THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

The Clwyd Pension Fund is administered by Flintshire County Council on a lead authority basis. The administration and investment strategy of the Fund is set annually by the Clwyd Pension Fund Committee, consisting of eight elected Members and one employee representative, each with equal voting rights, access to training and to information. The Fund's investment management arrangements were implemented by twelve investment managers during 2015/16.

The Clwyd Pension Fund is a statutory Local Government Pension Scheme (LGPS), set up to provide death and retirement benefits for local government employees, other than teachers, police and firefighters in North East Wales. In addition, other qualifying bodies that provide similar services to that of local authorities have been admitted to membership of the LGPS and hence the Fund.

The Clwyd Pension Fund operates a defined benefit scheme whereby retirement benefits are funded by contributions and investment earnings. Contributions are made by active members in accordance with the LGPS Regulations 2013, as amended, and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2016. Employee contributions are added to employer contributions which are set based on triennial actuarial funding valuations. The benefits of the scheme are also prescribed nationally by the 2013 Regulations (as amended). The last valuation was at 31st March 2013, the findings of which became effective on 1st April 2014. The valuation showed that the funding level decreased from the previous valuation (31st March 2010) from 72% to 68%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over an 18 year period from April 2014. This implies an average employer contribution rate of 13.8% and a total payment of £32.6m per annum for deficit contributions, increasing at 4.1% per annum. The LGPS (Management and Investment of Funds) Regulations 2009 (as amended) contains rules governing the management of the Fund, Investment Managers, Investments and use of Fund money and restrictions on investments.

Membership of the LGPS is voluntary and organisations participating in the Clwyd Pension Fund include:

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

The membership of the Fund as at 31st March 2016 and 2015 is shown below:

	2016 No.	2015 No.
Active Members	15,989	15,941
Pensioners & Survivors		
Ex employees	9,862	9,272
Survivors	1,616	1,591
Other		
Preserved benefits/ Undecided	13,176	12,433
Frozen Refund	1,022	871
	41,665	40,108

CLWYD PENSION FUND ACCOUNTS

The scheduled bodies which contributed to the Fund during 2015/16 are:

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

The admitted bodies contributing to the Fund are:-

Other: Careers Wales, Cartref y Dyffryn Ceiriog, Compass Group UK, Denbighshire Voluntary Services, Bodelwyddan Castle Trust, Civica UK, Denbigh Youth Group, Wrexham Commercial Services.

Further information is available in the Clwyd Pension Fund Annual Report and Statement of Investment Principles which are presented to the Annual Joint Consultative Meeting for employers and member representatives that is held annually.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position at year end as at 31st March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 16 of these accounts.

In summary, accounting policies adopted are detailed as follows:

- Contributions, benefits and investment income due are included on an accruals basis.
- Investments are included in the accounts at market value, usually bid price.
- Debtors and creditors are raised for all amounts outstanding at 31st March.
- Individual Transfer values received and paid out have been accounted for on a cash basis.
- Bulk Transfer values paid out are accounted for on an accruals basis.
- The financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.
- Investment management expenses are accounted for on an accruals basis and include the fees paid and due to the fund managers and custodian, actuarial, performance measurement and investment consultant fees.
- Administration expenses are accounted for on an accruals basis. All Flintshire County Council staff costs are charged direct to the Fund and management, accommodation and other support service costs are apportioned to the Fund in accordance with Council policy.
- Acquisition costs of investments include all direct transaction costs and sales receipts are net of all direct transaction costs.

CLWYD PENSION FUND ACCOUNTS

	Note	2016 £000	2016 £000	2016 £000	2015 £000	2015 £000	2015 £000
Contributions and Benefits							
Contributions receivable :							
From employers (Normal)	1	(30,488)			(29,434)		
From employers (Deficit)	1	(27,277)			(28,590)		
From employees or members	1	(14,471)			(14,929)		
			(72,236)			(72,953)	
Transfers in		(1,691)			(2,202)		
Other income		(3,077)			(3,726)		
			(4,768)			(5,928)	
				(77,004)			(78,881)
Benefits payable :							
Pensions	1	52,922			50,338		
Lump sums (retirement)	1	14,029			14,544		
Lump sums (death grants)	1	2,247			1,807		
			69,198			66,689	
Payments to and on account of leavers :							
Refunds of contributions		121			83		
Transfers out (individual)		1,936			1,788		
Transfers out (bulk)	2	3,889			0		
Other		129			165		
Expenses borne by the scheme	3	17,621			18,289		
			23,696			20,325	
				92,894			87,014
NET (ADDITIONS) WITHDRAWALS				15,890			8,133
Returns on Investments							
Investment income	5		(5,863)			(5,345)	
Change in market value of investments (Realised and Unrealised) [(Increase)/Decrease]	5		4,706			(184,629)	
NET RETURNS ON INVESTMENT				(1,157)			(189,974)
NET DECREASE/(INCREASE) IN THE FUND				14,733			(181,841)
OPENING NET ASSETS OF THE SCHEME				1,395,408			1,213,567
CLOSING NET ASSETS OF THE SCHEME				1,380,675			1,395,408

CLWYD PENSION FUND ACCOUNTS

	Note	2016 £000		2015 £000	
Net Assets Statement					
Investment Assets :	**5/6**				
Fixed Interest Securities		170,331		172,749	
Managed overseas equity funds		202,826		247,289	
Managed multi strategy funds		227,037		205,260	
Property funds		109,233		103,522	
Infrastructure funds		27,351		34,128	
Timberland / Agricultural funds		25,937		26,207	
Commodity funds		0		24,962	
Private equity funds		139,582		142,808	
Hedge Fund		139,221		48,750	
Liability Driven Investment		315,530		329,101	
Opportunistic Funds		8,240		9,998	
			1,365,288		1,344,774
Cash	**8**	15,034		47,591	
			15,034		47,591
Current Assets :					
Due within 1 year	**9**	5,349		6,236	
			5,349		6,236
Current liabilities					
Due within 1 year	**9**	(4,996)		(3,193)	
			(4,996)		(3,193)
NET ASSETS AT 31st MARCH			1,380,675		1,395,408

1. ANALYSIS OF CONTRIBUTIONS RECEIVABLE/BENEFITS PAYABLE

Contributions represent those amounts receivable from various employing authorities in respect of their own contributions and those of eligible pensionable employees. The total contributions received during 2015/16 amounted to £57.765m (£58.024m in 2014/15) from employers and £14.471 m (£14.929m in 2014/15) from employees.

