

CLWYD PENSION FUND ACCOUNTS

for the year ended 31st March 2018

FUND ACCOUNT

2016/17 £000		Note	2017/18 £000
	Dealings with members, employers and others directly involved in the Fund		
(76,439)	Contributions	7	(105,079)
(2,797)	Transfers in		(4,839)
(79,236)			(109,918)
	Benefits payable :		
54,744	Pensions	8	56,739
10,413	Lump sums (retirement)		10,474
1,560	Lump sums (death grants)		1,676
66,717			68,889
5,586	Payments to and on account of leavers	9	5,689
72,303			74,578
(6,933)	Net (additions)/withdrawals from dealings with members		(35,340)
17,475	Management expenses	10	23,538
10,542	Net (additions)/withdrawals including fund management expenses		(11,802)
	Returns on Investments		
(7,432)	Investment income	11	(10,060)
0	Tax on investment income		
(310,601)	Change in market value of investments	12	(77,179)
(318,033)	Net return on investments		(87,239)
(307,491)	Net (increase)/decrease in the net assets available for benefits during the year		(99,041)
(1,380,675)	Opening net assets of the scheme		(1,688,166)
(1,688,166)	Closing net assets of the scheme		(1,787,207)

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NET ASSETS STATEMENT

2016/17 £000s		Note	2017/18 £000s
1,685,928	Investment Assets	13	1,781,826
1,685,928	Net Investment Assets		1,781,826
	Long-term debtors	18	29
4,545	Debtors due within 12 months	18	6,225
(2,307)	Creditors	19	(873)
1,688,166	Net assets of the fund available to fund benefits at the end of the reporting period		1,787,207

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the actuary's report at page 27.

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

General

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

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

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

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

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

Benefits

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

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

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

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

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

Governance

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

In accordance with the Public Service Pensions Act 2013, the Council has set up a Local Pension Board to oversee the governance of the Pension Fund. The Board met three times in 2017/18 and has its own Terms of Reference. Board members are independent of the Pension Fund Committee.

Investment Strategy

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

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

Membership

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

- Scheduled bodies, 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 bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 43 employer bodies within the Fund with active members (including Flintshire County Council) and over 46,000 members are detailed below.

2016/17 No.		2017/18 No.
40	Number of employers with active members	43
	15,748 Active members	16,543
	11,985 Pensioners receiving benefits	12,296
	15,679 Deferred Pensioners	17,822
43,412		46,661

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The scheduled bodies which contributed to the Fund during 2017/18 are:

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

The admitted bodies contributing to the Fund are:

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

NOTE 2 - BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year end as at 31st March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 26 basis, is disclosed in the actuary's report at page 27 of these accounts.

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

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.
- **IFRS 15 Revenue from Contracts with Customers**, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.
- **IAS 7 Statement of Cash Flows (Disclosure Initiative)**, will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.

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- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)**, applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In summary, accounting policies adopted are detailed as follows:

Fund Account – Revenue recognition

Contribution income

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

Transfers to and from other schemes

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

Foreign currency transactions

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

Investment income

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

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

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

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Fund Account – expense items

Benefits payable

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

Taxation

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

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

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

Management expenses

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

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

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

Net Assets Statement

Financial instruments

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

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

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

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recognised as income and comprise all realised and unrealised profits/losses during the year.

Cash and cash equivalents

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

Actuarial present value of promised future retirement benefits

The actuarial value of promised future retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of the Code and IAS26. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a report from the actuary (see page 27).

Additional Voluntary Contributions (AVCs)

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016, but are disclosed as a Note only (see Note 20).

NOTE 4 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

The net pension fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and set out in the actuary's report at page 27. These actuarial re-valuations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. The items in the Net Assets Statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

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Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (see page 27)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 10% decrease in future investment returns would reduce the current funding level of 76% to 68%. A 10% increase in the current valuation of estimated future pension liabilities would reduce the funding level to 70%, and a combination of the two would reduce the funding level to 60%.

