



# Clwyd Pension Fund

Annual Report 2018 - 19

# CLWYD PENSION FUND ANNUAL REPORT 2018/19

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## **REPORT STRUCTURE**

### **Background and context**

Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires the administering authorities of pension funds to produce an annual report. In Wales this includes the year-end financial statements as there is no longer a requirement for these statements to be included as part of the administering authorities' own statements.

The regulation specifies the annual report contents, and this is enhanced by the 2019 CIPFA guidance "Preparing the Annual Report". This annual report has been written in accordance with the regulations and guidance.

### **Structure**

The annual report is structured into a number of reports, each dealing with a significant element of the Fund's activity and performance. In this way the report ensures that it contains the information necessary to inform the reader of the way in which the Fund was managed and performed during 2018/19.

Section 1 is a report which covers the governance arrangements of the Fund, the way in which the training needs of those charged with governance are met and the way in which the Fund manages risk.

Section 2 is the annual report from the Fund's Independent Advisor, which identifies the key achievements of the Fund and key challenges going forward.

Section 3 is the annual report from the Fund's Pension Board, highlighting their role in monitoring the Fund's activities during 2018/19.

Section 4 is a report from the Fund's Investment Consultants focusing on the Fund's policy on investments and the way in which the Fund's investments performed during 2018/19.

Section 5 is a report from the Fund's Actuary, which covers the actuarial position of the Fund and also explains the position with regard to the flightpath, a long term strategy to ensure stability of funding and employer contribution rates.

Section 6 is a report covering the performance of the administration of the Fund, and identifying key administrative challenges that the Fund faces going forward.

Section 7 comprises the Funds accounts which show the Fund's actual financial activity in 2018/19 and its position at 31st March 2019, with Section 8 being a report explaining that financial activity and position in more detail. In addition, a copy of the Fund's Annual Governance Statement is included in Section 9.

The governance, management and activities of the Fund are framed by a number of Regulatory and Best Practice Documents. These are all held on the Fund's website and a list of those documents which relate to this report is included on the contents page, and they may be accessed on the Fund's website at the address shown. In addition, the Fund is subject to a triennial actuarial valuation, and the most recent of these, as at March 2016, may also be found on the website.

# Introduction

## 2018/19 Overview

Welcome to the Clwyd Pension Fund (the Fund) Annual Report for 2018/19. Last year's Annual Report identified the big challenges for the Fund for 2018/19:

- Dealing with any changes in investment markets which might impact on the cost of the Clwyd Pension Scheme (the Scheme) for employers;
- Managing the transition of the Fund's assets into the Wales Pension Partnership (WPP);
- Considering and measuring the social impact of the Fund's investments and
- Making more progress in achieving the objectives of the Fund's Administration and Communication Strategies.

The investment return for the year was again positive, helping to further reduce the gap between assets and pension liabilities. During 2018/19 we took action to protect some of the gains made over recent years whilst still taking sufficient investment risk to achieve the Fund's target investment returns. Details of the innovative work undertaken on investment is outlined in this Annual Report. This approach minimises the risk of increases to contribution rates for employers if there are significant falls in financial markets. The results of the next actuarial valuation are implemented on 1st April 2020 and will be presented by the Actuary at our Annual Meeting on 12<sup>th</sup> November 2019.

Flintshire County Council as the Administering Authority for the scheme has signed an agreement to formally enter into the WPP with the seven other Welsh LGPS funds. The aim of the WPP is to reduce costs, increase efficiencies and further improve governance over the Welsh LGPS pension funds' investments. The Fund will continue to decide the type of asset we want to invest in, whilst a professional organisation appointed by the WPP decides which asset manager will be used for each type of investment. In late 2018/19, the Fund's global equity assets were transitioned to the WPP's asset managers and further asset transfers are scheduled for 2019/20. The Fund is represented on the WPP Officer Working Group and Joint Governance Committee.

During 2018/19 we measured our allocation to private markets - 25% of our Fund - against a selection of the United Nations Sustainable Development Goals (SDGs). The results showed that about 35% of our investments achieved a positive social impact, which we aim to increase to 50% over time. We have already made investments in funds which specifically target companies in Wales. Although we have always had a Sustainability Policy and acted with conscience, this policy requires review given the greater emphasis on climate change and responsible investment. The WPP will also be publishing a policy.

Our Administration and Communications Strategies launched in March 2016 contained aspirational objectives based on providing a high quality customer focussed service. In 2018/19 further progress has been made with the roll out of our i-Connect system to improve accuracy, timeliness and efficiency in transferring data between employers and the Fund, and Member Self Service (MSS), an on-line facility where members can

view their individual pension information. It is still taking us longer than we would hope to process some member cases and in recognition of a significant increase in the volume of cases and increased complexity in the scheme's regulations, additional resources have been recruited in 2018/19. Valuable assistance was provided throughout the year by the Pension Board and progress continues to be monitored by the Pension Committee.

Overall, we can look back on 2018/19 as a positive year as we continued to meet most of the Fund's objectives within a challenging environment, and made steady progress in introducing a number of improvements to benefit the Fund and its stakeholders in the future.

## **2019/20 and beyond**

Looking to the future, in addition to business as usual, our business plan for the next three years has several key themes and tasks:

- A review of the Funding Strategy as part of the 2019 Actuarial Valuation;
- A review of the Investment Strategy, including responsible investment and climate change;
- Managing the ongoing transition of assets into the Wales Pension Partnership ;
- Making further progress in achieving the objectives of the Fund's Administration and Communication Strategies;
- Implementing any required changes to the benefit structure or scheme member contribution rates as a result of the national LGPS cost control mechanism or changes to legislation; and
- Considering any improvements to our governance resulting from the LGPS Good Governance Consultation in 2019/20.

## **This Annual Report**

In this annual report you will find much more detail relating to the points raised above, as well as where to find all of our main strategy and policy statements. More information about the Fund can be found on our pension fund web-site <http://mss.clwydpensionfund.org.uk/>. We welcome any comments or questions on the content of this report or on any aspect on the management of the Fund. The Fund's Mission Statement is shown on the page following this introduction.

We would like to thank all those involved with the management and administration of the Fund for their continuing hard work and dedication, especially, the previous Committee Chair, Cllr Dave Hughes, who guided the Fund through 2018/19.

**Aaron Shotton**  
**Chair of Pension Fund Committee**

**Colin Everett**  
**Chief Executive**

## Mission Statement

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

# **Section 1: Governance, Training and Risk Management**

## **Introduction**

This report covers the way in which the Fund is governed, which includes how the training needs of those charged with governance and senior officers training needs have been met. It also details the key partners of the Fund and how the Fund deals with Risk Management.

## **Governance Structure**

### **Background**

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

The Public Service Pensions Act 2013, which has been incorporated into the Local Government Pension Scheme (LGPS) regulations, include the establishment of Local Pension Boards. The role of these Boards as defined in Regulation is to secure compliance with regulation and legislation and ensure effective and efficient governance. The minutes of Clwyd Pension Board (the Board) meetings are included in the Committee agenda papers and Board members attend Committee, making an important contribution to debates and discussion. The Board annual report is included within this Annual Report.

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

## Clwyd Pension Fund Committee

Committee Members		
Flintshire County Council	Cllr Dave Hughes (Chair)	To June 2019
	Cllr Haydn Bateman (Vice Chair)	
	Cllr Billy Mullin	To June 2019
	Cllr Ralph Small	
	Cllr Ted Palmer	To June 2019
	Cllr Aaron Shotton (Chair)	Appointed June 2019
	Cllr Adele Davies-Cooke	Appointed June 2019
	Cllr Kevin Hughes	Appointed June 2019
Denbighshire County Council	Cllr Huw Llewelyn Jones	
Wrexham County Borough Council	Cllr Nigel Williams	
Scheduled Body Representative	Cllr Andrew Rutherford	
Member Representative	Mr Steve Hibbert	

## Advisory Panel

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

## Clwyd Pension Fund Local Board

Local Board Members			Voting Rights
Independent Chair	Karen McWilliam		X
Employer Representatives	Mark Owen		✓
	Steve Jackson		✓
Scheme Member Representatives	Gaynor Brooks	Left June 2018	✓
	Paul Friday	Appointed June 2018	
	Phil Pumford		✓



## Investment Managers

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

Investment Managers	Address
<b>BlackRock</b>	12 Throgmorton Avenue, London
<b>Insight Investment</b>	160 Queen Victoria Street, London
<b>Investec Asset Management</b>	2 Gresham Street, London
<b>Man FRM</b>	Riverbank House, 2 Swan Lane, London
<b>Pyrford International Ltd</b>	95 Wigmore Street, London
<b>Stone Harbor Investment Partners (UK), LLP</b>	48 Dover Street, London
<b>Wellington Management International Ltd</b>	Cardinal Place, 80 Victoria Street, London
<b>Russell Investments</b>	Rex House, 10 Regent Street, London.

## Other key partners

Service	Address
<b><u>Custodian:</u></b> <b>Bank of New York Mellon</b>	160 Queen Victoria Street, London
<b><u>Actuary:</u></b> <b>Mercer Ltd</b>	Old Hall Street, Liverpool
<b><u>Consultant:</u></b> <b>Mercer Ltd</b>	7 Charlotte Street, Manchester
<b><u>Independent Advisor:</u></b> <b>Aon Hewitt</b>	122 Leadenhall Street, London
<b><u>External Auditors:</u></b> <b>Wales Audit Office</b>	24 Cathedral Road, Cardiff
<b><u>Bank:</u></b> <b>National Westminster Bank plc</b>	48 High St., Mold
<b><u>AVC Providers:</u></b> <b>Prudential</b> <b>Equitable Life</b>	121 King's Road, Reading Walton Street, Aylesbury, Buckinghamshire
<b><u>Legal Advisors:</u></b> This varies depending on the issue and can include the Flintshire County Council in-house legal team as well as organisations listed on the National Framework Agreement.	

## Clwyd Pension Fund Contact Details

Name	Post	Contact details
<b>Philip Latham</b>	Clwyd Pension Fund Manager	(01352) 702264
<b>Debbie Fielder</b>	Deputy Head Clwyd Pension Fund	(01352) 702259
<b>Karen Williams</b>	Pensions Administration Manager	(01352) 702963
<b>Pensions Administration</b>	pensions@flintshire.gov.uk	(01352) 702761
<b>Pensions Finance</b>	pensionsinvestments@flintshire.gov.uk	(01352) 702812

## **Training**

### **Clwyd Pension Fund Training Policy 2018/19**

There is a growing need for LGPS Pension Committee members, Pension Board members and officers to have an appropriate level of knowledge and skills. This need is being driven by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Pensions Regulator (TPR) and legislation

The Fund has a well-developed Training Policy which details the proposed training strategy for members of the Pension Fund Committee, Pension Board and senior officers responsible for the management of the Fund. It has been created to provide a formal framework and greater transparency on the training regime in accordance with the national requirements. It will aid existing and future Pension Fund Committee members, Pension Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the Clwyd Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills. Details of how to access the Training Policy are included in Section 10 of this Annual Report.

### **Training Performance 2018/19**

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

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

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

In line with the Training Policy the follow measures relate to 2018/19 in relation to the Pension Committee.

- a) Individual Training Needs – all have completed at least 2 of the required training key elements in the last three years.
- b) Hot Topic Training - Of the 2 additional training sessions offered, the attendance was as follow:
  - 1 sessions                      67%
  - 1 sessions                      56%
- c) General Awareness – Out of the total of 9 Committee members 8 of them completed at least one general awareness day in accordance with the policy.

The table overleaf identifies the attendance at Committees and specific training undertaken during 2018/19 by the Committee during that year.

	Clr D Hughes	Clr H Bateman	Clr Billy Mullin	Clr R Small	Clr N Williams/ Clr T Bates	Clr H LL Jones	A Rutherford	Clr T Palmer	S Hibbert
<b>Committees (3hrs)</b>									
<b>June 2018</b>	✓	✓	✓	✓		✓	✓	✓	✓
<b>September 2018</b>	✓	✓	✓	✓		✓	✓	✓	✓
<b>November 2018</b>	✓	✓	✓	✓	✓	✓		✓	✓
<b>February 2019</b>	✓	✓	✓		✓	✓	✓		✓
<b>CIPFA Framework Requirements 2017/18 – 2019/20 Refreshers</b>									
<b>Governance (0.5 day)</b>	✓	✓	✓	✓		✓	✓		✓
<b>Administration ( day)</b>									
<b>Funding &amp; Actuarial (0.5 day)</b>	✓	✓	✓	✓		✓	✓		✓
<b>Investments (1 day)</b>	✓	✓	✓	✓	✓	✓	✓	✓	
<b>Additional Training &amp; Hot Topics</b>									
<b>Statement of Accounts (June Committee)</b>	✓	✓	✓	✓		✓	✓	✓	✓
<b>CPF Annual Employer Admin Meeting (am)</b>	✓				✓	✓			
<b>CPF AJCM (pm)</b>	✓				✓	✓			✓
<b>Administration (March Committee)</b>		✓	✓		✓	✓	✓		✓
<b>Responsible Investment (March Committee)</b>		✓	✓	✓	✓	✓			

	Cllr D Hughes	Cllr H Bateman	Cllr Billy Mullin	Cllr R Small	Cllr N Williams/ Cllr T Bates	Cllr H LL Jones	A Rutherford	Cllr T Palmer	S Hibbert
Conferences (Restricted spaces)									
PLSA 21-23 May 2018									✓
LGC Investment Summit (1.5 days) Sept 2018	✓	✓		✓					
AON Governance (1 day) July 2018	✓								
AON Investments (1 day) July 2018	✓								✓
LGC Fundamentals Day 1 (Oct 218)									
PIRC Responsible Investing for WPP (1 day Oct 2018)	✓		✓	✓		✓			✓
LGC Fundamentals Day 2 (Nov 2018)						✓	✓		
LGA Infrastructure (1 day Nov 2018)	✓								
LGC Fundamentals Day 3 (Dec 2018)						✓	✓		
LAPFF Annual Conference (1.5 days) Dec 2018	✓								
LGA Annual Conference 1.5 days (Jan 2018)	✓		✓			✓			✓
LGC Seminar (1.5 days) March 2019	✓	✓	✓	✓	✓	✓			✓

# **Risk Management**

## **Background**

Risk management is embedded into the governance of the Fund. The Committee has approved a Risk Management Policy and a detailed Risk Register is maintained. Changes to the level of risk are reported at each Committee.

Given that many pension fund risks are outside our control, our risk management focusses on measuring the current risk against the Fund's agreed target risk (which may still be relatively high) and identifying the further controls and actions that can be put in place. This risk management process is integral in identifying actions that are then included in the Fund's Business Plan.

On the whole the next few years will be challenging for those involved in the governance, management and operation of the Fund. The risks discussed below are documented in the Risk Register which will continue to be updated at each Committee meeting as circumstances change. The risks shown are those risks which are currently identified as amber i.e. with moderate consequences that are considered a possible occurrence, or higher, and where we are not currently meeting the target risk exposure.

## **Managing Third Party Risks**

### **Risk**

There are a number of risks the Fund must manage as a result of working with third parties, such as the employers that participate in the Fund, and our external suppliers and fund managers.

Employer risk falls into two distinct areas:

- Employers not carrying out their administrative responsibilities.
- Employers not paying their contributions. Late payment of contributions could, if the contributions paid late were significantly large, directly put a strain on the Fund. However, more importantly, this may also be an indication of underlying problems, such as an employer that is going through financial difficulties. Should this lead to employers ceasing to participate in the Fund due to financial difficulties, this may result in unpaid liabilities which can then have implications on other employers in the Fund.

### **Action**

- Monitoring receipt of contributions and taking action to quickly pursue arrears. Late payments are captured as part of our monitoring of breaches in the law and our administration strategy so we quickly identify any trends which may indicate underlying problems. Late payments for 2018/19 are shown in the Section 8.
- Considering the strength of covenant of our employers as part of the triennial valuation exercise, ensuring funding plans are appropriately set, which in turn

dictate the amount of contributions due and when. Most employers in the Fund have a strong covenant, however, improvement in the procedures for monitoring employer risk was included in the 2016/17 Business Plan.

- Our external suppliers are wide ranging and include fund managers, custodian, consultants and information system suppliers. We carry out ongoing monitoring of all our suppliers appropriate to the type of service they provide, such as:
  - ensuring that all their fees are in line with the agreed contract
  - performance measuring against agreed objectives or benchmarks
  - regular review of their contracts generally through tender processes
  - review of fund manager annual reports and internal control reports which our custodian and fund managers provide us with

### Investment Risk

Note 17 in the Fund accounts describes in more detail the way in which investment risk is managed. In particular it explains that the Fund has an Investment Strategy which is reviewed annually and through which the management of investment risk is achieved

### Significant Risks

The table below shows those risks in the risk register which currently (as at 4<sup>th</sup> September 2019 Clwyd Pension Fund Committee) have red or amber status in the current or target risk.

Key:

Risk Exposure	Impact/Likelihood
Black	Catastrophic consequences, almost certain to happen
Red	Major consequences, likely to happen
Amber	Moderate consequences, possible occurrence.
Yellow	Minor consequences, unlikely to happen.
Green	Insignificant consequences, almost very unlikely to happen.

## Governance

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
Risk is not identified and/or appropriately considered (recognising that many risks can be identified but not managed to any degree of certainty)	Losses or other detrimental impact on the Fund or its stakeholders			None
Externally led influence and change such as scheme change and asset pooling	The Fund's objectives/legal responsibilities are not met or are compromised - external factors			1 - Regular ongoing monitoring by AP to consider if any action is necessary around asset pooling, cost cap and McCloud judgement (PL) 2 - Ensure Board requests to JGC/OWG are responded to (PL)
Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades.	Services are not being delivered to meet legal and policy objectives			1. Recruit to vacant governance and business role (PL) 2 - Ongoing consideration of succession planning (PL)

## Funding & Investment

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
An appropriate funding strategy cannot be set	Employer contributions are unaffordable and/or unstable			1 - Finalise employer covenant monitoring and ill health captive (DF)
Movements in assets and/or liabilities in combination	Funding level reduces, increasing deficit			1 - Equity Protection Strategy to be kept under review (PL)
-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	Investment targets are not achieved therefore reducing solvency / increasing contributions			1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAG) (DF)
Market factors impact on inflation and interest rates	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions			1 -The level of hedging will be monitored and reported regularly via FRMG
Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit, MIFIDII and other funding and investment related requirements - ultimately this could increase employer costs	Investment and/or funding objectives and/or strategies are no longer fit for purpose			1 - Ensure proactive responses to consultations etc.



## Administration & Communication

Risk Description (if this happens)	Risk Overview (this will happen)	Current Risk Status	Target Risk Status	Further Action
That there are poorly trained staff and/or we can't recruit/retain sufficient quality of staff, including potentially due to pay grades	Unable to meet legal and performance expectations (including inaccuracies and delays) due to staff issues			1- Ongoing training (SB/JT) 2 - Ongoing consideration of resource levels post recruitment of new posts (KW) 3 - Review structure of Technical team (AH)
Employers: -don't understand or meet their responsibilities -don't have access to efficient data transmission -don't allocate sufficient resources to pension matters	Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues			1 - Ongoing roll out I-connect (AH) 2 - Ongoing monitoring of ELT resource/workload (KR) 3 - Develop and roll out APP training - in house and employers (KM) 4 - Identify other employer data issues and engage directly with employers on these (KM/AH)
Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes)	Unable to meet legal and performance expectations due to external factors			1 - Ongoing consideration of resource levels post recruitment of new posts (KW) 2 - Ongoing consideration of likely national changes and impact on resource (KW)
Communications are inaccurate, poorly drafted or insufficient	Scheme members do not understand or appreciate their benefits			1 -Ongoing promotion of member self-service (KM) 2 - Ongoing identification of data issues and data improvement plan (All) 3 - Review of effectiveness of new website/iConnect/member self-service planned for 2019/20 (KM)
Systems are not kept up to date or not utilised appropriately, or other processes are inefficient	High administration costs and/or errors			1 - Ongoing roll out of iConnect 2 - Ongoing identification of data issues and data improvement plan 3 - Review of effectiveness of new website/iConnect planned for 2019/20 4- Increased engagement with Heywood about change in their business model (KW) 5 - Development of pension admin system national framework as a founder member (KW)

## **Section 2: Annual Independent Adviser's Report**

### **Introduction**

This is my fifth annual report in my role as Independent Adviser to the Clwyd Pension Fund (the Fund), focussing on the year 2018/19.

#### **My role**

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

This is my fifth annual report, and it sets out my views on the management and administration of the Fund and, in particular, how it has evolved during 2018/19 (April to March), but also touches on some developments that have taken place after March 2019. I also highlight some of the ongoing challenges Flintshire County Council will face in the future, in its role as Administering Authority to the Fund, both in the short term and in the longer term.

#### **Overview**

2018/19 has been another year where there have been significant challenges to the management and operations of the Fund. Some challenges have been driven by national changes to the LGPS (particularly around court judgements affecting benefit payments), whereas others are Fund specific (a data issue that arose and resourcing and workload challenges). As in previous years, my view is that a significant amount has been achieved in an extremely short period of time, which continues to be of great credit to all involved, and the overall management and governance of the Fund appears to be in a very good position.

#### **Effective Governance**

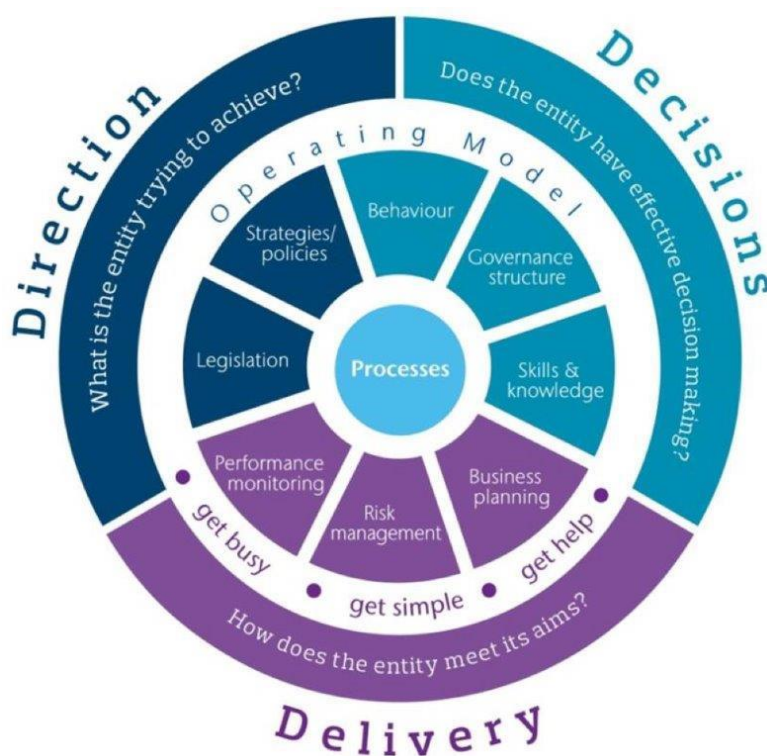
There are some key benefits from having effective governance in place, including:

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

The approach I take in advising Flintshire County Council in its role as Administering Authority to the Fund is to consider its approach to governance against the Aon governance framework. The

Aon governance framework incorporates our beliefs about what it takes to achieve good governance, and considers the following key areas:

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



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

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

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

## Observations

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

### Governance

#### Key achievements:

- major review of Pension Fund Team organisational structure and recruitment to new roles.
- excellent standard of general governance, including business planning and monitoring and risk management.

The Fund went into 2018/19 in a strong position with governance arrangements that were well established and operating well including an experienced Pension Fund Committee, a Pension Board providing invaluable assistance and a proactive Advisory Panel. In May 2017, the Welsh local authority elections resulted in a **major change in membership of the Pension Fund Committee** with five new members (out of a total of nine). In addition, one of these new members, Councillor Dave Hughes, was appointed as Chair to the Committee, a role which requires a large time commitment and a high level of understanding in the subject matters. During 2018/19 it was evident that the new Committee members, despite the amount of changes, had settled in well and are able to deal with the large amount of business on the agenda.

Last year I highlighted my concerns about **resource levels**, both within the Fund's Finance Team and the Administration Team, as well as the need for workforce planning given the age profile of some senior members of staff. Major progress has been made during 2018/19 including a review of the structure of the teams and a large recruitment drive. It is pleasing to note that, at the point of writing (summer 2019), all but 1 post within the team of approximately 40 has now been recruited to. It is also pleasing to see the progression of a number of existing team members with promotion to more senior roles, including Mrs Debbie Fielder to the new Deputy Head of Clwyd Pension Fund position and Mrs Karen Williams to the Pensions Administration Manager position. This is clearly excellent news but Pension Fund management are now facing the challenge of ensuring that all team members in new positions are fully trained as quickly as possible. Even though this will take a number of months, the performance standards are already showing the benefit of the increased resource. Credit has to be given to the hard work of the existing members of staff during the difficult period where they were operating under lower resources, particularly given the challenges during that time including the high workloads in administration and the introduction of asset pooling.

The majority of the work relating to the implementation of **asset pooling in Wales** through the Wales Pension Partnership (WPP) was carried out in the years up to 2017/18. During 2018/19, the focus has been on determining the investment funds to be established, and then getting these up and running for the Wales LGPS funds. It is my understanding that the investment sub-funds being established are meeting the requirements of the Clwyd Pension Fund, in that they are suitable alternatives to existing assets being held. However, during 2018/9 I continued to be concerned around the lack of focus on the governance of the WPP, an area I have mentioned in my previous reports. Much of this had been due to lack of resources in the Host Authority. Earlier in 2019 WPP introduced more detailed work planning which includes a greater focus on areas such as objective setting, business planning and developing some key strategies and policies (including

responsible investment). I therefore hope that next year I will be reporting some positive progress having been made in this area.

### More generally:

- I feel that the current ***governance structure is well established*** and is working as intended. The structure seems to allow decisions to be made urgently where required.
- ***Attendance at Committee, Board and Advisory Panel*** meetings has been excellent throughout the year too.
- The ***Pension Board*** continues to play an integral part in the governance of the Fund (recognising my role as Chair of the Board). During 2018/19, the Board had a change in membership, with Phil Pumford taking over from Gaynor Brooks who retired. The Board have produced a separate report (which can be found in the Fund's annual report and accounts) which outlines the work they have undertaken, and which I believe demonstrates the excellent partnership they have with the Committee and officers of the Fund, and the benefits that they bring to the overall management of the Fund.
- I continue to be extremely impressed by the ***engagement and involvement of the Council in the Wales Pension Partnership***, and particularly the officers who have ensured that they have been on the front foot in the development of the Partnership, and also at a national level. It would be extremely risky for the Council to take a back seat in these discussions given the impact asset pooling could have on the ongoing performance of the Fund.
- I was pleased to see all those involved in the governance of the Fund demonstrating a strong understanding of the potential ***conflicts of interest*** that can arise, and following the requirements of the Fund's Conflicts of Interest Policy. A number of potential conflicts were highlighted during meetings and they were managed appropriately.
- The ***risk management framework*** is now well bedded in, and risk management across all areas of Fund responsibilities is considered regularly and forms a standard part of all Committee reports. I believe those involved with the governance of the Fund have a good appreciation of the key risks and are working hard to develop more robust internal controls where feasible.
- A wide range of ***performance measures*** are in place across the Fund including the areas of administration, investments and funding. Again, these are integral to the day to day management of the Fund and provide assurance that issues can and will be identified in a timely manner, as well as enabling the Fund to evidence strong performance in many areas.
- ***Business planning*** continues to be integral to the day to day running of the Fund. The 2018/19 business plan was agreed by the Pension Fund Committee in March 2018 and was monitored throughout the year. The plan continues to be robust, with very little need to adapt it mid-year, and the officers of the Fund have done a tremendous job in delivering the projects and tasks highlighted within it.

My opinion is that the governance of Clwyd Pension Fund continues to compare well to the Aon Governance Framework. The Council identifies and sets out good clear objectives in all areas, measures itself effectively against these objectives, and has a good attitude to Business Planning and to Risk Management. The Council's governance structure for Fund matters works well, as mentioned above, and the individuals charged with managing the Clwyd Pension Fund are well engaged, committed to their roles and well trained (or in the process of being trained).