The employers total comprised an amount of £30.488m (£29.434m in 2014/15) relating to the common contribution rate average of 13.8% paid by all employers and £27.277m (£28.590m in 2014/15) relating to the individual adjusted rates and additional contributions paid in respect of deficit funding for individual employers.

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year.

Analysis of contributions received and benefits payable is shown below:-

	2016		2015	
	Benefits Payable	Contributions Receivable	Benefits Payable	Contributions Receivable
Scheduled Bodies	**£000**	**£000**	**£000**	**£000**
Flintshire County Council	23,903	25,215	24,610	24,648
Wrexham County Borough Council	21,199	22,438	20,241	21,789
Denbighshire County Council	16,632	17,525	14,895	17,549
Fund apportionment with:				
Gwynedd and Powys County Councils	2,317	0	2,353	0
Educational Organisations	3,191	4,215	2,982	6,737
Town and Community Councils	124	298	131	286
Others - scheduled bodies	888	1,478	605	1,359
Others - admitted bodies	944	1,067	872	585
	69,198	72,236	66,689	72,953

The above merely reflects the figures in the accounts. The circumstances pertaining to each of the bodies listed is different for a variety of reasons (contribution and pensioner profiles, employees' contribution rates, early retirement experience etc.) and direct comparisons, therefore, are largely meaningless.

2. BULK TRANSFER

The bulk transfer amount of £3.889m referred to in the accounts relates to monies paid to Gwynedd Pension Fund in relation to Education staff who were transferred from Fintshire County Council, Denbighshire County Council and Wrexham Borough County Council.

3. EXPENSES BOURNE BY THE FUND

The regulations permit the Council to charge the cost of administering the scheme to the Fund. The external managers' fees have been accounted for on the basis contained within their management agreement.

The cost of pension administration and investment management is shown in the following table. The main increase in oversight and governance expenses relates to new appointments of an external consultant and an independent advisor, both of whom have contributed to a major review of the Fund's investment strategy and changes to the governance structure of the Fund. The consultancy fees also reflect the ongoing monitoring of the Long Term Management of Funding Risk mandate.

	2016 £000	2015 £000
Oversight & Governance		
Employee Costs	225	218
Support Services	31	33
Supplies and Services	54	49
Consultancy & Actuarial	818	750
Audit	39	37
Legal	35	21
	1,202	1,108
Investment Management Fees		
Net Fund Management Fees	14,971	16,127
Custody Fees	28	32
Performance Monitoring Fees	30	20
	15,029	16,179
Administration Costs		
Employee Costs	603	592
Support Services	146	156
Outsourcing	404	32
Supplies & Services	237	222
	1,390	1,002
Total Fees	17,621	18,289

Investment management fees are broadly based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. The Fund is invested in pooled vehicles of which the majority of fees are charged within the Funds. The 2014/15 CIPFA guidance required pension funds to include all investment manager fees including those which are deducted at source to fund of fund investments. The 2014/15 Investment Management Expenses figure of £16.127m, reported in the 2014/15 accounts, therefore included £1.891m of underlying fees. In addition to the underlying fees the guidance also required Funds to include transaction costs (which were previously included in a narrative note only) therefore £1.527m of transaction costs were also included within the £16.127m.

The CIPFA guidance has been revised in 2015/16 and has clarified the position with regards to underlying fees, invoking the accounting principle of control. The guidance clarifies that Funds should only include fees where they have a direct relationship with the investment manager, meaning that underlying fees should not be included within the Management Expenses total. This information remains disclosable within the Fund's Annual Report.

The Fund Management Fees shown overleaf show the fees for 2015/16, 2014/15 as well as the equivalent for 2014/15 if restated to take account of the 2015/16 guidelines. Total expenses include Annual Management Charges from Fund Managers and also any additional costs such as operational, administrative and legal costs. The fees for 2014/15 have also been adjusted to include reclassified or additional costs which were provided after the 2014/15 accounts were finalised.

	2016 £000	2015 £000	If restated 2015 £000
Fund Management Fees			
Core			
Total Expenses including AMC	5,578	6,152	6,672
Underlying Fees	0	833	0
Performance Fees	219	720	439
Transaction Fees	105	1,096	1,096
Non-Core			
Total Expenses including AMC	6,132	4,078	5,161
Underlying Fees	0	1,058	0
Performance Fees	2,557	1,759	2,037
Transaction Fees	380	431	431
	14,971	16,127	15,836

Non-Core refers to Property, Infrastructure, Private Equity, Opportunistic and Timber and Agriculture investments.

Total fees as a percentage of the net asset value of the fund was 1.09% for 2015/16 (1.16% 2014/15).

4. INVESTMENTS AND PERFORMANCE

Further details on the investment strategy are available in the Statement of Investment Principles which can be obtained from the Clwyd Pension Fund Manager, County Hall, Mold, CH7 6NA (Web site www.clwydpensionfund.org.uk or Telephone 01352 702264).

The Council uses the investment performance services of the WM Company and JLT Consultants. Their reports for the financial year 2015/16 showed that the Fund achieved an overall return of -0.1% from its investments (+14.0% in 2014/15). This compares with the Fund's benchmark return of +1.4% for the year.

5. ANALYSIS OF TRANSACTIONS AND RETURN ON INVESTMENTS

Overview

The Fund invests its surplus monies in assets through a wide range of managers. All these main investments are through pooled vehicles where the Fund is one of many investors and where these pooled monies are invested on a common basis although, in the Fund's alternative assets, there are a couple of quoted holdings. Generally, however, the Fund has no direct holdings of equities, bonds, properties, private equity companies, commodities or other financial instruments.

Transactions and Return on Investments

Details of the 2015/16 investment transactions and the net profit on sales of £4.840m (£57.213m in 2014/15) together with investment income of £5.863m (£5.345m in 2014/15) are set out below. The unrealised loss for 2015/16, because of the change in the market value of investments, amounted to (£9.546)m (£127.416m increase in 2014/15). Therefore, the decrease in market value of investments (realised and unrealised) is (£4.706)m (£184.629m increase in 2014/15).