Value of investments at level 3

The Pension Fund contains investments in private equity, hedge funds and pooled funds including property, infrastructure, timber and agriculture, that are classified within the financial statements as level 3 investments in note 15 to these accounts. The fair value of these investments is estimated using a variety of techniques which involve some degree of tolerance around the values reported in the Net Assets Statement. Note 15 summarises the techniques used, the key sensitivities underpinning the valuations and the sensitivity or tolerance around the values reported.

NOTE 6 - POST BALANCE SHEET EVENTS

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2018. Performance of global financial markets since this date may have affected the financial value of pension fund investments as reported in the Net Asset Statement, but do not affect the ability of the Fund to pay its pensioners.

NOTE 7 - ANALYSIS OF CONTRIBUTIONS RECEIVABLE

By employer

2016/17 £000s	2017/18 £000s
(26,936) Administering Authority - Flintshire County Council	(27,479)
(48,150) Scheduled bodies	(74,495)
(1,353) Admitted bodies	(3,105)
(76,439) Total	(105,079)

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By type

2016/17 £000s		2017/18 £000s
(14,429)	Employees contributions	(14,829)
	Employers contributions:	
(32,257)	Normal contributions	(36,175)
(28,562)	Deficit contributions	(52,570)
(1,191)	Augmentation contributions	(1,505)
(62,010)	Total employers' contributions	(90,250)
(76,439)		(105,079)

NOTE 8 – BENEFITS PAYABLE

By employer

2016/17 £000s		2017/18 £000s
25,206	Administering Authority - Flintshire County Council	26,524
40,605	Scheduled bodies	39,127
906	Admitted bodies	3,238
66,717		68,889

By type

2016/17 £000s		2017/18 £000s
54,744	Pensions	56,739
10,413	Lump sums (retirement)	10,474
1,560	Lump sums (death grants)	1,676
66,717		68,889

NOTE 9 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17 £000s		2017/18 £000s
5,212	Transfer values paid (individual)	5,316
106	Refunds of contributions	101
268	Other	272
5,586	Total	5,689

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NOTE 10 – MANAGEMENT EXPENSES

2016/17 £000s	2017/18 £000s
1,633 Oversight and Governance	1,399
14,474 Investment Management Expenses (see Note 10A)	20,570
1,368 Administration costs	1,569
17,475 Total	23,538

The Oversight and Governance costs include the fees payable to the Wales Audit Office for the external audit of the Fund of £39,000 for 2017/18 (£39,000 in 2016/17).

Note 10A – INVESTMENT MANAGEMENT EXPENSES

2016/17 £000s	2017/18 £000s
267 Transaction costs	941
11,200 Fund Management Fees	15,761
31 Custody Fees	31
2,976 Performance related fees	3,837
14,474 Total	20,570

Fund management fees increased significantly during the year due to a combination of additional investments being made during the year (which incurred management fees), increases in fees based on the fund value and regulatory requirements.

NOTE 11 - INVESTMENT INCOME

2016/17 £000s	2017/18 £000s
(3,236) Private equity income	(4,593)
(1,584) Pooled Investments	(2,509)
(2,501) Pooled property investments	(2,540)
(111) Interest on cash deposits	(17)
0 Other income	(401)
(7,432) Total	(10,060)

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NOTE 12 – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 1 April 2017	Purchases	Sales	Change in market value	Market Value 31 March 2018
	£000s	£000s	£000s	£000s	£000s
Bonds	198,621	0	0	5,751	204,372
Pooled investment vehicles	980,438	466,477	(455,140)	41,785	1,033,560
Pooled Property Funds	114,714	3,829	(11,302)	8,281	115,522
Infrastructure	31,761	13,034	(2,297)	(373)	42,125
Timber and agriculture	29,103	(300)	(1,435)	(1,596)	25,772
Private equity	170,389	36,515	(37,258)	18,753	188,399
Hedge Fund	127,279	19,028	0	4,578	150,885
	1,652,305	538,583	(507,432)	77,179	1,760,635
Other investment balances:					
Cash	33,623			0	21,191
Net investment assets	1,685,928			77,179	1,781,826

