Board Protocol (developed and agreed by Flintshire County Council), adoption of the Fund's Conflicts of Interest Policy, the Training Policy and the Breaches Procedure, and consideration of the Pension Board's future work plan and budget. Each meeting also considers standards areas, such as the latest Pension Fund Committee papers.

In addition to these regular items:

- We have been involved with the development of the Administration and Communications strategies, leading to them being established for the Fund. This included taking part in workshops with the officers and Pension Fund Committee to understand and discuss their aspirations in these areas, and one of us taking part in scheme member communications focus groups. We believe that scheme members and employers will welcome how the Fund will evolve in these areas in the next few years.
- We very much appreciate the challenges for employers who participate in the Fund in budgeting for employer pension costs, and so we were able to work with the officers in considering how best to engage with employers during the triennial valuation this year.
- One of our key responsibilities is looking at how well the Fund adheres to The Pension Regulator's requirements. We spent some time considering an independent review of how the Clwyd Pension Fund compares with the requirements set out in the Pension Regulator's Code of Practice. The review found that overall the Fund complied very well with the Code of Practice (compared to other LGPS Funds), and found a few areas to be kept under investigation or where further work was required. These areas will continue to be on our future agendas and an update to this review will be carried out annually.
- The officers of the Fund hosted a strategy and business planning day in February 2016 for us and the Pension Fund Committee members to feed into what the key priorities for the Fund should be from 2016/17 to 2018/19. The workshop also gave us a much better understanding of what is involved in the day to day running of the Fund
- We have also been involved, along with the Pension Fund Committee, in various discussions regarding the proposed asset pooling in the LGPS, and in particular the Clwyd Pension Fund's participation in the Welsh Asset Pool.
- The Head of Internal Audit presented at one of our Pension Board meetings, and as a result we were able to better understand their work for the Fund and we were able to discuss and input to their three year rolling work plan.
- Our Chair, on our behalf, also presented at the Annual Joint Consultative Meeting in November. This is an annual meeting for employers and member representatives providing an overview of many topical issues, including investment, funding and administration matters.

## **What will the Pension Board do in the future (in particular in 2016/17)?**

Now that the Pension Board is fully established, in forthcoming years there will be much more focus on actively driving the agenda and highlighting areas for discussion. Although the exact work areas and timescales will necessarily remain flexible (in keeping with the recent pace of change in the LGPS), the following are already on our work plan for the forthcoming year:

- The issue of Scheme GMP reconciliation whereby, as part of the review of State Pensions, the Government is ceasing to hold GMP information for scheme members on their systems.

Accordingly all pension scheme providers who have been contracted out of the state scheme need to ensure their GMP records are accurate by reconciling them with those held by HMRC by 2018. This is a significant task for the administration team and preliminary work undertaken as part of a pilot scheme has shown that a significant number of records do not match (which is consistent with the findings for other LGPS schemes). It is critically important that this work is undertaken before the HMRC system is closed, as inconsistent records after that point will cause problems.

- Risk Management including revisions to the Fund's Risk Register and reporting processes.
- Ensuring the suitability and appropriateness of the Fund's disaster recovery processes and systems.
- The roll out and implementation of the administration and communication strategies including the development of appropriate Key Performance Indicators (KPIs), looking at the progress being made towards meeting those KPIs and new ways of working (such as i-connect and member self-service).
- Ongoing consideration of the progress on asset pooling in the LGPS.
- Inputting to the 2016 valuation in relation to how it is progressing and ongoing employer engagement.
- Consideration of how the Fund manages the potential and actual impact of Brexit.
- Areas of focus for The Pensions Regulator, following the review of the Clwyd Pension Fund's compliance with the Code of Practice. One of the key areas is recording and reporting breaches of the law. We also expect to see an annual update of the full compliance check.

### **Other observations and general comments**

We are pleased with the work we have completed in the first year of the Pension Board's existence. We have an excellent working relationship with the Pension Fund Committee and the Fund's officers, and are grateful for the way they have all embraced our involvement.

Overall, our impression is that the Clwyd Pension Fund is a well-managed Fund, with robust governance through their Pension Fund Committee supported by an excellent team of officers and advisers. There clearly are a number of ongoing challenges, not least the Wales Asset Pool proposals and the ongoing work implementing the administration and communications improvements. We look forward to another successful year working with the Fund on behalf of the scheme members and employers.

Gaynor Brooks, Member Representative

Jim Duffy, Member Representative

Steve Jackson, Employer Representative

Mark Owen, Employer Representative

**Clwyd Pension Fund Board**

# Financial Performance

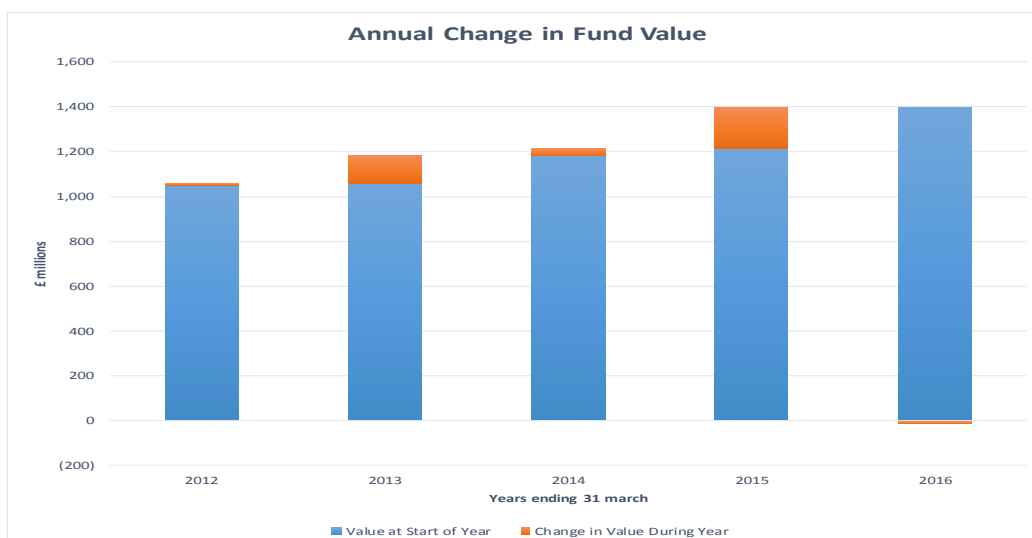
The following provides a brief overview of the key movements within the Fund over a five year period. More detail can be found in Pensions Administration Update, and Fund Accounts.

**Table 1.**

<b>Fund Account</b> <i>(All amounts £000's, year end 31 March)</i>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
<b>Value of Fund at start of year</b>	<b>1,051,815</b>	<b>1,060,823</b>	<b>1,181,232</b>	<b>1,213,567</b>	<b>1,395,408</b>
<b>Increase in fund value during year</b>	<b>9,008</b>	<b>120,409</b>	<b>32,335</b>	<b>181,841</b>	<b>(14,733)</b>
<b>Value of fund at end of year</b>	<b>1,060,823</b>	<b>1,181,232</b>	<b>1,213,567</b>	<b>1,395,408</b>	<b>1,380,675</b>
<b><i>The increase in fund value is made up of the following:</i></b>					
<i>Member and Employer related</i>					
• Contributions and pension strain	66,593	68,078	68,869	76,596	75,192
• Transfers in or (out)	(21,708)	3,139	563	249	(4,263)
• Benefits payable	(53,789)	(56,977)	(61,137)	(66,689)	(69,198)
	(8,904)	14,240	8,295	10,156	1,731
<i>Other Expenses</i>					
• Administrative and other expenses	(1,244)	(1,047)	(1,030)	(1,002)	(1,390)
• Oversight & Governance	n/a	n/a	(749)	(1,128)	(1,202)
• Investment Management Fees	n/a	n/a	(5,588)	(16,159)	(15,029)
<i>Investments (after income and fees#)</i>					
• Change +/-	19,156	107,216	31,407	189,974	1,157
	<b>9,008</b>	<b>120,409</b>	<b>32,335</b>	<b>181,841</b>	<b>(14,733)</b>

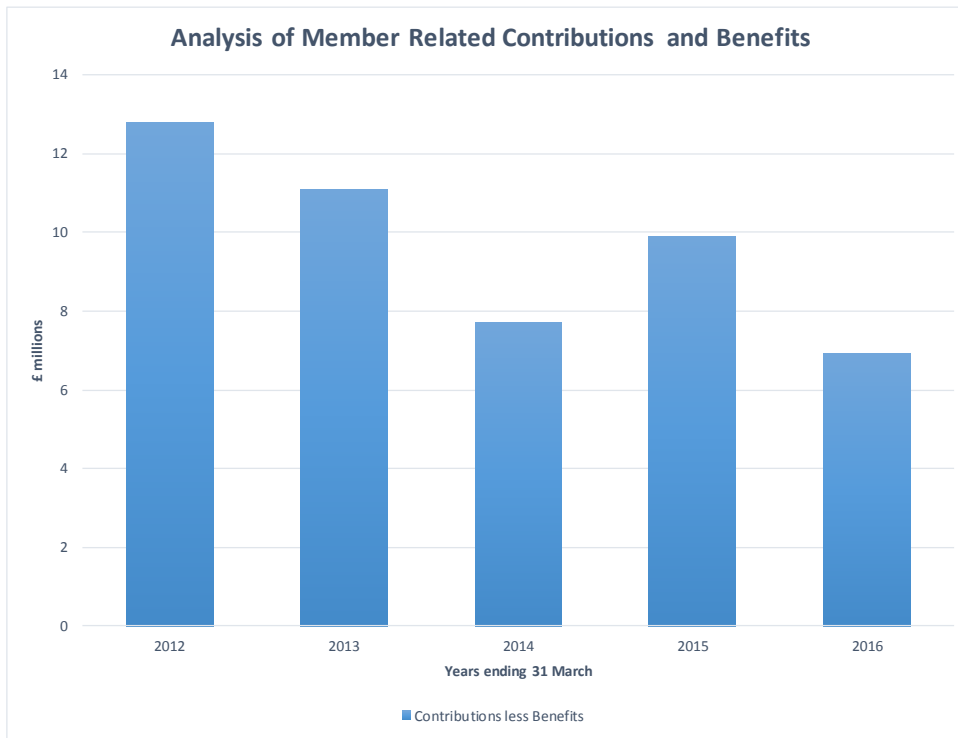
Table 1 illustrates the annual increase in the Fund value over the five years ending 31<sup>st</sup> March 2016. The change in the fund value is further analysed between member and employer related income (contributions and pension strain) or expenditure (benefits payable), return or loss on investments and other expenditure split against oversight and governance, administration costs and also against investment management fees. These are detailed further, for years ending 31<sup>st</sup> March 2015 and 2016, in the fund accounts. Transfers in or out of the fund can vary, as shown in Table 1, significantly between years and are outside the control of the Fund.