### Looking to the future:



There are three matters relating to governance that I will be particularly interested in during 2019/20:

***Monitoring the impact of the new resources and team structure and ensuring that the training has been effective.*** I hope that there will be some strong improvements against the Fund's service standards by the end of the year (subject to any unexpected additional projects that might put a strain on day to day business processes). I also will be keen to monitor the retention of staff over the next few years.

- As mentioned above, there has been significant progress in establishing the ***Wales Pension Partnership*** for asset pooling and also creating appropriate investment sub-funds. The Clwyd Pension Fund has a very different investment strategy to many other Funds, so they need to be assured that both the Operator and the pooling arrangements themselves can deliver the Fund's requirements and that the governance arrangements, as outlined in the Inter-Authority Agreement, are put into practice. Some of the ***governance requirements are still not in place*** but are now on the WPP work plan, and so I would expect these to be delivered during 2019/20. I will also be particularly interested in observing whether the Clwyd Pension Fund receives ***robust reporting and monitoring information*** in relation to the sub-funds set up by WPP, including at the Joint Governance Committee involving all the administering authorities and at Clwyd Pension Fund Committee.
- Unfortunately, during May 2019, there were ***three unexpected changes to the Clwyd Pension Fund Committee membership*** due to Council changes. This included the loss of the existing Chairman, Councillor David Hughes. The introduction of new Committee members is always a risk to pension fund management, but I know the Clwyd Pension Fund Manager is already planning training for the new members. Luckily the Committee has a further six members who are continuing and who have excellent experience and therefore will provide good continuity. I am sure the new members will settle in quickly.

## **Funding and Investments (including accounting and financial management)**

### **Key achievements:**

- Transferring some Fund assets to WPP.
- The funding plan continuing to be ahead of the target agreed at the 2016 actuarial valuation.
- Implementation of a revised equity protection strategy.

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

- As mentioned previously, some of the ***Fund's assets have been moved to sub-funds in WPP***. The process for developing and implementing the sub-funds appears to have been robust.
- With ongoing advice from the Fund Actuary and Investment Consultant, the Fund continues to monitor and look for opportunities in relation to its investments and liability management, including:
  - The Fund Actuary has been providing regular information monitoring progress against the funding targets set at the last actuarial valuation, and it is pleasing to see the Fund is in a ***positive position against its funding target***, with the March 2019 reporting showing an estimated funding level approximately 10% above the anticipated funding level at that point.

The other five key areas that the Fund Actuary monitors against were all shown to be equal or above expectations on the March 2019 monitoring report.

- The revised **equity protection strategy** being put in place provides a more dynamic level of protection of the Fund's assets against significant falls in equities.

My general opinion is again that governance of the Clwyd Pension Fund compares well to the Aon Governance Framework in the area of funding and investments. The Council identifies and sets out clear objectives, and has a good attitude to Business Planning and to Risk Management. The Council's governance structure works well, with appropriate delegations allowing the Pension Fund Committee to spend their time focusing on strategy. The Council makes good use of pension consultants as appropriate, but the knowledge and understanding of individuals within the Pension Fund Team continues to be excellent, allowing the Fund to benefit from the best ideas from all sources.

### Looking to the future:

- This year (2019/20) is a critical year for the Fund given the **actuarial valuation** which will establish future employer contribution rates, and the review of the Fund's **investment and funding strategies**. However:
  - a recent legal judgement (**McCloud/Sargeant**) found that some public sector pension scheme protections that had been put in place were unlawful on the grounds of age discrimination. As a result, some LGPS protections are being reviewed which are likely to impact on the cost of the scheme to employers.
  - the **national cost management process** has also been undertaken, and it has also found that there should be changes to the scheme benefit structure, which will also have an impact on the cost of the scheme to employers.

**Communications with scheme employers will be fundamental** to dealing with the cost impact of the valuation, McCloud/Sargeant review and cost management process.

- As mentioned previously, a significant focus next year will continue to be on asset pooling and ensuring that the Fund's investment strategy can continue to be delivered through the WPP. In 2019/20, key areas will include ensuring:
  - **appropriate sub-funds continue to be put in place** to align with the Clwyd Pension Fund's strategy
  - the **smooth transition of assets** to those sub-funds
  - ongoing **reporting arrangements** continue to provide sufficiently specific information for the Clwyd Pension Fund to satisfy the needs of the officers, advisers and the Committee and Board.
- The Fund and WPP are separately considering their **Responsible Investment (RI) Policies**. The Fund has had an RI/Sustainability Policy for a number of years, and it is pleasing to see it is being reviewed. I look forward to seeing how this develops given the much greater focus on responsible investment, and particularly climate change, whilst ensuring the Fund continues to meet its fiduciary responsibility to its scheme members.

## Administration and Communications

### Key achievements:

- Commitment of team members during period of high workloads
- Successfully rectifying a major employer data error in a timely manner
- Ongoing roll out of the i-Connect data collection system for use by employers being ahead of schedule
- Excellent standard of performance monitoring.

I have already mentioned the resourcing challenges faced by the Pensions Administration Team during 2018/19. This, together with a number of other unexpected tasks, and the fact that there has been a **substantial increase in the quantity and complexity of work** in recent years, has meant that there have been ongoing delays in processing scheme member benefits and correspondence. However, during the year, the team has been working hard to reduce delays, including using external consultants to assist in clearing backlogs that have accumulated. I am pleased to see that all options are being considered to turn this challenging situation around.

One of the biggest challenges for the Pensions Administration Team during 2018/19 was **rectifying an error in scheme members' data that was caused by an employer** providing incorrect pensionable pay figures. The Clwyd Pension Fund officers worked extremely closely with the employer, very much in a partnership spirit, to resolve this issue that impacted a number of scheme members. This included a major amount of work by the Fund's Employer Liaison Team, which carries out pensions work on behalf of some of the Fund's employers. I was closely monitoring this situation and I have a number of observations:

- Clearly everyone involved would have preferred it if this issue had not occurred, but the nature of the error involved an extremely complex area of scheme administration which I know causes challenges for a number of employers in the wider LGPS. The Administration Team have put in place a number of further controls to try to avoid similar errors from other employers, as well as more checks to try to pick up where this may be happening.
- The partnership working between the parties involved was very positive and resulted in a high level of confidence in how the cases were being resolved, as well as allowing them to be carried out in a timely manner (given how significant this issue was).
- There was significant focus on ensuring the proper treatment of scheme members throughout the project, including very careful consideration of how the difficult messages were communicated to the scheme members. There were no formal complaints received as a result of the errors.
- The officers of the Fund, the employer and the supporting advisers all worked extremely hard to ensure the project was finalised as quickly as possible.
- The Fund, and separately the employer, reported the issue to the Pensions Regulator and it appeared that the Regulator was satisfied with how the issue was resolved.

Overall, I was extremely encouraged with the professionalism, commitment and effectiveness of the Fund officers, management, Committee and Board in dealing with what was an extremely difficult situation.

In the meantime, the team have continued to work hard to implement systems and efficiencies which will not only vastly improve accessibility to pension fund information for scheme members



and employers, but will also introduce efficiencies that will ultimately help manage these increases in workloads. This includes:

- The ongoing marketing of the **on-line Member Self Service** facility. Currently approximately 35% of active scheme members are registered to use the facility (and approximately 26% of all scheme members). The Fund's Communications Strategy aims to continually move to digital communications (apart from where members specifically opt for paper communications), so it is important that the proportion of members enrolled on Member Self Service continues to increase.
- The roll out of **i-Connect, which is an online administrative module** that allows information to be submitted by employers more directly and efficiently into the pension administration system from their own payroll systems, commenced in 2017/18. During 2018/19 the system was launched to more employers and this is resulting in much more timely and accurate information, including a significant reduction in the number of queries at year-end.

#### Other significant points that I would highlight include:

- The Council issued the majority of its **annual benefit statements** by the legal timescale of 31<sup>st</sup> August 2018. There were a small number that were held back to ensure they were accurate (as they were impacted by the employer data issue mentioned above) but I consider that to be a sensible approach.
- The team have been required to implement a number of **scheme changes**, mainly to do with changes in dependents' pensions as a result of overriding legal judgements.
- There is increasing focus on **data quality and improvement** and the team have been working on a number of areas of data cleansing, as well as developing a formal data improvement plan.

My general opinion is that the Clwyd Pension Fund compares well to the Aon Governance Framework in the areas of administration and communication. The Council identifies and sets out clear objectives, has an excellent level of performance measurements in place and demonstrates robust Business Planning and Risk Management. The knowledge and understanding of the existing individuals within the Fund is excellent, and the Pension Fund Committee's engagement on administration is also excellent (as is the Board's).

#### Looking to the future:

- Two years ago, I highlighted that the improvements that are being implemented would, in my view, take another two years or so to fully bed in such that the benefits can be clearly evidenced. I am now seeing evidence of this, both in terms of the **quality of data and the improvements in performance standards**. I expect that we will see further improvements throughout 2019/20. A key part of the success of this will be the ongoing training of the administration team and ensuring the retention of existing staff, as well as the implementation of i-Connect to the remaining employers in the Fund.
- The **McCloud/Sargeant legal judgement and the cost management process**, referred to in my previous section, are likely to result in a review of some scheme benefits. As well as the operational impact on the Administration Team, it will be critical that **scheme members** are kept up to date with the developments, and any revision to scheme benefits is communicated in a timely and clear manner.

- More and more scheme members are being impacted by the Annual and Lifetime Allowances; these are tax thresholds that originally affected just a small number of higher earning scheme members. The Administration Team are already adapting how they administer and communicate the impact of the Annual and Lifetime Allowance rules to members of the Fund, but they are extremely complex to administer and communicate. I will be interested to see how effective the planned changes are.

## Final Thoughts

I want to say a huge thank you to the Pension Fund Committee, Pension Board, officers and other stakeholders of the Fund for continuing to make me extremely welcome, and for being so open and receptive to my many suggestions, particularly during these challenging times. I would particularly like to highlight what a pleasure it was to work with Councillor David Hughes during his period of being Chairman of the Pension Fund Committee. I remain extremely impressed and inspired by the hard work and dedication of the Fund's officers, and the commitment and engagement I see from the Pension Fund Committee and Pension Board members who dedicated many hours to Committee / Board business.

## Contact Information

- **Karen McWilliam**
- Partner / Head of Public Sector Benefits and Governance Consultancy
- Aon Hewitt Retirement Practice
- +44 (0)7711 016707

[karen.mcwilliam@aon.co.uk](mailto:karen.mcwilliam@aon.co.uk)

## About Aon

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## **Section 3: Clwyd Pension Fund Board Annual Report 2018/19**

### **Introduction**

This is the fourth annual report of the Clwyd Pension Fund Board based on the financial year from 1 April 2018 to 31 March 2019.

### **Role and Membership of the Clwyd Pension Fund Board**

The Public Service Pensions Act (PSPA) 2013 requires each Administering Authority in the LGPS to have a local Pension Board consisting of employer and scheme member representatives. Some Pension Boards also have an Independent Chair, which is the case with the Clwyd Pension Fund Board. The Chair is a non-voting role.

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

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

### **Membership, meetings, training and attendance**

Our Board membership during 2018/19 is as shown in the table below. Gaynor Brooks, one of our Member Representatives retired from her role in June 2018 and we wish her all the best in her retirement. Gaynor had been a key contributor to the Board since its inception. Following an application and interview process Paul Friday was appointed to replace Gaynor and we were pleased to welcome him to his first official Pension Board meeting in October 2018 (although he had attended Gaynor's final meeting, in June 2018 in an observational capacity).

During 2018/19 we held three Pension Board meetings (in June 2018, October 2018 and February 2019). Attendance was as follows (the meetings were also attended by Pension Fund Officers who support the Pension Board):

		February 2019	October 2018	June 2018
Mrs Gaynor Brooks (to June 2018)	Member Representative	N/A	N/A	✓
Mr Paul Friday (from June 2018)	Member Representative	✓	✓	✓
Mr Phil Pumford	Member Representative	✓	✓	✓
Mr Steve Jackson	Employer Representative	✓	✓	✓
Mr Mark Owen	Employer Representative	✓	✓	✓
Mrs Karen McWilliam	Independent Chair	✓	✓	✓

As members of the Pension Board, we have all committed to following the requirements of the Clwyd Pension Fund's Training Policy and attending a range of events and training in 2018/19 to complement the induction training we undertake on appointment. In addition, we are invited to attend the Pension Fund Committee meetings and their training events. Our full record of attendance at those meetings, training and events is shown below:

Event	Mark Owen	Steve Jackson	Paul Friday	Phil Pumford
<b>Committees</b>				
June 2018	✓			✓
September 2018				
November 2018				✓
February 2019	✓			✓
<b>CIPFA Framework</b>				
Governance			✓	✓
Funding & Actuarial			✓	✓
Investments & Accounting				✓
<b>Additional &amp; Hot Topics</b>				
Statement of Accounts	✓			✓
Annual Employer Meeting				
Annual Joint Consultative Meeting	✓	✓		
<b>Conferences</b>				
CIPFA Local Board Autumn Seminar			✓	✓
Aon Investments Seminar			✓	
LGC Investment Seminar		✓		

## What has the Pension Board done during 2018/19?

Our meetings include a number of standing items, such as consideration of the latest Pension Fund Committee papers, reviewing the Fund's risk register, receiving updates on all compliments and complaints, and monitoring of our allocated budget. Other key areas of discussion for us during the year included:

- Continuing to work closely with the Pension Fund's Administration Team to better understand the challenges that they face in providing services to scheme members, often due to the complexity of the scheme's benefit structure. The ongoing management information that we see at the Pension Board has been helpful in highlighting major increases in workloads in recent years, most of which has been driven by the introduction of the new Career Average Revalued Earnings (CARE) LGPS in 2014. Resourcing for scheme administration is monitored by the Board and we are pleased to note that there has been recruitment into a number of positions in 2018/19. At the point of writing this report (summer 2019) all vacant positions in the Pensions Fund's Administration Team have been filled, and the focus is on ensuring that all team members were appropriately trained.
- Following recent improvements in data collection, such as implementation of the i-Connect employer data portal and the introduction of the Member Self-Service facility, the Fund is introducing a Data Improvement Plan. The Fund has a responsibility to ensure records are kept up to date with high quality data and efforts to achieve this have been refocused by the Pension Fund Administration Team. This includes areas identified as a result of the common and scheme specific data checks that are required by the Pensions Regulator (TPR). The Data Improvement Plan sets out priorities within various categories and also allocates ownership of those areas appropriately. The Board is now receiving updates on the Data Improvement Plan as a standard agenda item for future Board meetings.
- We have taken a keen interest in the rapidly developing area of Cybercrime (and its avoidance). At our October meeting we heard from two external speakers on this issue (a presenter from Flintshire County Council (FCC)'s Information Governance team, and a presenter from Aquila Heywood). We learnt that there is no silver bullet in how to be completely cyber compliant and that an organisation is only as strong as their weakest link. We also heard that there is a fine balance between the risks you are prepared to tolerate (for example, offering on-line systems) and those that you are not prepared to tolerate, and we discussed a number of the key controls that are / can be in place to mitigate the risk of Cybercrime for the Clwyd Pension Fund.
- We also discussed the wider application of cyber security in respect of other advisers to the Fund including asset managers and the Welsh asset pool known as the Wales Pension Partnership (WPP). It was agreed that Cybercrime is considered on an ongoing basis going forward given the continual changing environment in this area.
- Throughout the year we received ongoing updates on the progress of the WPP. The main focus of our involvement and where significant discussions took place, was around the Board's concerns regarding WPP's lack of business plan/policies, a lack of clarity over decision making and report papers not being prepared in adequate time in advance of meetings and being presented on the day. This culminated in our Chair, alongside the Chairs of other Wales Pension Boards, attending a meeting with the Host Authority of WPP, Carmarthenshire Council, and other

Wales LGPS representatives on 2 April 2019. The outcome of the meeting was extremely positive and progress in many of the areas of our concern was evidenced at that meeting. Further meetings are to be arranged twice a year.

- On a related note, Responsible Investments (RI) is now very much on the WPP agenda. The Board are pleased that the Clwyd Pension Fund already has a RI Policy in place and this continues to be a key area of focus for the Fund.
- A large proportion of our time at the meetings during the year was spent considering an issue which emerged during the year about an employer's use of incorrect data when calculating assumed pensionable pay (which relates to the calculation of pensionable pay during periods of absence such as child-related and some sickness). This matter was reported to the Pensions Regulator by the Clwyd Pension Fund Manager as well as the employer involved, given the serious nature of it. The Board were kept up to date with the plans for communicating the errors with the affected scheme members and ensuring that the impact on the Administration Team of the increased workloads was managed appropriately. We also had conversations with the officers of the Fund around minimising the risk of similar breaches arising again in future. Overall, we were very pleased with how this difficult situation was managed by the Fund. We were also pleased that, following engagement between the Fund and TPR, TPR seemed satisfied with how the Fund managed the situation.
- We took part in a successful "Board Swap" exercise with the Cheshire Pension Fund. Firstly, Mr Pumford (along with the Clwyd Pension Fund Manager / Secretary to the Board) attended a Cheshire Pension Fund Board meeting in July 2018, which was found to be extremely beneficial. This was then followed by the Operations Manager from the Cheshire Pension Fund attending our October 2018 Board meeting as an observer. It was noted that it would be helpful for both sides to share observations following these meetings, and Clwyd and Cheshire Pension Fund officers agreed to set up discussions to share observations with the respective Chairs and with those who attended.

The Pension Board's budget and final spend for 2018/19 are summarised below:

Item	Budget 2018/19	Actual 2018/19	Variance
	£	£	£
Allowances and Expenses	3,322	1,143	(2,179)
Training	23,884	11,558	(12,326)
Advisor Fees	28,930	41,010	12,080
Other Costs	2,664	4,015	1,351
<b>Total</b>	<b>58,800</b>	<b>57,726</b>	<b>(1,074)</b>

## What will the Pension Board do in the future (in particular in 2019/20)?

We have a number of items on our forward plan for 2019/20, although the exact agendas and timescales will necessarily remain flexible to consider any further matters that may arise. The following are already on our work plan for the forthcoming year:

- The (potential) impact of the Cost Cap mechanism / McCloud judgement on the Fund.
- The (potential) impacts / risks of Brexit on the Fund.

- The impact of changes to Pension Fund Committee membership in May 2019 (a new Chairman and two further new Committee members)
- Ongoing further consideration of a number of the areas noted above, including:
  - Data improvement, which is an area of particular interest for TPR.
  - Disaster recovery testing.
  - Cybercrime and the resilience of the Fund's systems.
  - Governance of the WPP's operations and decision-making structure.
  - Administration team resources and monitoring how current resources are improving performance against service standards and key performance indicators.

A budget for 2019/20 has been agreed as follows:

Item	£
Allowances and Expenses	2,136
Training	18,432
Advisor Fees	44,420
Other Costs	4,200
<b>Total</b>	<b>69,188</b>

## Conclusion and final comments

In our view 2018/19 has been a successful and productive year for the Board, and we are pleased with the work we have completed, which has covered a wide range of fund management areas. We continue to have an excellent working relationship with the Pension Fund Committee and the Fund's officers and are grateful for the way they have all embraced our involvement and for their openness in their interaction with us. In particular, we would like to thank the Committee for welcoming us to their meetings, which helps us put the challenges and successes of the Fund much more easily into context. We look forward to continuing that relationship.

Phil Pumford, Member Representative  
 Paul Friday, Member Representative  
 Steve Jackson, Employer Representative  
 Mark Owen, Employer Representative

## Clwyd Pension Fund Board

**E-mail address – PensionBoard@flintshire.gov.uk**



## **Section 4: Investment Policy and Performance Report**

### **Report from the Fund's Investment Consultant**

#### **Introduction**

I am pleased to provide an update from an investment perspective on the activities of the Clwyd Pension Fund (CPF) during 2018/19. As the Fund's Investment Consultant I provide advice to the Fund on how to manage various investment risks. I also have a specific role in guiding the overall direction of the Fund via my seat on the CPF Advisory Panel.

#### **Investment Strategy Statement (ISS)**

When considering the Fund's investments it is appropriate to start with the overall investment objectives, which are set out in the ISS, which replaced the Statement of Investment Principles with effect from 1 April 2017. The Strategy sets out the funding and investment objectives for the Fund (see section 9 for how to access the ISS). The specific investment objectives are:

- Strike an appropriate balance between long-term consistent investment performance and the funding objective to maintain assets equal to 100% of liabilities within the 15 year timeframe.
- Ensure net cash outgoings can be met as and when required.
- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

This report demonstrates progress made towards these long term objectives during the year, compliance with the ISS, the economic and market environment and changes implemented or planned during the year.

#### **Summary of 2018/19**

##### **Market Commentary**

Investors, consumers and businesses were swayed by the geopolitical concerns over trade, notably between the US and China during the year ending 31 March 2019. Retaliatory actions between the two countries aggravated concerns over the possibility of a ripple effect on the global economy. The US tariffs on steel and aluminium were not confined to China, but were also imposed on the EU, Canada and Mexico. While the economic impact of this was not ascertained, the markets viewed this as an indication of increased possibility of a trade war.

Q4 2018 marked the turning point when risk assets underperformed. Market volatility spiked in October and December 2018 driven by concerns over the monetary policy stance of the US Federal Reserve amidst weak economic data and trade conflicts; additionally, the US government shutdown weighed on markets in December 2018. Technology stocks were driving major indices; however, it drove the markets on the downside as investors measured the implications of the US-China trade conflict.

Most of the developed markets' central banks shifted from their hawkish rhetoric to being dovish or accommodative towards their monetary stance, given the alteration of the economic data and sentiments. Downward revisions of expected economic growth and inflation by the central banks seemed to be the obvious consequence. Companies' outlook for revenue and earnings turned grim



towards the end of the year from the positive and robust data at the start of the year. Nonetheless, the accommodative stance of major central banks and signs of abating US-China trade conflicts led to a rebound in the markets.

Negotiations over Brexit were the predominant driver of the UK economy and markets. Many signs pointed the markets towards a higher possibility of a 'no-deal' Brexit: a number of ministers resigned in protest at the draft European Union (EU) Withdrawal Agreement that triggered concerns over political stability; the UK Prime Minister failed to gather sufficient support from parliament for the agreement in its initial form; the parliamentary vote had to be rescheduled to another date on three instances. The Bank of England (BoE) had raised interest rates by 25 bps to 0.75% in August 2018, before the uncertainty intensified. Given this backdrop, business sentiment fell and consequently, business investment plans were stalled. Nonetheless, the labour market grew tighter and nominal wages picked up resulting in a positive growth in real wages as inflation remained subdued. However, the impact of higher wages on consumption spending was delayed as consumers preferred to save rather than spend amidst the uncertainty. Citing these concerns, the BoE, in its February 2019 inflation report, cut its 2019 GDP growth projection from 1.7% (projected in its November report) to 1.2%.

European economic growth suffered as its major economies witnessed a slowdown. German car production was the main driver of the lacklustre economic growth in the country as there were worries over the possibility of US tariffs on cars. Slower demand and delays to the new emission tests also weighed on the economy. The announcement by Angela Merkel that she would not seek re-election as Germany's Chancellor when her term ends in 2021 raised question regarding Germany's future.

In France, given the upcoming elections in May 2019, political risks rose with the on-going anti-government yellow vest protests, lowering consumption spending and business investments. Italy entered into recession at the end of 2018, while its austerity took a grip on the budget, leading to the EU's contention with Italy with regards to their spending patterns and potential budget deficit. The Italian government lowered its budget deficit for 2019 from 2.40% to 2.04% of the GDP to comply with the EU rules. Italy's Five Star Movement that advocates populism continued to add to the political risk.

The European Central Bank (ECB) announced that it would leave interest rates at the current low levels for the rest of 2019. Earlier, the ECB intended to keep the interest rate at the current level only till mid-2019. Additionally, the ECB offered new monetary stimulus by providing cheap financing to the Eurozone banks to support the economy. The ECB cut its Eurozone growth forecasts sharply for 2019 from 1.7% (projected in its December meeting) to 1.1%. Political risks and weak economic data in the Eurozone weighed on the equity markets, while the recent corporate earnings reported provided some support.

The US Federal Reserve raised interest rates three times from 1.75% to 2.50% owing to continued stability in economic data with robust data during Q2 2018 and Q3 2018. However, during the latter half of the year, it reduced its expectations on the number of interest rate hikes for 2019 from three to two and then to zero over the year ending 31 March 2019. The central bank lowered its GDP growth projections from 2.3% (projected in its December meeting) to 2.1% and its inflation projection from 1.9% (projected in its December meeting) to 1.8% for 2019. This transition was marked by weak economic data that had fuelled concerns over monetary policy stance amidst the on-going trade conflicts. The US government shutdown owing to conflicts over the funding of the Mexico wall added to the political concerns during the year.

Yields on long-term US Treasury bonds fell as its safe-haven appeal were burnished, leading to a yield curve inversion. A yield curve inversion is when the yield on long-term bonds is lower than the yield on short-term bonds. Historically, the yield curve inversion has helped signal a recession-like condition. Consequently, market participants feared that this time would not be different. However, in the past

recession, the yield curve inversion has been due to a rise in short-term yields, while in the current situation the yield curve inverted with a fall in long-term yields.

Japan's domestic economy showed improvement, while the global landscape continued to weigh on the export-driven economy. The Japanese Yen depreciated over the year, which supported corporate earnings for most of the year. Profitability margins of the Nikkei 225 companies rose to a multi-year high, raising concerns over the sustainability of rising profit margins by various analysts and investors at large. Downward revisions to corporate earnings for the fiscal year provide another reason to question the sustainability of this profitability. During the year, the Bank of Japan (BoJ) had introduced an objective in its monetary policy i.e. allow the yield on Japanese 10-year government bonds to fluctuate more (as much as 0.2% up from 0.1% around zero) before it steps in to intervene. The BoJ has upgraded its GDP forecast for 2019 from 0.8% (in its October 2018 meeting) to 0.9%, while it downgraded its inflation forecast from 1.6% to 1.1%.

Emerging markets (EMs) were adversely affected by the strong US dollar, the US-China trade conflict and certain idiosyncratic risks. The Chinese economy witnessed a slowdown. Its central bank and the government continued to provide support to its economy. China A-shares were supported by the MSCI announcement to quadruple China's weight in the index between May and November 2019. During the latter half of the year, Brazilian equities had rallied on the back of hopes from the market-friendly election outcome that raised expectations for implementation of pension reforms. Turkey and Argentina continued to negatively impact the EMs on the back of its subdued economic activities and growing geopolitical tensions. The MSCI EM index generated a return of -9.63% over the year, in USD terms.

The Bloomberg Commodity Index fell over the year as a stronger US dollar weighed on dollar-denominated commodities. Additionally, the slowdown in China and weak business sentiment, globally, led to a fall in the price of industrial metals. In contrast, the price of precious metals rose, led by palladium, on account of decline in its mining supply. Further, the dovish stance by the US Federal Reserve and concerns of global growth put upward pressure on prices. Price of Brent crude oil marginally increased over the year but was swayed by the OPEC and non-OPEC oil production cuts, and geo-political tensions.

### **Clwyd Pension Fund Investment Performance 2018/19**

The Fund returned +5.0% in 2018/19, behind the expected return assumption of CPI +4.0% as quoted in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS). The return of +5.0% compared with a composite benchmark (of the underlying manager benchmarks) of +5.4% and a composite target of +5.7%. Whilst the returns for the year were below the required rate, this needs to be seen in context of the longer term performance; over three years to the 31 March 2019 the Fund achieved a return of +9.9% per annum compared with a composite benchmark of +8.5% per annum and the composite target of +8.9% per annum. This performance is also well ahead of the Actuarial target of CPI +2.0%.