	Market Value 1 April 2016	Purchases	Sales	Change in market value	Market Value 31 March 2017
	£000s	£000s	£000s	£000s	£000s
Bonds	170,331	79,277	(63,140)	12,153	198,621
Pooled investment vehicles	745,393	83,289	(110,126)	261,882	980,438
Pooled Property Funds	109,233	7,470	(10,774)	8,785	114,714
Infrastructure	27,351	2,143	(5,227)	7,494	31,761
Timber and agriculture	25,937	93	(1,632)	4,705	29,103
Private equity	147,822	32,550	(37,595)	27,612	170,389
Hedge Fund	139,221	(553)	0	(11,389)	127,279
	1,365,288	204,269	(228,494)	311,242	1,652,305
Other investment balances:					
Cash	15,034			(641)	33,623
Net investment assets	1,380,322			310,601	1,685,928

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NOTE 13A – ANALYSIS OF INVESTMENTS

2016/17 £000		2017/18 £000
	Bonds - overseas	
	Pooled investment vehicles:	
237,485	Managed equity funds - quoted overseas	263,996
393,858	Liability driven investments - quoted UK	400,005
349,095	Multi strategy investments - quoted overseas	354,181
	Fixed income funds - unquoted UK	15,378
127,279	Hedge Funds	150,885
	Limited liability partnerships	
	Pooled investment vehicles - overseas	
29,103	Timber and agriculture - unquoted Infrastructure	25,772
13,043	Quoted	11,764
18,718	Unquoted	30,361
	Pooled property investment vehicles	
39,919	Open-ended UK	42,578
74,795	Closed-ended overseas, unquoted	72,944
	Private equity	
1,013	Quoted	0
17,966	Unquoted - Opportunistic funds	30,647
151,410	Unquoted	157,752
1,652,305		1,760,635
33,623	Cash	21,191
1,685,928	NET INVESTMENT ASSETS	1,781,826

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NOTE 13B – ANALYSIS BY FUND MANAGER

2016/17		2017/18	
£000	%	£000	%
393,858	23.9	400,005	22.7
198,621	12.0	204,372	11.6
183,475	11.1	188,710	10.7
214,022	13.0	159,306	9.0
127,279	7.7	150,885	8.6
106,336	6.4	122,182	6.9
82,747	5.0	80,751	4.6
0	0.0	67,228	3.8
0	0.0	15,378	0.9
152,423	9.2	157,752	9.0
114,714	6.9	115,522	6.6
31,761	1.9	42,125	2.4
17,966	1.1	30,647	1.7
29,103	1.8	25,772	1.5
1,652,305	100.0	1,760,635	100.0

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

2016/17		Manager	Holding	2017/18	
£000	%			£000	%
393,858	23.3	Insight	LDI Active 22 Fund	400,005	22.4
128,862	7.6	Stone Harbour	SHI LIBOR Multi Strategy No2 Portfolio	132,224	7.4
131,149	7.8	Investec	OEIC Global Strategic Equity Fund Sterling GBP	74,586	4.2

NOTE 14 – DERIVATIVES

No derivative instruments were held by Clwyd Pension Fund at 31 March 2018 or 31 March 2017.

NOTE 15 - FAIR VALUE OF INVESTMENTS

Fair Value – Basis of valuation

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

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

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

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

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

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

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

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

	Assessed Valuation Range (+/-) %	Market at 31 March 2017 £000	Value on Increase £000	Value on Decrease £000
Pooled investment vehicles (incl LDI)	10%	12,768	14,045	11,491
Pooled Property Funds	10%	74,795	82,275	67,316
Infrastructure	10%	18,718	20,590	16,846
Timber and agriculture	10%	29,103	32,013	26,193
Private equity (incl Opportunistic Fund)	15%	169,376	194,782	143,970
Hedge Fund	10%	9,634	10,597	8,671
Total		314,394	354,302	274,487