**Chart 1.**



This illustrates the Fund value over five years as detailed in Table 1 above. The column segment shown in orange identifies the annual change in Fund value and, as shown in Table 1, is mostly due to changes in the market value of investments.

## Chart 2.



This compares the difference between contributions received and benefits paid (Table 1 above), not taking account of transfers, over the same five year period. From Chart 2 it is the trend of the excess in contributions over benefits paid has steadily reduced from 2011/12, the exception being in 2014/15. This is not unexpected and reflects the growing maturity of the Fund offset in 2014/15 by an increase in employer contributions, following the 2013 actuarial valuation, and the impact of auto enrolment on membership numbers and thus employee contributions. There remains, however, a

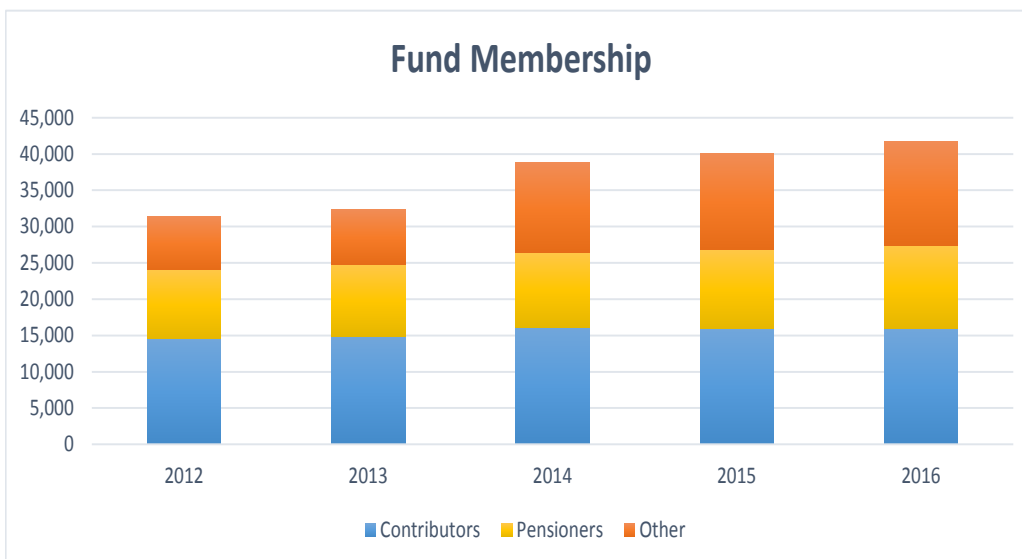
number of significant variables for the future including the impact of workforce reductions across the large employers as well as the ongoing impact of auto enrolment.

## Table 2.

Membership	2012	2013	2014	2015	2016
Number of Contributors	14,519	14,920	16,133	15,941	15,989
Number of Pensioners	9,553	9,874	10,367	10,863	11,478
Number with Preserved Benefits	7,386	7,539	12,314	13,304	14,198
<b>Total</b>	<b>31,458</b>	<b>32,333</b>	<b>38,814</b>	<b>40,108</b>	<b>41,665</b>

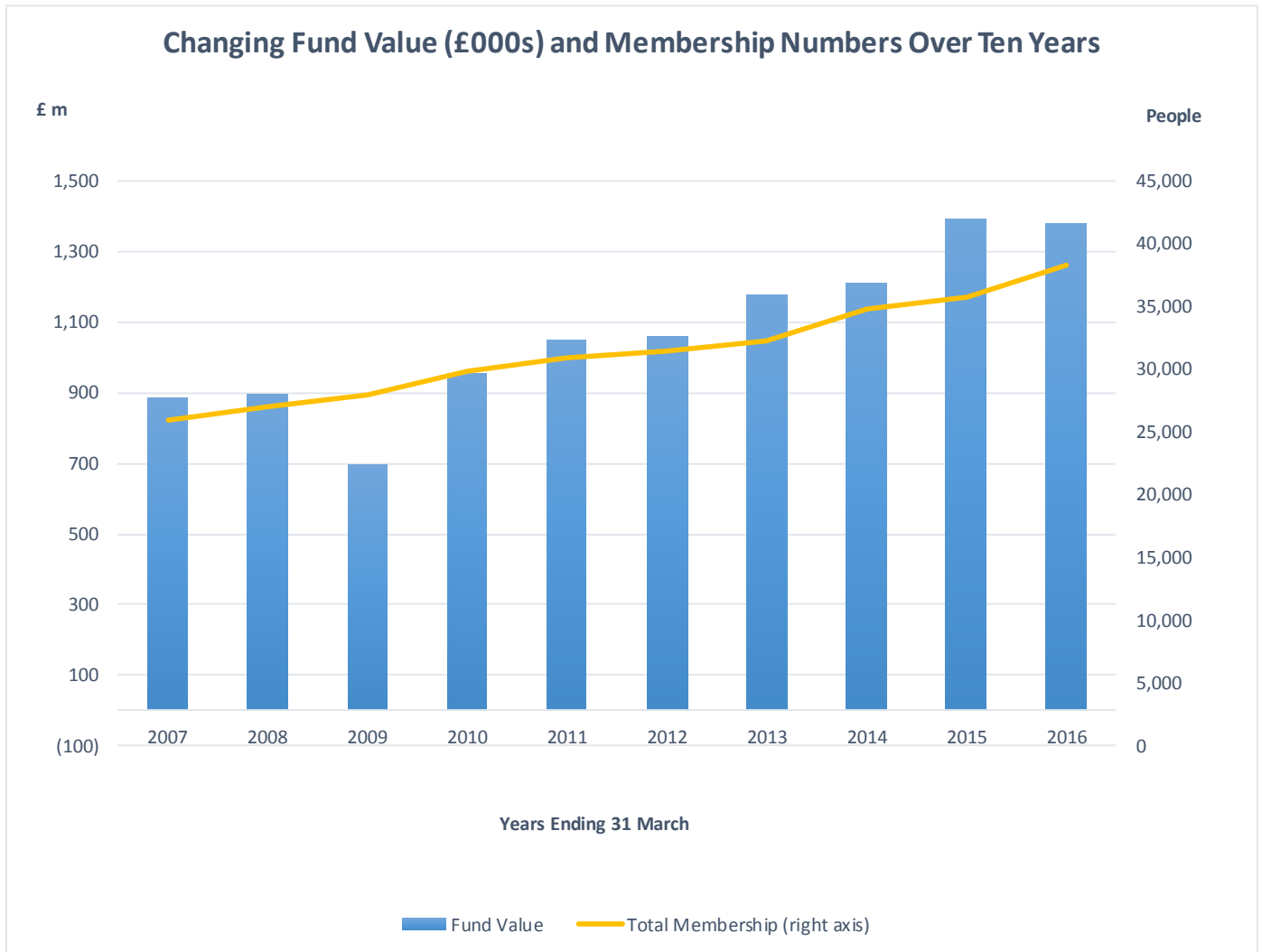
Table 2 above details the membership of the Fund over a five year period ending 31<sup>st</sup> March 2016. The membership is split between active contributors, those in receipt of a pension and those whose entitlement is preserved; these numbers do not include those who are undecided members.

## Chart 3.



This shows the membership data in Table 2 graphically. Overall the trend in total in membership is upwards over the five years ending 31 March 2016. However, it should be noted that the overall impact of auto-enrolment, which will increase membership, and the contraction in most employers' budgets which will reduce membership, cannot yet be quantified.

**Chart 4.**



This plots the Fund value over ten years to 31 March 2016. Over this period the Fund has increased from £889m to £1,381m (55%). The yellow line shows total membership over the same period (using right axis) and illustrates the growth in membership from around 24,100 to 38,300; an increase of just over 59%. Most discussions around pension funds focus, understandably, on their value, however, the value is only one part of the picture with the other part being the pension funds' liabilities. The liabilities of the pension fund are calculated by the fund actuary and represents the future liabilities of the fund at a particular time. As shown above (Table 1 and Charts 1 and 4) whilst the Fund has increased in value over the past ten years, however, its liabilities have also increased to an estimated (at 31 March 2016) £1,828m.

## Cash Flow

The Fund operates a rolling three year cash flow which is estimated and monitored on a quarterly basis. There are several unknowns within the cash flow such as transfers in and out of the fund and also drawdowns and distributions across the Fund's Property and Private Equity portfolio for which the current allocation is 21% of the Fund.

Cash flow predictions for the drawdowns and distributions are reassessed annually to incorporate the actuals for the year and any further commitments agreed during the period.

The following table shows a summarised final cash flow for 2015/16. This is purely on a cash basis and does not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals.

2015/16	Estimate £000	Actual £000	Variance £000
<b>Opening In House Cash</b>		<b>(43,735)</b>	
<b>Payments</b>			
Pensions	53,600	52,932	(668)
Lump Sums & Death Grants	18,000	14,906	(3,094)
Transfers Out	2,800	5,889	3,089
Expenses (including In House)	3,200	4,881	1,681
Support Services	250	167	(83)
<b>Total Payments</b>	<b>77,850</b>	<b>78,775</b>	<b>925</b>
<b>Income</b>			
Employer Contributions	(31,765)	(30,506)	1,259
Employee Contributions	(15,000)	(14,535)	465
Employer Deficit Payments	(27,230)	(27,872)	(642)
Transfers In	(4,000)	(1,791)	2,209
Pension Strain	(2,350)	(3,204)	854
Income	(140)	(74)	66
<b>Total Income</b>	<b>(80,485)</b>	<b>(77,982)</b>	<b>(2,503)</b>
<b>Cash Flow net of Investment Income</b>	<b>(2,635)</b>	<b>793</b>	<b>3,428</b>
<b>Investment Income</b>	<b>(2,850)</b>	<b>(2,497)</b>	<b>353</b>
<b>Total Net of In house Investments</b>	<b>(5,485)</b>	<b>(1,704)</b>	<b>3,781</b>
In House Drawdowns	44,376	34,021	(10,355)
In House Distributions	(61,606)	(64,836)	(3,230)
<b>Net Drawdowns/Distributions</b>	<b>(17,230)</b>	<b>(30,815)</b>	<b>(13,585)</b>
<b>Net External Manager Cash</b>	<b>39,400</b>	<b>62,614</b>	<b>23,214</b>
<b>Total Net Cash Flow</b>	<b>16,685</b>	<b>30,095</b>	<b>13,410</b>
<b>Closing In House Cash</b>	<b>(27,050)</b>	<b>(13,640)</b>	



### 3 Year Cash Flow Forecast

The following table shows the cash flow forecasts for the next three years to March 2019. These are purely on a cash basis and do not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals. An estimate of the asset valuation has been included at the end of the table and has been based on a targeted investment strategy which looks to produce an overall return of 7.1% per annum. Estimates of Manager pooled investment fees are included in the budget report which follows the cash flow report.