	Market Value 2014/15 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2015/16 £000	Investment Income £000
Fixed Interest Securities	172,749	0	0	0	(2,418)	170,331	0
Liability Driven Investment	329,101	0	0	0	(13,571)	315,530	0
Overseas Equities Active	247,289	19,909	(50,115)	995	(15,252)	202,826	0
Multi Strategy	205,260	179,620	(148,422)	4,103	(13,524)	227,037	0
Property	103,522	7,192	(10,544)	1,663	7,400	109,233	2,741
Infrastructure	34,128	78	(10,509)	12	3,642	27,351	1,125
Timber & Agriculture	26,207	782	(2,306)	0	1,254	25,937	94
Commodities	24,962	0	(25,703)	(12,246)	12,987	0	0
Private Equity	142,808	21,935	(40,980)	9,669	6,150	139,582	1,644
Opportunistic	9,998	4,036	(496)	93	(5,391)	8,240	201
Hedge Fund	48,750	199,280	(109,346)	692	(155)	139,221	0
	1,344,774	432,832	(398,421)	4,981	(18,878)	1,365,288	5,805
Cash	47,591	0	0	0	0	15,034	0
Fees within Pooled Vehicles	0	0	0	0	9,332	0	0
Interest	0	0	0	0	0	0	58
Currency	0	0	0	(141)	0	0	0
	47,591	0	0	(141)	9,332	15,034	58
Total 2015/16	1,392,365	432,832	(398,421)	4,840	(9,546)	1,380,322	5,863
2014/15	1,212,810	142,377	(149,070)	57,213	127,416	1,392,365	5,345

	Market Value 2013/14 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2014/15 £000	Investment Income £000
Fixed Interest Securities	174,002	0	0	0	(1,253)	172,749	0
Liability Driven Investment	227,459	0	0	0	101,642	329,101	0
Overseas Equities Active	281,343	15,824	(87,442)	36,439	1,125	247,289	0
Multi Strategy	115,487	85,133	0	0	4,640	205,260	0
Property	97,780	12,170	(20,303)	1,948	11,927	103,522	1,948
Infrastructure	29,636	3,368	(4,385)	163	5,346	34,128	901
Timber & Agriculture	22,382	4,055	(160)	0	(70)	26,207	101
Commodities	32,084	0	0	0	(7,122)	24,962	0
Private Equity	139,799	19,620	(31,226)	3,812	10,803	142,808	2,010
Opportunistic	12,517	2,207	(4,961)	638	(403)	9,998	231
Hedge Fund of Funds	48,393	0	(593)	169	781	48,750	0
	1,180,882	142,377	(149,070)	43,169	127,416	1,344,774	5,191
Cash	31,928	0	0	0	0	47,591	0
Fees within Pooled Vehicles	0	0	0	14,032	0	0	0
Interest	0	0	0	0	0	0	154
Currency	0	0	0	12	0	0	0
	31,928	0	0	14,044	0	47,591	154
Total 2014/15	1,212,810	142,377	(149,070)	57,213	127,416	1,392,365	5,345
2013/14	1,179,061	501,018	(505,043)	107,501	(78,815)	1,212,810	2,721

6. MARKET VALUE OF INVESTMENTS (EXCLUDING CASH AND FUTURES)

The book cost of the investments as at 31st March 2016 is £1,123.290m (£1,083.899m in 2014/15). The market value of investments as at 31st March 2016 is £1,365.288m (£1,344.774m in 2014/15); this can be analysed as follows:

By Continent

The UK holdings as at 31st March 2016 account for 31% of total investments at market value:

	2016 £000	2015 £000
UK	429,081	431,010
Europe	103,471	114,087
North America	93,321	100,667
Emerging/ Frontier markets	104,121	93,653
Global Investments	635,294	605,357
	1,365,288	1,344,774

By Fund Manager

	2016 £000	%	2015 £000	%
BlackRock	0	0	50,330	4
Wellington	77,877	6	109,235	8
Aberdeen	26,244	2	9,380	1
Insight	315,530	23	329,101	24
Pioneer	0	0	1,324	0
Liongate	0	0	21,977	2
SSARIS	0	0	25,449	2
Duet	0	0	50,299	4
BlueCrest	0	0	34,409	3
Investec	155,632	11	163,885	12
Stone Harbor	170,331	12	172,749	13
Pyrford	60,992	5	59,973	4
Man FRM	139,221	10	0	0
Consultant "Best Ideas"	109,118	8	0	0
Property	109,233	8	103,522	8
Infrastructure	27,351	2	34,128	2
Timber / Agriculture	25,937	2	26,207	2
Private Equity	139,582	10	142,808	10
Opportunistic	8,240	1	9,998	1
	1,365,288	100	1,344,774	100

By Listed /Managed

	2016 Listed Managed	2016 Listed	2016 Unlisted	2015 Listed Managed	2015 Listed	2015 Unlisted
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	0	0	170,331	0	0	172,749
Overseas Equities	202,826	0	0	196,990	0	50,299
Multi Strategy	227,037	0	0	205,260	0	0
Property	38,988	0	70,245	36,018	0	67,504
Infrastructure	0	11,417	15,934	0	6,712	27,416
Timber / Agriculture	0	0	25,937	0	0	26,207
Commodities	0	0	0	0	0	24,962
Private Equity	0	1,998	137,584	0	1,969	140,839
Hedge Fund	0	0	139,221	21,977	0	26,773
Opportunistic	0	0	8,240	0	0	9,998
Liability Driven Investment	315,530	0	0	329,101	0	0
	784,381	13,415	567,492	789,346	8,681	546,747
			1,365,288			1,344,774

	2016 Listed Managed	2016 Listed	2016 Unlisted	2015 Listed Managed	2015 Listed	2015 Unlisted
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	0	0	170,331	0	0	172,749
Overseas Equities	202,826	0	0	196,990	0	50,299
Multi Strategy	227,037	0	0	205,260	0	0
Property	38,988	0	70,245	36,018	0	67,504
Infrastructure	0	11,417	15,934	0	6,712	27,416
Timber / Agriculture	0	0	25,937	0	0	26,207
Commodities	0	0	0	0	0	24,962
Private Equity	0	1,998	137,584	0	1,969	140,839
Hedge Fund	0	0	139,221	21,977	0	26,773
Opportunistic	0	0	8,240	0	0	9,998
Liability Driven Investment	315,530	0	0	329,101	0	0
	784,381	13,415	567,492	789,346	8,681	546,747
			1,365,288			1,344,774

7. FAIR VALUE OF INVESTMENTS

Financial Instruments

Whilst the Fund invests almost exclusively through pooled vehicles, the managers of these vehicles invest in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings, unlisted equity products, commodity futures and other derivatives. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). It is effectively a trading activity to generate income rather than an investment. The Fund has no direct exposure to stock lending.