The following tables show the position of the Fund’s assets at 31st March 2018 based on the Fair Value hierarchy:

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

CLWYD PENSION FUND ACCOUNTS

2016/17	Quoted Market Price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Bonds	0	198,621	0	198,621
Pooled investment vehicles	335,351	632,319	12,768	980,438
Pooled Property Funds	0	39,919	74,795	114,714
Infrastructure	13,043	0	18,718	31,761
Timber and agriculture	0	0	29,103	29,103
Private equity	1,013	0	169,376	170,389
Hedge Fund	3,554	114,091	9,634	127,279
Total	352,961	984,950	314,394	1,652,305

NOTE 15A: TRANSFERS BETWEEN LEVELS 1 AND 2

£84.720m was transferred from Level 1 to Level 2 following further information about the pricing methodology used for the Investec Diversified Growth Fund.

CLWYD PENSION FUND ACCOUNTS

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

	Market Value 1 April 2017 £000	Purchases £000	Sales £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Realised gains/ (losses) £000	Unrealised gains/ (losses) £000	Market Value 31 March £000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI)	12,768	14,914			(12,768)		464	15,378
Pooled Property Funds	74,795	4,701	(11,302)		(21,415)	734	4,016	51,529
Infrastructure	18,718	13,059	(2,297)			1,989	(1,108)	30,361
Timber and agriculture	29,103	173	(1,435)			164	(2,233)	25,772
Private equity (incl Opportunistic Fun	169,376	40,675	(37,258)			9,142	6,464	188,399
Hedge Fund	9,634						(2,989)	6,645
Net investment assets	314,394	73,522	(52,292)	0	(34,183)	12,029	4,614	318,084

The Fund holds no other assets or liabilities at fair value.

	Market Value 1 April 2016 £000	Purchases £000	Sales £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Realised gains/ (losses) £000	Unrealised gains/ (losses) £000	Market Value 31 March £000
Financial assets at fair value through profit and loss								
Pooled investment vehicles (incl LDI)	315,530				(302,762)			12,768
Pooled Property Funds	70,245	7,968	(10,774)			2,875	4,481	74,795
Infrastructure	15,934	1,938	(5,227)			727	5,346	18,718
Timber and agriculture	25,937	219	(1,632)				4,579	29,103
Private equity (incl Opportunistic Fun	145,824	33,290	(37,595)			14,467	13,390	169,376
Hedge Fund	8,013						1,621	9,634
Net investment assets	581,483	43,415	(55,228)	0	(302,762)	18,069	29,417	314,394

CLWYD PENSION FUND ACCOUNTS

(a) Transferred to level 2 to reflect re-appraisal of pricing data of the fund during the year

(b) Transferred to level 2 to reflect re-appraisal of pricing data of the fund during the year

NOTE 16 - FINANCIAL INSTRUMENTS

NOTE 16A - CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

2016/17			2017/18		
Fair Value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Fair Value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
			Financial assets:		
198,621			204,372		
980,438			1,033,560		
114,714			115,522		
31,761			42,125		
29,103			25,772		
170,389			188,399		
127,279			150,885		
	33,623			21,191	
	250			314	
1,652,305	33,873	0	1,760,635	21,505	0
			Financial liabilities:		
		(531)			(760)
0	0	(531)	0	0	(760)
1,652,305	33,873	(531)	1,760,635	21,505	(760)

NOTE 16B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

2016/17 £000	2017/18 £000
Financial assets:	
311,242 Designated at fair value through profit and loss	65,978
(641) Loans and receivables	0
Financial liabilities:	
0 Designated at fair value through profit and loss	0
0 Financial liabilities at amortised cost	0
310,601 Total	65,978

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

Procedures for Managing Risk

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

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

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

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

The current strategy is to hold:

- 81% in return-seeking investments comprising UK and overseas equities pooled funds, investment property funds, hedge funds, private equity, venture capital and infrastructure;
- 19% in investments that move in line with the long-term liabilities of the Fund. This is referred to as Liability Driven Investment (LDI) and comprises UK and overseas government and corporate bonds, and repurchase agreements which allow the Fund to gain unfunded exposure to gilts.