	2016/17 £000	2017/18 £000	2018/19 £000
<b>Opening Cash</b>	(13,640)	(14,198)	(13,984)
<b><u>Payments</u></b>			
Pensions	57,300	59,600	62,000
Lump Sums & Death Grants	20,000	20,000	20,000
Transfers Out	2,800	2,800	2,800
Expenses (including In House)	4,500	3,260	3,260
Support Services	250	250	250
<b>Total Payments</b>	<b>84,850</b>	<b>89,910</b>	<b>88,310</b>
<b><u>Income</u></b>			
Employer Contributions	(33,250)	(33,900)	(34,550)
Employee Contributions	(15,200)	(15,400)	(15,600)
Employer Deficit Payments	(28,500)	(33,200)	(35,200)
Transfers In	(4,000)	(4,000)	(4,000)
Pension Strain	(1,200)	(1,200)	(1,200)
Income	(170)	(170)	(170)
<b>Total Income</b>	<b>(82,320)</b>	<b>(87,870)</b>	<b>(90,720)</b>
<b>Cash Flow net of Investment Income</b>	<b>2,530</b>	<b>(1,960)</b>	<b>(2,410)</b>
<b>Investment Income</b>	<b>(3,000)</b>	<b>(3,000)</b>	<b>(3,000)</b>
<b>Total of In-House Investments</b>	<b>(470)</b>	<b>(4,960)</b>	<b>(5,410)</b>
In-House Draw downs	40,955	53,008	47,407
In-House Distributions	(71,043)	(77,834)	(68,970)
<b>Net Drawdowns/Distributions</b>	<b>(30,088)</b>	<b>(24,826)</b>	<b>(21,563)</b>
<b>Net External Cash Manager</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>
<b>Total Cash Flow</b>	<b>(558)</b>	<b>214</b>	<b>3,027</b>
<b>Closing Cash</b>	<b>(14,198)</b>	<b>(13,984)</b>	<b>(10,957)</b>
<b>Estimated Asset Valuations</b>	<b>1,478,325</b>	<b>1,583,286</b>	<b>1,695,699</b>

## Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2015/16 compared to 2014/15 revised. Following a change by CIPFA of the guidelines for management costs it was necessary to remove underlying manager costs from the 2014/15 actuals so that they are directly comparable with 2015/16. The increase of £0.372m in outsourcing with Administration is due to the work undertaken during the year on historic backlogs.

	2015/16 £000	2014/15 £000	2014/15 £000 Revised	Net change £000	The following table shows actual costs for 2015/16 compared to the budgeted costs along with the budget
<b><u>Governance &amp; Oversight Expenses</u></b>					
Employee Costs (Direct)	225	218	218	7	
Support & Service Costs (Internal Recharges)	12	13	13	(1)	
Premises	8	8	8	0	
IT (Support & Services)	11	12	12	(1)	
Other Supplies & Services	52	49	49	3	
Audit Fees	39	37	37	2	
Actuarial Fees	224	205	205	19	
Consultant Fees	371	403	403	(32)	
Advisor Fees	225	142	142	83	
Legal Fees	35	21	21	14	
<b>Total Governance Expenses</b>	<b>1,202</b>	<b>1,108</b>	<b>1,108</b>	<b>94</b>	
<b><u>Investment Management Expenses</u></b>					
Fund Manager Fees	14,971	16,127	15,836	(865)	
Custody Fees	28	32	32	(4)	
Performance Monitoring Fees	30	20	20	10	
<b>Total Investment Management Fees</b>	<b>15,029</b>	<b>16,179</b>	<b>15,888</b>	<b>(859)</b>	
<b><u>Administration Expenses</u></b>					
Employee Costs (Direct)	603	592	592	11	
Support & Service Costs (Internal Recharges)	46	53	53	(7)	
Outsourcing	404	32	32	372	
Premises	33	33	33	0	
IT (Support & Services)	243	218	218	25	
Other supplies & services	61	75	75	(14)	
Miscellaneous Income	0	(1)	(1)	1	
<b>Total Administrative Expenses</b>	<b>1,390</b>	<b>1,002</b>	<b>1,002</b>	<b>388</b>	
<b>Total Fees</b>	<b>17,621</b>	<b>18,289</b>	<b>17,998</b>	<b>(377)</b>	

for 2016/17. The budget reduction for fund manager fees for 2016/17 is reflective of the ongoing work to reduce overall fees as well as reflecting the removal of underlying costs following a review of the guidelines by CIPFA.

	2015/16 £000 Actual	2015/16 £000 Budget	2015/16 £000 Variance	2016/17 £000 Budget
<b><u>Governance &amp; Oversight Expenses</u></b>				

Employee Costs (Direct)	225	226	(1)	229
Support & Service Costs (Internal Recharges)	12	19	(7)	19
Premises	8	17	(9)	17
IT (Support & Services)	11	10	1	10
Other Supplies & Services	52	56	(4)	56
Audit Fees	39	36	3	40
Actuarial Fees	224	192	32	304
Consultant Fees	371	351	20	389
Advisor Fees	225	156	69	188
Legal Fees	35	30	5	30
<b>Total Governance Expenses</b>	<b>1,202</b>	<b>1,093</b>	<b>109</b>	<b>1,282</b>
<b><u>Investment Management Expenses</u></b>				
Fund Manager Fees	14,971	14,490	481	11,028
Custody Fees	32	17	15	34
Performance Monitoring Fees	30	25	5	25
<b>Total Investment Management Fees</b>	<b>15,029</b>	<b>14,549</b>	<b>480</b>	<b>11,087</b>
<b><u>Administration Expenses</u></b>				
Employee Costs (Direct)	603	662	(59)	711
Support & Service Costs (Internal Recharges)	46	82	(36)	90
Outsourcing	404	800	(396)	1,240
Premises	33	75	(42)	75
IT (Support & Services)	243	250	(7)	250
Other supplies & services	61	70	(9)	70
Member Self Service	0	0	0	107
Miscellaneous Income	0	0	0	0
<b>Total Administrative Expenses</b>	<b>1,390</b>	<b>1,939</b>	<b>(549)</b>	<b>2,543</b>
<b>Total Fees</b>	<b>17,621</b>	<b>17,581</b>	<b>40</b>	<b>14,912</b>

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## Investment & Funding

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### Long Term Strategy

In determining the Investment Strategy for the Clwyd Pension Fund (the Fund), the overall objective is to:

- Aim for a funding level of 100%
- Aim for long term stability in employers' contribution rates
- Achieve superior investment returns relative to the growth of liabilities

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 long term.

### Summary of 2015/16

#### **Market Commentary**

One of the main drivers of investment performance of any pension fund is the direction of the financial markets.

Over the year 2015/16 the global economy has seen slower growth, increased volatility in financial markets and falling commodity prices. Equity markets suffered heavy losses throughout August 2015 due to concerns about the Chinese economic slowdown which led to the devaluation of the Chinese yuan and regulatory intervention. In particular those countries deemed to have higher exposure to China were badly affected. Markets recovered in November 2015 however the beginning of 2016 saw further falls and high levels of volatility in the markets, with investors switching out of "risky" assets into so called "safe haven" Bond markets amidst this period of uncertainty. Since mid-February 2016, the markets have recovered significantly, however there has been further volatility in 2016/17 in the build up to, and the result of, the EU Referendum. UK Equities posted a return of -3.9% as UK Equity markets were hit by falling Commodity prices – as basic materials and energy companies comprise a sizeable share of the market – along with the global factors that led to the wider Global Equity market falls. On average Global Developed Equities returned +0.3%, with the USA being the stronger performer at +4.2% and Asia Pacific the worst -7.8% as Asian economies also saw negative stock market movements parallel to those in the Chinese markets. Emerging Markets -8.8% and Frontier Markets -9.3% were the worst performing markets. These returns will have impacted the Equity element of the Fund however the diversification within the total portfolio will have helped to offset some of these Equity losses.

Government Fixed Income securities provided positive returns as investors undertook higher allocations in this asset class in search of capital preservation with UK Gilts (>15 Yrs.) returning +4.0%. This is a problem for many pension funds as this reflects lower Gilt yields, as the measurement of their liabilities are related in part to the yields. The Gilt yield only marginally fell over the year by -0.1% although this does not reflect the volatility of the movement of the yield as yields have significantly fallen in this calendar year to March. In 2016/17 yields have fallen sharply following the Post Brexit decision. However, in the Actuarial Valuation that will be undertaken as at 31 March 2016, there will be an adjustment to methodology to assess the value of the liabilities so it is directly linked to real returns versus CPI inflation that the asset strategy can deliver taking into account the flightpath. This means that the liabilities will move away from a linear linkage to changes in gilt yields by referencing real returns over CPI inflation, which will reduce the impact on the funding level by these yield falls.

Price inflation increased slightly over the year with the CPI increasing by +0.5% and earnings inflation rose by +2.4%. This is important for pension schemes with inflation linked liabilities such as the LGPS, however as noted above this will also impact on how the CPF liabilities will be valued in the forthcoming Actuarial Valuation.

Within Commodities, oil prices (Brent Crude) fell by -31% in the last twelve months driven by global growth concerns, a supply glut, and a lack of consensus among OPEC and non-OPEC producers regarding a production freeze or cuts. Overall the return of Commodities was -26.3% for the year. There were mixed returns in other growth asset classes such as Property, which rose strongly +11.7%, and Hedge Funds which fell -0.7%. High Yield produced a positive return +2.5% whilst UK Long Dated Corporate Bonds were slightly negative -0.2%.

### **Clwyd Pension Fund Investment Performance 2015/16**

The Fund returned -0.1% in 2015/16 which is behind the long term annual benchmark of circa +7.0% and long term funding assumptions quoted in the Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS). However, this is only one year in isolation of an 18 year funding recovery plan. The return of

-0.1% compared with a composite benchmark (of the underlying manager benchmarks) of +1.4% and composite outperformance target of +1.9%.