Fair Value – Valuation Bases

Investments are shown in the accounts at fair value as at 31st March 2016 on the following bases.

- UK and overseas listed securities are valued within the respective pooled vehicles using the official bid prices quoted on the relevant stock exchange. Overseas holdings are converted to sterling at an exchange rate quoted at close of business on 31st March 2016.
- Unit trusts are valued at the bid market price.
- Other pooled vehicles are valued at the bid point of the latest process quoted by their respective managers or fund administrators at 31st March 2016. Where a bid price is not available the assets are priced at the net asset value provided.
- Property funds are valued at the bid market price, which is based upon regular independent valuation of the pooled vehicles' underlying property holdings.
- Private equity holdings are interests in limited partnerships. It is important to recognise the highly subjective nature of determining the fair value of these investments. They are inherently based on forward looking estimates and judgments involving many factors. These holdings are valued based upon the Fund's share of the net assets of the partnership according to the latest financial statements published by the respective managers. Where these valuations are not at the Fund's balance sheet date, the valuations are adjusted having due regard to the latest dealings, asset values and other financial information available at the time of preparing these statements in order to reflect the Fund's balance sheet date. The managers' valuation statements are prepared in accordance with the European Private Equity and Venture Capital Association (EVCA) Guidelines, net of carried interest. These incorporate the US-based FAS157 protocol on valuation approaches –

  - Market – uses prices and other relevant data generated by market transactions involving identical or comparable assets/liabilities (e.g. money multiples)
  - Income – uses valuation techniques to convert expected future amounts to a single present amount (discounted cash flows or earnings)
  - Cost – based upon the amount that currently would be required to replace the service capacity of an asset (adjusted for obsolescence)

  Managers are required "to use the method that is appropriate in the circumstances and for which sufficient data is used and to apply the approach consistently until no longer appropriate." It is also possible to use multiple or combinations of approaches. Most private equity managers use a combination of the "market" and "income" approaches.

- Infrastructure investments are generally carried at the lower of cost and fair value, except where there are specific upward or downward valuations. In estimating fair value, managers use their judgment, having regard to the EVCA guidelines noted above for valuing unquoted investments. Upward valuations are considered only where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted regardless of the investment stage where the manager considers that there is impairment to the underlying investment.
- Timberland investments are carried at net asset value as determined by the General Partner. In most cases fair value is derived from the audited financial statements provided by underlying managers or vehicles. In circumstances where audited financial statements are not available to 31st March, the valuations are derived from unaudited quarterly reports from the underlying managers or vehicles. Where the timber investments are direct rather than through underlying managers, valuations are based upon regular independent valuation of these holdings.

- Hedge funds are valued monthly to create a net asset value on the basis of the Fund's proportionate share of the value of underlying pools on a manager by manager basis. Generally the fair value of the Fund's investment in a related pool represents the amount that the Fund could be reasonably expected to receive from the pool if the Fund's investment was redeemed at the date of valuation, based upon information reasonably available at the time that the valuation was made and that the fund believes to be reliable.
- Diversified Growth and Multi Strategy funds invest for the most part in markets that are not exchange-based. These include OTC or "interdealer" markets and leverage is utilized by such funds to a significant level. If market prices are not available or do not reflect current market prices, the Fund applies its own pricing policies by reference to such relevant prices as are available to establish a fair value for the assets held.

Fair Value – Hierarchy

The valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and unit trusts. Listed investments are shown at bid price.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available, for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where those techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would be unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgment in determining appropriate assumption.

The following tables show the position of the Fund's assets at 31st March 2016 and 31st March 2015 based upon this hierarchy.

	Market Value 2015/16 £000	Level 1 £000	Level 2 £000	Level 3 £000
Fixed Interest Securities	170,331	0	170,331	0
Liability Driven Investment	315,530	0	0	315,530
Overseas Equities Active	202,826	60,073	142,753	0
Multi Strategy	227,037	170,110	56,927	0
Property (1)	109,233	0	38,988	70,245
Infrastructure (1)	27,351	11,417	0	15,934
Timber & Agriculture (1)	25,937	0	0	25,937
Private Equity (2)	139,582	1,998	0	137,584
Hedge Fund	139,221	3,889	127,319	8,013
Opportunistic Funds (2)	8,240	0	0	8,240
	1,365,288	247,487	536,318	581,483
Cash	15,034	15,034	0	0
Total 2015/16	1,380,322	262,521	536,318	581,483

(1) Property/ Infrastructure/ Timber and Agriculture - Various valuation bases are used. Direct fund holdings are valued based upon independent valuations, these have been classified as level 2, and some funds also often hold joint venture and partnership interests that are subject to a variety of valuation methodologies. To be conservative, these funds have been classified Level 3 unless the fund itself is quoted.

(2) Private Equity and Opportunistic Funds - Various valuation bases are used including cost, quoted prices (often discounted for "lock-ups", transaction multiples, market multiples, future realisation proceeds, company prospects, third party opinion etc. Company and fund valuations often reflect combinations of these valuation bases. To be conservative, all funds have been classified Level 3 unless the fund itself is quoted.

Within the investments shown above as (1) or (2), whilst a small proportion are listed, the majority of the holdings are in unquoted investments; (£296.928m) compared to £307.982m in 2014/15. These are valued at a fair value by the fund managers, using an appropriate basis of valuation. The valuations are reliant upon a significant degree of judgment, and due to the subjectivity and variability of these valuations there is an increased likelihood that the valuations included in the financial statements would not be realised in the event of a sale. The difference could be materially lower or higher.