Market Risk

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

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Market risk is also managed through manager diversification with no single manager managing more than 23% of Fund assets. Currently the maximum holding within any one fund manager is 22.7% with Insight managing the LDI mandate, which is within this limit.

Price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments. The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by an average of 6.69%, which is the three-year price volatility as advised by JLT Group for the Fund's investment strategy.

Assets exposed to price risk	Value £000s	3 year volatility range %	Value on increase £000s	Value on decrease £000s
As at 31 March 2017	1,685,928	7.94%	1,827,458	1,544,398
As at 31 March 2018	1,781,826	8.00%	1,902,970	1,618,300

Interest Rate Risk

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

Assets exposed to interest rate risk	Value £000s	Value on 1% increase £000s	Value on 1% decrease £000s
As at 31 March 2017	232,244	230,594	233,894
As at 31 March 2018	225,563	223,731	227,395

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Fund is exposed to currency risk because some of the Fund's investments are held in overseas markets through pooled vehicles. The Committee manages currency risk through its Tactical Asset Portfolio allocation which covers any financial instruments that are denominated in any other currency other than GBP. The following table sets out the Fund's potential currency exposure as at 31st March 2018:

CLWYD PENSION FUND ACCOUNTS

Assets exposed to currency risk	Value £000s	Percentage change %	Value on increase £000s	Value on decrease £000s
As at 31 March 2017	1,132,720	5.95%	1,200,087	1,065,353
As at 31 March 2018	1,204,394	8.85%	1,310,981	1,097,808

Credit Risk

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

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

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

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

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

Liquidity Risk

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

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2018, liquid assets were £1,462m representing 82% of total fund assets (£1,387m at 31 March 2017 representing 82% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

CLWYD PENSION FUND ACCOUNTS

NOTE 18 – DEBTORS

2016/17 £000s	2017/18 £000s
0 Long-term debtors	29
Short-term debtors	
1,129 Contributions due - Employees	1,172
2,572 Contributions due - Employers	3,564
12 H.M. Revenue and Customs	14
582 Administering authority	1,157
0 Prepayments	303
250 Sundry debtors	15
4,545 Total Short-term debtors	6,225
4,545 Total	6,254

2016/17 £000s	2017/18 £000s
12 Central Government	17
3,935 Other Local Authorities	5,349
598 Other Entities and individuals	888
4,545 Total	6,254

NOTE 19 – CREDITORS

2016/17 £000	2017/18 £000
(7) Contributions received in advance	(9)
(1,259) Benefits payable	0
(90) Added years	(9)
(418) Administering authority	(531)
(2) H.M. Revenue and Customs	(4)
(531) Sundry creditors	(320)
(2,307) Total	(873)

2016/17 £000	2017/18 £000
(3) Central Government Bodies	(4)
(508) Other Local Authorities	(540)
(1,796) Other Entities and Individuals	(329)
(2,307) Total	(873)

NOTE 20 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

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

CLWYD PENSION FUND ACCOUNTS

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

2016/17		2017/18
£000		£000
807	Contributions in the year	922
Value of AVC funds at 31 March:		
5,069	Prudential	5,213
462	Equitable Life	420
5,531	Total	5,633

NOTE 21 – AGENCY SERVICES

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

2016/17		2017/18
£000s		£000s
551	Conwy County Borough Council	534
1,823	Denbighshire County Council	1,778
3,209	Flintshire County Council	3,136
22	Powys County Council	21
2,255	Wrexham County Borough Council	2,190
51	Coleg Cambria	57
67	Other employers	58
7,978	Total	7,774

NOTE 22 - RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2018, four Members of the Clwyd Pension Fund Committee had taken this option.