Only the Fund's In-House portfolio produced a positive overall return of +12.6%. Within this portfolio Infrastructure +21.4%, Private Equity +18.0% and Property +11.2% all produced excellent returns whilst Timber and Agriculture also produced a positive return +3.6%. However these were partially offset within the overall return by the Opportunistic assets that declined by -30.1% in the year.

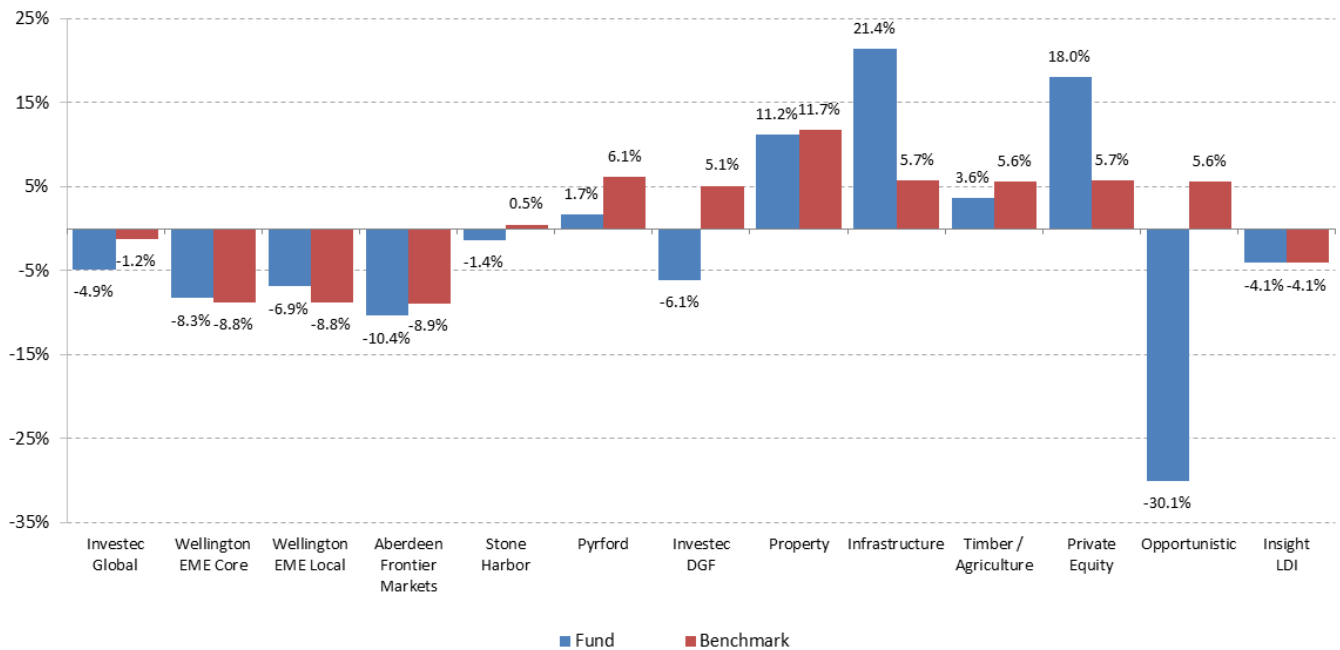
The Equity portfolio that includes Global, Emerging and Frontier Equity exposures returned -6.5% with Frontier and Emerging Markets being the worst performing portfolios on an absolute return basis. However within this portfolio the two Emerging Markets funds with Wellington outperformed their individual benchmarks. The Multi Asset Credit portfolio produced a negative return of -1.4%.

The Diversified Growth Portfolio, which forms part of the Tactical Allocation Portfolio, returned -2.2%. Both the Diversified Growth managers underperformed their benchmarks however Pyrford produced a positive absolute return of +1.7% whilst Investec returned -6.1%.

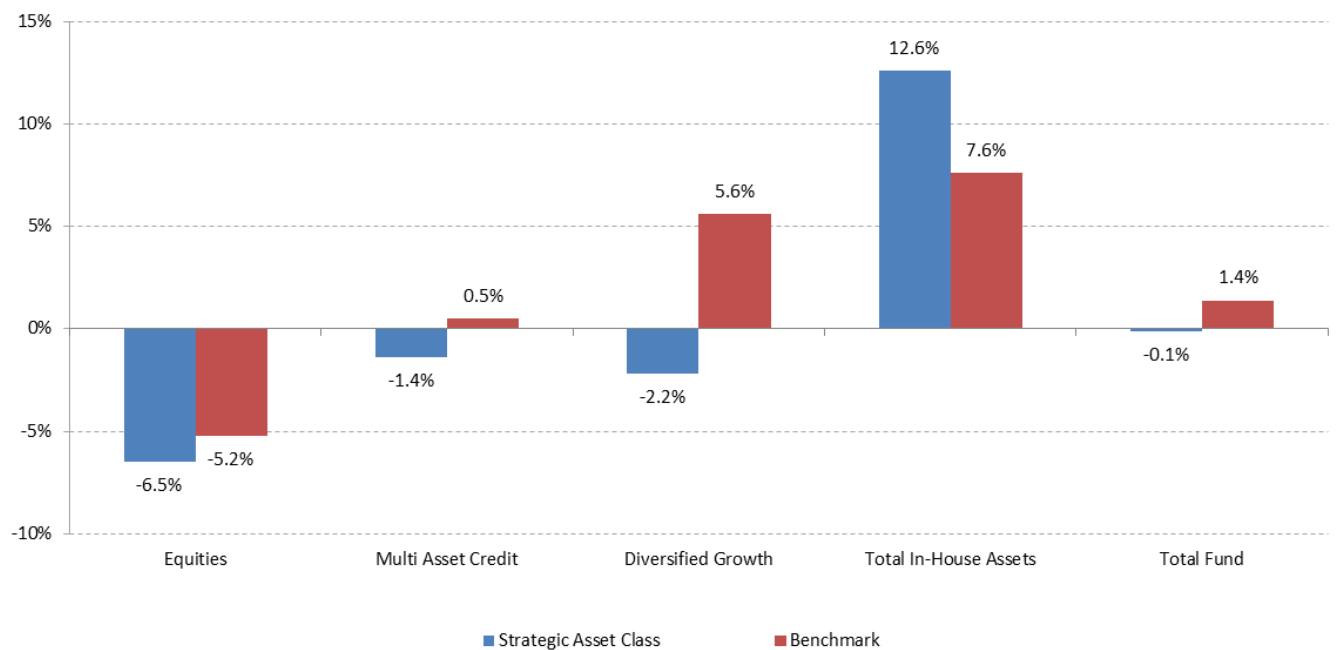
The Liability Driven Investment portfolio (a key component of the Flightpath/De-Risking Framework) which consists of regional Global Equity, Gilt and inflation exposures returned -4.1% in 2015/16.

During the year the implementation of a number of the strategic decisions from the 2014 investment strategy review were finalised which included some restructuring of the major strategic asset classes and the underlying funds within them. This included the addition of the Managed Account Platform with ManFRM and the Best Ideas Portfolio. These two mandates do not have an annual return and at the outset initially incorporated some of the legacy Hedge Fund holdings and exposure to an Opportunistic Commodities Fund, managed by Wellington. This was funded via the redemption proceeds from the Fund's previous holdings in the "Core" Wellington Commodities Fund.

The following charts below summarise the 12 month performance against the benchmark for each of the Fund's asset classes and managers together with the total Fund. It should be noted we have only included those funds/asset classes that have a full 12 month return.



The chart below summarises the key strategic asset classes versus their benchmark.



Source: JLT Employee Benefits

## Summary of Investment Performance

The market conditions experienced in 2015/16 made this a particularly challenging year for the Fund. However, it is important to bear in mind that the Fund is investing for the long term and has a diversified portfolio which aims to achieve a targeted balance between return and risk. This is not to say that we are not cognisant of shorter term market conditions – the creation and implementation of the Fund’s Best Ideas Portfolio (within the Tactical Allocation Portfolio) is evidence of this.

The Fund has also benefited strongly in the period post 31 March 2016 as the diversification and risk management characteristics inherent in the Fund’s investment strategy have allowed the Fund to grow despite the volatile market conditions.

The section below details the rationale in respect of the Fund’s investment strategy and highlights key developments that have taken place across 2015/16.

## Investment Strategy

The Fund’s investment strategy is more diversified than most LGPS Funds and incorporates a Flightpath/De-Risking Framework, which differentiates the Fund from many other LGPS Funds. The aim of the Fund’s strategy is to reduce the volatility of returns, in line with the objective of stabilising employer contribution rates. Although history suggests that in the long term Equities should out-perform other asset classes, these returns can be very volatile and the asset class can under-perform for many years. On average, LGPS Funds allocate 60% to Equities which is higher than the Clwyd Pension Fund exposure.