	Market Value 2014/15	Level 1	Level 2	Level 3
	£000	£000	£000	£000
Fixed Interest Securities	172,749	0	172,749	0
Liability Driven Investment	329,101	329,101	0	0
Overseas Equities Active	247,289	237,671	9,618	0
Multi Strategy	205,260	126,556	78,704	0
Property (1)	103,522	0	36,018	67,504
Infrastructure (1)	34,128	6,712	0	27,416
Timber & Agriculture (1)	26,207	0	0	26,207
Commodities	24,962	0	24,962	0
Private Equity (2)	142,808	1,969	0	140,839
Hedge Fund of Funds	48,750	0	45,833	2,917
Opportunistic Funds (2)	9,998	0	0	9,998
	1,344,774	702,009	367,884	274,881
Cash	47,591	47,591	0	0
Total 2014/15	1,392,365	749,600	367,884	274,881

8. INVESTMENT RISKS

As demonstrated, the Fund maintains positions in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings and unlisted equity products. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

Procedures for Managing Risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (amended) and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money. The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks. The Pension Fund annually reviews its Statement of Investment Principles (SIP) and corresponding Funding Strategy Statement (FSS), which set out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. The SIP and FSS can be found on the Fund's website (www.clwydpensionfund.org.uk).

The Fund carries out a formal review of its structure at least every 4 years, usually every 3 years. The last review was carried out in 2014 at which the Fund's Consultants, JLT Group determined that the resulting asset mix coupled with the requirements for certain fund managers to outperform their market indices should produce long-term returns of 7.2% with a volatility of around 11%. A key element in this review process was the consideration of risk and for many years now the Fund has pursued a policy of lowering risk by diversifying investments across asset classes, investment regions and fund managers. Furthermore, alternative assets are subject to their own diversification requirements and some examples are given below.

- private equity – by stage, geography and vintage where funds of funds are not used
- property – by type, risk profile, geography and vintage (on closed-ended funds)
- infrastructure – by type (primary/secondary), geography and vintage
- hedge funds – bespoke funds via a managed account platform

The Fund invests in a Long Term Management of Risk mandate. The strategy provides a framework to enable the Fund to effectively reduce risk when market conditions become more favourable (i.e. bonds become cheaper). The framework includes both market yield based triggers and funding level triggers. In particular, the manager makes use of Liability Driven Investment (LDI) techniques to increase the level of hedging within the Fund. This is achieved through the physical purchase of gilts along with repurchase agreements (repo). These allow the fund to gain "unfunded" exposure to gilts. The manager also replicates the Fund's developed passive equity allocation using Equity Total Return Swaps (TRS).

Roll risk

The LDI manager has the facility to use repurchase agreements, once these agreements mature, they need to be replaced with other contracts to maintain the relevant exposure (known as "rolling" the contract). This involves managing the operational risks raised to ensure sufficient resources are in place to arrange the trades and manage the process. In addition, as a contract matures, the underlying market for repo may become illiquid and at the extreme, the manager may not be able to roll the position. This is mitigated by structuring the overall repo over a range of maturity dates and diversifying counterparty exposure.

Manager Risk

The Fund is also well diversified by manager with no single manager managing more than 23% of Fund assets. On appointment fund managers are delegated the power through an investment management agreement to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. An update, at least quarterly, is required from each manager and regular meetings are held with managers to discuss their mandates and their performance on them. There are slightly different arrangements for some of the alternative assets. On private equity, property, infrastructure and timber/agriculture, investment is fund rather than manager-specific, with specific funds selected by the in-house team after careful due diligence. These commitments tend to be smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As noted above, almost all the Fund's investment are through pooled vehicles and a number of these are involved in derivative trades of various sorts, including futures, swaps and options. Whilst the Fund is not a direct counterparty to such trades and so has no direct credit risk, clearly all derivative transactions incorporate a degree of risk and the value of the pooled vehicle, and hence the Fund's holding, could be impacted negatively by failure of one of the vehicle's counterparties.

However, part of the operational due diligence carried out on potential manager appointees concerns itself with the quality of that manager's risk processes around counterparties and seeks to establish assurance that these are such as to minimise exposure to credit risk. Once appointed, managers are required to provide copies of their annual internal control reports for review to ensure that the standards expected are maintained.

Deposits are not made with banks and financial institutions unless they are rated independently.

Subject to cash flow requirements, cash can be deposited in one of the following:

- The Pension Fund bank account with the National Westminster Bank for daily liquidity
- A National Westminster deposit account with access up to 180 days' notice.
- A Money Market AAA Fund for unexpected liquidity requirements or higher rates of return.

The Fund believes it has managed its exposure to credit risk and has no experience of default or uncollectible deposits in the last three financial years. The Fund's cash holdings as at 31st March 2016 were £15.034m (£47.591m at 31st March 2015). This was held as follows:

	Rating	2016 £000	2015 £000
Money Market Funds			
BlackRock	AAA	0	482
Bank of New York Mellon	AAA	1,395	3,374
Bank Deposit Accounts			
National Westminster Bank PLC	BBB+	13,619	43,715
Bank Current Accounts			
National Westminster Bank PLC	BBB+	20	20
		15,034	47,591

Within the Fund, the areas of focus in terms of credit risk are bonds and some of the alternative asset categories.

- The Fund's bond portfolio is managed on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2016, the Fund's exposure to non-investment grade paper was £62.171million or 36.5% of the fixed interest portfolio (37.0% at 31st March 2015).
- On private equity and infrastructure the Fund's investments are almost entirely in the equity of the companies concerned.

Liquidity Risk

The Pension Fund has its own bank account. At its simplest, liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, especially pension payments to its members. At a strategic level the Administering Authority, together with its consulting actuary, reviews the position of the Fund triennially to ensure that all its obligations can be suitably covered. Ongoing cash flow planning in respect of contributions, benefit payments, investment income and capital calls/distributions is also essential and undertaken regularly by the Fund.

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities (including synthetic equity exposure) and bonds now comprise 50% of the Fund's total value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at worst – often weekly or fortnightly.

On alternative assets the position is more mixed. Whilst there are a couple of quoted vehicles here, most are subject to their own liquidity terms or, in the case of property, redemption rules. Closed-ended funds such as most private equity vehicles and some property and infrastructure funds are effectively illiquid for the specified fund period (usually 10 years), although they can be sold on the secondary market, usually at a discount.

The table below analyses the value of the Fund's investments at 31st March 2016 by liquidity profile.