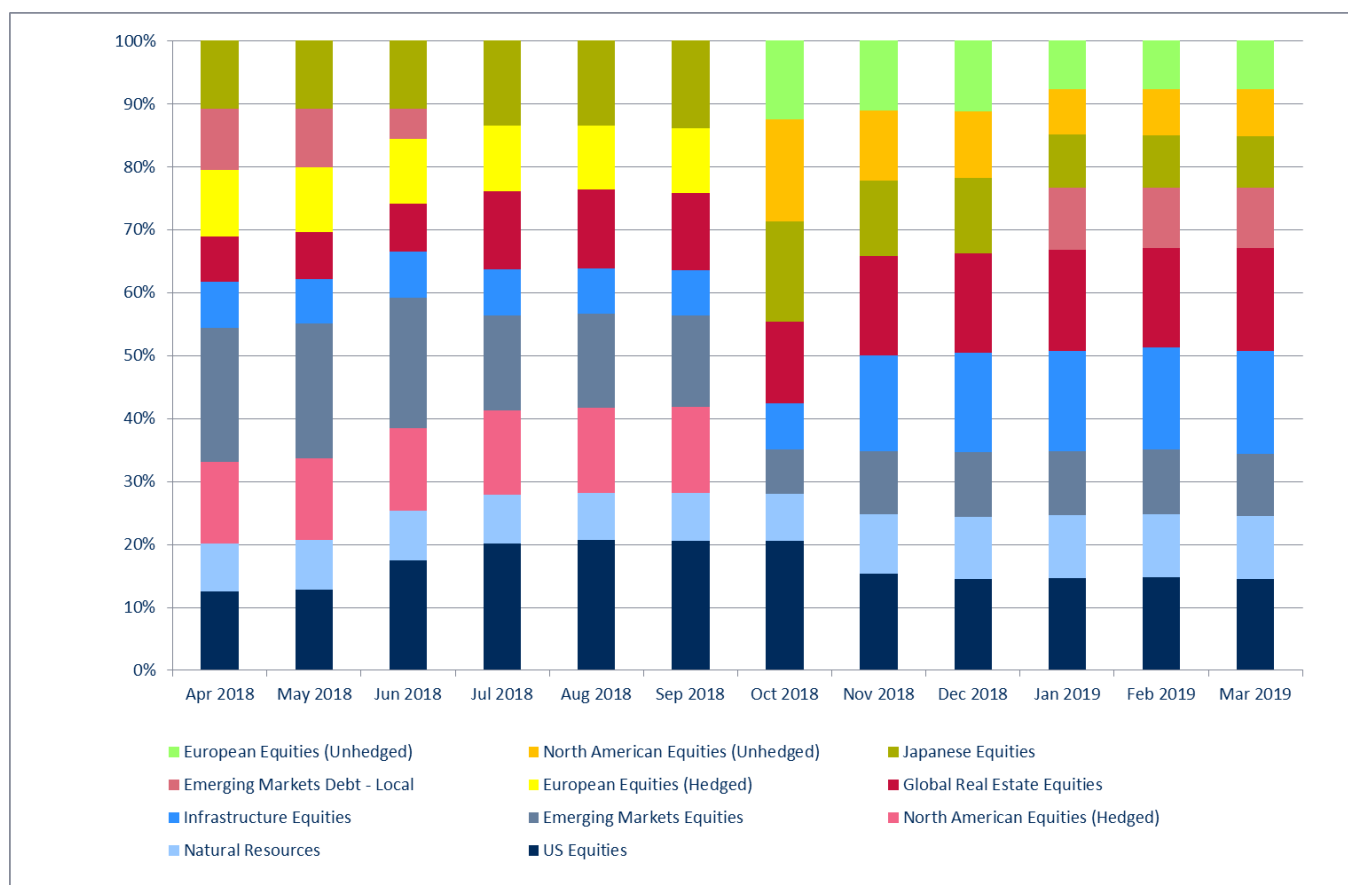
The Equity portfolio that includes Global and Emerging Market Equity exposures returned +1.7% with the market volatility and falls in market values resulting in poor performance in both areas. Both Wellington Emerging Markets Core and Local portfolios underperformed their targets over the 12 months. During the first quarter of 2019 the Fund transferred its Global Equity assets from Investec to the WPP Global Opportunities fund as part of the on-going pooling agenda. The Fund invested in the BlackRock ACS World Multifactor Equity fund in November 2017 and over twelve months the fund outperformed its target by 1.7%.

The Multi-Asset Credit portfolio produced a small negative return of -0.3% underperforming its target. During 2017/18 the Fund appointed two Private Credit managers; BlackRock and Permira to manage North American and European portfolios respectively. Whilst it will take some time to drawdown the full

commitment, initial performance for the Permira portfolio for the twelve months shows some outperformance against its target.

In a year which saw significant volatility in the final quarter of 2018, the two elements of the Tactical Allocation Portfolio saw mixed performance; at a headline level there was performance of +3.3% which was under the benchmark. However, the portfolio comprises two elements; a Diversified Growth Portfolio which returned +0.9% and a Best Ideas Portfolio that produced a return of +5.4%. Within the Diversified Growth Portfolio both of the managers underperformed their benchmarks; Investec had a negative return of -1.6% and Pyrford returned +3.4%.

Throughout the year under review a number of positions have been taken within the underlying composition of the Best Ideas portfolio as demonstrated in the chart below. There is a monthly meeting of the Tactical Asset Allocation Group where JLT monitor and review the portfolio and make recommendations to Fund Officers. A robust process has been put in place with a transparent audit trail (including minutes of all meetings) documenting any changes and decisions together with their rationale.



The chart demonstrates the diversified nature of the holdings within the Best Ideas Portfolio which has included regional Equities, Commodities, Emerging Market Debt as well as liquid alternatives in the form of listed Infrastructure and Global REITS. It also shows how the underlying holdings have changed following decisions that have been taken by the Tactical Asset Allocation Group over the year.

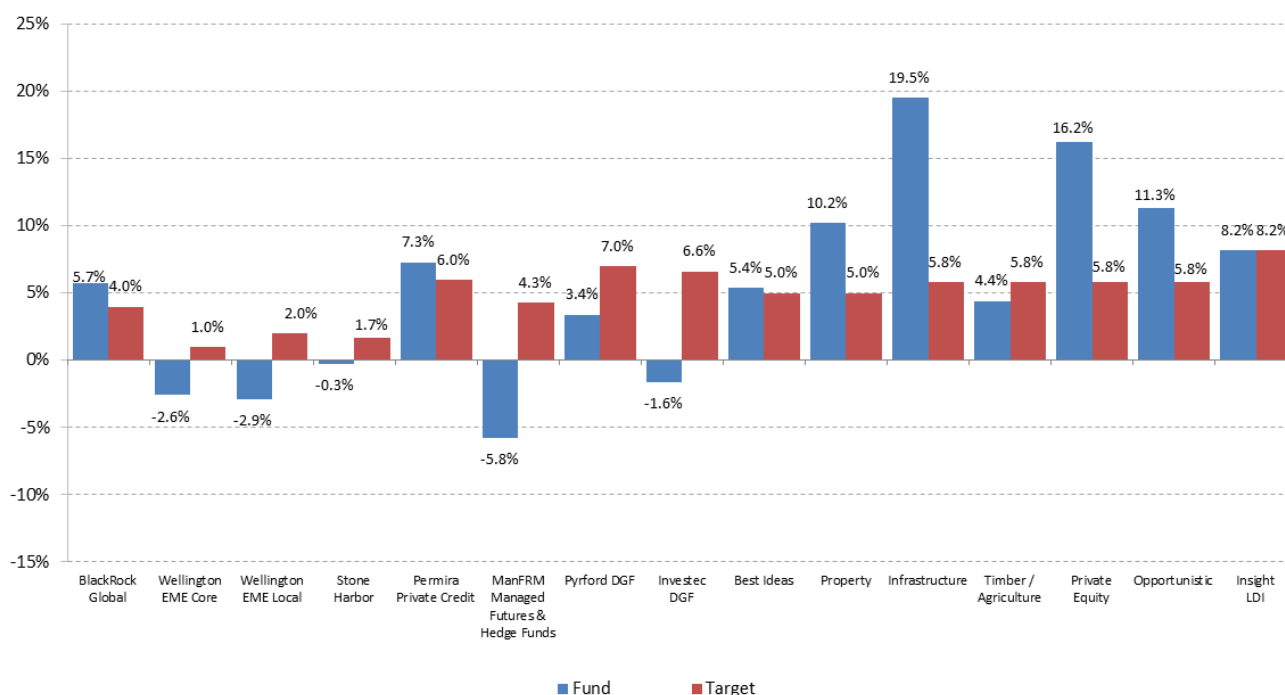
The Managed Account Platform with ManFRM contains a Managed Futures & Hedge Funds portfolio which produced a negative absolute return of -5.8%. In addition the residual balances of the Fund's illiquid legacy Hedge Funds holdings are contained on the Platform which reduced the overall return of the Managed Account Platform to -7.9%. The performance of the portfolio has been disappointing over one and three years and the Fund is keeping it under review.

In the 12 months under review the Private Markets portfolio achieved a strong positive return of +15.2% and the Real Assets portfolio +11.9%.

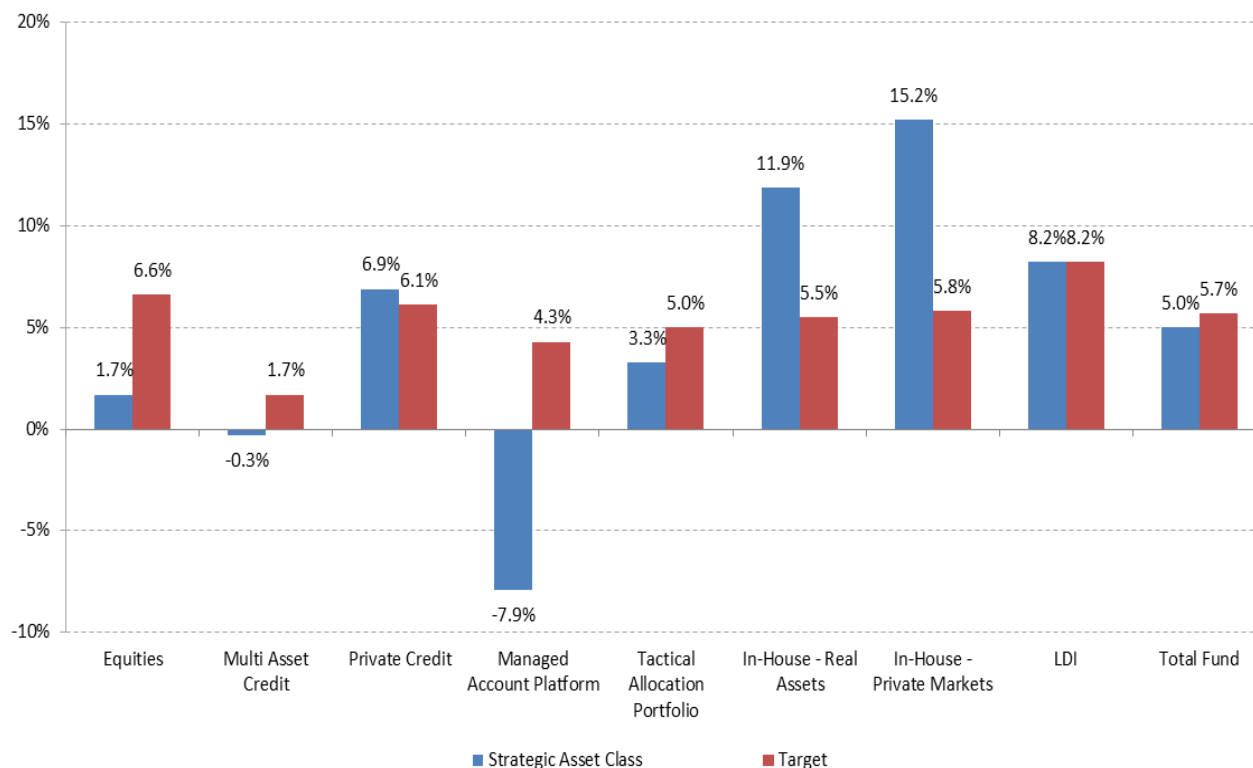
Within the Private Markets portfolio Private Equity performed best returning +16.2%. Opportunistic investments also achieved a strong absolute performance with a return of +11.3% over the year. Within the Real Assets portfolio Infrastructure investments produced a positive return of +19.5% in the year, and were the Fund's best performing asset class. Property assets also produced strong positive returns (+10.2%).

The Liability Driven Investment portfolio (a key component of the Flightpath/De-Risking Framework) which consists of regional Global Equity, Gilt and inflation exposures returned +8.2% in 2018/19. However the performance of this portfolio over the short term is less relevant due to its risk management characteristics.

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



The following chart summarises the performance of the key components of the Fund's investment strategy versus their target.



## Summary of Investment Performance

### 2018-19

The market conditions for the first six months of 2018/19 were beneficial for the Fund with most of the major asset classes producing strong positive returns in particular Equity markets. However in October 2018 markets suffered significant volatility and in the quarter to the 31<sup>st</sup> December 2018 the Total Fund returned -5.1%.

In the first quarter of 2019 markets bounced back from this period of volatility and whilst the positive market environment didn't completely erase the negative performance seen in the quarter ended 31 December, the total Fund return of +4.5% did mitigate it somewhat. As a result the performance of the Fund for the twelve months under review was +5.0%. Since the end of the 2018/19 financial year markets have continued in a positive vein and the Fund's has performed similarly.

The diversification within the Fund's investment strategy was exemplified with the performance of the In-House Real Assets portfolio which weathered a lot of the negative performance in the last quarter of 2018 and was the Fund's best performing asset class. The In-house Private Markets investments also added value and were the next best performing element of the Fund's portfolio. This diversification of sources of return is expected to position the Fund well in the future.

Whilst the Fund will not have produced a return as high as an investment strategy more heavily weighted to Equities, which is seen when comparing to the average local authority, it is important to bear in mind that the Fund is investing for the long term and has a diversified portfolio which aims to achieve a targeted balance between return and risk. However this is not to say that we are not cognisant of shorter term market conditions – as commented in previous years the Fund's Best Ideas Portfolio (within the Tactical Allocation Portfolio) is evidence of this.

## Investment Strategy

The Fund's Investment Strategy was last reviewed in 2016/17 in conjunction with the Actuarial Valuation and the implementation of the new strategy has been progressing over the last two years. The next Actuarial assessment of the Fund is being undertaken as at 31 March 2019, and linked to this we will be undertaking a review of the Investment Strategy. At the time of writing it is too early to comment on the outcomes of this review and this will be reported in next year's Annual Report.

The key features of the Fund's current strategy are outlined in the following paragraphs.

The Fund's investment strategy continues to be more diversified than most LGPS Funds and incorporates a Flight-path/De-Risking Framework which differentiates the Fund from many other LGPS Funds. The aim of the Fund's strategy is to reduce the volatility of returns, in line with the objective of stabilising employer contribution rates. Although history suggests that in the long term Equities should out-perform other asset classes, these returns can be very volatile and the asset class can under-perform for many years. It does appear that other LGPS funds are moving to more diversified strategies as the average LGPS fund has 55% allocated to equity, compared to 62% as at 31 March 2017. However, this is still significantly higher than the Clwyd Fund.

In the first quarter of 2019 the Fund's allocation to active Global Equity was moved from Investec to the Wales Pension Partnership's (WPP) Global Opportunities Fund. This is the first investment that the Fund has made through the WPP structure, which was established to meet the Government's Investment pooling agenda. Over the coming years it is anticipated that most of the Fund's assets will move to the WPP with a second commitment, to a Multi-Asset Credit Fund also having been agreed.

As part of the previous review a 3% allocation to Private Credit was introduced within the Fund's Credit Portfolio. Permira were appointed as European Private Credit manager in September 2017, and BlackRock were appointed to manage a North American portfolio. Due to the nature of this asset class it will take some time for the commitments to be fully drawn.

The ManFRM Managed Account Platform (MAP) includes Managed Futures and Hedge Funds. In addition the legacy illiquid Hedge Fund holdings were incorporated onto the MAP pending their full redemption, given the illiquid nature of some of the underlying positions in these funds.

The Tactical Allocation Portfolio includes a Diversified Growth Portfolio comprising two DGF managers (Investec and Pyrford) and a Best Ideas Portfolio. The Best Ideas Portfolio is a short term (12 month horizon) tactical allocation based upon JLT's suggested "best ideas". Aside from the decisions being made on a tactical (short term) basis, the basic premise of the decisions within this portfolio is that any asset allocation implementation should be liquid (to enable speed of action should it be required) and cost efficient. Given the increase in the Fund's strategic allocation to the Best Ideas Portfolio, and the material size of this allocation (11% of total Fund assets) further details is provided in the Performance section of this report.

The Fund's current strategic asset allocation, strategic and conditional ranges (established following the 2016 review), are shown below. As part of the 2019 review these will be reviewed and potentially revised:

Strategic Asset Class	Strategic Allocation	Strategic Range (%)	Conditional Range (%)
Global Equity	8.0%	5.0 – 10.0	0 – 30
Emerging Markets Equity	6.0%	5.0 – 7.5	0 – 15
Credit Portfolio	15.0%	10.0 – 20.5	0 – 25
<i>Multi Asset Credit</i>	<i>12.0%</i>	<i>10.0 – 15.0</i>	<i>5 – 20</i>
<i>Private Credit</i>	<i>3.0%</i>	<i>2.0 – 5.0</i>	<i>0 – 10</i>
Managed Account Platform	9.0%	7.0 – 11.0	5 – 15
Tactical Allocation Portfolio	21.0%	15.0 – 25.0	10 – 30
<i>Diversified Growth</i>	<i>10.0%</i>	<i>8.0 – 12.0</i>	<i>5 – 15</i>
<i>Best Ideas Portfolio</i>	<i>11.0%</i>	<i>9.0 – 13.0</i>	<i>5 – 15</i>
Private Markets	10.0%	8.0 – 12.0	8 – 12
Real Assets	12.0%	10.0 – 15.0	5 – 20
<i>Property</i>	<i>4.0%</i>	<i>2.0 – 6.0</i>	<i>0 – 10</i>
<i>Infrastructure*</i>	<i>8.0%</i>	<i>5.0 – 10.0</i>	<i>2 – 12</i>
Liability Hedging	19.0%	10.0 – 30.0	10 – 30
Cash	0.0%	0.0 – 5.0	0 – 30

\* Infrastructure includes exposure to Agriculture and Timber



The following table shows the strategic allocation compared to the actual asset allocations as at 31 March 2019 and 31 March 2018.

Manager	Mandate	Strategy 17/18	Actual 31/03/18	Strategy 18/19	Actual 31/03/19
<b>Equities</b>					
Investec Asset Management <sup>(1)</sup>	Global Equity	4.0%	4.2%	N/A	N/A
WPP Global Opportunities <sup>(1)</sup>	Global Equity	N/A	N/A	4.0%	4.2%
Wellington Management International Ltd	Emerging Markets Equity	6.0%	6.9%	6.0%	6.4%
BlackRock	Global Equity	4.0%	3.8%	4.0%	3.8%
<b>Credit</b>					
Stone Harbor Investment Partners	Multi-Asset Credit	12.0%	11.5%	12.0%	10.9%
Permira <sup>(2)</sup>	Private Credit	1.8%	0.9%	1.8%	1.4%
BlackRock <sup>(2)</sup>	Private Credit	1.2%	0.0%	1.2%	0.3%
<b>Managed Account Platform</b>					
ManFRM	Managed Futures & Hedge Funds	9.0%	8.1%	9.0%	7.4%
ManFRM	<i>Hedge Funds (Legacy)</i>		0.4%		0.1%
<b>Tactical Allocation Portfolio</b>					
Pyrford International	<i>Diversified Growth</i>	5.0%	4.5%	5.0%	4.5%
Investec Asset Management	<i>Diversified Growth</i>	5.0%	4.8%	5.0%	4.5%
Consultant	<i>Best Ideas Portfolio</i>	11.0%	10.6%	11.0%	10.7%
<b>In-House - Real Assets</b>					
Various	Property	4.0%	6.4%	4.0%	6.6%
Various	Infrastructure	6.0%	2.3%	6.0%	3.6%
Various	Timber/Agriculture	2.0%	1.4%	2.0%	1.3%
<b>In-House – Private Markets</b>					
Various	Private Equity	8.0%	8.7%	8.0%	8.9%
Various	Opportunistic	2.0%	1.7%	2.0%	2.6%
<b>Liability Hedging</b>					
Insight	Liability Driven Investments	19.0%	22.5%	19.0%	22.7%
<b>Cash</b>			1.2%		0.3%

1) The Global Developed Equity Portfolio allocation transitioned from Investec to WPP Global Opportunities in February 2019. 2) The Credit Portfolio has a 3.0% allocation to Private Credit, which was established in 2017. Draw down will take some time.

## Responsible Investment

The Fund's ISS includes its policy on Responsible Investment which is implemented through a Sustainability Policy. These policies are being reviewed in conjunction with the 2019 reviews of the Fund's Investment Strategy. The ISS shows the Fund's compliance with the Financial Reporting Council's UK Stewardship Code and in March 2018 the Fund became a Tier One signatory to the Code. The Fund continues to be a member of LAPFF and PLSA who both act on behalf of its members on stewardship matters.

Although the Fund is invested in pooled vehicles, and therefore does not own individual shares, the fund managers still report on how they voted the shares held within the vehicle. In particular if corporate governance concerns are raised by LAPFF, these are reported to fund managers and an explanation is received from fund managers on how they voted and the engagement undertaken with the managers of the company.

A summary of the voting activities of the managers for 2018/19 is shown in the following table.

Manager	Annual/Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/Withheld
BlackRock	3,403	3,228	2,932	239	10	47
Investec	142	1,889	1,715	42	23	109
Pyrford	56	912	835	60	1	16
Wellington	312	2,875	2,423	248	168	36

The Fund invests in property, private equity, infrastructure, timber and agriculture. A list of these investments is attached with commitments to those with a particular environmental or social objective separately identified.

Investments regulations now allow for LGPS funds to consider social impact where some part of financial return is forgone in order to generate a social impact and there is no significant risk of financial detriment. The Fund's approach to Social Investments is included in the ISS but no investments have been made to date where financial return has been foregone, although many of the investments do have a social impact. The Fund is working on how this can be effectively measured and reported to stakeholders.

## United Nations Principles for Responsible Investment

The Fund engages with all of its asset managers to ensure that they are fully aware of their responsibilities with regard to Sustainability, and one of the ways in which the fund management industry can demonstrate that it takes its responsibilities seriously is to become a signatory to the UN Principles for Responsible Investment (UN PRI). Firms that are signatories to the UN PRI are required to commit to a set of six principles promoting and incorporating Environmental Social and Governance (ESG) principles into all aspects of its work. It is pleasing to report that all of the Fund's major asset managers (listed below) are UN PRI signatories.

BlackRock	Insight	StoneHarbor	Wellington
Investec	MAN Group	Pyrford	Russell Investments

### LGPS Code of Transparency

In 2017, the LGPS Scheme Advisory Board introduced a Code of Transparency for asset managers, to encourage transparent reporting of costs. The Code is voluntary but is being widely adopted across the LGPS including within the developing pools. The Scheme Advisory Board is monitoring and reporting on those managers that have committed to the Code, and it is pleasing to note that all of the Fund's major managers (shown below) have signed up.

BlackRock	Insight	Pyrford	Russell Investments
Investec	MAN Group	StoneHarbor	Wellington

### Summary of the Longer Term

The market value of the Fund has increased from approximately £697m in 2009 to £1,866m in 2019. This is detailed in the Management and Financial Performance section of this report.

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

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa
1	+5.0	+5.4	+6.6
3	+9.9	+8.5	+10.5
5	+8.6	+7.6	+8.8
10	+9.6	+8.7	+10.7
20	+5.6	+5.8	+6.4

Source: JLT Benefit Solutions, PIRC

The following table documents the changes in investment strategy since 2001. As can be seen the asset allocation is very different from that of the average local government pension fund. The Fund has been particularly active and very early in its commitments to alternative assets through a broad range of specialist managers. The current weightings were reviewed and agreed in 2016/17 as part of the "light touch" investment strategy review and will be reviewed and potentially revised further in 2019, and as such the strategy shown for 2019 is the same as the previous year.

<b>Investments</b>	<b>2001 (%)</b>	<b>2004 (%)</b>	<b>2007 (%)</b>	<b>2011 (%)</b>	<b>2015 (%)</b>	<b>2019 (%)</b>	<b>LGPS Average</b>
<b>Equities</b>							
Global Unconstrained	-	-	5.0	5.0	8.0	4.0	
Global Developed (Smart Beta)	-	-	-	-	-	4.0	
Global High Alpha/ Absolute	-	-	-	5.0	-	-	
UK Active (Traditional)	35.0	29.0	15.0	-	-	-	
UK Active (Portable Alpha)	10.0	10.0	12.0	-	-	-	
US Active	7.0	8.0	5.0	-	-	-	
Europe (ex UK) Active	11.0	9.0	6.0	-	-	-	
Japan Active	4.0	4.0	4.0	-	-	-	
Far East (ex UK) Active	2.5	3.0	4.0	7.0	-	-	
Emerging Markets Active	2.5	3.0	4.0	7.0	6.5	6.0	
Frontier Markets Active	-	-	-	-	2.5	-	
Developed Passive	-	-	-	19.0	-	-	
	<b>72.0</b>	<b>66.0</b>	<b>55.0</b>	<b>43.0</b>	<b>17.0</b>	<b>14.0</b>	<b>55.0</b>
<b>Fixed Interest</b>							
Traditional Bonds	10.0	9.5	-	-	-	-	
High Yield/ Emerging	1.5	2.0	-	-	-	-	
Unconstrained	-	-	13.0	15.0	15.0	12.0	
Private Credit (illiquid)	-	-	-	-	-	3.0	
Cash/ Other	2.5	0.5	-	-	-	-	
	<b>14.0</b>	<b>12.0</b>	<b>13.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>	<b>19.0</b>
<b>Liability Driven Investment</b>	-	-	-	-	<b>19.0</b>	<b>19.0</b>	-
<b>Alternative Investments and Cash</b>							
Property	5.0	7.0	6.5	7.0	7.0	4.0	
Infrastructure	0.5	5.0	1.5	2.0	2.0	6.0	
Timber/ Alternatives	-	-	1.5	2.0	2.0	2.0	
Commodities	-	-	2.0	4.0	-	-	
Private Equity & Opportunistic	4.5	4.5	6.5	10.0	10.0	10.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	-	-	
Hedge Fund Managed Account Platform	-	-	-	-	9.0	9.0	
Currency Fund	-	4.0	4.0	-	-	-	
Tactical Asset Allocation (TAA)	-	2.0	5.0	12.0	-	-	
Tactical Allocation (Diversified Growth)	-	-	-	-	10.0	10.0	
Tactical Allocation (Best Ideas)	-	-	-	-	9.0	11.0	
	<b>14.0</b>	<b>22.0</b>	<b>32.0</b>	<b>42.0</b>	<b>49.0</b>	<b>52.0</b>	<b>26.0</b>

## IN HOUSE PORTFOLIO

### REAL ASSETS

Property Open Ended Holdings	Number of Fund	Environmental/Social Impact	Number of Funds
Schroders	1		
Hermes	1		
LAMIT	1		
Legal & General	1		
BlackRock	1		
<b>Property Closed Ended Holdings</b>			
Aberdeen Property Asia Select	2	Bridges Property	2
BlackRock US Residential	1	Igloo Regeneration	1
Darwin Leisure Property	1	Threadneedle Low Carbon	1
Franklin Templeton	2		
InfraRed Active Property	3		
North Haven Global Real Estate	2		
Paloma Real Estate	2		
Partners Group Global Real Estate	2		
Schroders – Columbus UK Real Estate	1		
<b>Timber</b>			
		BGT Pactual Timberland	2
		Stafford Timberland	3
<b>Agriculture</b>			
		Insight Global Farmland	1
		GMO	1
<b>Infrastructure</b>			
Arcus European Infrastructure	2	InfraRed Environmental	1
Base Camp	1		
Carlyle Global Infrastructure	1	Impax Infrastructure	2
GSAM West Street Infrastructure	1		
HarbourVest Real Assets	1		
Hermes Infrastructure	1		
InfraRed	2		
Innisfree	1		
North Haven Global Infrastructure	2		
Pantheon	1		
Partners Group Direct Infrastructure	1		
<b>Total Funds</b>	<b>35</b>		<b>14</b>

## PRIVATE MARKETS

Private Equity Direct Funds	Number of Funds	Environmental/Social Impact	Number of Funds
Access Capital	1	Bridges Ventures	2
Apax	5	Environmental Technologies	3
August Equity	3	Ludgate Environmental	1
Candover	1		
Capital Dynamics	3		
Carlyle	2		
Charterhouse	4		
ECI	3		
Granville Baird	2		
Parallel Ventures	3		
Partners Group Direct	2		
Unigestion	1		
<b>Private Equity Fund of Funds</b>			
Access Capital	4	HarbourVest Cleantech	1
Capital Dynamics	7	Hermes Environmental	1
HarbourVest	5		
Partners Group	10		
Standard Life	2		
Unigestion	2		
<b>Opportunistic</b>			
BlackRock European Property	1	Foresight Regional Investment	1
Carlyle	2		
Dyal	1		
JP Morgan Secondary's	1		
Marine Capital	1		
Marquee Brands	1		
NB Credit Opportunities	1		
Pinebridge Structured Capital	1		
<b>Total Funds</b>	<b>69</b>		<b>9</b>

<b>Private Debt</b>			
Permira	1		
BlackRock	1		
<b>Total Funds</b>	<b>2</b>		



**Kieran Harkin**

**Director & Head of LGPS Investments – JLT Benefit Solutions Limited**

## **Section 5: Actuarial Funding and Flightpath Report**

### **Report from the Fund Actuary**

#### **Introduction**

I am delighted to provide my update from an actuarial perspective on the activities of the Clwyd Pension Fund (CPF) during 2018/19. As the Fund's Actuary, I provide advice to the Fund and its employers in relation to managing and monitoring the many financial and demographic risks they face. I also have a specific role in guiding the overall direction of the Fund via my seat on both the CPF Advisory Panel and the Funding and Risk Management Group (FRMG) which was established to specifically manage the "Flightpath" strategy. The Advisory Panel provides an opportunity for all of the Fund's professional advisors to collaborate, in conjunction with the Fund Officers, to help the CPF achieve its long term objectives. I feel that, as a group, we have continued to make excellent progress over the year with a number of important enhancements made to the Flightpath framework.