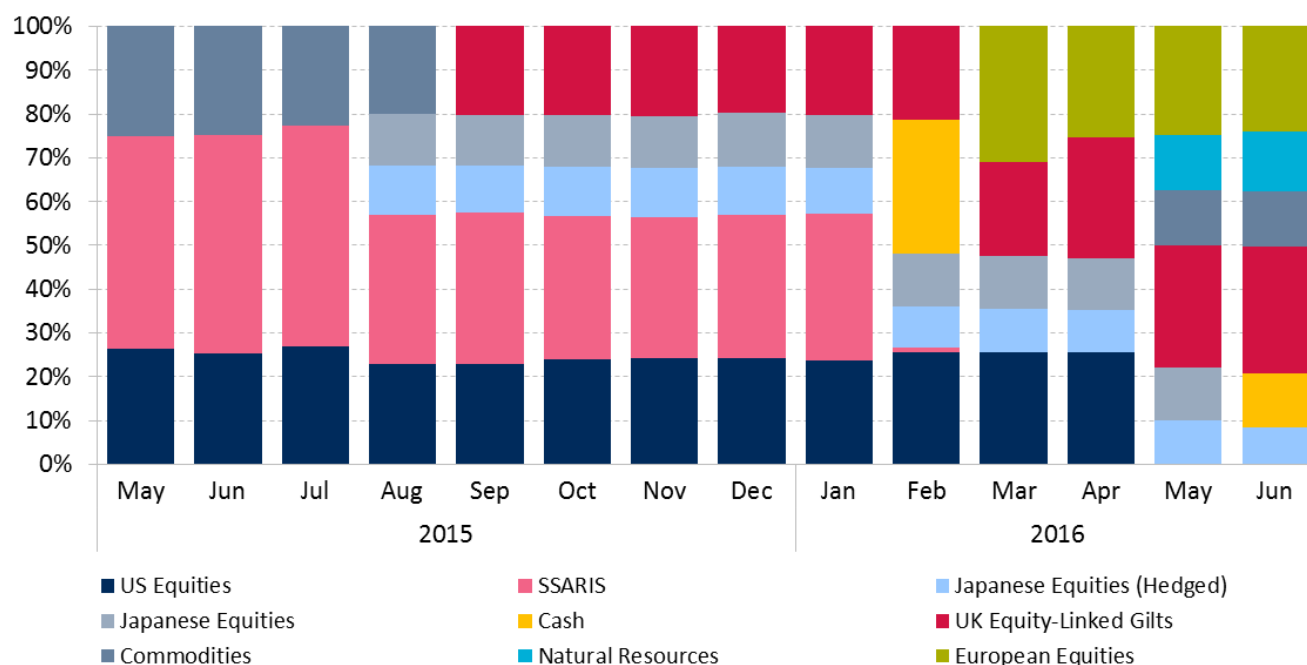
The Fund has a strategic allocation of 17% to Active Global Equities and 19% exposure to Passive Developed Equities (through Equity Total Return Swaps within the LDI mandate) and other varying exposures through the Tactical Portfolio. Hence, in years where Equities perform well the investment performance of the Clwyd Fund may lag most of its peers in the LGPS. However, the Fund has already established material protection of its interest rate risk and inflation risk through the design and implementation of the Flightpath/De-Risking Framework. As a result of the hedging that has taken place until 31 March 2016 it is estimated that the impact has been to improve the funding position of the Fund by c.£85m.

JLT, as the Fund’s Investment Consultant, undertook a fundamental review of the investment strategy in 2014 and the recommendations were accepted by Committee at their November 2014 meeting. During 2015/16 the implementation of these recommendations were finalised.

The reorganisation of the Fund’s previous Global Tactical Asset Allocation Portfolio was completed and, as part of this, the Fund’s previous allocation to Hedge Funds was restructured. The ManFRM Managed Account Platform (MAP) was implemented with effect from 1 September 2015 and includes Managed Futures and Hedge Funds. In addition the legacy Hedge Fund holdings in Duet, Liongate and Pioneer were incorporated onto the MAP pending their full redemption, given the illiquid nature of some of the underlying positions in these Funds. The proceeds from the redemption of Bluecrest and SSARIS were used to part fund the allocation to the ManFRM MAP.

As highlighted earlier, a Tactical Allocation Portfolio was established which includes a Diversified Growth Portfolio comprising two DGF managers (Investec and Pyrford) and a Best Ideas Portfolio. The Best Ideas Portfolio was implemented at the end of May 2015 which initially included Wellington Commodities (via an Opportunistic Fund) and a portion of the SSARIS assets, however, both positions were subsequently exited. The Best Ideas Portfolio is a short term (12 month horizon) tactical allocation based upon JLT’s suggested “best ideas”. Aside from the decisions being made on a tactical (short term) basis, the basic premise of the decisions within this portfolio is that any asset allocation implementation should be liquid (to enable speed of action should it be required) and cost efficient.

Throughout the year under review a number of positions have been taken within the underlying composition of this portfolio as demonstrated in the chart below, which also includes some of the allocation changes that have been implemented in early 2016/17. There is a monthly meeting of the Tactical Asset Allocation Group with JLT to monitor and review the portfolio. A robust process has been put in place with a transparent audit trail (including minutes of all meetings) documenting any changes and decisions together with their rationale.



The chart demonstrates the diversified nature of the holdings within the Best Ideas Portfolio which includes regional Equities, Commodities and UK Equity Linked Gilts. It also shows how the underlying holdings have changed following decisions that have been taken by the Tactical Asset Allocation Group since its inception.



The Fund's current strategic asset allocation, strategic and conditional ranges (established following the 2014 review), are shown below:

Strategic Asset Class	Strategic Allocation	Strategic Range (%)	Conditional Range (%)
Global Equity	8.0%	5.0 – 10.0	0 – 30
Emerging Markets Equity	6.5%	5.0 – 7.5	0 – 15
Frontier Markets Equity	2.5%	1.0 – 4.0	0 – 5
Multi-Asset Credit	15.0%	12.5 – 17.5	
<i>Government Bonds</i>			0 – 30
<i>Corporate Bonds</i>			0 – 30
<i>Overseas Government Bonds</i>			0 – 30
<i>Emerging Market Debt</i>			0 – 30
<i>High Yield Debt</i>			0 – 30
Managed Account Platform	9.0%	7.0 – 11.0	
<i>Hedge Funds</i>	3.0%		0 – 15
<i>Managed Futures</i>	6.0%		0 – 10
Tactical Allocation Portfolio	19.0%	15.0 – 25.0	10 – 30
<i>Diversified Growth</i>	10.0%		5 – 15
<i>Best Ideas Portfolio</i>	9.0%		5 – 15
Private Markets / Opportunistic	10.0%	8.0 – 12.0	8 – 12
Property	7.0%	5.0 – 10.0	5 – 15
Infrastructure*	4.0%	2.0 – 7.0	2 – 10
Liability Hedging	19.0%	10.0 – 30.0	10 – 30
Cash	0.0%	0.0 – 5.0	0 – 30

\* Infrastructure includes exposure to Agriculture and Timber

The following table shows the strategic ranges compared to the actual asset allocations as at 31 March 2016 and 31 March 2015.

Manager	Mandate	Strategic Allocation 15/16	Allocation 31/03/15	Allocation 31/03/16
<b>Equities</b>				
Investec Asset Management	Global Equity	8.0%	7.4%	7.1%
Duet Asset Management	Global High Alpha	0.0%	3.6%	0.0%
Wellington Management International Ltd	Emerging Markets Equity	6.5%	6.1%	5.6%
Aberdeen Asset Management	Frontier Markets Equity	2.5%	0.7%	1.9%
<b>Multi-Asset Credit</b>				
Stone Harbor Investment Partners	Multi-Asset Credit	15.0%	12.4%	12.3%
<b>Managed Account Platform</b>				
ManFRM	Managed Futures & Hedge Funds	9.0%	0.0%	9.1%
ManFRM	<i>Hedge Funds (Legacy)*</i>		3.5%	1.0%
<b>Tactical Allocation Portfolio</b>				
Pyrford International	<i>Diversified Growth</i>	5.0%	4.3%	4.4%
Investec Asset Management	<i>Diversified Growth</i>	5.0%	4.3%	4.1%
Consultant	<i>Best Ideas Portfolio</i>	9.0%	1.9%	7.9%
BlackRock	Global TAA	0.0%	3.6%	0.0%
BlueCrest	Macro Fund of Funds	0.0%	2.5%	0.0%
<b>In-House Assets</b>				
Various	Private Markets / Opportunistic	10.0%	10.9%	10.9%
Various	Property	7.0%	7.4%	7.9%
Various	Infrastructure	2.0%	2.4%	2.0%
Various	Timber/Agriculture	2.0%	1.9%	1.9%
<b>Liability Hedging</b>				
Insight	Liability Driven Investments	19.0%	23.7%	22.8%
<b>Cash</b>			3.4%	1.1%

\* Hedge Funds (Legacy) includes the Liongate, Pioneer and SSARIS Funds that were transferred to the ManFRM platform on 31 December 2015.

## **Conclusion and Outlook**

In conjunction with the Actuarial Valuation as at 31 March 2016 the investment strategy is being revisited in 2016/17, which will also integrate any revisions to the Flightpath/De-risking Framework. A key component of this is the change to the approach for the 31 March 2016 Actuarial Valuation which integrates the funding and investment strategy in a very transparent way.

Whilst the strategy review is still ongoing and no recommendations have yet been put forward to Committee it is anticipated that there will only be “light touch” changes to the existing strategic weightings. The aim is to reduce the risk within the portfolio whilst being able to generate a return sufficient to meet the actuarial assumptions on funding through a diversification of asset classes. One of the key considerations when reviewing the strategy will be how this can be delivered within the asset pooling framework.

## Summary of the Longer Term

The market value of the Fund has increased from approximately £821m in 2006 to approximately £1,381m in 2016. This is detailed in the Management and Financial Performance section of this report.

The table below shows a summary of the annualised investment performance over the last 20 years compared with the Fund's benchmark and corporate pension funds.

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa	Corporate Funds (%) pa
1	-0.1	+1.4	+0.2	+1.3
3	+5.0	+5.7	+6.4	+6.9
5	+5.5	+5.9	+7.1	+8.1
10	+4.3	+5.4	+5.6	+6.1
20	+6.4	+6.4	+6.8	+6.8

Source: JLT Employee Benefits, WM

The table below shows the historic funding, deficit and employer contribution rates. As a result of the advice received by Clwyd County Council (pre Wales local government reorganisation in 1996), during the implementation of the Community Charge, the employers in the Fund received a 'contribution holiday' that allowed the Fund to reduce to a 75% funding position.

Actuarial Valuation	Funding Position (%)	Recovery Period (Years)	Deficit (£m)	Average Employer Rate (%)
2001	77.0	15	158.4	19.5
2004	65.0	20	295.7	20.4
2007	75.0	17	294.0	21.6
2010	72.0	20	376.0	20.7
2013	68.0	18	552.0	27.8

The following table documents the changes in investment strategy since 2001. As can be seen the asset allocation is very different from that of the average local government pension fund. The Fund has been particularly active and very early in its commitments to alternative assets through a broad range of specialist managers. The current weightings are being reviewed in 2016/17 as part of the investment strategy review.