	Market Value 2015/16	1 Month	2 - 3 Months	3 - 6 Months	6 - 12 Months	Closed - ended	Locked
	£000	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	170,331	170,331	0	0	0	0	0
Liability Driven Investment	315,530	315,530	0	0	0	0	0
Overseas Equities Active	202,826	200,989	1,837	0	0	0	0
Multi Strategy	227,037	224,191	2,846	0	0	0	0
Property	109,233	0	38,988	0	0	70,245	0
Infrastructure	27,351	11,417	0	0	0	15,934	0
Timber & Agriculture	25,937	0	0	0	0	25,937	0
Private Equity	139,582	1,998	0	0	0	137,584	0
Hedge Fund	139,221	111,391	21,816	0	0	0	6,014
Opportunistic Funds	8,240	0	0	0	0	8,240	0
	1,365,288	1,035,847	65,487	0	0	257,940	6,014

It should be noted that different quoted investments are subject to different settlement rules but all payments/receipts are usually due within 7 days of the transaction (buy/sell) date. Because the Fund uses pooled vehicles for quoted investments these are often subject to daily, weekly, 2-weekly or monthly trading dates. All such investments have been designated "within 1 month" for the purposes of liquidity analysis. Open-ended property funds are subject to redemption rules set by their management boards. Many have quarterly redemptions but these can be held back in difficult markets so as not to force sales and disadvantage continuing investors. For liquidity analysis purposes, a conservative approach was applied and all such investments have been designated "within 2-3 months".

Closed-ended funds have been designated illiquid for the purposes of liquidity analysis. However, these closed-ended vehicles have a very different cash flow pattern to traditional investments since the monies committed are only drawn down as the underlying investments are made (usually over a period of 5 years) and distributions are returned as soon as underlying investments are exited (often as early as year 4).

In terms of cash flow, therefore, the net cash flow for such a vehicle usually only reaches a maximum of about 60-70% of the amount committed and cumulative distributions usually exceed cumulative draw downs well before the end of the specified period, as these vehicles regularly return 1½ to 2½ times the money invested. At the same time, it has been the Fund's practice to invest monies on a regular annual basis so the vintage year of active vehicles ranges from 1997 to 2016. This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual "10-year life", many are closer to maturity than implied by this broad designation.

As can be seen from the table, even using the conservative basis outlined above, around 76% of the portfolio is realisable within 1 month.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial institution will fluctuate because of changes in market price. The Fund is exposed to the risk of financial loss from a change in the value of its investments and the consequential danger that its assets will fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term.

Market risk is comprised of two elements:

- The risks associated with volatility in the performance of the asset class itself (beta);
- The risks associated with the ability of managers, where allowed, to move away from index weights and to generate alpha, thereby offsetting beta risk by exceeding market performance.

The following table sets out an analysis of the Fund's market risk positions at 31st March 2016 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark, the target set for managers against this benchmark and managers' maximum target volatility (or risk) against index in achieving this. This expected risk is based on 10 year historic returns and volatility.

	Manager	Market Value 2015/16 £000	Benchmark	Target (Net)	Risk (<) %
Fixed Interest Securities	Stone Harbor	170,331	1 Month LIBOR	+1.0%	6.0
Liability Driven Investment	Insight	315,530	Liability / FTSE	Match	21.0
Foreign equities–active	Investec	98,705	MSCI AC World NDR	+2.5%	14.0
	Aberdeen	26,244	MSCI Frontier Markets	+1.5%	20.0
	Wellington	77,877	MSCI EM Free	+1.5%	21.0
Multi strategy funds	Custodian "Best Ideas"	109,118	UK CPI	+3.0%	9.0
	Investec	56,927	UK CPI	+4.6%	9.0
	Pyrford	60,992	RPI	+4.5%	9.0
Hedge Fund	Man FRM	139,221	3 Month LIBOR	+3.5%	6.0
Property funds	Various	109,233	IPD Balanced PUTs	Exceed	5.0
Infrastructure funds	Various	27,351	3 Month LIBOR	+5.0%	10.0
Timber /Agricultural funds	Various	25,937	3 Month LIBOR	+5.0%	10.0
Private equity funds	Various	139,582	3 Month LIBOR	+5.0%	28.0
Opportunistic funds	Various	8,240	3 Month LIBOR	+5.0%	28.0
		1,365,288			

The risks associated with volatility in market values are mainly managed through a policy of broad asset diversification. The Fund sets restrictions on the type of investment it can hold through investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). The Fund also adopts a specific strategic benchmark (details are in the Fund's SIP) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions, there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund's asset allocation model, is designed to diversify and minimise risk for a specific level of performance through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. The current strategic benchmark is targeted to produce long-term returns of 7.2% with a volatility of around 11%.

Market risk is also managed through manager diversification – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects. On property and private equity, fund and manager diversification is vital and, whilst a full list of investments is not detailed here, the Fund has exposures as follows:

	Market Value 2016 £000	Managers No.	Funds No.	Properties / Companies Estimated No.
Real Assets	162,521	23	39	>280
Private Equity / Opportunistic	147,822	23	64	>4,000

Other Price Risk

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

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the fund's investment strategy.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's performance measurer, WM Company, the fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset Type	Potential Market Movements (+ / -)
Global Equity inc UK	7.31%
Oveseas Equity	10.35%
Fixed Interest Securities	4.03%
Liability Driven Investing	13.12%
Pooled Multi Strategy	5.67%
Alternatives	2.51%
Property	2.49%

The sensitivities are consistent with the assumptions provided by WM Company based on historic data collated for the Fund. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Had the market price of the Fund's investments increased / decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (prior year comparator also provided).

Asset Type	Market Value 2015/16	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	15,034	0.01	15,036	15,032
Investment portfolio assets:-				
Global Equity inc UK	98,705	7.31	105,920	91,490
Overseas Equity	104,121	10.35	114,898	93,344
Fixed Interest Securities	170,331	4.03	177,195	163,467
Liability Driven Investing	315,530	13.12	356,928	274,132
Pooled Multi Strategy	227,037	5.67	239,910	214,164
Alternatives	340,331	2.51	348,873	331,789
Property	109,233	2.49	111,953	106,513
	1,380,322		1,470,713	1,289,931

Asset Type	Market Value 2014/15	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	47,591	0.01	47,596	47,586
Investment portfolio assets:-				
Global Equity inc UK	153,636	6.00	162,854	144,418
Overseas Equity	93,653	9.82	102,850	84,456
Fixed Interest Securities	172,749	4.24	180,074	165,424
Liability Driven Investing	329,101	12.82	371,292	286,910
Alternatives	492,113	2.90	506,384	477,842
Property	103,522	3.31	106,949	100,095
	1,392,365		1,477,999	1,306,731

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund recognises that interest rates can vary and affect both the income to the fund and the net assets available to pay benefits. The Fund's Fixed Income manager has advised that rates may rise by 25 basis points (bps) over the next year. As the fund does not use Fixed Income securities to provide income, the following sensitivity analysis only refers to cash and cash balances.