#### **Risk management**

##### **Flightpath Strategy**

A critical aspect of managing risk relates to the Flightpath strategy which is central to providing stability of funding and employer contribution rates in the long term. This strategy has been in operation for 5 years now and there has been big strides forward in achieving the objectives of reaching full funding by 2026. The various triggers built into the Flightpath strategy were reviewed alongside the actuarial valuation and the updated triggers are now incorporated into the operation of the strategy.

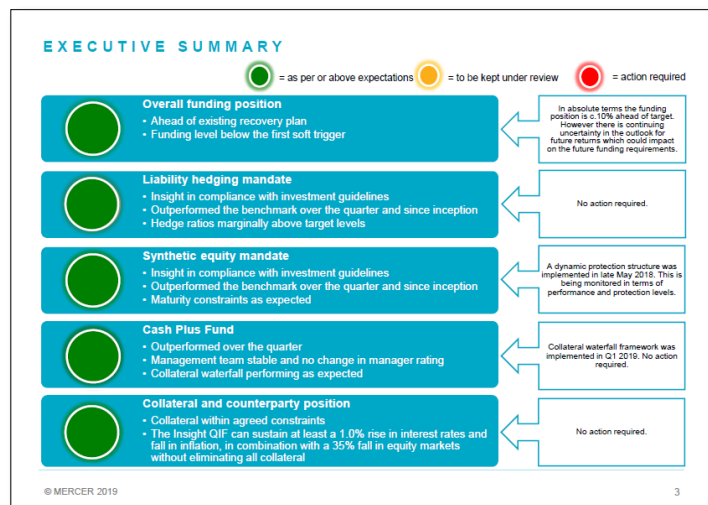
Over the 2018/19 accounting year, the level of risk hedging (the "hedge ratio") within the framework did not change (remaining at approximately 20% for interest rates and 40% for inflation rates) as the market yields and the funding level remained below the relevant trigger points. This is a reflection of the low interest rate environment meaning the cost of increasing the hedge ratio is prohibitive at the current time.

The funding plan was ahead of the target set as part of the 2016 valuation as at 31 March 2019. Overall using consistent actuarial assumptions, the funding position was estimated to be 90% as at 31 March 2019 which was 10% ahead of the expected funding level under the deficit recovery plan (compared with a funding level of 76% as at 31 March 2016). The 2018/19 year was a particularly volatile period for markets. However, the Equity Protection element of the investment strategy, which was implemented on 24<sup>th</sup> May 2018, has remained in place throughout the year in order to protect the Fund and employers.

The CPF is also in a relatively unique position as the Flightpath strategy has provided protection given the level of risk hedging in place.



Whilst monitoring the funding position is central to my role, it is also important that we ensure other operational aspects of the Flightpath run by Insight Investment Management (Insight) are working correctly, as this is vital to the success of the strategy. Therefore, we monitor on a monthly basis using a red/amber/green (“RAG”) rating system and the summary at March 2019 is shown. It can be seen that all aspects were in line with expectations.



## Implementation of Equity Option Protection

In order to protect the Fund’s current strong position, the CPF insures itself against potential falls in the equity markets via the use of an Equity Protection strategy. The aim is to provide further certainty in employer contributions (all other things equal) in the event of a significant equity market fall. The Fund implemented a new “dynamic” Equity Protection strategy with effect from 24<sup>th</sup> May 2018. This was after rigorous analysis and value for money considerations by the FRMG. The strategy protects against falls of 15% or more of the average market position over the previous 12 months. This protection level will vary depending on market movements and the main benefit compared to a static strategy is that the protection level will increase if markets rise. This will be financed by giving up some potential upside return on a monthly basis.

The strategy is implemented on a daily rolling basis to best capture changes in market conditions. Given this complexity however, it was agreed that a single counterparty bank would package and deliver the strategy, implemented via Insight. Mercer went through a process of determining the most cost effective counterparty bank and it was agreed that JP Morgan would deliver the strategy.

The strategy will be monitored monthly alongside the Flightpath (above) and any changes made will be reported next year.

## Collateral restructure

The collateral was restructured during February 2019, following an opportunity to increase its efficiency. This will generate a higher expected yield (estimated to be £3m p.a. although this is not guaranteed) whilst still providing adequate security that the collateral position is managed effectively in a low governance manner. This does not impact on the overall risk management profile of the Flightpath strategy.

## Implementation of currency hedging

Currency risk is a risk to the Fund and a strengthening pound would have a detrimental impact on the Fund’s deficit, as overseas assets would be worth less in sterling terms. The Fund therefore implemented a currency hedge on part of the equity portfolio with effect from 8 March 2019. This will

provide the Fund with broadly a 50% strategic hedge ratio. Given the market value of the hedged equity portfolio is relatively small at implementation, the currency hedge has only had a small impact initially. However, as the market value increases, the Fund is at greater risk of adverse currency movements negatively impacting the market value. This approach future-proofs this element of the equity portfolio from a risk perspective. The level of currency hedging will now form part of the overall Flightpath strategy.

## **2019 Actuarial Valuation**

The Fund's next triennial actuarial valuation has an effective date of 31 March 2019 and will give us an opportunity to formally review the financial health of the Fund and refresh the objectives. I am currently working with Fund Officers to complete this and the outcome will be covered in next year's annual report. The assessment will take into account the experience of the Fund since the previous valuation including demographic factors such as changes in life expectancy and changes in the membership profile. It will utilise the employer risk management framework set up by the Fund which considers an employer's ability to support their obligations to the Pension Fund by reviewing their covenant. Individual results will be provided to employers which will take into account their own circumstances and membership changes. The results may therefore vary significantly between employers and the reasons behind this will be clearly explained to employers at the time. Details of how employer rates can vary are shown in my formal report on the 2016 valuation and also the parameters applied to arrive at each employer's contribution are shown in the Funding Strategy Statement which was last updated in 2018. We also will see some major changes in the governance around valuations as we move towards a four-year cycle as well as having the ability to change employer contribution rates via interim review powers being introduced. The Fund will need to develop policies to deal with this as part of the 2019 valuation.

It is therefore my continued confidence in the strong governance structure within the Fund which means we are well placed to navigate any uncertainty and volatility that arises.

In addition to the valuation process, the Government Actuary's Department ('GAD') will carry out a review of the actuarial valuations of LGPS funds as at 31 March 2019, this is pursuant to Section 13 of the Public Service Pensions Act 2013. The GAD will compare a number of key factors including the assumptions and recovery periods adopted, and funding levels and contribution rates reported. The results will be published once the review is complete.

The GAD carried out a similar review of the 2016 LGPS valuations and the comparisons between LGPS funds can be found at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/743385/GAD\\_Exec\\_Summary\\_Section\\_13\\_Report.PDF](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/743385/GAD_Exec_Summary_Section_13_Report.PDF).

All checks on the funding plan applied by the GAD showed as "green" so there were no concerns on the funding plan put in place. For information, the key assumptions adopted for the 2016 valuation of the Clwyd Pension Fund are set out within the formal 2016 valuation report and the Funding Strategy Statement which can be found on the Fund's website.

## Looking forward

Of course, the political and economic landscape remains uncertain due to Brexit, especially in light of the possibility of a 'No Deal' scenario. This could have a material effect on the level of UK inflation and also the expected asset returns, both of which are crucial to the financial health of the Fund and the contributions required from the employers. It should be highlighted that the Flightpath strategy will continue to provide protection to the funding position against these potential challenges relative to other LGPS Funds. We will also continually monitor the operation of the strategy to identify ways of improving its performance whilst maintaining the overall risk management objectives. Any changes in the strategy will be reported in future reports.

The 2019 valuation will determine employer contributions rates from 1 April 2020 and will be crucial for employers with their continued budgetary pressures. A critical aspect of deadline with this valuation will be the impact on all public sector schemes of the McCloud judgment where changes to all schemes made in 2014 or 2015 have been deemed age discriminatory so a remedy needs to be found to address this. This will result in benefit changes for some members of the LGPS and likely some increased costs for employers once the remedy is determined. The timescale for this is currently unknown but is unlikely to be before the valuation is complete so consideration on how to provide for it will be a key part of the discussions.



**Paul Middleman FIA**



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Tower Place, London EC3R 5BU



## Section 6: Administration Report

### Introduction

This report describes the way in which the Fund delivers its services to members and employers. It also identifies current and potential future challenges, and explains the way in which the Administration Team is meeting them. The report also includes KPI information and some information on the members of the scheme.

### How our service is delivered

Clwyd Pension Fund's (the Fund) day to day administration service is provided by the Pension Administration Team which consists of a total of 30.7 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager.

It is split between

- an Operational Team
- a Technical and Payroll Team
- a Regulations and Communication Team and
- an Employer Liaison Team

It is separate from the Finance Team which manages the Fund's investment portfolio and maintains the Fund's accounts.

The Operational Team delivers a pensions service for over 48,000 scheme members. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team implements and maintains the pension software systems, reconciles employer records and provides a pensioner payroll service for over 12,000 pensioners and dependents paying more than £6m per month. The Employer Liaison Team provides assistance to fund employers in providing accurate and complete notifications to the Fund and the Regulations & Communications Team provides regulatory support to all stakeholders and a communication service for members and employers.

The Fund measures Value for Money by achieving its objectives set out in both the Administration Strategy and the Communication Strategy. This incorporates our Mission Statement, which is to be known as forward thinking, responsive, proactive and professional, providing excellent customer focussed, reputable and credible service to all customers. Value for money is also measured by utilising technology appropriately, and guaranteeing the administration of the Fund is achieved within budget in a cost effective and efficient manner. To successfully measure these objectives there is a robust Business Plan and Data Improvement Plan in place, incorporating a Risk Register and a Breaches Register. Progress updates on each of these are regularly reported to the Pension Board and Pension Committee. The objectives within these strategies, such as methods of communication with our stakeholders, and quality of service, are detailed within this report.

Flintshire County Council (FCC) is required by law to administer the LGPS in Flintshire. It is accountable to the Pensions Committee, the Pensions Board, participating employers, and scheme members. The responsibilities for scheme administration are met in-house by the Pensions Administration Team based within the Chief Executive's Department within FCC. The Pension Administration Team functions include the collection of employee and employer contributions and member data from all fund employers, the calculation of member benefits and payment of pension benefits to retired members, as well as looking after the benefits for deferred members who have not yet taken payment. The scheme

not only provides pensions for members but also survivor benefits to spouses, civil and cohabiting partners and children.

## **Summary of Activity**

In addition to this day to day work during 2018/19 the Pension Administration Team has been addressing a number of significant challenges as described below.

### **GMP Reconciliation**

The government removed the status of "contracted-out" from pension schemes in April 2016. Prior to then, contracted-out pension schemes had to ensure the benefits they paid met a minimum level and one element of this was a Guaranteed Minimum Pension (GMP) figure that accrued individually for each scheme member up to April 1997. Historically pension schemes would go to HMRC to get confirmation of the GMP amount on retirement. However, as a result of the demise of contracted-out status, HMRC will no longer be maintaining GMP and other contracting out member records. This means that the onus will be on individual pension schemes to ensure that the contracting out and GMP data they hold on their systems matches up to the data held by HMRC. HMRC will cease to provide their services from April 2019.

Initial work identified that there were significant discrepancies between the sets of data held by HMRC and the Fund, and a significant amount of work is ongoing to determine the correct benefits, ensure all systems are updated and to process a potentially significant number of over/underpayment calculations. After the records are reconciled for former pensionable employees, the Fund must also ensure the accuracy of national insurance information held for active members. All GMP's and national insurance information must be reconciled by dates determined by HMRC.

The Fund outsourced this exercise to a company called Equiniti and the project commenced during 2017/18. The timescales are subject to change depending on the magnitude of the work and changes to deadlines by HMRC. Monthly update meetings are held in order to monitor progress of this project against the deadlines. Any decisions needed in order to continue progress are reported during these meetings.

### **Assumed Pensionable Pay Issues**

Unfortunately, during the year the Fund had to deal with an issue with incorrect scheme members' pay data from one of the Fund's employers. It was discovered that the Assumed Pensionable Pay (APP) figure reported from the employer's payroll system was incorrect for some members. The issue dated back to the introduction of APP in April 2014. This then meant that the benefits calculated by the Fund's officers for the affected members were incorrect and had to be rectified.

The Clwyd Pension Fund Manager made a formal report to The Pensions Regulator on 10 July 2018 regarding this breach of the law by the Fund which referred to the incorrect calculation of benefits. Similarly, the Employer also reported the breach to The Pensions Regulator relating to their role in notifying incorrect pay data.

The employer's payroll system software error was fixed and all affected cases recalculated and communicated with the scheme members where necessary. Throughout the project, officers of the Fund were required to share project plan updates and Committee reports with The Pensions Regulator. In addition there were a total of five conference call updates with The Pensions Regulator.

On 8 May 2019, the Pensions Regulator confirmed that they had considered all the information provided to them during the project, no regulatory action would be taken and they would be closing their file. The following text was included in the letter from the Regulator:

*"We would like to take this opportunity to thank you for the open and transparent way in which you have dealt with The Pensions Regulator (TPR). We find this collaborative way of working helps resolve matters and improve member outcomes more efficiently."*

### **Regulation and Factor Changes**

Since the regulation change allowing all deferred members to access their reduced benefits from age 55 regardless of when they left the scheme, the Fund has experienced an increase in both enquiries and payments of benefits. This is ongoing.

The Chancellor of the Exchequer announced a change to the SCAPE discount rate in his Budget statement on 29 October 2018. The SCAPE discount rate affects all sets of factors based on the valuation of public sector schemes. A stop on calculating transfers out was imposed whilst awaiting updated factors. New factors were received in mid-January and work was undertaken to process the backlog.

### **Valuation Data Preparation**

In preparation for the 2019 valuation, the Fund's actuary, Mercer, completed a data quality check and has provided the results. Work was undertaken within the Administration Team to correct mismatches of data and clarify reported member queries. Many of the cases were completed in time for the valuation data submission deadline which was mid-July. The cases being completed also form part of the Data Improvement Plan.

### **Admission Agreements**

The legal document that is signed when a new body applies to join the Fund has been amended by our legal advisers to ensure compliance with the 2018 amendment regulations. This has introduced areas such as the potential for a refund of surplus funds when an admission agreement ends. This updated version is now in use.

### **Additional payroll functionality**

An additional facility allowing the Administration Team to process its own lump sum payments through the current internal payroll has now been implemented. This ensures members receive payment in a more efficient manner.

### **Testing Working Party**

As part of the Testing Working Party (TWP) working with the Fund's software supplier Heywoods, the Pension Administration Team gained an early insight into forthcoming software changes which enabled testing on the impact of the Welsh rate of Income Tax from April 2019.

### **LGA Communications Working Group (CWG)**

The Fund is a member of the CWG and meets other communication professionals from LGPS funds as a collaborative forum, on a quarterly basis, to develop items of communication primarily for scheme members in the LGPS. The group was created and is run by the Local Government Pensions Committee Secretariat (LGPC) (as part of the Local Government Association).



The CWG share knowledge and experience to then assist the LGPC secretariat in the development and provision of centrally devised communications resources. It is considered a strong example of collaboration in action across the LGPS.

The CWG priorities include the identification of best practice within pension communications generally and the LGPS specifically, exploring the areas where centrally produced communications would save individual LGPS funds financial resources and staff time.

## **Framework**

The Fund is part of an LGPS Framework working party focusing on software providers. As a founder member the Fund will have valuable insight and input into the provision of a framework to facilitate a more robust procurement process for vital administration software. The founder members of the LGPS National Framework for the provision of a software supplier have agreed to proceed with the framework.. The Pension Administration Manager will continue to work with the other founder members over the next 12-14 months to establish the framework.

## **Looking ahead**

### **GMP Equalisation**

A recent high court judgement has been made on GMP equalisation. The impact on the LGPS remains uncertain but it is likely to result in additional costs to the Fund due to increases in the indexation of pensions to remove the inequality between males and females. If recalculation of pensions already in pay is required, there is a risk that this could result in significant work for the Pension Administration Team.

### **National Pensions Dashboard**

The Government announced in the Autumn 2018 Budget Statement that funding has been allocated for 2019/20 to ensure this national project is delivered. The Fund may need to develop its systems to meet the new requirements.

## **Other Expected National Changes**

### **Cost Management Process**

The cost management process will result in either a benefit improvement or contribution reduction for scheme members (or a combination of both). This will be effective from April 2019, albeit the details of the changes are still to be agreed.

### **McCloud Case**

Recently a case was brought to the High Court by members of the Judicial and Firefighters' pension schemes which is generally known as the McCloud case. It related to the transitional protection that was offered to members of final salary arrangements when public sector schemes were reformed. Their complaint was that the transitional protection was unlawful on the grounds of age discrimination, as some members who were within 10 years of their Normal Pension Age remained in the final salary arrangement while others transitioned into a new arrangement.

In December 2018 the Court of Appeal ruled in the members' favour and agreed that the changes were discriminatory based on age and that the government had not been justified in its decision. In June the



Supreme Court ruled that the Government does not have grounds to appeal the decision and consequently an Employment Tribunal will need to identify a suitable remedy.

### **£95k Exit Cap**

This proposal has now been consulted on with the intention of limiting the amount of lump sum payments paid to public sector workers on termination of employment to £95k. However, within the LGPS this is expected to include the value of the "strain on the Fund" where a scheme member is paid a pension with any reduction for early retirement effectively being waived. This will primarily impact on members where a termination of contract has occurred with the ability to receive a full unreduced pension, often alongside a redundancy payment.

This is likely to result in a major communication exercise for the Pensions Administration Team advising scheme members and employers of the changes. It will also be likely to require changes to current processes and the administration system, Altair.

### **Communications and Administration Strategies**

Our Communication Strategy follows Regulation 61 of the LGPS Regulations 2013 and has been updated this year following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders. The policy outlines the type of communications the administering authority would like to provide to scheme members, scheme employers and prospective scheme employers, the Pension Fund Committee, Pension Board and Advisory Panel, Fund staff and other interested organisations.

The chosen methods of communication are monitored and reviewed to ensure they are effective. The main means of communication with the above stakeholders are outlined in the Strategy and include using more technology to provide quicker and more effective communication.

The Communications Team attend a regional communication group on a quarterly basis, to ensure continuity and share ideas about the development of communication for the scheme members. The Local Government Association (LGA) also hosts a national communications group which of which the Fund is a member.

The Administration Strategy ensures that both the Administering Authority and the employers are fully aware of their responsibilities under the scheme and outlines the performance standards they are expected to adhere to, to ensure the delivery of a high-quality, timely and professional administration service.

Following the review of the Administration and Communication Strategies this year, an Employer Compliance Certificate has been introduced within the current year end process. This is an additional checklist for employers to complete in order to clarify their responsibility for supplying correct and verified member data.

The Communication Strategy and Administration Strategy are available on the Fund website. The addresses are included in Sections 9 and 10.

### **Employer Liaison Team (ELT)**

Recognising the continuing pressure on resources and budgets for employers and the administering authority, the Fund offers assistance to employers in providing accurate and complete notifications to the Fund (and other employer duties) in a timely manner. The ELT mainly assists in providing notifications regarding new starters, personal/employment changes and leavers/retirements in the LGPS by extracting the data from the employers' payroll systems. It undertakes outstanding requests

for information in order to cleanse pension records. The ELT is monitored and progress reported on a regular basis. All costs are met by the employers through their employer contribution rate, based on a case reporting process.

## **General Data Protection Regulation (GDPR)**

GDPR is an EU regulation which came into force on 25<sup>th</sup> May 2018, building on the existing Data Protection Act. This new regulation introduces stricter compliance requirements and much higher fines for non-compliance.

The main areas affecting the LGPS include the need to keep records of processing activities; enhanced privacy notices for members; privacy impact assessments where there is a high risk to the rights and freedoms of individuals; and the need to redraft any service level agreements to take into account the new mandatory provisions. Funds have also put in place data breach handling procedures as the new rules require reporting any breach within 72 hours. Further information is available from the website of the Information Commissioner's Office.

All members of the Pensions Administration Team have completed data protection online training and FCC is fully compliant with the standards set out in the Public Services Network.

## **Cyber Security**

The fund has strong internal controls in place to ensure the security of the personal data it holds. Systems, processes, and people are all used to build cyber resilience.

With large volumes of personal and financial data processed within a relatively less sophisticated security environment by comparison to other financial institutions, pension scheme are an increasingly attractive target for cybercriminals. LGPS funds predominantly rely on the processes and security of their parent local authorities due to the IT systems sitting on the local authority infrastructure. FCC currently have a programme of work considering the risk of cybercrime. It is planned that the Pension Administration Team will be part of this work and expand it as required, to give appropriate assurances on the security of the pension systems and a better understanding of any ongoing work required to ensure the appropriate level of security is in place.

## **Data Quality**

Data quality requirements are embedded in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations in 2014 and The Pensions Regulator now has oversight of the LGPS. The Fund measures two types of data, common and scheme-specific data. When the Fund takes measurements of both types of data, it checks that the data is present and accurate. An annual data score is required by The Pension Regulator from the Fund in respect of common and scheme specific data, and a calculation is carried out to determine the data score, based on the percentage of members that have fully present and accurate common and scheme specific data. The statutory requirement is for 100% accurate and complete data.

The Fund's data quality was measured in 2018/19 and the scores are 96.8% for common data and 92.7% for scheme specific data.

A data improvement plan has been put in place and sets out the steps that the Fund will be taking to ensure that the data is present and correct. Reviewing the plan regularly will ensure that objectives are met and will help towards the improvement of the Fund's data scores.

## Member and Employer Feedback 2018/2019

Every year the Fund carries out a satisfaction survey with members and employers to supply feedback on whether it is achieving its aims and objectives as set out within the Fund's Administration and Communication Strategies. The results for 2018/19 are shown in the table below.

The Fund.....		2018 Agreed	2019 Agreed	Target
Administration	... offers documentation, guidance and information in a professional manner?	88%	81.4%	90%
	... is proactive in its approach to provide a service to members?	85%	70.1%	
	... gives an appropriately timed service with regular updates?	85%	65.9%	
	... is customer focused and meets the needs of its members?	83%	70.1%	
	... has provided a high quality service throughout to its members?	81%	69%	
Communications	... promotes the scheme as a valuable benefit and provides sufficient information so you can make informed decisions about benefits?	88%	65.9%	90%
	... communicates in a clear and concise manner?	86%	64.9%	
	... uses the most appropriate means of communication?	85%	72.1%	
Employer Survey	...offers documentation, guidance and information in a professional manner?	95%	100%	90%
	...is proactive in its approach to provide a service to employers?	95%	87.5%	
	...gives an appropriately timed service with regular updates?	100%	87.5%	
	...is customer focused and meets the needs of its employers?	100%	87.5%	
	...has provided a high quality service to you in your role as employer?	-	87.5%	
	... ensures you are aware of your LGPS employer related roles and responsibilities for the administration of the Fund?	100%	75%	
	... communicates in a clear and concise manner?	100%	100%	
	... uses the most appropriate means of communication?	100%	100%	

As a result of the feedback from the survey which was carried out in April, the Fund is sending out more communications to members which will keep them up to date with scheme changes, along with reviewing the language being used.

### Some Member Survey comments:

*Staff are always  
informative and helpful*

*The Pension's online  
system is fantastic*

*In my opinion Clwyd Pension  
Fund provides a good service*

*I can't say I have had any information  
sent to me it is up to members to go  
on the website and be pro-active.*

## Use of Technology

### Clwyd Pension Fund Website

The website contains information about the Fund and LGPS for both current and prospective members along with information for Fund Employers. The website address is [www.mss.clwydpensionfund.org.uk](http://www.mss.clwydpensionfund.org.uk)

During 2019/20, there will be a major review of the Fund's website. This will ensure that the website is continuing to adhere to national standards regarding accessibility.

Within the website there are multiple sections to help users navigate their way around and to find the information which they are looking for. Users are able to download scheme literature and forms from the website. All policies, strategies and information on the investments of the Fund are also available.

### Member Self Service (MSS)

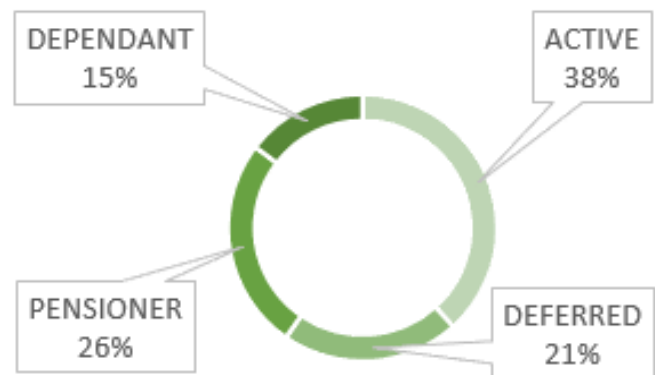
MSS has been available to scheme members since 2017. It allows members to log into a secure web area to view the information which is held on their account.