Investments	2001 (%)	2004 (%)	2007 (%)	2011 (%)	2015 (%)	LGPS Average
<b>Equities</b>						
Global Unconstrained	-	-	5.0	5.0	8.0	
Global High Alpha/ Absolute	-	-	-	5.0	-	
UK Active (Traditional)	35.0	29.0	15.0	-	-	
UK Active (Portable Alpha)	10.0	10.0	12.0	-	-	
US Active	7.0	8.0	5.0	-	-	
Europe (ex UK) Active	11.0	9.0	6.0	-	-	
Japan Active	4.0	4.0	4.0	-	-	
Far East (ex UK) Active	2.5	3.0	4.0	7.0	-	
Emerging Markets Active	2.5	3.0	4.0	7.0	6.5	
Frontier Markets Active	-	-	-	-	2.5	
Developed Passive	-	-	-	19.0	-	
	<b>72.0</b>	<b>66.0</b>	<b>55.0</b>	<b>43.0</b>	<b>17.0</b>	<b>60.0</b>
<b>Fixed Interest</b>						
Traditional Bonds	10.0	9.5	-	-	-	
High Yield/ Emerging	1.5	2.0	-	-	-	
Unconstrained	-	-	13.0	15.0	15.0	
Cash/ Other	2.5	0.5	-	-	-	
	<b>14.0</b>	<b>12.0</b>	<b>13.0</b>	<b>15.0</b>	<b>15.0</b>	<b>19.0</b>
<b>Liability Driven Investment</b>						
	-	-	-	-	<b>19.0</b>	
<b>Alternative Investments</b>						
Property	5.0	7.0	6.5	7.0	7.0	
Infrastructure	0.5	5.0	1.5	2.0	2.0	
Timber/ Alternatives	-	-	1.5	2.0	2.0	
Commodities	-	-	2.0	4.0	-	
Private Equity & Opportunistic	4.5	4.5	6.5	10.0	10.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	-	
Hedge Fund Managed Account Platform	-	-	-	-	9.0	
Currency Fund	-	4.0	4.0	-	-	
Tactical Asset Allocation (TAA)	-	2.0	5.0	12.0	-	
Tactical Allocation (Diversified Growth)	-	-	-	-	10.0	
Tactical Allocation (Best Ideas)	-	-	-	-	9.0	
	<b>14.0</b>	<b>22.0</b>	<b>32.0</b>	<b>42.0</b>	<b>49.0</b>	<b>21.0</b>

## In House Portfolio

<b>Property</b>	Open Ended Holdings	Schroders Hermes LAMIT Legal and General BlackRock
	Closed Ended Holdings	Aberdeen Property Select (Asia Pacific – 2 funds) BlackRock US Residential Opportunity Fund Bridges Property Darwin Leisure Property Fund InfraRed Active Property (2 funds) Igloo Regeneration Fund Morgan Stanley Global Real Estate (2 funds) Paloma Real Estate Partners Group Global Real Estate (2 funds) Franklin Templeton (2 funds –European and Asia Pacific) Schroders – Columbus UK Real Estate (2 funds) Threadneedle
<b>Timber</b>		RMK Timberland (3 funds) Stafford International Timberland (3 funds)
<b>Agriculture</b>		Insight Global Farmland GMO
<b>Infrastructure</b>		Arcus European Infrastructure InfraRed (3 funds including Environmental) Innisfree Morgan Stanley – Global (2 funds) Impax New Energy Fund
<b>Private Equity</b>		
<b>Direct</b>		Access Apax (4 funds) August Equity (2 funds) Bridges Ventures Candover (2 funds) Capital Dynamics (2 funds) Carlyle (2 funds) Charterhouse Capital (3 funds) ECI Ventures (3 funds) Environmental Technologies Fund (2 funds) Ludgate Environmental Fund Granville Baird (3 funds) Parallel Ventures (3 funds) Partners Group Direct
<b>Fund of Funds</b>		Access Capital (3 funds) Capital Dynamics (7 funds) Crossroads (2 funds) Harbour Vest (6 funds including Cleantech Fund) Hermes Environmental Innovation Partners Group (10 funds) Standard Life Unigestion
<b>Opportunistic</b>		Carlyle Capital Dynamics Dyal II Foresight Regional Investment Marine Capital Eclipse Shipping Marquee Brands

# Sustainability Policy

## Aim and Definition

The aim of Corporate Governance is to align the interests of individuals, corporations and society. Corporate Social Responsibility is operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has for business.

## The Clwyd Pension Fund Policy

The Clwyd Pension Fund has always included a section in the Statement of Investment Principles (SIP) on environmental, social and ethical considerations and corporate governance. However, in light of the publication of the United Nations Principles on Responsible Investment (UNPRI) and the Financial Reporting Council's new Stewardship Code the Fund produced a Sustainability Policy and a Stewardship Code compliance statement as part of the SIP; this can be found within the regulatory documents section of this Annual Report.

The format of the Policy follows that of the UNPRI but, as recognised in the Policy, given the pooled nature of the investments, it would be difficult to become a formal signatory of the UNPRI. However, within the legal framework, constraints and considerations, the 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.

Compared with the previous sections in the SIP on this area, this Policy makes a clear commitment that the Fund will be an active supporter of UN principles. The Policy is specific in the actions the Fund will take in the 7 principle areas:

- Sustainability Approach
- Investment Strategy
- Company Engagement & Voting
- Investment Management & Monitoring of Performance
- Investment Management Selection and Contracts
- Collaboration
- Reporting and Disclosure

## Implementation of the Policy

The Sustainability Policy included within the SIP identifies in detail, the approach the Fund will adopt within each of the areas specified above and the Stewardship Code identifies the Fund's compliance.

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 is also a member of two bodies, the Local Authority Pension Fund Forum (LAPFF) and the National Association of Pension Funds (NAPF). The LAPFF has 51 LGPS members with combined assets of over £170bn. In line with the Fund's policy LAPFF believe that by actively encouraging companies to comply with best practice shareholder value is improved over the medium and long term. The LAPFF work programme is on-going on projects on overseas employment standards, company workforce practices, and climate change and greenhouse gas emissions. Further details can be found on the LAPFF web site [www.lapfforum.org](http://www.lapfforum.org).

The Fund is invested in pooled vehicles, therefore does not own individual shares. However, the Fund's investment managers report on how they voted the shares within the vehicle. In particular if corporate governance concerns are raised by LAPFF or NAPF, these are reported to the fund managers and an explanation is received from the managers on how they voted and the engagement undertaken with the managers of the company. A summary of the voting activities of the managers for 2015/16 is shown in the following table.

Manager	Annual/ Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/ Withheld
<b>Aberdeen</b>	53	442	383	28	31	0
<b>Investec</b>	113	1,113	1,010	33	31	46
<b>Pyrford</b>	63	922	856	44	1	21
<b>Wellington</b>	269	3,048	2,294	245	30	479

As can be seen below, as part of the Fund's Property & Private Equity allocation, the Fund invests in environmental and sustainable projects, including Agriculture, Timber, Regeneration, and Environmental Technology Funds.

On-going, the Fund will continue to review the approach taken and welcomes any comments Member Bodies have on the policy, its implementation, and any ideas that might be adopted by LAPFF for future projects.

Year	Investment	Commitment
2006	Igloo Regeneration Fund	£2m
2006	Ludgate Environmental Fund	£1m
2007	Stafford Timberland IV	\$8m
2007	RMK Timberland	\$8m
2008	Environmental Technologies Fund	£3.7m
2008	Ludgate Environmental Fund (additional)	£1m
2008	Stafford Timberland V	€2.6m
2008	RMK Timberland Resources Fund	€2.4m
2008	HSBC Environmental Infrastructure	€5m
2008	Harbour Vest Cleantech Fund	\$7.5m
2009	Impax New Energy	€5m
2010	Hermes Environmental Innovation Fund I	£5m
2010	Ludgate Environmental Fund (additional)	£2m
2011	Stafford Timberland VI	€3m
2011	RMK Timberland	€2.4m
2012	Capital Dynamics US Solar Fund	\$8m
2012	Environmental Technology Fund II	£5m
2013	Insight Global Farmland	\$8m
2013	GMO Farmland Optimisation Fund	\$8m
2013	Ludgate Environmental Fund II	£6m
2013	Threadneedle Low Carbon Workplace Fund	£5m
2013	Bridges Ventures Fund III	£5m
2013	Harbour Vest Cleantech III	\$7.5m
2014	Bridges Property Alternatives Fund II	£5m
2015	Threadneedle Low Carbon Workplace Fund	£3m (additional)



## AN UPDATE FROM THE ACTUARY

I am delighted to provide an update from an actuarial perspective on the activities of the Clwyd Pension Fund (CPF) during 2015/16. As the Fund's Actuary, I provide advice to the Fund and its employers in relation to managing and monitoring the many financial and demographic risks they face. I also have a specific role in guiding the overall direction of the Fund via my seat on the CPF Advisory Panel. This forum provides an opportunity for all of the Fund's professional advisors to collaborate, in conjunction with the Fund Officers, to help the CPF achieve its long term objectives. I feel that as a group we have made excellent progress over the year.

## RISK MANAGEMENT – FLIGHTPATH STRATEGY

A critical aspect of managing risk relates to the flightpath strategy which is central to providing stability of funding and employer contribution rates in the long term. This strategy was put in place to support the overall objective to be fully funded (a solvency level of 100%) in the next 10 to 12 years.

Over 2015/16, the level of risk hedging within the flightpath in did not change (remaining at approximately 20% for interest rates and 40% for inflation rates) as the market yields and the funding level remained below the relevant trigger points.

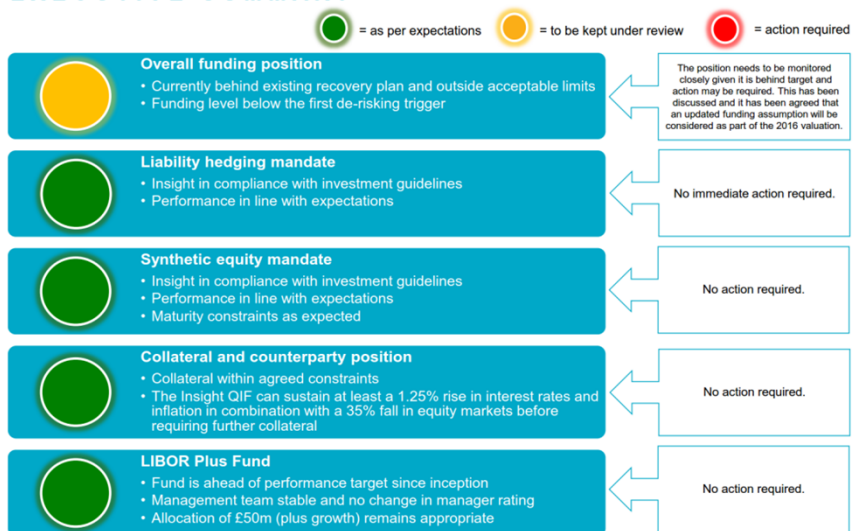
For many pension schemes 2015/16 was a challenging year with reducing market yields affecting investment return expectations and therefore pension fund solvency levels.