Asset Type	Carrying Value	Change in year in net assets available to pay benefits	
	2015/16	+25BPS	-25BPS
	£000	£000	£000
Cash and cash equivalents	1,395	3	(3)
Cash balances	13,639	34	(34)
	15,034	37	(37)

Asset Type	Carrying Value	Change in year in net assets available to pay benefits	
	2014/15	+75BPS	-75BPS
	£000	£000	£000
Cash and cash equivalents	3,856	29	(29)
Cash balances	43,735	328	(328)
	47,591	357	(357)

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any other currency other than the functional currency of the Fund (GBP). The Fund holds assets denominated in currencies other than GBP.

The following table summarises the Fund's currency exposure as at 31st March 2016 and as at the previous year end:

Currency Exposure - Asset Type	Market Value 2015/16 £000	Market Value 2014/15 £000
Fixed Interest Securities	170,331	172,749
Overseas Equities Active	202,826	247,289
Multi Strategy	227,037	205,260
Commodities	0	24,962
Hedge Funds	139,221	48,750
Property	32,056	37,867
Infrastructure	12,441	19,449
Timber / Agriculture	25,937	26,207
Opportunitistic	8,240	9,998
Private Equity	118,118	121,233
	936,207	913,764

Following analysis of the historical data in consultation with the fund's Performance Measurers, WM Company, and analysis of the exposures to foreign currency for the year to 31st March 2016, it was considered that the likely volatility associated with foreign exchange rate movements to be 5.85%. For the period to 31st March 2015, this was calculated to be 5.44%.

This analysis assumes that all other variables, in particular interest rates, remain constant. These individual year percentages strengthening / weakening against the various currencies in which the fund hold investments would increase / decrease the net assets available to pay benefits as follows:

Currency Exposure - Asset Type	Market Value 2015/16	Percentage Change %	Value on Increase £000	Value on Decrease £000
Fixed Interest Securities	170,331	5.85	180,288	160,374
Overseas Equity - Active	202,826	5.85	214,682	190,970
Multi Strategy	227,037	5.85	240,309	213,765
Hedge Fund	139,221	5.85	147,359	131,083
Timber & Agriculture	25,937	5.85	27,453	24,421
Infrastructure	12,441	5.85	13,168	11,714
Property	32,056	5.85	33,930	30,182
Opportunistic	8,240	5.85	8,722	7,758
Private Equity	118,118	5.85	125,022	111,214
	936,207		990,933	881,481

	2014/15	%	£000	£000
Fixed Interest Securities	172,749	5.44	182,152	163,346
Overseas Equity - Active	247,289	5.44	260,749	233,829
Multi Strategy	205,260	5.44	216,432	194,088
Hedge Funds of Funds	48,750	5.44	51,403	46,097
Commodities	24,962	5.44	26,321	23,603
Timber & Agriculture	26,207	5.44	27,633	24,781
Infrastructure	19,449	5.44	20,507	18,391
Property	37,867	5.44	39,928	35,806
Opportunistic	9,998	5.44	10,542	9,454
Private Equity	121,233	5.44	127,830	114,636
	913,764		963,497	864,031

9. RECEIVABLES/PAYABLES

	2016		2015	
	£000	£000	£000	£000
Current Assets :				
Contributions due - Employees	1,109		1,171	
Contributions due - Employers	2,394		3,005	
Added years	30		41	
H.M. Revenue and Customs	13		25	
Pension strain	1,635		1,762	
Administering authority	0		0	
Miscellaneous	168		232	
		5,349		6,236
Less Current Liabilities :				
Contributions	(6)		(7)	
Lump sums	(3,324)		(2,246)	
Death grants	(755)		(144)	
Administering authority	(284)		(265)	
Added years	(195)		(41)	
H.M. Revenue and Customs	(5)		(9)	
Miscellaneous	(427)		(481)	
		(4,996)		(3,193)
Net Current Assets		353		3,043

Analysis of receivables	2016	2015
	£000	£000
Central Government Bodies	13	25
Other Local Authorities	4,868	4,931
Other Entities and Individuals	468	1,280
	5,349	6,236

Analysis of payables	2016	2015
	£000	£000
Central Government Bodies	(5)	(9)
Other Local Authorities	(468)	(271)
Other Entities and Individuals	(4,523)	(2,913)
	(4,996)	(3,193)

10. MATERIAL TRANSACTIONS

The Fund undertakes a review of fund management arrangements every three or four years. A full review was undertaken during 2014/15 and the following details the changes which were completed during 2015/16. Some subscriptions and redemptions were staggered through 2015/16, details are shown below.

2015/16 Manager	Mandate	Allocation	Redemption/ Subscription Initial	Final
Redemptions				
BlackRock	Global Tactical Asset Allocation	6%	N/A	May-15
Bluecrest	Global Tactical Asset Allocation	3%	N/A	Oct-15
Wellington	Commodities	4%	N/A	May-15
SSARIS	Hedge Fund of Funds	2.5%	Nov-15	Feb-16
Liongate	Hedge Fund of Funds	2.5%	Nov-15	Mar-16
Duet	Global High Alpha Equities	5%	Aug-15	Mar-16
Subscriptions				
Aberdeen	Frontier Market Equities	2.5%	Apr-15	May-15
Man FRM	Hedge Fund Managed Account Platform	9%	Aug-15	Mar-16
Consultant	"Best Ideas" Portfolio	9%	May-15	Feb-16

The “Best Ideas” Portfolio has been established, in partnership with the Fund’s Investment Consultant (JLT) to enable the Fund to capitalise on tactical opportunities in the market. The allocation allows the Fund to speedily gain a more focused exposure to particular markets, based on a 6 to 12 month view.