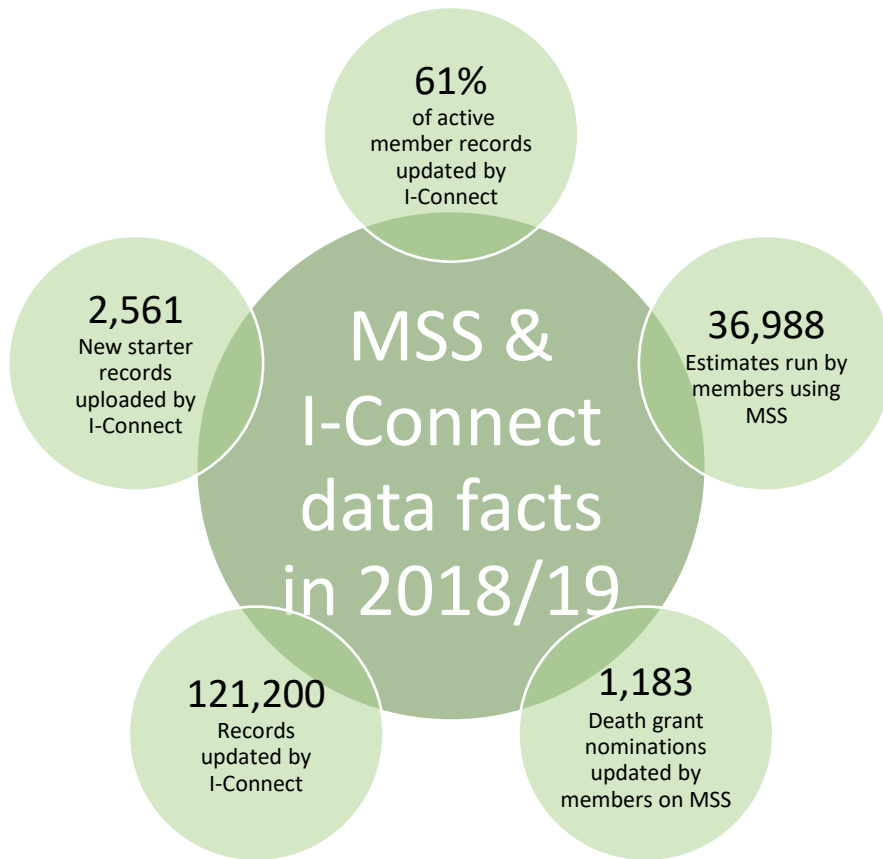
The facilities available to our members include:

- updating personal details
- running estimates for retirement using their chosen retirement dates
- updating their death grant expression(s) of wish, and
- viewing all member specific documents

Members who use MSS receive their correspondence electronically, automatically uploaded to their account. They are notified by email each time information is uploaded.

### Split of Members Registered for MSS





## I-Connect

The Fund continues to use the electronic data system I-Connect for working with employers, with the first employer going live in 2017. The system transfers member details from their employer's payroll system directly to the Funds pension's administration system on a monthly basis.

The Technical and Payroll and Regulations and Communications teams liaise with employers to ensure their data is of good quality, accurate and completed in a timely manner.

The Fund provides training to any new employers who wish to supply their data through the I-Connect system.

## Complaints Procedure

The complaints procedure is officially known as the Internal Dispute Resolution Procedure (IDRP) and the procedure is outlined in regulation 72 of the Local Government Pension Scheme (LGPS) regulations 2013.

The Fund operates a two stage IDPR. Where a complaint is raised by a member, the Pensions Administration Manager or Principal Pension Officers will attempt to resolve the complaint and confirm this in writing where possible.

If the member is dissatisfied with the response they may appeal. Written appeal applications must be made within six months.

Stage One of the appeals process requires the Fund's 'nominated person' to investigate the complaint. For Stage One, this nominated person is Mr Yunus Gajra, who works for West Yorkshire Pension Fund. He reviews the dispute and makes a determination as to whether the decision reached was made in line with the scheme regulations. Should the member remain dissatisfied with the outcome they can make an application under Stage Two which can be forwarded to the Fund. Stage Two appeals are heard by Mr Robert Robins (FCC).

If still dissatisfied, members may take their dispute to the Pension Advisory Service and then onto the Pension Ombudsman. The table below summarises the IDRP requests the fund received in 2018/19.

2018/19	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	10	3	5	2
Stage 1 - Against Administering Authority	2	0	2	0
Stage 2 - Against Employers	3	2	1	0
Stage 2 - Against Administering Authority	1	0	1	0

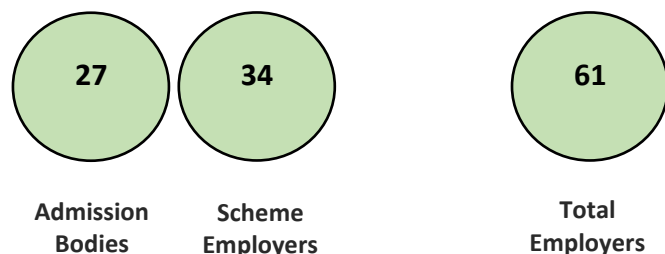
Appeal Contact details:	Mrs Karen Williams Pensions Administration Manager, Clwyd Pension Fund, County Hall, Mold, CH7 6NA
Stage One decision maker:	Mr Yunus Gajra West Yorkshire Pension Fund, P O Box 67, Bradford, BD1 1UP
Stage Two decision maker:	Mr Robert Robins, Flintshire County Council, Democratic Services, County Hall, Mold, CH7 6NA

## Scheme Membership details

Details of the number and type of employers and of new pensioners during 2018/19 and member trends may be seen below.

### Summary of Employers as at 31<sup>st</sup> March 2019

Employers	Active	Ceased	Total
Admission Bodies	15	12	27
Scheme Employers	27	7	34
<b>Total</b>	<b>42</b>	<b>19</b>	<b>61</b>



### 2018/19 New Pensioners

Retirement Type	Number of Cases
Ill Health	16
Early	609
Normal Retirement Age (NRA)	2
Late	110
Redundancy/Efficiency	48
Flexible	16
<b>Total</b>	<b>801</b>

## Member Trends:

Year	Contributors	Deferred Members	Pensioners	Dependent Pensioners	No. of Enhanced Benefits (Other)	No. of Ill Health Enhanced Benefits
2014/15	15,941	9,026	9,272	1,591	162 Members	11 Members (tier 1 only)
1015/16	15,989	10,271	9,862	1,616	111 Members	18 Members (tier 1 only)
2016/17	15,748	15,679	10,314	1,671	62 Members	27 Members (tier 1 only)
2017/18	16,543	17,822	10,596	1,700	63 Members	34 Members (tier 1 only)
2018/19	16,528	18,583	11,249	1,732	64 Members	15 Members (tier 1 only)

## National Fraud Initiative (NFI)

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

The Auditor General is responsible for carrying out data matching exercises under his powers under the Public Audit (Wales) Act 2004. As the use of data by the Auditor General for Wales in a data matching exercise is carried out with statutory authority (Part 3A of the Public Audit (Wales) Act 2004), it does not require the consent of the individuals concerned under the Data Protection Act 1998. In addition to this, the Fund uses a mortality screening service provided by Atmos.

## Analysis of Pension Overpayments and Write Offs

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

	2018/19	2017/18	2016/17	2015/16	2014/15
Amounts under £100	6,270	6,164	4,694	6,062	4,228
Number of cases	154	150	109	146	108
Overpayments Recovered	39,685	51,265	30,095	28,126	21,612
Number of cases	90	102	81	77	40
Overpayments Written Off	2,742	990	1,741	1,284	5,647
Number of cases	4	3	5	5	10



### **Key Performance Indicators (KPI)**

Review of the task management system and work processes is a continuous exercise undertaken to achieve and report accurate KPI data. Seven processes are currently reported on, however, the Fund is developing further measurements of service provision in order to increase the transparency of performance. The KPI requirements can be found in the Fund's Administration Strategy.

Process	Legal Requirement	No.	%	CPF Administration element target	No.	%
		2018/2019			2018/2019	
To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining (assuming notification received from the employer), or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled	3855	36%	15 working days from receipt of all information	3855	85%
To inform members who leave the scheme of their leaver rights and options	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member)	3593	67%	15 working days from receipt of all information	3593	30%
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	213	55%	20 working days from receipt of all information	213	47%
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	392	93%	20 working days from receipt of all information	392	77%
Notification of amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age or 2 months from date of retirement if before Normal Pension Age <sup>4</sup>	1343	70%	10 working days from receipt of all information	1343	80%
Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months	413	85%	15 working days from receipt of all information	413	75%
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g. personal representative)	184	69%	15 working days from receipt of all information	184	46%

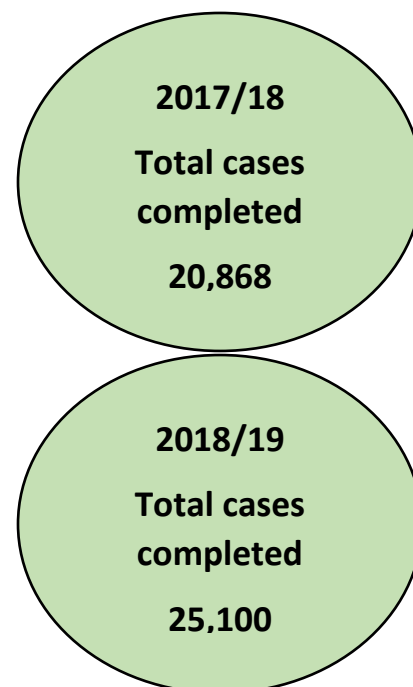
The volume of cases completed this year has risen significantly compared to previous years, which has affected the performance levels achieved. Whilst some performance levels increased or maintained, even with increased numbers, additional resource and developments in technology have been put in place to address where the levels have dropped. In order to satisfy legal requirements the KPI's are measured at a specific point within the case. These numbers will therefore, not match the completed cases shown below.

## Other performance information

<b>25.4</b> Full time equivalent staff in the Pension Administration Team	Total Fund members <b>49,139</b>	Ratio of staff to members of Fund <b>1/1935</b>	Average cases completed per total members of staff <b>988</b>
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### Completed Cases 2018/19

Case Type	Cases
New Starters	4155
Address changes. Inc. MSS	1630
Defers	2981
Refunds	735
Retirements (all types)	1343
Estimates (all types)	413
Deaths (deferred, active and pensioners)	404
Transfers In	192
Transfers Out	133
Divorce Quote	141
Divorce Share	7
Aggregation	1170



## Contact Details

**For further information on this section of the Annual Report please contact:**

Mrs Karen Williams, Pensions Administration Manager  
Clwyd Pension Fund, County Hall, Mold, CH7 6NA.  
Email: [Karen.williams@flintshire.gov.uk](mailto:Karen.williams@flintshire.gov.uk)

Tel: 01352 702963

# CLWYD PENSION FUND ACCOUNTS

for the year ended 31<sup>st</sup> March 2019

## FUND ACCOUNT

2017/18 £000		Note	2018/19 £000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
(105,079)	Contributions	7	(74,327)
(4,839)	Transfers in		(4,379)
<b>(109,918)</b>			<b>(78,706)</b>
	Benefits payable :		
56,739	Pensions	8	59,825
12,058	Lump sums (retirement)		11,910
1,800	Lump sums (death grants)		1,891
<b>70,597</b>			<b>73,626</b>
5,689	Payments to and on account of leavers	9	6,625
<b>76,286</b>			<b>80,251</b>
<b>(33,632)</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>1,545</b>
23,538	Management expenses	10	26,770
<b>(10,094)</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>28,315</b>
	<b>Returns on Investments</b>		
(10,060)	Investment income	11	(14,413)
0	Tax on investment income		
(77,179)	Change in market value of investments	12	(95,178)
<b>(87,239)</b>	<b>Net return on investments</b>		<b>(109,591)</b>
<b>(97,333)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>(81,276)</b>
(1,688,166)	<b>Opening net assets of the scheme</b>		(1,785,499)
<b>(1,785,499)</b>	<b>Closing net assets of the scheme</b>		<b>(1,866,775)</b>

## NET ASSETS STATEMENT

2017/18 £000s		Note	2018/19 £000s
1,781,826	Investment Assets	13	1,862,743
<b>1,781,826</b>	<b>Net Investment Assets</b>		<b>1,862,743</b>
29	Long-term debtors	18	29
6,225	Debtors due within 12 months	18	5,817
(2,581)	Creditors	19	(1,814)
<b>1,785,499</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>1,866,775</b>

**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 31.

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

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 fund is overseen by a Pension Committee which is a committee of Flintshire County Council.

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 2019. 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 $1/80 \times$ final pensionable pay	Each year worked is worth $1/60 \times$ final pensionable pay
Lump sum	Automatic lump sum of $3 \times$ 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.

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 2018/19 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 nine core investment managers appointed in accordance with 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 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, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies 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 42 employer bodies within the Fund with active members (including Flintshire County Council) and over 48,000 members are detailed below.

2017/18 No.	2018/19 No.
<b>43</b> Number of employers with active members	<b>42</b>
16,543 Active members	16,528
12,296 Pensioners receiving benefits	12,981
17,822 Deferred Pensioners	18,583
<b>46,661</b>	<b>48,092</b>

The scheduled bodies which contributed to the Fund during 2018/19 are:

<b>Unitary Authorities:</b>	Flintshire, Denbighshire, Wrexham.
<b>Educational Organisations:</b>	Coleg Cambria, Glyndwr University.
<b>Town and Community Councils:</b>	Acton, Argoed, Bagillt, Buckley, Caia Park, Cefn Mawr, Coedpoeth, Connah's Quay, Denbigh, Gwernymynydd, Hawarden, Hope, Marchwiel, Mold, Offa, Penyffordd, Prestatyn, Rhosllanerchrugog, Rhyl, Shotton
<b>Other:</b>	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	Denbigh Youth Group	Newydd Catering & Cleaning Ltd
Careers Wales	Freedom Leisure	Wrexham Commercial Services
Cartref y Dyffryn Ceiriog	Glyndwr Students' Union	
Cartref NI		

## NOTE 2 - BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year end as at 31st March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 31 of these accounts.

The accounts have been prepared on a going concern basis.

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:

- Amendments to IAS 40 Investment Property - provides further explanation of the instances in which a property can be reclassified as investment property.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration - clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering goods or services.
- IFRIC 23 Uncertainty over Income Tax Treatments - provides additional guidance on income tax treatment where there is uncertainty.
- Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation - amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest.
- IFRS 16 Leases - will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

These changes are unlikely to have any material impact on the Fund's financial statements.

### **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.

## **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. Where fees are netted off quarterly valuations by investment managers, these expenses are included in note 10A and grossed up to increase the change in the value of investments.

### **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 the 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 as part of the Change in Value Investments.

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 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 IAS 26. 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.

### **Additional Voluntary Contributions (AVCs)**

The Clwyd Pension Fund provides an AVC scheme for its members, the assets of which are invested separately from those of the pension fund. 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 shown at the end of these accounts. 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 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	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%.
<b>Value of investments at level 3</b>	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.
<b>Britain leaving the European Union</b>	There is a high level of uncertainty about the implications of Britain leaving the European Union. Because it is not presently possible to predict any impact, it has been assumed that there will be no significant impairment of the Fund's assets or changes to the discount rate. This assumption will be regularly reviewed.	Higher impairment of assets and/or a discount rate change leading to a change in the value of retirement benefits.

## 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 2019. 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

2017/18 £000s	2018/19 £000s
(27,479) Administering Authority - Flintshire County Council	(27,244)
(74,495) Scheduled bodies	(43,575)
(3,105) Admitted bodies	(3,508)
<b>(105,079) Total</b>	<b>(74,327)</b>

By type

2017/18 £000s	2018/19 £000s
(14,829) <b>Employees contributions</b>	(15,519)
<b>Employers contributions:</b>	
(36,175) Normal contributions	(38,370)
(52,570) Deficit contributions	(18,885)
(1,505) Augmentation contributions	(1,553)
<b>(90,250) Total employers' contributions</b>	<b>(58,808)</b>
<b>(105,079)</b>	<b>(74,327)</b>

The decrease in deficit contributions was a result of three employers paying three year deficit contributions in full in 2017/18.

## NOTE 8 – BENEFITS PAYABLE

By employer

2017/18 £000s	2018/19 £000s
27,066 Administering Authority - Flintshire County Council	26,877
42,330 Scheduled bodies	45,611
1,201 Admitted bodies	1,138
<b>70,597</b>	<b>73,626</b>

By type

2017/18 £000s	2018/19 £000s
56,739 Pensions	59,825
12,058 Lump sums (retirement)	11,910
1,800 Lump sums (death grants)	1,891
<b>70,597</b>	<b>73,626</b>

## NOTE 9 – PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18 £000s	2018/19 £000s
5,316 Transfer values paid (individual)	6,257
101 Refunds of contributions	149
272 Other	219
<b>5,689</b> Total	<b>6,625</b>

## NOTE 10 – MANAGEMENT EXPENSES

2017/18 £000s	2018/19 £000s
1,399 Oversight and Governance	2,020
20,570 Investment Management Expenses (see Note 10A)	22,811
1,569 Administration costs	1,939
<b>23,538</b> Total	<b>26,770</b>

The Oversight and Governance costs include the fees payable to the Wales Audit Office for the external audit of the Fund of £39k for 2018/19 (£39k in 2017/18).

## Note 10A – INVESTMENT MANAGEMENT EXPENSES

2017/18 £000s	2018/19 £000s
941 Transaction costs	2,264
15,761 Fund Management Fees	14,181
31 Custody Fees	31
3,837 Performance related fees	6,335
<b>20,570</b> Total	<b>22,811</b>

The increase in transaction costs are due to the cost transparency initiative.



## NOTE 11 - INVESTMENT INCOME

2017/18 £000s	2018/19 £000s
(4,593) Private equity income	(4,559)
(2,509) Pooled Investments	(6,251)
(2,540) Pooled property investments	(3,064)
(17) Interest on cash deposits	(38)
(401) Other income	(501)
<b>(10,060) Total</b>	<b>(14,413)</b>

## NOTE 12 – RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 1 April 2018 £000s	Purchases £000s	Sales £000s	Change in market value £000s	Market Value 31 March 2019 £000s
Bonds	204,372	0	0	(582)	203,790
Pooled investment vehicles	1,033,560	92,730	(100,274)	63,889	1,089,905
Pooled Property Funds	115,522	11,469	(12,957)	8,801	122,836
Infrastructure	42,125	23,630	(6,648)	7,497	66,604
Timber and agriculture	25,772	0	(3,874)	1,376	23,274
Private equity	188,399	39,137	(41,105)	25,153	211,584
Hedge Fund	150,885	0	(943)	(10,957)	138,985
	<b>1,760,635</b>	<b>166,967</b>	<b>(165,802)</b>	<b>95,178</b>	<b>1,856,978</b>
<b>Other investment balances:</b>					
Cash	21,191			0	5,765
<b>Net investment assets</b>	<b>1,781,826</b>			<b>95,178</b>	<b>1,862,743</b>

	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	470,807	(459,470)	41,785	1,033,560
Pooled Property Funds	114,714	4,701	(12,174)	8,281	115,522
Infrastructure	31,761	13,428	(2,691)	(373)	42,125
Timber and agriculture	29,103	173	(1,908)	(1,596)	25,772
Private equity	170,389	40,675	(41,418)	18,753	188,399
Hedge Fund	127,279	20,000	(972)	4,578	150,885
	<b>1,652,305</b>	<b>549,784</b>	<b>(518,633)</b>	<b>77,179</b>	<b>1,760,635</b>
<b>Other investment balances:</b>					
Cash	33,623			0	21,191
<b>Net investment assets</b>	<b>1,685,928</b>			<b>77,179</b>	<b>1,781,826</b>

## NOTE 13A ANALYSIS OF INVESTMENTS

2017/18 £000	2018/19 £000
Restated <b>Bonds - overseas</b>	
204,372 Corporate - unquoted	203,790
<b>Pooled investment vehicles</b>	
122,182 Managed equity funds - quoted overseas	118,828
67,228 Managed equity funds - unquoted	149,723
400,005 Liability driven investments - unquoted	422,855
80,751 Multi strategy investments - quoted	83,524
348,017 Multi strategy investments - unquoted	282,233
15,378 Fixed income funds - unquoted	32,744
<b>Pooled property investment vehicles</b>	
42,578 Open-ended - unquoted	43,748
72,944 Closed-ended - unquoted	79,088
<b>Infrastructure</b>	
11,764 Limited Liability Partnerships - quoted	15,133
30,361 Limited Liability Partnerships - unquoted	51,471
<b>Timber &amp; Agriculture</b>	
25,772 Limited Liability Partnerships - unquoted	23,274
<b>Private equity</b>	
Limited Liability Partnerships:	
30,647 Opportunistic funds - unquoted	46,840
157,751 Private equity funds - unquoted	164,744
150,885 <b>Hedge funds unquoted</b>	138,985
<b>1,760,635</b>	<b>1,856,978</b>
21,191 <b>Cash</b>	5,765
<b>1,781,826</b>	<b>1,862,743</b>
<b>0 Total investment liabilities</b>	<b>0</b>

Included in Pooled investment vehicles is £78,673k (2017/18 Nil) invested with the Wales Pensions Partnership.

## NOTE 13B – ANALYSIS BY FUND MANAGER

2017/18		2018/19	
£000	%	£000	%
400,005	22.7	422,854	22.8
204,372	11.6	203,790	11.0
188,710	10.7	198,871	10.7
159,306	9.0	83,362	4.5
	0.0	78,672	4.2
150,885	8.6	138,985	7.5
122,182	6.9	118,828	6.4
80,751	4.6	83,524	4.5
67,228	3.8	77,034	4.1
15,378	0.9	26,760	1.4
157,752	9.0	164,744	8.9
115,522	6.6	122,836	6.6
42,125	2.4	66,604	3.6
30,647	1.7	46,840	2.5
25,772	1.5	23,274	1.3
<b>1,760,635</b>	<b>100 Total</b>	<b>1,856,978</b>	<b>100</b>

The UK holdings as at 31<sup>st</sup> March 2019 account for 33% of total investments at market value.

2017/18		2018/19	
£000	%	£000	%
554,152	31	616,724	33
1,206,483	69	1,240,254	67
<b>1,760,635</b>	<b>100 Total</b>	<b>1,856,978</b>	<b>100</b>

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

2017/18	Manager	Holding	2018/19	
£000	%		£000	%
400,005	22.4	Insight	422,854	22.7
132,224	7.4	Stone Harbour	131,656	7.1
		LDI Active 22 Fund		
		SHI LIBOR Multi Strategy No2 Portfolio		

## **NOTE 14 – DERIVATIVES**

No derivative instruments were held by Clwyd Pension Fund at 31 March 2019 or 31 March 2018.

## **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.

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 bid-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

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.

**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 2019 £000	Value on Increase £000	Value on Decrease £000
Pooled investment vehicles (incl LDI)	10%	32,744	36,018	29,470
Pooled Property Funds	10%	56,165	61,781	50,548
Infrastructure	10%	51,471	56,618	46,324
Timber and agriculture	7%	23,274	24,904	21,645
Private equity (incl Opportunistic Funds)	10%	211,584	232,743	190,426
Hedge Fund	10%	5,656	6,222	5,090
<b>Total</b>		<b>380,894</b>	<b>418,286</b>	<b>343,503</b>

	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 Funds)	10%	188,399	207,239	169,559
Hedge Fund	10%	6,645	7,310	5,981
<b>Total</b>		<b>318,084</b>	<b>349,120</b>	<b>287,049</b>

The following tables show the position of the Fund's assets at 31st March 2019 based on the Fair Value hierarchy:

2018/19	Quoted Market Price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
Bonds	0	203,790	0	203,790
Pooled investment vehicles	202,352	854,809	32,744	1,089,905
Pooled Property Funds	0	66,671	56,165	122,836
Infrastructure	15,133	0	51,471	66,604
Timber and agriculture	0	0	23,274	23,274
Private equity	0	0	211,584	211,584
Hedge Fund	0	133,329	5,656	138,985
<b>Total</b>	<b>217,485</b>	<b>1,258,599</b>	<b>380,894</b>	<b>1,856,978</b>

2017/18	Quoted Market Price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £000	£000
	Restated	Restated		
Bonds	0	204,372	0	204,372
Pooled investment vehicles	202,933	815,249	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
<b>Total</b>	<b>214,697</b>	<b>1,227,854</b>	<b>318,084</b>	<b>1,760,635</b>

## NOTE 15A: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2018	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Realised gains/ (losses)	Unrealised gains/ (losses)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Financial assets at fair value through profit and loss</b>								
Pooled investment vehicles (incl LDI)	15,378	17,643	0			0	(277)	32,744
Pooled Property Funds	51,529	11,469	(11,662)			2,877	1,951	56,165
Infrastructure	30,361	23,341	(5,815)			3,456	128	51,471
Timber and agriculture	25,772	0	(3,291)			2,418	(1,624)	23,274
Private equity (incl Opportunistic Func	188,399	39,137	(37,577)			8,095	13,530	211,584
Hedge Fund	6,645	0	0			0	(989)	5,656
<b>Net investment assets</b>	<b>318,084</b>	<b>91,590</b>	<b>(58,345)</b>	<b>0</b>	<b>0</b>	<b>16,846</b>	<b>12,719</b>	<b>380,894</b>

The Fund holds no other assets or liabilities at fair value. There were no transfers between levels during 2018/19.

	Market Value 1 April 2017	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Realised gains/ (losses)	Unrealised gains/ (losses)	Market Value 31 March 2018
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Financial assets at fair value through profit and loss</b>								
Pooled investment vehicles (incl LDI)	12,768	14,914			(12,768)		464	15,378
Pooled Property Funds	74,795	4,701	(12,174)		(21,415)	734	4,888	51,529
Infrastructure	18,718	13,059	(2,691)			1,989	(714)	30,361
Timber and agriculture	29,103	173	(1,908)			164	(1,760)	25,772
Private equity (incl Opportunistic Func	169,376	40,675	(41,418)			9,142	10,624	188,399
Hedge Fund	9,634						(2,989)	6,645
<b>Net investment assets</b>	<b>314,394</b>	<b>73,522</b>	<b>(58,191)</b>	<b>0</b>	<b>(34,183)</b>	<b>12,029</b>	<b>10,513</b>	<b>318,084</b>

## 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.

Fair Value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Fair Value through profit £000	Loans and receivables £000	Financial liabilities at amortised cost £000
<b>Financial assets:</b>					
204,372			203,790		
1,033,560			1,089,905		
115,522			122,836		
42,125			66,604		
25,772			23,274		
188,399			211,584		
150,885			138,985		
	21,191			5,765	
	314			373	
<b>1,760,635</b>	<b>21,505</b>	<b>0</b>	<b>1,856,978</b>	<b>6,138</b>	<b>0</b>
<b>Financial liabilities:</b>					
		(760)		(513)	
<b>0</b>	<b>0</b>	<b>(760)</b>	<b>0</b>	<b>(513)</b>	<b>0</b>
<b>1,760,635</b>	<b>21,505</b>	<b>(760)</b>	<b>1,856,978</b>	<b>5,625</b>	<b>0</b>

## NOTE 16B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

2017/18 £000	2018/19 £000
<b>Financial assets:</b>	
77,179 Designated at fair value through profit and loss	95,178
0 Loans and receivables	0
<b>Financial liabilities:</b>	
0 Designated at fair value through profit and loss	0
0 Financial liabilities at amortised cost	0
<b>77,179 Total</b>	<b>95,178</b>

## 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 minimise the risk of 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](http://www.clwydpensionfund.org.uk)).

The ISS is subject to annual review and has been prepared taking into account advice from the fund's consultants. 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 from general market fluctuations in equity and commodity prices, interest and foreign exchange rate and credit spreads. The fund is exposed to market risk in 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 minimise 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%.

Market risk is also managed through manager diversification with no single manager managing more than 23% of the fund's assets. Currently the maximum holding within any one fund manager is 22.8% 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 6.66%, which is the three-year price volatility as advised by the Fund's consultants for the fund's investment strategy.



Assets exposed to price risk	Value	3 year volatility range	Value on increase	Value on decrease
	£000s	%	£000s	£000s
As at 31 March 2018	1,781,826	8.00%	1,902,970	1,618,300
<b>As at 31 March 2019</b>	<b>1,862,743</b>	<b>6.66%</b>	<b>1,986,728</b>	<b>1,738,758</b>

## 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	Value on 1% increase	Value on 1% decrease
	£000s	£000s	£000s
As at 31 March 2018	225,563	223,731	227,395
<b>As at 31 March 2019</b>	<b>209,554</b>	<b>207,574</b>	<b>211,535</b>

## 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 following table sets out the fund's potential currency exposure as at 31st March 2019:

Assets exposed to currency risk	Value	Percentage change	Value on increase	Value on decrease
	£000s	%	£000s	£000s
As at 31 March 2018	1,204,394	8.85%	1,310,981	1,097,808
<b>As at 31 March 2019</b>	<b>1,240,254</b>	<b>8.20%</b>	<b>1,341,923</b>	<b>1,138,585</b>

## 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 2019, liquid assets were £1,476m representing 80% of total fund assets (£1,462m at 31 March 2018 representing 82% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

### NOTE 18 – DEBTORS

2017/18 £000s	2018/19 £000s
29 Long-term debtors	29
<b><u>Short-term debtors</u></b>	
1,172 Contributions due - Employees	1,264
4,721 Contributions due - Employers	4,140
303 Prepayments	339
29 Sundry debtors	74
<b>6,225 Total Short-term debtors</b>	<b>5,817</b>
<b>6,254 Total</b>	<b>5,846</b>

## NOTE 19 – CREDITORS

2017/18 £000	2018/19 £000
(18) Contributions received in advance	(130)
(1,708) Benefits payable	(1,082)
(531) Administering authority	(98)
(324) Sundry creditors	(504)
<b>(2,581) Total</b>	<b>(1,814)</b>

## 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.

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.