For the CPF, the funding plan was behind the target set as part of the 2013 valuation with a solvency level at 62% when measured using the existing approach. However, the CPF is in a relatively unique position as the flightpath strategy has provided protection given the level of risk hedging in place.

Despite the challenging market, the pension fund deficit (which impacts on employer contributions) was actually £85million lower (equating to a funding level 4% higher) than it would otherwise have been, had the current strategy not been implemented.

Whilst the monitoring the funding position is central to my role, it is also important that we ensure other operational aspects of the mandate run by Insight are working correctly as this is critical to the success of the flightpath strategy. We do this by monitoring on a monthly basis using a red/amber/green (“RAG”) rating system and the summary at March 2016 is shown here. It can be seen that all aspects, except the funding plan (as discussed earlier), were in line with expectations.

### EXECUTIVE SUMMARY



## LOOKING FORWARD

The Fund's next triennial actuarial valuation has an effective date of 31 March 2016 and will give us an opportunity to review the financial health of the Fund and refresh the objectives. I am currently working with Fund Officers to complete this and its outcome will be covered in next year's annual report. The assessment will take into account the experience of the Fund since the previous valuation including demographic factors such as changes in life expectancy and changes in the membership profile. It will also be first valuation that is subject to scrutiny under Section 13 of the Public Service Pensions Act.

Given the market environment we find ourselves in, it has given me the opportunity to reflect on how we approach the valuation and also how we should monitor the position moving forward. My intention is to adopt an approach which integrates the funding and investment strategies more closely. The approach will focus on the linkage between overall investment return expectations versus Consumer Prices Inflation (CPI). All benefits in payment are linked to CPI and so this ultimately drives my liability assessment and therefore the long-term cost to employers.


In tandem with the valuation we will also be reviewing the "flightpath" strategy and refreshing the monitoring framework in place. This will ensure we can take advantage of market opportunities to manage risk in a cost effective way, helping us to ultimately achieve our long-term objectives of full funding and greater certainty in the future for employer contributions.

## BREXIT AND BEYOND

Of course, the political and economic landscape has changed significantly since the end of 2015/16 following the outcome of the EU Referendum. This has resulted in a period of volatility on investment and currency markets. In response to this, further Quantitative Easing was adopted by the Bank of England, and it also cut the base rate to 0.25% and we cannot rule out further cuts. If this persists then it could impact investment returns in the long-term and so pushing up funding costs. This is something that we will be considering as part of the valuation noting that the flightpath strategy has provided even further protection to the funding position since the vote.

My view, in the face of this uncertainty, is there should be no "knee-jerk" reactions and rather a more considered approach should be taken to ensure that both the investment and funding approaches are sufficiently robust to withstand such challenges going forward.

It is my belief that the strong governance structure within which the Fund operates, we are well placed to navigate these turbulent times.



**Paul Middleman FIA**

# Pensions Administration Update 2015/16

## Introduction

The Fund's day to day administration service is provided by the Pension Administration Section which consists of a total of 22 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager. It is split between an Operational Team and a Technical Team, and is separate from the Finance Team.

The Operational Team of 13.8 FTEs delivers a pensions service for over 41,000 scheme members and 28 employing bodies. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team of 8.2 FTEs implements and maintains the pension software systems, reconciles employer records, provides a communication service for members and employers and a pensioner payroll service for 11,000 pensioners and dependents.

## Challenges

### **Task Management review**

In order to record more accurate and relevant workflow data the task management system continues to be reviewed and updated with the introduction of task auto assignment.

### **Backlog Management**

- Backlog now outsourced to Mercers (our actuaries) and is now in the final stages
- Clwyd Pension Fund are on hand to answer any of Mercer's queries

### **The End of Contracting Out**

The ability of Defined Benefit (DB) schemes to contract-out of the State Second Pension ended on 6 April 2016, following the introduction of the single tier state pension. For employers with DB schemes which remain open to future accrual, this increased National Insurance (NI) costs for employers and members.

### **GMP reconciliation**

The ending of contracting-out brought the need to reconcile Guaranteed Minimum Pensions (GMPs) accrued between 1978 and 1997 with the National Insurance Contributions Office (NICO). This is a time-consuming process of comparing scheme GMP records with NICO's GMP records and resolving any discrepancies, a process which can take years and can lead to additional GMP liabilities if the scheme cannot prove that NICO's records are incorrect.

### **Reconciliation deadlines**

- HMRC will no longer respond to GMP queries from December 2018
- All queries must be resolved prior to this date or accept any liability
- Active membership details for active reconciliation released in 2017
- Deadline for Active membership reconciliation also December 2018

Clwyd Pension Fund are currently reviewing the resources required to complete this project.

### **Day to day projects**

- Run Pensions Increase x3 (test/provisional/actual)
- Run CARE revaluation
- Year-end returns uploaded on Altair
- Paying £4.5m every month to current pensioners
- Backlog of transfers and aggregation

- Disaster recovery
- Reporting Lifetime Allowance (LTA) and Annual Allowance (AA) – Support for high earners
- Bilingual library
- Reducing manual calculations (errors on Heywood’s list that require manual intervention)
- Simplified way of notifying LTA%

## **Communications**

During the 2015/16 financial year, the Clwyd Pension Fund has published and distributed the following communications:-

- Distributed issue 11 of Clwyd Catch Up – a newsletter for our pensioner members which is issued along with their pensions increase notification.
- Circulated issue 20 of Penpal – a newsletter that is sent to our active members informing them of changes to pension legislation.
- Distributed benefit statements to both active and deferred Local Government Pension Scheme members.
- Included issue 5 of Pension Extra newsletter with the Active Annual Benefits statements.
- Between April 2015 and March 2016 the following have taken place:
  - 23 days of drop-in surgeries for scheme members at their workplace
  - 7 pre-retirement seminars

The Website is invaluable in giving both member and Fund Employers access to pension forms, reducing paperwork and postage costs. This is also a useful tool to communicate LGPS matters to our members, pensioners, employers, and also anyone interested in our Governance and Investments. The website continues to be maintained and updated when required, however a full review and update will be undertaken during the coming months.

For further information on Clwyd Pension Fund communications, please refer to our Communication Policy Statement following in this Annual Report.

## **Developing the Service**

The Clwyd Pension Fund is dedicated to improving its service delivery to employers, scheme members and pensioners by:

- Reviewing its service level agreements with employers on an annual basis.
- Maintaining an effective business continuity plan
- Adhering to the recently formulated Administration Strategy
- Attending manager meetings to discuss LGPS administration and also current regulation issues
- Attending LGPS training courses to ensure staff skills and LGPS knowledge are up-to-date
- Introducing software, provided by a third party, to assist employers in addressing their Auto Enrolment obligations, in respect of record keeping and reporting on employee data. In addition it is a filter for the flow of information from a Scheme Employer to the Administering Authority
- Developing Member Self Service software, enabling members to view their individual details online

In 2015/16 progress continued to be made with the new operational model for the Fund. Each Team Leader looks after set scheme employers, giving a direct point of contact and reinforcing the Fund/Employer relationship. There is on-going work with our larger employers on data quality and correcting a backlog of historic records in line with the Pension Regulator’s new Code of Practice.

## **Administrative Management Performance**

This section of the report focuses on key administration performance indicators, efficiency and staffing indicators, together with a five year analysis of membership data. The Fund participates in the CIPFA Pensions Administration Benchmarking Club.

### Cases completed 2015/16:

Case Type	Cases
New Starters	1,525
Address changes	1,528
Defers	522
Retirements (all types)	672
Estimates (all types)	571
Deaths (deferred, active and pensioners)	320
Transfers In	68
Transfers Out	33

### Staff Turnover 2015/16

Description	Number
Total Staff as at 31/03/2016	22
Staff leaving up to 31/03/2016	1
Staff joining up to 31/03/2016	1

### Ratio of Pensions Staff to LGPS Members 2015/16:

Although there are 22 full time equivalent members of staff, only 13.8 full time equivalent staff deal with administration. The remaining 8.2 staff deal with I.T., pension payroll and communications.

As at 31/03/2016, there were 41,665 members of the Clwyd Pension Fund. This means that there are 1,894 members per Pension's staff member.

Period from – to	Contributors	Deferred Members	Pensioners	Dependant Pensioners
01/04/2011 – 31/03/2012	14,939	7,008	7,662	1,443
01/04/2012 – 31/03/2013	14,920	7,539	8,386	1,488
01/04/2013 – 31/03/2014	16,133	8,307	8,805	1,562
01/04/2014 – 31/03/2015	15,941	9,026	9,272	1,591
01/04/2015 – 31/03/2016	15,989	10,271	9,862	1,616

### Member Trends: 5 Years

## Pensioners who were awarded enhanced retirement benefits:

Period from – to	No. of Enhanced Benefits
01/04/2011 – 31/03/2012	22 Members (tier 1 & 2 ill health only)
01/04/2012 – 31/03/2013	15 Members (tier 1 & 2 ill health only)
01/04/2013 – 31/03/2014	26 Members (tier 1 & 2 ill health only)
01/04/2014 – 31/03/2015	11 Members (tier 1 only)
01/04/2015 – 31/03/2016	18 Members (tier 1 only)

## Internal Dispute Resolution Procedure

Due to the open door policy within the department, the majority of cases where dissatisfaction is raised, are resolved by the Pensions Administration Manager and the Principal Pensions Officers.

An appeal may be against either the former employer or the administering authority (Flintshire CC). This depends on what the appeal is against. Some examples are given below:

### Employer Decisions

- termination of employment on medical grounds
- calculation of final year's pay for benefits
- what counts as pensionable pay of various pay allowances

### Administering Authority Decisions

- counting of service in present/previous employments
- award of spouse/children benefits
- death grant nominations

2015/16	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	6	2		4
Stage 1 - Against Administering Authority	2		1	1
Stage 2 - Against Employers	1	1		
Stage 2 - Against Administering				

The ongoing appeals were subsequently upheld.

Written appeal applications must be made within six months. The formal right of appeal is in two stages. If you are dissatisfied with the stage one decision you may go to the second stage. The Chief Executive has appointed a suitably qualified officer to hear stage two appeals.

Appeal Contact details:	Mrs Helen Burnham Pensions Administration Manager Clwyd Pension Fund, County Hall, Mold, CH7 6NA
Stage one decision maker:	Mr Yunus Gajra West Yorkshire Pension Fund, P O Box 67, Bradford, BD1 1UP
Stage two decision maker:	Mr Gareth Owen Flintshire County Council, Legal Department, County Hall, Mold, CH7 6NA

## National Fraud Initiative (NFI)

Clwyd Pension Fund participates in the NFI every other year. The NFI is a data matching exercise designed to detect and prevent fraud and overpayments across England and Wales. As a public body, we are required by law to protect the public funds we administer.