11. POST BALANCE SHEET EVENT

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2016. Since this date, the performance of the global equity markets may affect the financial value of pension fund investments. This movement does not affect the ability of the Fund to pay its pensioners.

12. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

In accordance with Regulations of 4(2)b of The Pension Scheme (Management and Investment of Funds) Regulations 2009, a market value or an estimate thereof has not been included for the money purchase AVC investments. These assets are specifically allocated to the provision of additional benefits for particular members. The Clwyd Pension Fund has the services of two AVC providers (Prudential and Equitable Life) for members' additional benefits with the funds being invested in a range of investment products including fixed interest, equity, cash, deposit, property and socially responsible funds, as follows :-

Contributions paid	£	781,659
Units purchased	No.	162,599
Units sold	No.	175,108
Market value as at 31st March 2016	£	4,609,979
Market value as at 31st March 2015	£	4,718,878

13. RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councilors are entitled to join the Pension Scheme. As at 31st March 2015, two Members of the Clwyd Pension Fund Committee have taken this option. The four Co-opted Members of the Pension Fund Committee receive fees in relation to their specific responsibilities as members of the Committee in the form of an attendance allowance that is in line with that adopted by Flintshire County Council.

Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of The Accounts and Audit Regulations (England) Regulations 2011 and Regulation 7A of The Accounts and Audit Regulations (Wales) Regulations 2014) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Clwyd Pension Fund. The disclosures required by Regulation 7(2)-(4) of The Account and Audit Regulations (Wales) can be found in the main accounts of Flintshire County Council.

Flintshire County Council

In the course of fulfilling its role as administering authority to the Fund, Flintshire County Council provided services to the Fund for which it charged £1.296m (£1.270m in 2014/15). These costs are in respect of those staff employed in ensuring the pension service is delivered, and other costs such as payroll and information technology. The costs are included in the accounts within oversight and governance, and administration expenses (see note 2). At the year end, a net balance of £0.284m was owing to Flintshire in relation to creditors payments made on behalf of the fund and support service costs which were not available as at 31st March 2015 (£0.265m in 2014/15).

14. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2016, the Fund has contractual commitments of £681.2m (£574.0m in 2014/15) in private equity and property funds, of which £473.6m (£439.6m in 2014/15) has been deployed, leaving an outstanding commitment of £207.6m (£134.5m in 2014/15).

15. AGENCY ACCOUNTING

The Clwyd Pension Fund pays discretionary awards to the former employees of former and current Unitary Authorities, Town and Community Councils and Educational Organisations. The amounts are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

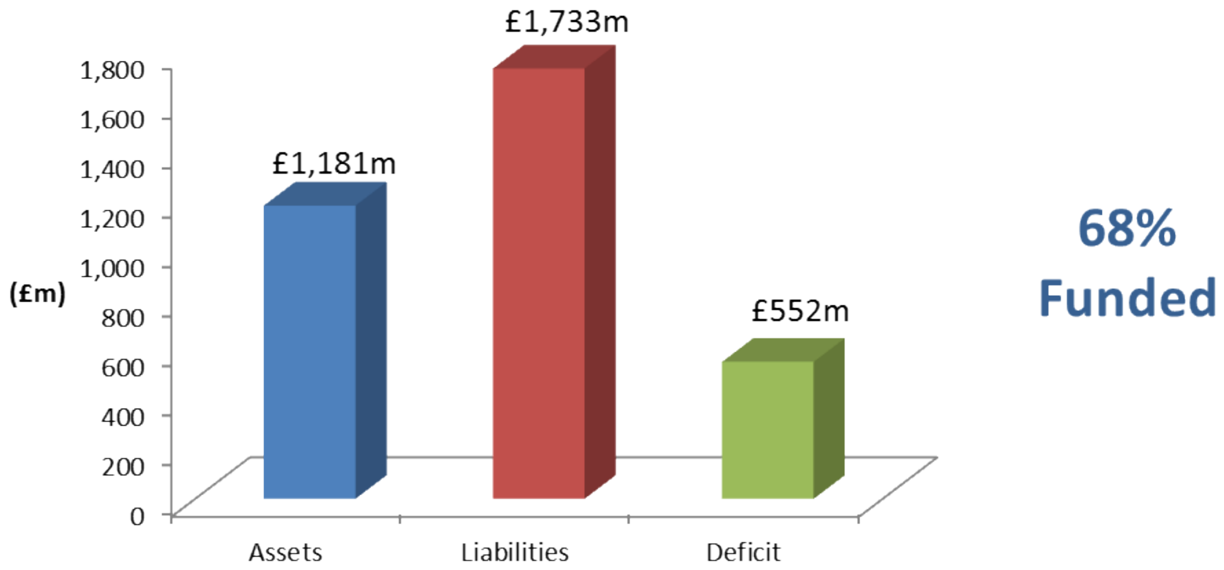
2016 £000	Payments on behalf of	2015 £000
2,315	Wrexham County Borough Council	2363
3,298	Flintshire County Council	3350
1,877	Denbighshire County Council	1916
571	Conwy County Borough Council	591
48	Coleg Cambria	47
40	Glyndwr	38
23	Powys County Council	23
10	North Wales Fires Service	11
8	DVLA	9
7	Local Government Management Board	7
4	Welsh Water Authority	4
4	Magistrates Court	4
1	Llanasa Community Council	1
1	Cefn Mawr Community Council	1
8,207		8,365

16. ACTUARIAL VALUATION & VALUE OF PROMISED RETIREMENT BENEFITS FOR THE PURPOSE OF IAS 26 (Provided by the Fund's Actuary)

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

An actuarial valuation of the Clwyd Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £1,181 million represented 68% of the Fund's past service liabilities of £1,733 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £552 million.



The valuation also showed that a common rate of contribution of 13.8% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 73% with a resulting deficit of £449 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £27.4m per annum increasing at 4.1% per annum (equivalent to approximately 11.8% of projected Pensionable Pay at the valuation date) for 18 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

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

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

	For past service liabilities (Funding Target)	**For future service liabilities (Common Contribution Rate)**
Rate of return on investments (discount rate)	4.6% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value. The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.3% per annum	3.6% per annum
Rate of pay increases	3.5% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields rose, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end than at the beginning of the year (2.0% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £2,181 million. The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by *c*£93 million. Adding interest over the year increases the liabilities by *c*£72 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further *c*£4 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £2,164 million.

Paul Middleman
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