2017/18 £000	2018/19 £000
<b>922</b> Contributions in the year	<b>1,270</b>
<b>Value of AVC funds at 31 March:</b>	
5,213 Prudential	5,395
420 Equitable Life	408
<b>5,633 Total</b>	<b>5,803</b>

## 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.

2017/18 £000s	2018/19 £000s
534 Conwy County Borough Council	519
1,778 Denbighshire County Council	1,733
3,136 Flintshire County Council	3,088
21 Powys County Council	20
2,190 Wrexham County Borough Council	2,150
57 Coleg Cambria	55
58 Other employers	49
<b>7,774 Total</b>	<b>7,614</b>

## NOTE 22 - RELATED PARTY TRANSACTIONS

### Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2019, four Members of the Clwyd Pension Fund Committee had taken this option.

The four Co-opted Members of the Pension Fund Committee received 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 £1.8m (£1.6m in 2017/18) 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 payable to key management personnel is set out below:

2017/18 £000s	2018/19 £000s
26 Short-term benefits	26
6 Post-employment benefits	23
<b>32 Total</b>	<b>49</b>

## 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 £19m. During the year the Fund incurred the following

material transactions:

- Sold £74m from the Investec Global Equities Fund
- Invested £74m in the Wales Pension Partnership (Russell Investment Global Equities).

## NOTE 24 - CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31 March 2019, the Fund has contractual commitments of £1,009m (£760m in 2017/18) in private equity, infrastructure, timber and agriculture, and property funds, of which £685m (£523m in 2017/18) has been deployed, leaving an outstanding commitment of £324m (£237m at 31 March 2018).

## NOTE 25 – ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the pension fund liabilities, on an IAS basis, every year using the same base data as the funding valuation rolled forward to the current financial year, but taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future. In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes.

2017/18 £m		2018/19 £m
2,629	Present value of promised retirement benefits	2,893
1,381	Fair value of scheme assets	1,381
<b>1,248</b>	<b>Net Liability</b>	<b>1,512</b>

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2016 triennial funding valuation) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates. Other key assumptions used are:

	2018/19	2017/18
	%	%
Inflation/pension increase rate assumption	2.20	2.10
Salary increase rate	3.45	3.35
Discount rate	2.40	2.60

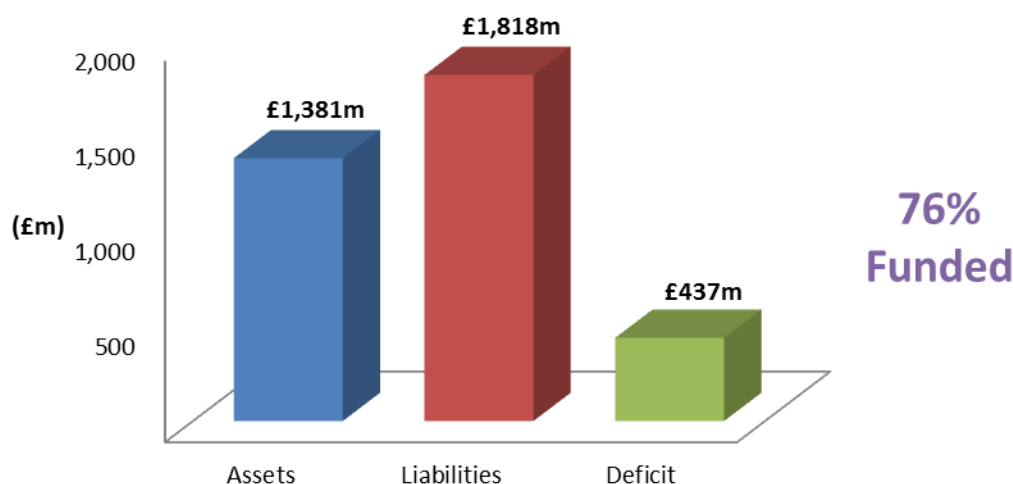
# CLWYD PENSION FUND

## ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 - 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 each year at the rate of 3.45%, 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 early (after suitably agreed

reductions), with either all three years' contributions being paid in April 2017 or payment being made annually in advance each April.

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 funding position is assessed separately and the resulting contributions required (Primary and Secondary rates) 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 and agreed 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.

## 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 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of CPI Inflation / CARE revaluation	2.1% per annum	2.2% per annum
Rate of pay increases*	3.35% per annum	3.45% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) / Deferred revaluation	2.2% per annum	2.3% 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 decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £2,629 million. Interest over the year increased the liabilities by c£69 million, and net benefits accrued/paid over the period also increased the liabilities by c£21 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £23



million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was an increase in liabilities of £151 million due to “actuarial losses” (i.e. the effect of changes in the 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 2019 is therefore £2,893 million.

## The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to “McCloud”), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain what the extent of any potential remedial action might be.

Following a request from the LGPS Scheme Advisory Board, the Government Actuary’s Department (GAD) has carried out some costings of the potential effect of McCloud on the LGPS as a whole, which are set out in their paper dated 10 June 2019. For the LGPS as a whole, GAD’s calculations indicate a potential balance sheet effect of additional liabilities of about 3.2% of active member liabilities (around 1% of overall liabilities), when measured on IAS26 actuarial assumptions as at 31 March 2019 assuming real pay growth of 1.5% p.a. above CPI. For the Clwyd Pension Fund, the default real pay growth assumption at the last valuation was 1.25% p.a. above CPI. We have adjusted GAD’s calculation to allow for this, resulting in an adjustment of around 2.7% of active liabilities (or 0.8% of total liabilities). Applying this figure of 0.8% of overall liabilities to the Clwyd Pension Fund, the increase in the estimated total value of the Fund’s promised retirement benefits at 31 March 2019 is approximately £23 million.

## GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will

not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

**Paul Middleman**

**Fellow of the Institute and Faculty  
of Actuaries**

**July 2019**

**Mark Wilson**

**Fellow of the Institute and Faculty  
of Actuaries**

**July 2019**



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**STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**  
**THE CLWYD PENSION FUND'S RESPONSIBILITIES**

The Pension Fund is required to :-

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Pension Fund, this is the Corporate Finance Manager as Chief Finance Officer;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts .

**Signed :**



**Clr Aaron Shotton**

**Chair to the Clwyd Pension Fund**

**Date :**

**7th October 2019**

**THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES**

The Chief Finance Officer is responsible for the preparation of the Pension Fund's statement of accounts in accordance with the proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code").

In preparing this statement of accounts, the Chief Finance Officer has:-

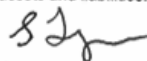
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Chief Finance Officer has also :-

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The statement of accounts presents a true and fair view of the financial position of the Clwyd Pension Fund at 31<sup>st</sup> March 2019, and the amount and disposition at that date of its assets and liabilities.

**Signed:**



**Gary Ferguson CPFA**

**Corporate Finance Manager (Chief Finance Officer)**

**Date:**

**7 October 2019**

# The independent auditor's report of the Auditor General for Wales to the members of Flintshire County Council as administering authority for Clwyd Pension Fund

## Report on the audit of the financial statements

### Opinion

I have audited the financial statements of the Clwyd Pension Fund for the year ended 31 March 2019 under the Public Audit (Wales) Act 2004.

The Clwyd Pension Fund's financial statements comprise the fund account, the net assets statement and the related notes, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 based on International Financial Reporting Standards (IFRSs).

In my opinion the financial statements:

- give a true and fair view of the financial transactions of the Clwyd Pension Fund during the year ended 31 March 2019, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with legislative requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19.

### Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the pension fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the responsible financial officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Clwyd Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The responsible financial officer is responsible for the other information in the annual report. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## Report on other requirements

### Opinion on other matters

In my opinion, based on the work undertaken in the course of my audit:

- the information contained in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements and the annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013.

### Matters on which I report by exception

In the light of the knowledge and understanding of Clwyd Pension Fund and its environment obtained in the course of the audit, I have not identified material misstatements in the annual report.

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

## Certificate of completion of audit

I certify that I have completed the audit of the accounts of Clwyd Pension Fund in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

## Responsibilities

### Responsibilities of the responsible financial officer for the financial statements

As explained more fully in the Statement of Responsibilities for the financial statements, the responsible financial officer is responsible for the preparation of the financial statements, which give a true and fair view, and for such internal control as the responsible financial officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the responsible financial officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

### Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my auditor's report.

Anthony J Barrett  
For and on behalf of the Auditor General for Wales  
21 November 2019

24 Cathedral Road  
Cardiff  
CF11 9LJ

## Section 8: Financial Report

### Introduction

This report includes financial monitoring reports for the year 2018/19 showing both cash flow and income and expenditure compared to budget. It also details the contributions from employers and employees, and shows further information on contributions, assets, investment income and management fees.

### Cash Flow

#### Cash Flow 2018/19

2018/19	Estimate £000	Actual £000	Variance £000
<b>Opening In House Cash</b>	(20,916)	(21,188)	
<b>Payments</b>			
<b>Pensions</b>	59,280	59,447	167
<b>Lump Sums &amp; Death Grants</b>	15,000	14,708	(292)
<b>Transfers Out</b>	3,200	6,791	3,591
<b>Expenses (including In House)</b>	3,400	4,263	863
<b>Support Services</b>	130	265	135
<b>Total Payments</b>	81,010	85,474	4,464
<b>Income</b>			
<b>Employer Contributions</b>	(35,200)	(39,554)	(4,354)
<b>Employee Contributions</b>	(14,000)	(14,794)	(794)
<b>Employer Deficit Payments</b>	(18,123)	(18,811)	(688)
<b>Transfers In</b>	(2,000)	(4,220)	(2,220)
<b>Pension Strain</b>	(1,200)	(1,644)	(444)
<b>Income</b>	(40)	(45)	(5)
<b>Total Income</b>	(70,563)	(79,068)	(8,505)
<b>Cash Flow net of Investment Income</b>	10,447	6,406	(4,041)
<b>Investment Income</b>	(3,000)	(7,990)	(4,990)
<b>Investment Expenses</b>	3,000	3,593	593
<b>Total Net of In House Investments</b>	10,447	2,009	(8,438)
<b>In House Drawdowns</b>	86,790	91,883	5,093
<b>In House Distributions</b>	(80,337)	(58,348)	21,989
<b>Net Drawdown/Distributions</b>	6,453	33,535	27,082
<b>Rebalancing Portfolio</b>	0	(20,120)	(20,120)
<b>Total Cash Flow</b>	16,900	15,424	(1,476)
<b>Closing Cash</b>	(4,016)	(5,764)	

The Fund operates a rolling three year cash flow which is estimated and monitored on a quarterly basis. There are several unknowns within the cash flow such as transfers

in and out of the fund and also drawdowns and distributions across the Fund's Property and Private Equity portfolio for which the current allocation is 25% of the Fund. Cash flow predictions for the drawdowns and distributions are reassessed annually to incorporate the actuals for the year and any further commitments agreed during the period. The previous table shows a summarised final cash flow for 2018/19. This is purely on a cash basis and does not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals.

### 3 Year Cash Flow Forecast

	2019/20 £000	2020/21 £000	2021/22 £000
<b>Opening Cash</b>	(3,599)	(9,618)	(10,654)
<b>Payments</b>			
<b>Pensions</b>	61,600	62,800	64,000
<b>Lump Sums &amp; Death Grants</b>	15,000	15,000	15,000
<b>Transfers Out</b>	6,000	6,000	6,000
<b>Expenses (including In House)</b>	4,600	4,600	4,600
<b>Support Services</b>	140	140	140
<b>Total Payments</b>	87,340	88,540	89,740
<b>Income</b>			
<b>Employer Contributions</b>	(40,000)	(41,100)	(42,500)
<b>Employee Contributions</b>	(14,400)	(14,690)	(14,400)
<b>Employer Deficit Payments</b>	(19,800)	(20,500)	(21,200)
<b>Transfers In</b>	(4,000)	(4,000)	(4,000)
<b>Pension Strain</b>	(1,200)	(1,200)	(1,200)
<b>Income</b>	(48)	(48)	(48)
<b>Total Income</b>	(79,448)	(81,538)	(83,348)
<b>Cash Flow net of Investment Income</b>	7,892	7,002	6,392
<b>Investment Income</b>	(6,000)	(6,000)	(6,000)
<b>Investment Expenses</b>	3,000	3,000	3,000
<b>Total net of In House Investments</b>	4,892	4,002	3,392
<b>In House Drawdowns</b>	77,019	78,208	74,897
<b>In House Distributions</b>	(77,930)	(83,246)	(74,326)
<b>Net Drawdowns/Distributions</b>	(911)	(5,038)	571
<b>Rebalancing Portfolio</b>	(10,000)		
<b>Total Cash Flow</b>	(6,019)	(1,036)	3,963
<b>Closing Cash</b>	(9,618)	(10,654)	(6,691)
<b>Estimated Asset Valuation</b>	1,971	2,085	2,206

The previous table shows the cash flow forecasts for the next three years to March 2022. These are purely on a cash basis and do not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals. An estimate of



the asset valuation has been included at the end of the table and has been based on a targeted investment strategy which looks to produce an overall return of 5.8% per annum.

## Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2018/19 compared to 2017/18. There were increases in management fees as a result of the drive towards greater transparency, advisor fees as a result of work on specific projects and actuarial fees as a result of preparatory work for the 2019 triennial valuation.

	2017/18 Actual £000	2018/19 Actual £000	Net change £000
<b><u>Governance &amp; Oversight Expenses</u></b>			
Employee Costs (Direct)	229	193	(36)
Support & Service Costs (Internal Recharges)	23	23	0
IT (Support & Services)	5	0	(5)
Other Supplies & Services	69	78	9
Audit Fees	39	39	0
Actuarial Fees	217	407	190
Consultant Fees	458	598	140
Consultant Fees Pooling	53	85	32
Advisor Fees	202	480	278
Legal Fees	37	57	20
Performance Monitoring Fees	67	60	(7)
<b>Total Governance Expenses</b>	<b>1,399</b>	<b>2,020</b>	<b>621</b>
<b><u>Investment Management Expenses</u></b>			
Fund Manager Fees	15,761	14,048	(1,713)
Performance Related Fees	3,837	4,905	1,068
Transaction Costs	941	2,265	1,324
Custody Fees	31	31	0
<b>Total Investment Management Fees</b>	<b>20,570</b>	<b>21,249</b>	<b>679</b>
<b><u>Administration Expenses</u></b>			
Employee Costs (Direct)	812	982	170
Support & Service Costs (Internal Recharges)	105	113	8
Outsourcing	227	264	37
Outsourcing GMP	0	130	130
IT (Support & Services)	286	364	78
Other supplies & services	139	86	(53)
<b>Total Administrative Expenses</b>	<b>1,569</b>	<b>1,939</b>	<b>370</b>
<b>Total Costs</b>	<b>23,538</b>	<b>25,208</b>	<b>1,670</b>

The following table shows actual costs for 2018/19 compared to the budgeted costs along with the budget for 2019/20. The difference in manager fees compared to budget reflects the additional cost transparency from Managers, including Private Markets. Outsourcing costs for the GMP reconciliation were only partly implemented during the

year. Advisor fees and actuarial fees reflect additional costs in respect of project work and the 2019 actuarial valuation.

	2018/19 £000 Actual	2018/19 £000 Budget	2018/19 £000 Variance	2019/20 £000 Budget
<b><u>Governance &amp; Oversight Expenses</u></b>				
Employee Costs (Direct)	193	243	50	299
Support & Service Costs (Internal Recharges)	23	18	(5)	22
IT (Support & Services)	0	5	5	5
Other Supplies & Services	78	87	9	70
Audit Fees	39	40	1	40
Actuarial Fees	407	324	(83)	435
Consultant Fees	598	589	(9)	664
Consultant Fees Pooling	85	0	(85)	0
Advisor Fees	480	178	(302)	179
Legal Fees	57	24	(33)	40
Performance Monitoring Fees	60	66	6	66
Pension Board	0	0	0	69
Pooling	0	224	224	109
<b>Total Governance Expenses</b>	<b>2,020</b>	<b>1,798</b>	<b>(222)</b>	<b>1,998</b>
<b><u>Investment Management Expenses</u></b>				
Fund Manager Fees	21,218	16,593	(4,625)	21,000
Custody Fees	31	31	0	31
Pooling	0	50	50	186
<b>Total Investment Management Fees</b>	<b>21,249</b>	<b>16,674</b>	<b>(4,575)</b>	<b>21,217</b>
<b><u>Administration Expenses</u></b>				
Employee Costs (Direct)	777	776	(206)	893
Support & Service Costs (Internal Recharges)	91	66	(47)	38
Outsourcing	264	1,000	736	900
Outsourcing GMP	130	0	(130)	0
Premises	0	0	0	28
IT (Support & Services))	364	413	49	424
Other supplies & services	86	106	20	63
<b>Total Administrative Expenses</b>	<b>1,939</b>	<b>2,361</b>	<b>422</b>	<b>2,346</b>
<b>Employer Liaison Team</b>				
Employee costs (Direct)	205	194	194	213
Support & Service Costs (Internal Recharges)	22			
<b>Total Costs</b>	<b>25,208</b>	<b>21,027</b>	<b>(4,181)</b>	<b>25,774</b>

## Participating Employers of the Fund at 31 March 2019

### Contributions

42 bodies contributed to the Fund during 2018/19, 27 scheduled and 15 admitted. Contributions are paid to the Fund by the 19<sup>th</sup> of the month following the month they relate to. Employer and employee contributions, (including deficit payments) received during 2018/19 are shown below, as is the rate of contribution as a percentage of pensionable pay.

No additional bodies have been admitted to the Fund during 2018/19, and no bonds or any other secured funding arrangements have been facilitated.

We are able to charge interest on overdue contributions during the financial year. During the year the Fund encountered some issues with some of the smaller employers within the Fund. These were monitored for timeliness of contributions and the Fund liaised with employers to overcome any problems they were experiencing. The analysis below shows the number of late contributions made to the Fund, along with the amounts and occasions concerned. The Fund did not exercise its option to charge interest to any of the employers during the year but the occurrences were registered in the Fund's breaches register and reported to the Pension Fund Committee. The total of all late payments was £66,155 (0.09% of the total contributions).

Admitted Bodies	Employer Contribution	%	Employee Contribution	Avg %
	£		£	
Newydd Catering & Cleaning Ltd	612,689	18.40	189,959	5.7
Aura Leisure & Libraries Ltd	650,433	18.10	213,819	6.0
Careers Wales	357,615	15.20	86,417	6.4
Civica UK	213,057	19.00	67,478	6.5
Wrexham Commercial Services	219,255	17.40	71,175	5.6
Freedom Leisure	134,144	18.60	44,456	6.2
Holywell Leisure Ltd	44,212	16.20	16,197	5.9
Home Farm Trust Ltd	170,579	20.70	48,357	5.9
Aramark Ltd	44,531	21.80	12,359	6.1
Cartref y Dyffryn Ceiriog	30,306	23.10	3,864	6.0
Cartref NI	17,384	19.90	5,885	6.7
Glyndwr Students Union	14,580	8.00	11,326	6.2
Bodelwyddan Castle Trust	6,821	19.40	3,671	5.7
Chartwells – Compass Group UK	5,697	21.10	1,882	5.7
Denbigh Youth Group	5,604	23.00	1,810	7.1

Scheduled Bodies	Employer Contribution	%	Employee Contribution	Avg %
	£		£	
Wrexham County Borough Council	10,542,379	15.40	4,237,665	6.3
Flintshire County Council	22,093,059	15.20	4,933,338	6.2
Denbighshire County Council	17,314,916	15.20	3,946,048	6.3
Coleg Cambria	1,843,408	14.80	777,978	6.3
North Wales Fire Service	737,121	14.70	337,060	6.8
Glyndwr University	1,890,910	15.00	431,250	6.3
North Wales Valuation Tribunal	55,796	16.80	10,180	8.1
Rhyl Town Council	42,293	15.50	8,341	7.4
Hawarden Community Council	37,584	20.20	8,740	6.4
Coedpoeth Community Council	30,738	24.40	5,387	5.9
Prestatyn Town Council	27,287	19.00	8,177	6.2
Caia Park Community Council	20,996	25.60	5,273	5.5
Buckley Town Council	17,819	23.60	4,785	6.3
Rhos Community Council	17,298	17.10	4,338	6.1
Mold Town Council	14,916	17.40	4,753	6.3
Shotton Town Council	7,286	27.70	1,757	6.5
Cefn Mawr Community Council	6,585	17.00	2,023	5.0
Argoed Community Council	5,345	29.30	1,157	5.8
Connah's Quay Town Council	3,020	16.20	5,255	5.6
Denbigh Town Council	5,136	16.60	1,965	6.4
Acton Community Council	4,210	19.60	1,273	5.9
Offa Community Council	3,534	23.00	1,852	6.3
Penyffordd Community Council	2,109	21.10	550	5.5
Gwernymynydd Community Council	1,389	30.50	251	5.5
Bagillt Community Council	1,174	13.30	485	5.5
Marchwiel Community Council	1,105	19.20	317	5.7
Hope Community Council	943	12.40	418	5.5

Employer	Late Occasions	Contributions (£)
A	3	54,208
B	4	9,247
C	2	1,167
D	7	830
E	3	436
F	1	267

## Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2019.

	UK £000	Non –UK £000	Global £000	Total £000
<b>Equities</b>	0	118,828	149,723	268,551
<b>Alternatives</b>	193,870	263,171	504,742	961,783
<b>Bonds &amp; LDI</b>	422,854	0	203,790	626,644
<b>Property (Direct)</b>	0	0	0	0
<b>Cash</b>	5,765	0	0	5,765
<b>Total</b>	622,489	381,999	858,255	1,862,743

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

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

## Investment Income

The table below provides an analysis of the Fund's investment income received as at 31 March 2019.

	UK £000	Non –UK £000	Global £000	Total £000
<b>Equities</b>	0	0	0	0
<b>Alternatives</b>	6,339	8,036	0	14,375
<b>Bonds &amp; LDI</b>	0	0	0	0
<b>Property (Direct)</b>	0	0	0	0
<b>Cash</b>	38	0	0	38
<b>Total</b>	6,377	8,036	0	14,413

## Fund Manager Expenses (including underlying fees)

The fees which are disclosed in the statement of accounts within the Annual Report have been disclosed in accordance with the CIPFA guidance which states that fees and expenses should only be included where the Fund has a direct relationship with

the investment manager. These fees include the annual management charge as well as additional costs such as operational, administrative and legal expenses. In addition any costs for performance and transaction fees are also disclosed. These are disclosed in Note 10 in the Fund's accounts.

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

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

The table below shows the fees and expenses which would have been disclosed if underlying fees and their performance fees were included.

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

<b>Fund Management Fees</b>	<b>Avg bps</b>	<b>2018 £000</b>	<b>Avg bps</b>	<b>2019 £000</b>
<b>CORE (75% of Fund)</b>	<b>95</b>	<b>13,009</b>	<b>84</b>	<b>11,764</b>
<b>Total expenses including AMC</b>	41	5,652	37	5,141
<b>Underlying Fees (includes performance)</b>	53	7,239	35	4,917
<b>Performance Fees</b>	0	0	0	0
<b>Transaction Fees</b>	1	118	12	1,706
<b>NON CORE (25% of Fund)</b>	<b>479</b>	<b>18,538</b>	<b>438</b>	<b>20,022</b>
<b>Total expenses including AMC</b>	261	10,109	198	9,040
<b>Underlying Fees (includes performance)</b>	97	3,769	90	4,089
<b>Performance Fees</b>	99	3,837	132	6,335
<b>Transaction Fees</b>	21	823	12	558
<b>TOTAL</b>	<b>179</b>	<b>31,547</b>	<b>171</b>	<b>31,786</b>
<b>Total Fees Excluding Underlying</b>	117	20,539	123	22,780
<b>Net Assets (Core)</b>		1,373,439		1,399,935
<b>Net Assets (Non-Core)</b>		387,196		457,043
<b>Total Net Assets (excluding cash)</b>		1,760,635		1,856,978

Assets within the “Core” disclosure include: Active Equities, Unconstrained Fixed Income, Liability Driven Investment, Hedge Fund Managed Account Platform, Diversified Growth Funds and the Tactical Asset Portfolio. These account for 75% (78% in 2017/18) of the Fund assets but only 37% (41% in 2017/18) of the total fees. Assets within the “Non-Core” disclosure include: Private Equity (Direct and Fund of Funds), Property (Open and Closed ended), Infrastructure, Timber and Agriculture. Whilst these account for 25% (22% in 2017/18) of the Fund assets the proportion of fees amounts to 63% (58% in 2017/18). These figures include the underlying fees. In comparison, excluding underlying fees, the proportion of fees for core assets is 30% (28% in 2017/18) and non-core, 70% (72% in 2017/18). There continues to be increased cost transparency from the Hedge Fund and Private Market managers.

## **Section 9: Clwyd Pension Fund Annual Governance Statement 2018/19**

### **Roles and Responsibilities**

Flintshire County Council (the Council) is responsible for administering the Clwyd Pension Fund (the Fund), on its own behalf and on behalf of two other local authorities (Wrexham and Denbighshire) and 39 other large and small employers in North East Wales.

The main activities involved in managing the Fund are to make and manage investments and to administer the payment of scheme benefits. This is carried out in accordance with the requirements of the Local Government Pension Scheme (LGPS) Regulations and the Public Service Pensions Act 2013.

The Council is responsible for ensuring that all its business, including that of the Fund, is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and that there are proper arrangements to use money economically, effectively and efficiently. The Council is also required to ensure that the Fund is managed to deliver best value.

### **Delegation**

The Council discharges its duty as administering authority by delegation to the Pension Fund Committee. The committee is made up of five of the Council's own councillors and four coopted members, representing the other two local authorities, other employers and the scheme members. There is further delegation for day to day management to the Council's Chief Executive and for proper financial administration to the Council's Section 151 Officer.

In addition under an inter-authority agreement there is delegation to the Wales Pension Partnership Joint Governance Committee to reflect the move to the pooling of pension fund assets across the eight Welsh LGPS pension funds.