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

Flintshire County Council

During the year Flintshire County Council incurred costs of £1.6m (£1.0m in 2016/17) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The costs have been included within Oversight & Governance costs and administration expenses at Note 10.

Key Management Personnel

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Flintshire Chief Executive and the Flintshire s.151 officer. Total remuneration

CLWYD PENSION FUND ACCOUNTS

payable to key management personnel is set out below:

2016/17 £000s	2017/18 £000s
15 Short-term benefits	26
44 Post-employment benefits	6
59 Total	32

NOTE 23 MATERIAL ITEMS OF INCOME AND EXPENSE

For the purpose of this Note, the Council considers material items of income and expense to be those exceeding £18m. During the year the Fund incurred the following material transactions:

- Sold £70m from the Investec Global Equities Fund and invested £70m in the Blackrock Global Equity Tracker Fund;
- Transferred £385m from the Insight Umbrella Holding to the Insight Liability Driven Investment (LDI) Fund; and
- Invested £20m in the MAN FRM Hedge Fund of Funds.

NOTE 24 - CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31 March 2018, the Fund has contractual commitments of £760m (£672m in 2016/17) in private equity, infrastructure, timber and agriculture, and property funds, of which £523m (£517m in 2016/17) has been deployed, leaving an outstanding commitment of £237m (£155m at 31 March 2017).

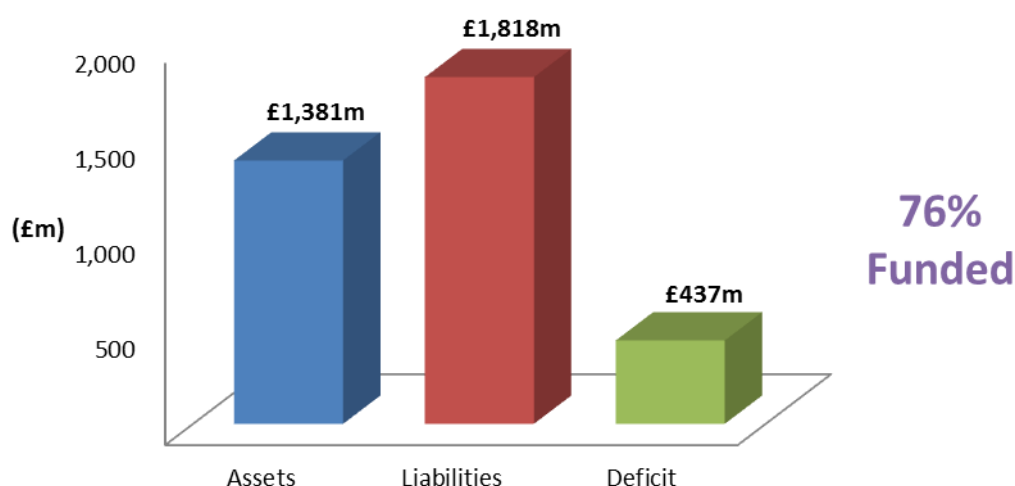
CLWYD PENSION FUND

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018 - STATEMENT BY THE CONSULTING ACTUARY

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

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

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



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

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

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

CLWYD PENSION FUND ACCOUNTS

early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

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

In practice, each individual employer's 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 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 Primary rate of contribution were as follows:

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

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

The assets were assessed at market value.

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

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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 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of CPI Inflation / CARE revaluation	2.3% per annum	2.1% per annum
Rate of pay increases*	3.55% per annum	3.35% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.3% per annum	2.2% per annum

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

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

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected rate of long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £2,642 million. Interest over the year increased the liabilities by c£66 million, and net benefits accrued/paid over the period also increased the liabilities by c£28 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £107 million due to "actuarial gains" (i.e. the effect of actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £2,629 million.

Paul Middleman
Fellow of the Institute and Faculty of
Actuaries
Mercer Limited
May 2018

Mark Wilson
Fellow of the Institute and Faculty of
Actuaries
Mercer Limited
May 2018