The Auditor General is responsible for carrying out data matching exercises under his powers under the Public Audit (Wales) Act 2004.

As the use of data by the Auditor General for Wales in a data matching exercise is carried out with statutory authority (Part 3A of the Public Audit (Wales) Act 2004), it does not require the consent of the individuals concerned under the Data Protection Act 1998.

In addition to this, Clwyd Pension Fund uses a mortality screening service provided by Atmos, which informs us of deceased members.

## Analysis of Pension Overpayments and Write Offs

The Fund has a policy in which it does not seek to recover any overpayments of pensioner payroll payments which are under £100. Details of those are shown below. Every effort is made to recover any payroll overpayments above £100. In some circumstances these may be written off with agreement from the Chief Executive.

	2015/16	2014/15	2013/14	2012/13	2011/12
	£	£	£	£	£
Amounts under £100	6,062	4,228	5,975	3,443	4,954
Number of cases	146	108	129	97	99
Overpayments Recovered	28,126	21,612	19,518	39,625	24,214
Number of cases	77	40	57	51	34
Overpayments Written Off	1,284	5,647	402	0	6,146
Number of cases	5	10	2	0	5

**Participating Employers of the Fund  
at 31 March 2016**

The Fund had 28 bodies who contributed to the Fund during 2015/16, 20 scheduled and 8 admitted. Contributions are paid over to the Fund by the 19<sup>th</sup> of the following month to the month that the contributions relate to. An analysis of contributions received during 2015/16 is shown below.

<b>Scheduled Bodies</b>	<b>Employer Contribution (£)</b>	<b>Employee Contribution (£)</b>
Flintshire County Council	20,193,130.26	5,021,190.11
Wrexham County Borough Council	18,306,769.62	4,131,305.95
Denbighshire County Council	13,961,277.94	3,564,269.35
Glyndwr University	1,673,122.77	500,412.46
Coleg Cambria	1,381,922.63	659,502.32
North Wales Fire Service	1,134,203.67	287,684.35
Rhyl Town Council	75,607.83	7,316.90
North Wales Valuation Tribunal	46,459.94	9,965.60
Hawarden Town Council	33,361.81	9,666.46
Prestatyn Town Council	22,663.06	9,299.94
Caia Park Town Council	21,691.09	5,525.59
Coedpoeth Town Council	18,753.68	3,376.18
Buckley Town Council	17,277.48	4,577.40
Connah's Quay Town Council	13,374.28	5,679.31
Mold Town Council	12,267.08	3,980.40
Rhos Town Council	11,990.24	3,478.93
Shotton Town Council	6,120.64	1,697.88
Argoed Town Council	4,386.44	1,112.04
Offa Town Council	2,979.24	1,329.20
Llanasa Town Council	221.00	0.00

<b>Admitted Bodies</b>	<b>Employer Contribution (£)</b>	<b>Employee Contribution (£)</b>
Careers Wales	322,929.67	88,009.29
Civica UK	245,293.42	84,856.97
Wrexham Commercial Services	142,789.98	44,465.18
Cartref y Dyffryn Ceiriog	55,837.65	3,303.10
Bodelwyddan Castle Trust	40,822.34	14,104.25
Denbigh Youth Group	7,995.32	1,672.07
Compass Group UK	6,427.15	2,008.96
Denbighshire Voluntary Services	5,617.52	787.56



There have been two additional bodies admitted to the Fund during 2015/16, Denbigh Youth Group and Civica UK. No bonds or any other secured funding arrangements have been facilitated.

The results of the March 2013 Actuarial Valuation led to new employer contributions and funding plans which were discussed and agreed with individual employers. These contributions came into effect on 1<sup>st</sup> April 2014.

The Pensions Regulator allows the Fund the option to levy interest on overdue contributions during the financial year. During the year the Fund monitored timeliness of contributions and liaised with employers to overcome any problems they may be encountering. The analysis below shows the number of late contributions made to the Fund, along with the amounts and occasions concerned. The Fund did not exercise its option to levy interest against any of the employers during the year. Two employers pay well in advance of the required limit for eleven months and pay one month late after summer recess. The other two employers concerned underwent changes to personnel which resulted in some delays. The payments totalled £19,890.17 (0.03% of the total contributions)

Employer	Late Occasions	Contributions (£)
A	8	11,047.41
B	2	6,704.98
C	1	1,671.24
D	1	466.54

### **Administrative Responsibilities:**

The Clwyd Pension Fund is solely responsible for the administration of pensioner payroll. The administration for scheme members is mainly the responsibility of the Clwyd Pension Fund although the Employers must adhere to certain standards set out in the Service Level Agreements. For example, the Employers must supply the Clwyd Pension Fund with documents in a timely manner in order for benefits to be calculated as soon as possible.

Although the Clwyd Pension Fund has the power to seek compensation from Employers in respect of any breaches of such standards, the Clwyd Pension Fund has not used this power.

## Other Information

The following information is provided to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board.

### Analysis of Employers of the Fund

The table below shows a summary of the employers in the fund analysed by scheduled bodies and admitted bodies which are active and ceased.

	Active	Ceased	Total
<b>Scheduled body</b>	20	8	28
<b>Admitted body</b>	8	6	14
<b>Total</b>	28	14	42

### Analysis of Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2016.

	UK £000	Non –UK £000	Global £000	Total £000
<b>Equities</b>	0	104,121	98,705	202,826
<b>Alternatives</b>	113,551	196,792	366,258	676,601
<b>Bonds &amp; LDI</b>	315,530	0	170,331	485,861
<b>Property (Direct)</b>	0	0	0	0
<b>Cash</b>	15,034	0	0	15,034
<b>Total</b>	444,115	300,913	635,294	1,380,322

The alternatives portfolio comprises pooled in investments in the following asset classes:

Hedge Fund Managed Account, Diversified Growth Funds, Property, Private Equity & Opportunistic, Infrastructure and Timber.

### Analysis of Investment Income

The table below provides an analysis of the Fund's investment income accrued as at 31 March 2016.

	UK £000	Non –UK £000	Global £000	Total £000
<b>Equities</b>	0	0		0
<b>Alternatives</b>	4,517	1,288	0	5,805
<b>Bonds &amp; LDI</b>	0	0	0	0
<b>Property (Direct)</b>	0	0	0	0
<b>Cash</b>	58	0	0	58
<b>Total</b>	4,575	1,288	0	5,863

## Analysis of Fund Manager Expenses (including underlying fees)

The fees which are disclosed in the statement of accounts within the Annual Report have been disclosed in accordance with the CIPFA guidance which states that fees and expenses should only be included where the Fund has a direct relationship with the investment manager. These fees include the annual management charge as well as additional costs such as operational, administrative and legal expenses. In addition any costs for performance and transaction fees are also disclosed. These are disclosed in Note 3 in the Fund's accounts.

Fees relating to underlying managers are not required to be disclosed in the accounting regulations, however the Fund believes we should provide our stakeholders with all fees relating to our investments.

The Fund has exposures to underlying managers through investments in alternative mandates including Hedge Funds, the "Best Ideas" Tactical Asset Portfolio and Private Equity.

The table below shows the fees and expenses which would have been disclosed if underlying fees and their performance fees were included. Fees for 2015 were restated to include reclassified or additional costs which were provided after the 2014/15 accounts were finalised.

The table also shows an average of the basis points charged for each category of fee for the valuation of core assets, non-core assets and total fund.

Fund Management Fees	Avg bps	2016 £000	Avg bps	2015 (Restated) £000	2015 £000
<b>CORE (79% of Fund)</b>	<b>73</b>	<b>7,680</b>	<b>90</b>	<b>9,222</b>	<b>8,801</b>
Total expenses including AMC	53	5,578	65	6,672	6,152
Underlying Fees (includes performance)	17	1,778	10	1,015	833
Performance Fees	2	219	4	439	720
Transaction Fees	1	105	11	1,096	1,096
<b>NON CORE (21% of Fund)</b>	<b>338</b>	<b>10,492</b>	<b>262</b>	<b>7,326</b>	<b>8,362</b>
Total expenses including AMC	198	6,132	161	5,161	4,078
Underlying Fees (includes performance)	46	1,423	23	733	1,058
Performance Fees	82	2,577	64	2,037	1,759
Transaction Fees	12	380	13	431	431
<b>TOTAL</b>	<b>133</b>	<b>18,172</b>	<b>131</b>	<b>17,584</b>	<b>16,127</b>
<b>Total Fees Excluding Underlying</b>	<b>110</b>	<b>14,971</b>	<b>118</b>	<b>15,836</b>	
<b>Net Assets (Core)</b>		<b>1,054,945</b>		<b>1,024,111</b>	
<b>Net Assets (Non-Core)</b>		<b>310,343</b>		<b>319,663</b>	
<b>Total Net Assets (excluding cash)</b>		<b>1,365,288</b>		<b>1,344,774</b>	

Assets within the “Core” disclosure include: Active Equities, Unconstrained Fixed Income, Liability Driven Investment, Hedge Fund Managed Account Platform, Diversified Growth Funds and the Tactical Asset Portfolio. These account for 79% of the Fund assets but only 42.3% of the total fees. Assets within the “Non-Core” disclosure include: Private Equity (Direct and Fund of Funds), Property (Open and Closed ended), Infrastructure, Timber and Agriculture. Whilst these account for 21% of the Fund assets the proportion of fees amounts to 57.7%. These figures include the underlying fees. (In comparison, excluding underlying fees, the proportion of fees for core assets is 39.4% and non-core, 60.6%)

A review of strategy was undertaken by the Fund Consultant in 2014/15 which resulted in changes which transitioned during 2015/16. These changes should result in savings across the Core Assets. The part year benefits from this review resulted in a decrease of 17 bps across the core asset portfolio.

The increase in non-core fees reflects more transparency from the fund managers rather than an increase in true manager fees.

It should also be noted that performance is shown net of manager fees and whilst the fees of the non – core assets are considerably higher than the core assets, similarly net returns are expected to be higher in the long term.

The net return for the Fund for the 12 months to March 2016 was -0.1% of which the returns were attributed as non-core assets, +12.6% and core assets -3.45%.

For the 3 year period, the Fund returned +5.0% of which core attributed +3.69% whilst non-core attributed +9.2%.