### **Governance arrangements**

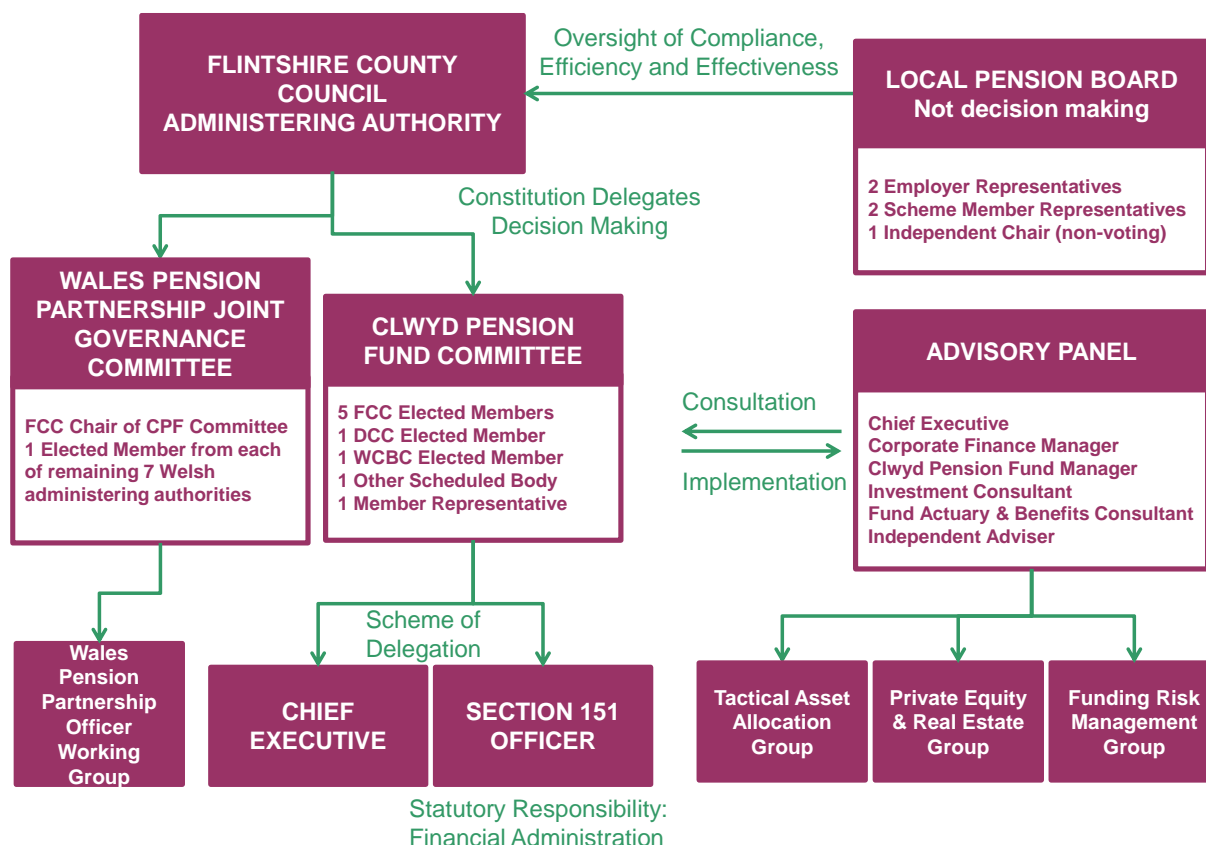
The governance framework of the Council comprises an underlying set of legislative requirements, good practice principles and management processes, which supports the philosophy of the Council's operations, the standards it sets itself, the behaviours it expects of itself and the principles it follows.

To help ensure that the governance framework is robust, the Council has developed a Local Code of Corporate Governance (the Code) which defines the principles that underpin the governance of the organisation and is consistent with the principles of the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives Framework: Delivering Good Governance in Local Government. The Code forms part of the Council's constitution and is available on the Council's website. The operation of the Fund is governed by this code. The Council produces its own Annual Governance Statement which reviews the effectiveness of its control environment. The Fund has its own Governance Policy in place. This policy ensures that the Fund complies with its responsibilities under the LGPS Regulations.



In accordance with the requirements of the Public Services Pensions Act 2013, the Fund has established a Local Pension Board to act as a partner in assisting the Fund to meet its statutory and regulatory requirements and in administering the fund effectively.

The Governance Structure for the Fund is shown below. The bodies to which responsibility is formally delegated are supported by the Local Pension Board, and also an advisory panel and a number of working groups.



The Council's Chief Executive is responsible for the day to day management of the Fund. This includes ensuring that the arrangements for the investment of assets, the receipt of contributions and the payment of benefits are properly managed. In addition the Chief Executive is responsible for establishing and chairing the Clwyd Pension Fund Advisory Panel, which includes officers of the Council and advisors to the Fund. The Panel advises the Pensions Committee and carries out matters delegated to it by the Pensions Committee from time to time.

The Council's Corporate Finance Manager as Section 151 Officer is responsible for arranging the proper administration of the financial affairs of the Fund. He is CIPFA qualified and is suitably experienced to lead the finance function.

The LGPS regulations require the Fund to maintain a number of strategy and policy documents which are available on its website. Key amongst these are the Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement, Communication Strategy Statement, and Administration Strategy. These documents describe the Fund's objectives together with the main risks facing the Fund and the

key controls which mitigate them. In addition, the Fund has a Business Plan, Breaches Policy, Risk Policy, Conflicts of Interest Policy and Training Policy which support the governance framework.

Financial data is used and managed by the Fund in a number of different ways:

- There is a triennial actuarial valuation which determines long term cash flows, fund liabilities and contributions. In addition monthly funding projections are also produced by the actuary to help the Fund keep abreast of its funding position.
- Detailed investment records are held and maintained by external partner investment managers and the Fund's global custodian. There is quarterly performance reporting to the Fund of the position on investments.
- The Fund uses the Altair management system to manage the payment of benefits to beneficiaries. Payments to beneficiaries are made through the Council's bank account. Financial monitoring reports are prepared using the Council's Masterpiece financial ledger system.

Annual audit reports and Statements of Internal Control are obtained from the investment managers by the Fund and are reviewed by officers to provide assurance that the investments are managed in an adequate control environment. Any significant issues that these reports disclose are reported to the Pension Committee on an exception basis.

## **Risk Management**

The Fund recognises that effective risk management is an essential element of good governance. The Fund has an effective policy and risk management strategy which:

- demonstrates best practice,
- improves financial management
- minimises the effect of adverse conditions
- identifies and maximises opportunities that might arise
- minimises threats

Risks relating to pension funds are often outside the Fund's control. The Fund's risk management focusses on measuring the current risk against the Fund's agreed target risk and identifying further controls and actions that can be put in place. These actions are then included in the Fund's Business Plan.

## **Review of effectiveness**

The Pensions Committee is responsible for ensuring the continued effectiveness of the governance framework and system of internal control within which the Fund operates. In discharging this responsibility it relies on the assurances of officers, financial monitoring and other reports, the work of internal audit and the work of the external auditors.

The Pension Board assists the Council in securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the scheme, and with ensuring the effective and efficient governance of the Fund.

The Fund has in place an Independent Advisor, part of whose role is to carry out an annual review which is included in the Fund's Annual Report.

The Fund completes a governance policy and compliance statement as part of its annual report. This measures the extent to which the Fund's governance arrangements comply with best practice.

As part of his duties, the Corporate Finance Manager ensures that the Council receives an internal audit of the control environment of the Council and the Fund. The audit coverage reviews the control environment within which the Fund operates and helps to ensure that robust arrangements are in place to:

- Safeguard the contributions made by employees and employers used to fund the pension liabilities
- Ensure control is maintained over partner investment managers who are responsible for ensuring that funds are maximised in order to meet liabilities
- Ensure that accurate and timely payment is made to retired members of the fund.

### **Update on significant governance issues previously reported.**

There were no significant governance issues in 2017/18 specific to the Fund.

### **Significant governance issues**

The Head of Internal Audit has confirmed that there are no significant governance issues which need to be reported as a result of the work undertaken by Internal Audit on the control systems of either the Council or the Fund.

### **Internal Audit Opinion.**

Based on the audit work undertaken for the Council and the assurances provided by the Chief Executive, the Corporate Finance Manager and the Clwyd Pension Fund Manager, it is the Head of Audit's opinion that reasonable assurance can be placed on the adequacy and effectiveness of the governance and control environment which operated during 2018/19.

### **Certification**

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance which operate on the Clwyd Pension Fund. Work undertaken by Internal Audit has shown that the arrangements in place are operating as planned. We consider the governance and internal control environment operating during 2018/19 to provide reasonable and objective assurance that any significant risks impacting the Fund's ability to achieve its objectives will be identified and actions taken to avoid or mitigate their impact.



Colin Everett  
Chief Executive  
7th October 2019



Councillor Aaron Shotton  
Chair Clwyd Pension Fund Committee  
7th October 2019

# **CLWYD PENSION FUND ANNUAL REPORT 2018/19**

## **ATTACHMENTS**

The attached regulatory documents form part of the Governance and Performance framework within which the Fund operates. Other best practice documents are also available on Clwyd Pension Fund website. A list of these documents and the website address is available on the contents page of the report.

Cronfa Bensiynau Clwyd  
Clwvd Pension Fund



**FLINTSHIRE COUNTY COUNCIL**

**Administering Authority for  
CLWYD PENSION FUND**

**GOVERNANCE POLICY and COMPLIANCE  
STATEMENT**

**September 2018**

# GOVERNANCE POLICY

## Introduction and Legal Requirements

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

Flexibility is provided for each Administering Authority to determine their own governance arrangements. However the LGPS Regulations require each Administering Authority to prepare, publish and maintain a governance policy and compliance statement setting out whether the Administering Authority delegates its functions, or part of its functions to a committee, a sub-committee or an officer of the authority, and if so:

- a) the terms, structure and operational procedures of the delegation,
- b) the frequency of any committee or sub-committee meetings,
- c) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights
- d) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying, and
- e) details of the terms, structure and operational procedures relating to the local pension board.

The regulations require Administering Authorities to consult such persons as it considers appropriate when preparing the policy and compliance statement.

This document is the Governance Policy and Compliance Statement for Clwyd Pension Fund that has been prepared to meet the requirement of the LGPS Regulations. The compliance statement required by point (d) is included as Appendix A.

## Aims and Objectives

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

- around 46,700 current and former members of the Fund, and their dependants
- around 43 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's Mission Statement is:

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

In relation to the governance of the Fund we will aim to:

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success

### **Background to Governance Arrangements**

Flintshire County Council reviewed its Governance arrangements for the Clwyd Pension Fund in 2014. Prior to this date, the responsibility for the Clwyd Pension Fund rested with the Head of Finance who reported to the Clwyd Pension Fund Panel made up of elected members from Flintshire County Council, Denbighshire County Council and Wrexham County Borough Council. In addition the panel had non-voting members including an independent adviser and a scheme member representative.

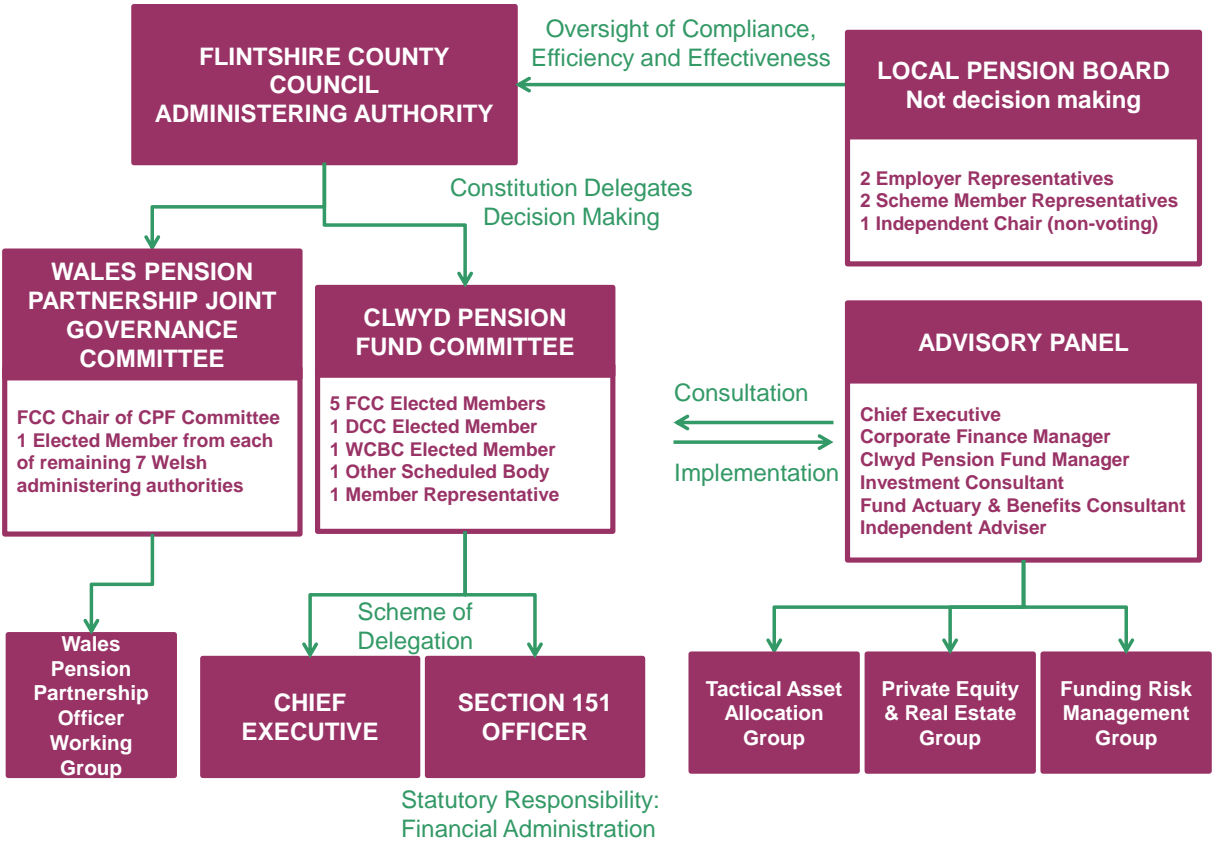
An independent review by CIPFA in 2010 found the governance of the Fund to be very good but recognised that this governance structure did not meet best practice, in particular they recommended:

- Responsibility for the management of the Clwyd Pension Fund should be transferred from the Head of Finance to a newly constituted Committee
- There should be wider representation of stakeholders on the newly constituted committee with voting rights extended to all committee members.

As a result, in May 2014, the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel. The Corporate Finance Manager is the Section 151 Officer and has a statutory responsibility for the proper financial affairs of Flintshire County Council which include Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Executive.

This governance structure was expanded in early 2015 as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. It was then further expanded in March 2017 to establish the Wales Pension Partnership Joint Governance Committee and Officer Working Group and facilitate the move to pooling of pension fund assets across the eight LGPS Pension Funds in Wales.

The Council's governance structure for pension fund matters is as shown below:



### Clwyd Pension Fund Committee

The Pension Fund Committee's principal aim is to carry out the functions of Flintshire County Council as the Scheme Manager and Administering Authority for the Clwyd Pension Fund in accordance with LGPS legislation.



The members on the Clwyd Pension Fund Committee are not trustees of the Fund, however, they do have a duty of care which is analogous to the responsibilities of trustees in the private sector and they could be more accurately described as 'quasi trustees'. The management of the Clwyd Pension Fund is Non-Political.

The Committee's specific roles as outlined in the Council's Constitution are shown in Appendix B. The Committee may also delegate a limited range of its functions to one or more officers of Flintshire County Council.

No matters relating to Flintshire County Council's responsibilities as an employer participating within the Clwyd Pension Fund are delegated to the Pension Fund Committee.

The Pension Fund Committee meets at least quarterly and is composed of nine members as follows:

- Five Councillors of Flintshire County Council, determined by the Council.
- Four co-opted members comprising:-
  - One Councillor of Wrexham County Borough Council, determined by that Council.
  - One Councillor of Denbighshire County Council, determined by that Council.
  - One Representative of the other Scheme Employers (not admission bodies) in the Clwyd Pension Fund as defined by Schedule 2 of the Local Government Pension Scheme 2013, as amended from time to time, appointed in accordance with procedures agreed by the Chief Executive in consultation with the members of the Pension Fund Advisory Panel.
  - One Representative of the scheme members of the Clwyd Pension Fund, appointed in accordance with procedures agreed by the Chief Executive in consultation with the members of the Pension Fund Advisory Panel.

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

All members have equal voting rights.

### **Chief Executive**

Under the Council's Constitution, the Chief Executive is responsible for the following matters:

- The day to day management of Clwyd Pension Fund matters including ensuring arrangements for investment of assets and administration of contributions and benefits, excluding matters delegated to the Pension Fund Committee.

- Establishing and Chairing a Clwyd Pension Fund Advisory Panel consisting of officers of the Council and advisors to the Clwyd Pension Fund, to provide advice and propose recommendations to the Pension Fund Committee, and to carry out such matters as delegated to it from time to time by the Pension Fund Committee.

### **Section 151 Officer – Corporate Finance Manager**

Under the Council's current operating model, the Chief Finance Officer (S151) role is designated to the Corporate Finance Manager. The Corporate Finance Manager therefore has a statutory responsibility for the proper financial administration of the Clwyd Pension Fund, in addition to that of Flintshire County Council.

### **Clwyd Pension Fund Advisory Panel**

The Clwyd Pension Fund Advisory Panel has been established by the Chief Executive to provide advice and propose recommendations to the Pension Fund Committee, and to carry out such matters as delegated to it from time to time by the Pension Fund Committee.

Its membership consists of:

- The Chief Executive
- The Chief Finance Officer of Flintshire County Council
- The Clwyd Pension Fund Manager
- Investment Consultant
- Fund Actuary
- Independent Adviser

### **Wales Pension Partnership Joint Governance Committee**

To satisfy the Government's requirements to reduce investment related costs, the eight LGPS administering authorities in Wales, including Flintshire County Council, have entered into an Inter Authority Agreement to pool pension fund assets, a key part of which will be done by appointment of an Authorised Contractual Scheme Operator to make the investments on behalf of the administering authorities. This was agreed at the Flintshire County Council meeting on 1<sup>st</sup> March 2017. The report and appendices can be found [here](#).

As part of this pooling arrangement, the authorities have also established a Joint Governance Committee with a number of responsibilities including the following:

- Monitoring the performance of the Operator
- Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight Funds
- Providing accountability to the participating Funds on the management of the Pool
- Reporting on the Pool to the UK Government and other stakeholders
- Having oversight of an Officer Working Group

Flintshire County Council has determined that the Clwyd Pension Fund representative on the Joint Governance Committee will be the Chair of the Pension Fund Committee. In his or her absence, the Vice Chair will act as the Deputy.

The Pension Fund Committee will determine which officers of Clwyd Pension Fund will represent the Fund on the Officer Working Group.

The Joint Governance Committee meets at least four times each year and is composed of one elected member from each Administering Authority responsible for maintaining an LGPS Pension Fund in Wales. These are:

- Carmarthenshire County Council
- City & County of Swansea Council
- City of Cardiff Council
- Flintshire County Council
- Gwynedd Council
- Powys County Council
- Rhondda Cynon Taff County Borough Council
- Torfaen County Borough Council.

Each member present at the Joint Governance Committee is entitled to a vote and all members have equal voting rights.

Carmarthenshire County Council acts as Host Council in relation to the Wales Pension Partnership Inter Authority Agreement. This role includes the following in relation to the management of the pooling arrangements:

- Acting as the main point of contact
- Providing administrative resources and facilities, and governance and administrative services
- Entering into contracts for supplies and services
- Liaising with the Operator.

### **Wales Pension Partnership Officer Working Group**

The Wales Pension Partnership Officer Working Group has been established as part of the Wales Pension Partnership Inter Authority Agreement to support and advise the Joint Governance Committee on such matters as the Joint Governance Committee may reasonably request or any matters relating to the pooling agreement which are raised by any of the authorities' Section 151 Officers or Monitoring Officers.

Each authority delegates to officers to the Officer Working Group. In relation to Clwyd Pension Fund, the Pension Fund Committee determines which of its officers sit on the Officer Working Group. Each authority's Section 151 Officer and Monitoring Officer are entitled to attend the Officer Working Group.

The full list of responsibilities and procedures relating to the Joint Governance Committee, Officer Working Group and Host Council are included in the Inter Authority Agreement.

## Pension Board

Each LGPS Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Flintshire County Council does not apply to the Pension Board unless it is expressly referred to in the Board's Protocol. The Clwyd Pension Board was established by Flintshire County Council in March 2015 and the full Protocol of the Board can be found within the Council's Constitution. The key points are summarised below.

The Pension Board provides oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pension Fund Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers. The Pension Board operates independently of the Pension Fund Committee.

The Pension Board consists of five members as follows:

- Two Employer Representatives
- Two Scheme Member Representatives, one of whom is nominated by the joint trade unions, and one who is a member of the Clwyd Pension Fund
- One Independent Member who acts as chair of the Pension Board.

All Pension Board members, excluding the Independent Member, have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only considered quorate when at least three of the five members are present, including at least one Employer Representative, one Scheme Member Representative and the Independent Member.

Members of the Pension Board are required to declare, on appointment and at each meeting, any interests that may lead to conflicts of interest in relation to Pension Fund matters or agenda items.

The Pension Board meets a minimum of twice and a maximum of four times in each calendar year in the ordinary course of business. Additional meetings may be arranged, subject to approval by the Chief Executive, to facilitate its work.

## Training

Flintshire County Council recognises that effective management, administration and decision making can only be achieved where those involved have the requisite knowledge and skills. Accordingly, in relation to the management of the Clwyd Pension Fund, we adopt the key recommendations of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

This means we will ensure that we have formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant LGPS and related knowledge and skills for those responsible for management, administration and decision-making relating to the Fund. These policies and practices will be guided by reference to the framework of knowledge and skills defined within the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Clwyd Pension Fund's Training Policy can be found on the Fund's website – [www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk).

We will report on an annual basis how well this Policy has been adhered to throughout the financial year as part of the Fund's Annual Report and Accounts.

The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Chief Executive, who will act in accordance with the Fund's Policy.

In addition, in accordance with the Wales Pension Partnership Inter Authority Agreement, the Joint Governance Committee is required to prepare, maintain and adhere to a Training and Competence Policy. All members are required to undertake the training that is provided.

## Conflicts of Interest

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy how any such conflicts or potential conflicts are to be managed.

Clwyd Pension Fund's Conflict of Interest Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Fund whether directly or in an advisory capacity. The Policy is established to guide the Pension Fund Committee members, Pension Board members, officers and advisers. It aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

The Policy can be found on the Fund's website – [www.clwydpensionfund.org.uk](http://www.clwydpensionfund.org.uk).

In addition, in accordance with the Wales Pension Partnership Inter Authority Agreement, the Joint Governance Committee is required to prepare, maintain and adhere to a Conflicts of Interest Policy.

## **Welsh Language Standards**

Flintshire County Council has adopted the principle that in the conduct of public business it will treat the Welsh and English languages on a basis of equality. These standards therefore also apply to the governance arrangements for the Clwyd Pension Fund. More information can be found on the Council's website or by contacting the Clwyd Pension Fund Manager.

## **Monitoring Governance of the Clwyd Pension Fund**

The Fund's governance objectives will be monitored as follows:

Objective	Monitoring Arrangements
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	<ul style="list-style-type: none"> <li>• The Independent Adviser undertakes an annual review of the effectiveness of the Clwyd Pension Fund's governance arrangements, the findings of which are reported to the Committee and published.</li> <li>• The Pension Board prepares and publishes an annual report.</li> <li>• In line with the Regulations this document will be filed with the MHCLG.</li> </ul>
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	<ul style="list-style-type: none"> <li>• A Training Policy is in place together with annual monitoring of all training by Pension Committee members, Pension Board members and key officers.</li> <li>• The Joint Governance Committee has a Training Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.</li> </ul>
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	<ul style="list-style-type: none"> <li>• The employers within the Fund, together with union representatives, are invited to an Annual Joint Consultative Meeting. Attendees receive presentations and have the opportunity to ask questions on the governance of the Fund.</li> <li>• The Pension Fund Committee includes representatives from scheme members and most employers in the Fund.</li> <li>• The Pension Board includes representatives from scheme members and employers in the Fund.</li> <li>• The Pension Board prepares and publishes an annual report which may include comment on decision making.</li> <li>• The Joint Governance Committee prepares an annual business plan which is brought to the Clwyd Pension Fund Committee for agreement in accordance with the Inter Authority Agreement</li> </ul>
Understand and monitor risk	<ul style="list-style-type: none"> <li>• A Risk Policy and register in place.</li> <li>• Ongoing consideration of key risks at Pension Fund Committee meetings.</li> </ul>

Objective	Monitoring Arrangements
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	<ul style="list-style-type: none"> <li>• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee.</li> <li>• The Fund has an Independent Adviser and their annual report includes reference to compliance with key requirements.</li> <li>• The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure.</li> <li>• The Pension Board prepares and publishes an annual report which may include comment on compliance matters.</li> <li>• The Joint Governance Committee has a Breaches and Error Policy in place with monitoring arrangements in accordance with the Inter Authority Agreement.</li> </ul>
Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success	<ul style="list-style-type: none"> <li>• All strategies and policies include reference to how objectives will be monitored.</li> <li>• Ongoing monitoring against key objectives at Pension Fund Committee meetings.</li> <li>• Ongoing monitoring of business plan targets at Pension Fund Committee meetings.</li> <li>• Quarterly and annual updates against the Joint Governance Committee's business plan and objectives are provided in accordance with the Inter Authority Agreement.</li> </ul>

## Key Risks

The key risks to the delivery of this Strategy are outlined below. The Pension Fund Committee members, with the assistance of the Clwyd Pension Fund Advisory Panel, will monitor these and other key risks and consider how to respond to them.

- Changes in Pension Fund Committee membership, Pension Board membership, Joint Governance Committee and/or key officers resulting in loss of continuity and potentially diminishing knowledge and understanding
- Lack of resource within the Pension Fund Management Team resulting in inability to deliver the appropriate standard of governance
- Lack of resource or lack of buy in to deliver the governance requirements relating to the Welsh Pension Partnership
- Changes in government / legislative requirements meaning insufficient time allocated to ongoing management, either at Pension Fund Committee meetings or as part of key officers' duties
- Ineffective delegation of duties and/or presentation of Pension Fund Committee items resulting in insufficient time spent on key matters
- Insufficient monitoring of the Joint Governance Committee responsibilities
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members, Joint Governance Committee members,



Advisory Panel members and/or other key officers resulting in a poor standard of decision making and/or monitoring

- Conflicts of interest not being appropriately managed by Committee members, Board members, Joint Governance Committee and/or key officers.

### **Best Practice Compliance Statement**

As required by Local Government Pension Scheme Regulations the statement below compares Clwyd Pension Fund's current governance arrangements with the best practice guidance issued by the Secretary of State for Housing, Communities and Local Government. The statement provides an explanation where the Fund is not fully compliant.

### **Approval, Review and Consultation**

The governance structure of the Clwyd Pension Fund was reviewed in 2014. The employers of the Fund were consulted prior to that review. Employer and scheme member representatives have also been party to proposed changes to the structure including the arrangements for entering into the Wales asset pooling arrangement.

This version of the Governance Policy and Statement was approved at the Clwyd Pension Fund Committee on 21 March 2017 and then amendments approved using officer delegations in September 2018. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

### **Further Information**

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

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council

E-mail - [Philip.latham@flintshire.gov.uk](mailto:Philip.latham@flintshire.gov.uk)

Telephone - 01352 702264

## Appendix A - Clwyd Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
<b>A. STRUCTURE</b>		
a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	<b>COMPLIANT</b>	<p>The majority of elements of administration of benefits and strategic management of fund assets are delegated by the Council to Pension Fund Committee.</p> <p>The Wales Pension Partnership Joint Governance Committee has responsibility for some elements of management of the Wales Pension Partnership.</p>
b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	<b>COMPLIANT</b>	<p>Representatives covering most employers and scheme members are Co-opted Members of the Pension Fund Committee.</p> <p>The Pension Board, although not a formal secondary committee, also includes representatives of scheme members and employers.</p> <p>The Wales Pension Partnership Joint Governance Committee is required to liaise with scheme member and employer representatives.</p>

Best Practice	Compliant or not?	Explanatory Note
c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	<b>NOT APPLICABLE</b>	There is no formal secondary committee or panel. However it is worth noting that the Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate. All Pension Board minutes are circulated around Pension Fund Committee members as soon as they are available as well as being included in Pension Fund Committee reports.
d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	<b>NOT APPLICABLE</b>	

B. REPRESENTATION		
<p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-</p> <p>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</p> <p>ii) scheme members (including deferred and pensioner scheme members),</p> <p>iii) where appropriate, independent professional observers, and</p> <p>iv) expert advisors (on an ad-hoc basis).</p>	<p><b>PARTIALLY COMPLIANT</b></p>	<p>The Pension Fund Committee includes the following Co-opted Members:</p> <ul style="list-style-type: none"> <li>• employer representatives covering all employers with the exception of admission bodies (as admission bodies make up just a small proportion of the liabilities of the Fund)</li> <li>• a scheme member representative covering all categories of scheme member.</li> </ul> <p>In addition, an independent adviser attends all Pension Fund Committee meetings and the Fund's actuary and investment consultant regularly attend meetings on an ad-hoc basis.</p> <p>The Pension Board, although not a formal secondary committee, also includes representatives of scheme members and employers.</p> <p>The Wales Pension Partnership Joint Governance Committee is required to liaise with scheme member and employer representatives.</p>

<p><i>b.</i> That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p><b>COMPLIANT</b></p>	<p>All Pension Fund Committee members, including Co-opted Members, are treated equally with full opportunity to contribute to the decision making process and with unrestricted access to papers and training, and with full voting rights.</p> <p>There is no formal secondary committee or panel. However it is worth noting that the Pension Board members are entitled to attend all Pension Fund Committee meetings and are invited to participate.</p>
<p><b>C. SELECTION AND ROLE OF LAY MEMBERS</b></p>		
<p><i>a.</i> That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	<p><b>COMPLIANT</b></p>	<p>This is highlighted via regular training and also when presenting this Governance Policy and Compliance Statement for approval.</p>
<p><i>b.</i> That at the start of any meeting committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p><b>COMPLIANT</b></p>	<p>This is no longer a legal requirement but we recognise that potential conflicts of interest can arise between existing roles (e.g. as employer representatives or scheme members) and accordingly we still carry out this practice. The Fund has a Conflicts of Interest Policy outlining the process for identifying and managing actual and potential conflicts of interest.</p>

<b>D. VOTING</b>		
a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	<b>COMPLIANT</b>	<p>The Council's Constitution and the Fund's Governance Policy and Compliance Statement make it clear that all Pension Fund Committee members have equal voting rights.</p> <p>The Wales Pension Partnership Joint Governance Committee voting arrangements are outlined in the Inter Authority Agreement with one vote per authority.</p>

E. TRAINING / FACILITY TIME / EXPENSES		
<p>a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p>	<p><b>COMPLIANT</b></p>	<p>The Fund has a Training Policy that applies to all Pension Fund Committee members, Pension Board members and officers. Training is delivered through several avenues including:</p> <ul style="list-style-type: none"> <li>• An initial induction for new Pension Fund Committee and Pension Board Members</li> <li>• On-going training through written reports or presentations at Committee meetings</li> <li>• Conferences and seminars.</li> </ul> <p>The actual costs and expenses relating to approved training are met directly or can be reimbursed from the Clwyd Pension Fund. The co-opted members of the Pension Fund Committee and members of the Pension Board receive payments for attendance at meetings (including training events) as detailed within the Flintshire County Council Members' Remuneration Scheme and the Pension Board Protocol.</p> <p>The Wales Pension Partnership Joint Governance Committee is required to prepare, maintain and adhere to a Training Policy.</p>

b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	COMPLIANT	
c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	COMPLIANT	A log of individual Member training is maintained. In addition, the Fund has adopted the CIPFA Knowledge and Skills Framework and has a Fund specific Training Policy.
<b>F. MEETINGS (FREQUENCY/QUORUM)</b>		
a. That an administering authority's main committee or committees meet at least quarterly.	COMPLIANT	
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	NOT APPLICABLE	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	NOT APPLICABLE	Even though we do have lay members on our Pension Committee, we also have an Annual Joint Consultative Meeting (AJCM) for employing bodies and scheme members. The Pension Board also provides a forum for stakeholders to be represented.



<b>G. ACCESS</b>		
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	<b>COMPLIANT</b>	<p>All Members of the Pension Fund Committee have equal access to papers. In addition, all Pension Board members have access to the same papers.</p> <p>The Joint Governance Committee is a public meeting so all papers (except those classified as exempt) are available to Committee and Board members, as well as members of the public.</p>
<b>H. SCOPE</b>		
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	<b>COMPLIANT</b>	<p>The remit of the Pension Fund Committee covers all Fund matters, including administration, communications, funding, investments and governance. The Pension Board provides further opportunity for these matters to be considered.</p>

<b>I. PUBLICITY</b>		
a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	<b>COMPLIANT</b>	<p>The Fund publishes a detailed Annual Report, newsletters for active and pensioner members, road shows, drop in sessions and an Annual Meeting for</p> <p>Employers and representatives of stakeholders (AJCM). In addition all Pension Fund Committee reports are available to view on the Flintshire County Council website (other than exempt items).</p> <p>Arrangements relating to the Joint Governance Committee are available via this policy, with some information included in Pension Fund Committee papers. In addition the Joint Governance Committee will liaise with scheme member and employer representatives.</p>

## **Appendix B – Delegated Roles and Functions of the Clwyd Pension Fund Committee**

The Pension Fund Committee will have the following specific roles and functions, taking account of advice from the Chief Executive and the Fund's professional advisers:

- a) Ensuring the Clwyd Pension Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Regulations, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
- b) Ensuring robust risk management arrangements are in place.
- c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non statutory best practice guidance in relation to its management of the Clwyd Pension Fund.
- d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
  - i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Flintshire County Council and making recommendations to Flintshire County Council about any changes to that framework.
  - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.
  - iii) Investment strategy - approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.
  - iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will the administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.
  - v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.
  - vi) Discretions – determining how the various administering authority discretions are operated for the Fund.
- e) Monitoring the implementation of these policies and strategies on an ongoing basis.
- f) In relation to the Wales Pension Partnership Collaboration arrangements:
  - i) Undertaking the following matters reserved to Flintshire County Council as outlined in the Inter-Authority Agreement:

- Appointment, termination or replacement of the Operator following the making of a recommendation by the Joint Governance Committee.
- Approval of additional expenditure not included within the Business Plan which exceeds 30 % of the approved budget in the Business Plan in any one Financial Year.
- Formulation, approval or revisions of each respective Constituent Authority's investment strategy for the purposes of regulation 7 of the Investment Regulations.
- Admitting a new administering authority within the LGPS to the Investment Pool as a Constituent Authority.
- Amendment of the Agreement which is not significant to the operation of the arrangements.
- Material change to the nature of the Operator Contract.
- Approval of the initial strategic objectives to allow preparation of the first Business Plan (which objectives shall reflect the objectives set out in the procurement of the Operator).
- Approval of any evaluation or scoring criteria for any procurement of a replacement Operator.
- Approval of the Business Plan which shall include approval of the ongoing strategic objectives of the Investment Pool.
- Determination of the timing of the transition of the assets held by Clwyd Pension Fund into the Pooling Collaboration and the funds or sub-funds operated by the Operator.

Note the Council shall retain the power to terminate the Inter-Authority Agreement or make amendments to the Inter-Authority Agreement that may be significant to the operation of the arrangements.

- ii) Delegating powers to Flintshire County Council's own officers and the Host Council where required.
  - iii) Nominating Flintshire County Council's officers to the Officer Working Group.
  - iv) Monitoring of the performance of the Wales Pooling Collaboration and its Operator and recommending actions to the Joint Governance Committee, Officer Working Group or Host Council, as appropriate.
- g) Considering the Fund's financial statements prior to approval by the Council and agreeing the Fund's annual report.
  - h) Selection, appointment, dismissal and monitoring of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.
  - i) Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
  - j) Agreeing the terms and payment of bulk transfers into and out of the Fund.
  - k) Agreeing Pension Fund business plans and monitoring progress against them.
  - l) Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework,

identifying training requirements, developing training plans and monitoring compliance with the policy.

- m) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- n) Receiving ongoing reports from the Chief Executive and Pensions Advisory Panel in relation to delegated functions.



# **FUNDING STRATEGY STATEMENT**

## **CLWYD PENSION FUND**

**SEPTEMBER 2018**

**FLINTSHIRE COUNTY COUNCIL**

This Funding Strategy Statement has been prepared by Flintshire County Council (the Administering Authority) to set out the funding strategy for the Clwyd Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## EXECUTIVE SUMMARY

The LGPS Regulations and CIPFA Guidance provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

**THE DETAILS CONTAINED IN THIS FUNDING STRATEGY STATEMENT WILL HAVE A FINANCIAL AND OPERATIONAL IMPACT ON ALL PARTICIPATING EMPLOYERS IN THE CLWYD PENSION FUND. IT IS IMPERATIVE THEREFORE THAT EACH EXISTING OR POTENTIAL EMPLOYER IS AWARE OF THE DETAILS CONTAINED IN THIS STATEMENT.**

The FSS is a document that must be revised and published whenever there is a material change in either the policy set out in the FSS or the Investment Strategy Statement (ISS). A consultation with employers must take place before the Administering Authority can publish their funding strategy.

The funding strategy is applicable to all types of employer within the Fund and contains a number of policies that employers should be aware of, including the admission and termination policy and the covenant policy. A glossary is included at the end to assist with understanding of the technical terms and definitions.

The drafting of the FSS has been delegated to the Pension Fund Committee by the Administering Authority, following advice from the Fund Actuary. Some aspects have also been delegated to Fund officers.

The FSS is also subject to scrutiny and possible intervention under Section 13(4)(c) of the Public Service Pensions Act 2013 which may place some restrictions on the parameters that can be applied to employers.

Key elements of the funding strategy are as follows:

- Employer covenant and investment strategy will have a major influence on the valuation results.
- Deficit recovery periods will be determined by the Administering Authority with the aim of recovering deficits as quickly as possible and vary by employer. Subject to affordability, existing deficit contribution plans will not be reduced. The average recovery period for the Fund is 15 years. Deficit recovery contributions will be expressed as £s amounts.
- It will be possible for employers to prepay their deficit contributions for the full 3 years or annually at each April which would result in a cash saving.
- The key financial assumption – the discount rate – has been derived by considering the long term expected return on the Fund's investment over and above assumed future Consumer Price Inflation (CPI).
- The demographic assumptions for the whole Fund have been determined by carrying out a bespoke analysis of the Fund's membership along with a review of other LGPS Funds.
- It is strongly recommended that employers consider and understand the Fund policies which primarily relate to employers joining the Fund, ongoing monitoring of the financial strength of employers (covenant) and the approach adopted when employers leave the Fund (termination).

Ensuring that the **Clwyd Pension Fund** (the “Fund”) has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (FLINTSHIRE COUNTY COUNCIL). The Funding Strategy adopted by the **Clwyd Pension Fund** will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

Given this, and in accordance with governing legislation, all interested parties connected with the **Clwyd Pension Fund** have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.



### THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength.



### SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the Scheme so far as relating to the Fund.



### DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 76% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund’s objective that any funding deficit is eliminated as quickly as the participating



employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which would result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

The average recovery period for the Fund as a whole is 15 years at this valuation which is 3 years shorter than the average recovery period of 18 years from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by 3 years at this valuation.

Where there is an increase in contributions required at this valuation, subject to affordability constraints, the employer may be able to step-up contributions over a period of 3 years. Employers should be aware that if they elect to step-up their contributions, this may have an effect on the level of contributions required in the future. Equally employers will be able to phase in their contributions changes to tie in with their financial year if this does not end on 31 March.



### ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the “Secondary” rate) are set out in an appendix to this FSS.

The discount rate in excess of CPI inflation (the “real discount rate”) has been derived based on the expected return on the Fund’s assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.0% per annum and for determining the future service (“primary”) contribution rates is 2.75% per annum.

The demographic assumptions are based on the Fund Actuary’s bespoke analysis for the Fund taking into account the experience of the wider LGPS where relevant.



### EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share may be restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.



## FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's approach and policies in a number of key areas:

### 1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

The Fund will continue to monitor changes in covenant in conjunction with the funding position over the inter-valuation period which will enable the Fund to anticipate and pre-empt employer any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix in this statement.

### 2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Scheme Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed.

### 3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

Where there is **no guarantor** who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to Government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 3 months of cessation by the Actuary. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Where there is a **guarantor** who would subsume the assets and liabilities of the outgoing employer the policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor.

#### **4. Insurance arrangements**

The Fund has implemented an internal captive ill health insurance arrangement which pools these risks for eligible employers. This arrangement will not affect eligible employer contribution rates at this valuation but may affect them going forward. More details are provided in **Appendix E**.

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# 1

## INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and The Local Government Pension Scheme (Amendment) Regulations 2018 (“the 2018 Amendment Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the **Clwyd Pension Fund** the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

### BENEFITS

The benefits provided by the **Clwyd Pension Fund** are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the **Clwyd Pension Fund** are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

### EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including the provision of a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

## **PRIMARY RATE**

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers’ Primary rates.

## **SECONDARY RATE**

The “Secondary rate” is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

# 2

## PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency of the pension fund" and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

# 3

## AIMS AND PURPOSE OF THE FUND

### THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designated and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

### THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the 2018 Amendment Regulations.



# 4

## RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee), the individual employers and the Fund Actuary, and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

### KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and

- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

# 5

## SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, the employer rate would ultimately revert to the Future Service or Primary Rate of contributions.

### SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long-term cost-efficiency implies that the rate must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the Scheme so far as relating to the Fund.

### DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful, potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). This has resulted in an average recovery period of 15 years being adopted across all employers.
- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (i.e. run-off) over a 15 year period, subject to a total contribution minimum of zero. If an employer is expected to exit the Fund before this period, contribution requirements will be set to target a nil termination deficit within reasonable expectations (subject to periodic review).
- The employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
  - the **Secondary rate**: a schedule of lump sum monetary amounts and/or % of pay amendments over 2017/20 in respect of an employer's surplus or deficit (including phasing adjustments)
- Where increases (or decrease) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years. Any step up in future service contributions will be implemented in steps of at least 0.5% of pay per annum. Alternative patterns of contribution, on grounds of affordability, will be considered on an individual employer basis, subject to the total contribution requirement being met over the 2017/20 period covered by the contribution certificate. Employers should be aware that varying their contribution pattern could have an effect on the level of contributions required in the future.
- For employers that do not have a financial year end of 31 March 2017 (e.g. 31 July 2017), the Fund can allow the employer to continue to pay their current contribution plan until their

financial year end date. The new contribution plan would then be implemented after this date (i.e. 1 August 2017 in this case).

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

The policy for employers who have a **guarantor** participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. If all parties do not agree, then the surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place).

The Fund will notify all parties in the event that agreement cannot be reached, however ultimately the Fund will comply with the Regulations and therefore pay the exit credit to the exiting employer. In some instances the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate agreement. This would only be taken into account if the Administering Authority is made aware of any such arrangement.

In maintaining a consistent approach the Fund will seek to recover any deficit from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

If a guarantor unjustifiably deviates from the policy to subsume the residual assets, liabilities and any surplus or deficit, future termination events with regard to the payment of the surplus or deficit will be treated in line with the approach adopted for employers without a guarantor in the Fund (the ongoing valuation basis will still be adopted in this case).

The policy for employers who do not have a **guarantor** participating in the Fund:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. The termination policy is summarised in **Appendix C**.

# 7

## LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 76% covered by the current assets, with the funding deficit of 24% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

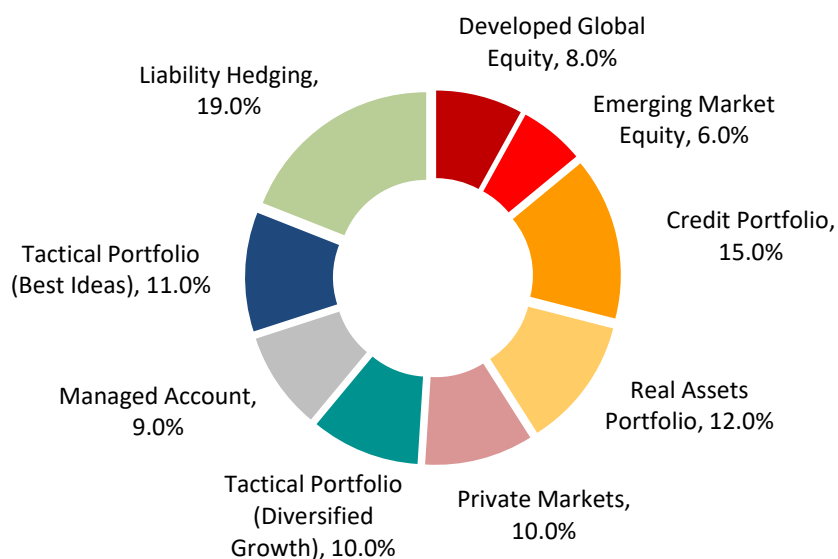
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 52%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The strategic allocation is:



Based on the investment strategy above and the Investment Consultant's (JLT) assessment of the return expectations for each asset class leads to an overall best estimate average expected return of 4.3% per annum in excess of CPI inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

# 8

## IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

### FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle
- Employer contributions are unaffordable and/or unstable
- Investment and/or funding objectives and/or strategies are no longer fit for purpose
- Insufficient assets to pay benefits
- Loss of employer income and/or other employers become liable for their deficits
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under regular review and the performance of the investment managers is regularly monitored.



## DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

## INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund. This for example could include insurance of ill-health costs or death in service benefits for members. Further information on the insurance of ill health costs is set out in **Appendix E**.

## REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

## GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments and placed a copy on the Fund's website. The first draft was approved at the Committee meeting on 5th July 2016 and finalised on 21 March 2017 after the Fund received consultation feedback from the employing bodies and the final document was ratified by the Committee. A further consultation took place following the publication of the 2018 Amendment Regulations and the introduction of exit credits. The revisions to the FSS have been incorporated into this draft and the updated FSS was agreed following the Committee meeting on [28 November 2018].

The Fund has restructured their governance arrangements with the implementation of the Advisory Panel. The Advisory Panel is made up of Fund Officers, Investment Consultants, an Independent Advisor and the Fund Actuary.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes to Committee membership

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. the implementation of iConnect for transferring data from employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

Full details of the risks and the controls in place are set out in the CPF risk register.

# 9

## MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

### FLIGHTPATH - DE-RISKING STRATEGY

In the context of managing various aspects of the Fund's financial risks, the Administering Authority has implemented a "Flightpath" risk management investment strategy with effect from 1 April 2014. A Liability Driven Investments (LDI) mandate has also been implemented.

The principal aim of this risk management strategy is to effectively control and limit interest and inflation risks being run by the Fund (as these factors can lead to significant changes to liability values). At the valuation date the level of hedging was approximately 20% in relation to interest rates and 40% in relation to inflation. The intention is that the Fund will achieve a hedge ratio of 80% in the long term for both interest and inflation rates. The overall funding flightpath strategy structure was reviewed in conjunction with the actuarial valuation and a summary of the real yield triggers above CPI is shown below (split by duration of liabilities). In practice the triggers are split into separate interest rate and inflation triggers. Further details are set out in the November 2016 committee report.

Proposed triggers	Hedge ratio	Real rate above CPI			
		15y	20y	30y	40y
Trigger 1	30%	-	-	-	-
Trigger 2	40%	-	-	-	-
Trigger 3	50%	1.40%	1.40%	1.40%	1.40%
Trigger 4	60%	1.60%	1.60%	1.60%	1.60%
Trigger 5	70%	1.80%	1.80%	1.80%	1.80%
Trigger 6	80%	2.00%	2.00%	2.00%	2.00%

### FLIGHTPATH – MONITORING/TRIGGER REVIEW

A summary report is provided to the Fund (on a monthly and quarterly basis) which includes a "traffic light" analysis of the key components of the Flightpath and hedging mandate. The "traffic light" indicates whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required. In particular, a separate fund-wide mechanism has been introduced, such that if the funding level falls more than 5% below the "expected" funding level (based on valuation assumptions), then discussions will follow at the Advisory Panel level as to the continued appropriateness of the funding strategy. There are no formal funding level triggers in place although it has been agreed that when the funding level hits 100% or higher

consideration will be given to whether the allocation to more liability matching assets should be increased.

The funding level has materially improved since the valuation date due in part to strong equity performance in the portfolio including the exposure via the risk management mandate with Insight. The Fund implemented a static equity protection strategy in relation to the Insight mandate protecting against equity market falls on exposure of £330m. This was in place from 24<sup>th</sup> April 2017 which ran until 24<sup>th</sup> May 2018.

On 24<sup>th</sup> May 2018 a new dynamic Equity Protection strategy was put in place. This was after rigorous analysis and value for money considerations by the FRMG. The strategy protects against falls of 15% or more of the average market position over the previous 12 months on the £360m of equity exposure in the Insight portfolio. This will be financed by giving up some potential upside return on a monthly basis. Whilst more complex to set up, the dynamic strategy provides advantages versus the previous static approach as follows:

1. Improved protection levels in upward trending markets
2. Expectation of better long-term risk adjusted returns (after fees and transaction costs) except in some extreme scenarios
3. Improved flexibility and on-going governance as it allows the structure to easily adapt to changing requirements including switching the protection off

Due to the requirements of implementing the strategy on a daily rolling basis, it was agreed that the strategy would be delivered using a counterparty bank rather than an investment manager. Mercer went through a process of determining the best counterparty bank and it was agreed that JP Morgan would deliver the strategy via the existing Insight investment vehicle.

Further details of the updated funding level triggers and Equity market protection will be shown in the relevant Committee report.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations as part of the Flightpath monitoring detailed above and regular funding reviews. If considered appropriate, the funding and flightpath strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the CPF membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants
- if there have been any significant special contributions paid into the CPF
- if there has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy

When monitoring the funding position, if the Administering Authority considers that any action is required, the employing authorities will be contacted to provide an update and details of any proposed remedial actions at the next valuation or earlier if appropriate.

#### FURTHER INFORMATION

If you require further information about anything in or related to this Funding Strategy Statement, please contact:

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council

E-mail - [Philip.latham@flintshire.gov.uk](mailto:Philip.latham@flintshire.gov.uk)

Telephone - 01352 702264

# APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

## METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

## FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

### Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.0% per annum above CPI inflation i.e. a real return of 2.0% per annum and a total discount rate of 4.2% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. The discount rate will be reviewed as a matter of course at the time of a formal valuation.

### Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

### Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. For example for public sector employers this results in a total salary increase of 1% per annum to 2019/20 in line with Government policy. Depending on the circumstances of the employer, the variants on short term pay that have been applied are either no allowance or an allowance of 1% per annum for each year from the valuation date up to 2020.

### **Pension increases/Indexation of CARE benefits**

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

## **DEMOGRAPHIC ASSUMPTIONS**

### **Mortality/Life Expectancy**

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum for males, and 1.5% per annum for females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

### **Commutation**

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

### **Other Demographics**

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 5% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

### **Expenses**

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.6% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation and is calculated by estimating the level of expenses for the Fund over the period from 1 April 2017 to 31 March 2020. Investment expenses have been allowed for implicitly in determining the discount rates. In addition, any expenses that are directly attributable to specific employers via the Employer Liaison team, will be included in the assessment of that employer's expense allowance from the 2019 actuarial valuation.

### Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

### METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

At the valuation date, the financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

### EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.



SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE “PRIMARY RATE”) FOR THE 2016 ACTUARIAL VALUATION

<b>Long-term yields</b>	
Market implied RPI inflation	3.20% p.a.
<b>Solvency Funding Target financial assumptions</b>	
Investment return/Discount Rate	4.20% p.a.
CPI price inflation	2.20% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.20% p.a.
<b>Future service accrual financial assumptions</b>	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.20% p.a.
Long Term Salary increases*	3.45% p.a.
Pension increases/indexation of CARE benefits	2.20% p.a.

\*short term salary increases of 1% per annum for each year from the valuation date up to 2020 also apply for most employers

**Life expectancy assumptions**

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Pensioner	Normal Health	99% S2PMA_CMI_2015[1.75%] / 90% S2PFA_CMI_2015[1.5%]
	Dependant	130% S2PMA_CMI_2015[1.75%] / 103% S2DFA_CMI_2015[1.5%]
	Ill Health	99% S2PMA_CMI_2015[1.75%] + 3 years / 90% S2PFA_CMI_2015[1.5%] + 3 years
Active	Normal Health	99% S2PMA_CMI_2015[1.75%] / 86% S2PFA_CMI_2015[1.5%]
	Ill Health	99% S2PMA_CMI_2015[1.75%] + 4 years / 86% S2PFA_CMI_2015[1.5%] + 4 years
Deferred	All	124% S2PMA_CMI_2015[1.75%] / 99% S2PFA_CMI_2015[1.5%]
Future Dependant	Dependant	106% S2PMA_CMI_2015[1.75%] / 98% S2DFA_CMI_2015[1.5%]

Life expectancies at age 65:

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.8	25.4
Actives aged 45 now	25.4	28.1
Deferreds aged 45 now	23.5	26.9

Other demographic assumptions are set out in the Actuary's formal report.

# APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement although employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of recovery periods is summarised in the table below:

Category	Average Deficit Recovery Period (whole years)	Derivation
Unitary Authority Councils	15 years	Determined by reducing the period from the preceding valuation by 3 years.
Other Tax-raising Scheduled and Designating Bodies	11 years	Determined by reducing the period from the preceding valuation on a case by case basis with the intention of reducing by at least 3 years.
Education Bodies (Universities and Colleges)	13 years	Determined by reducing the period from the preceding valuation by at least 3 years.
Admission Bodies (guaranteed by another Scheme Employer within the Fund)	16 years	Subject to agreement with guarantor.

Individual employers have been notified separately of their individual recovery periods when they were provided with their individual valuation results.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;

- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- changes in the funding position after the valuation date which is deemed reasonable.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation.

## OTHER FACTORS AFFECTING THE EMPLOYER DEFICIT RECOVERY PLANS

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice. Typically this will be managed primarily through an adjustment to the recovery period and/or phasing/stepping of contributions.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the Fund Actuary, retains ultimate discretion in agreeing final employer contribution plans, and will consider whether any exceptional arrangements should apply to any participating employer within the Fund.

# APPENDIX C - ADMISSION AND TERMINATION POLICY

## INTRODUCTION

This document details the Clwyd Pension Fund's (CPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers CPF's policy on admissions into the Fund and sets out the considerations for current and former *admission bodies*. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the CPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the CPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

## ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

## ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the CPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the CPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the CPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the CPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

## PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy can be assumed as a match to the liabilities if agreed by the Administering Authority based on the advice of the Actuary. In particular the employing body’s notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

## EXITING THE FUND

### TERMINATION OF AN EMPLOYER'S PARTICIPATION

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

### EMPLOYERS WITHOUT A GUARANTOR

The CPF's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated). The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation).
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

### EMPLOYERS WITH A GUARANTOR

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the CPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the CPF otherwise.

The guarantor or successor body will then, following any termination payment made by the exiting employer, subsume the assets and liabilities (and any surplus or deficit) of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This is subject to the agreement of all parties involved (i.e. the Fund, the exiting employer and the guarantor) who will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor.

This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

In the event of a surplus, if all parties do not agree, then the surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place). In some instances the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate agreement. This would only be taken into account if the Administering Authority is made aware of any such arrangement.

In maintaining a consistent approach the Fund will seek to recover any deficit from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

If a guarantor unjustifiably deviates from the policy to subsume the residual assets, liabilities and any surplus or deficit, future termination events with regard to the payment of the surplus or deficit will be treated in line with the approach adopted for employers without a guarantor in the Fund (the ongoing valuation basis will still be adopted in this case).

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases no termination assessment is required as there will no longer be any orphan liabilities in the CPF. A separate assessment of the assets to be transferred will be required.

## FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer. In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation).



## MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Minimum risk assumptions	31 March 2016
Discount Rate	2.2% p.a.
CPI price inflation	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the long term trend of improvement in mortality rates to 2% p.a. from the 1.75% p.a. and 1.5% p.a. used for males and females respectively, in the 2016 valuation for ongoing funding and contribution purposes.

# APPENDIX D – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- > Type of body and its origins
- > Nature and enforceability of legal agreements
- > Whether there is a bond in place and the level of the bond
- > Whether a more accelerated recovery plan should be enforced
- > Whether there is an option to call in contingent assets
- > Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

## RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

## ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

## FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

## COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and investment strategy (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

# APPENDIX E – INSURANCE ARRANGEMENTS

## OVERVIEW OF ARRANGEMENTS

The Fund is setting up an internal captive ill health insurance arrangement which pools these risks for eligible employers. The aim of the arrangement would be that smaller employers, whose funding position could be significantly affected by the retirement of one or more of their members on the grounds of ill health, would pay a premium to the Fund within their future service contribution rate. This arrangement will not affect eligible employer contribution rates at this valuation but may affect them going forward.

### INTERNAL CAPTIVE INSURANCE

The internal captive arrangement would operate as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate.
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of both active and deferred members i.e. so there is no initial impact on the deficit position for employers within the captive.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or lower premiums at the discretion of the Administering Authority based on the advice of the actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

## SUMMARY

The relevant employers will be notified of their participation. New employers entering the Fund who fall into the “small employer” category would also be included.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against the allowance certified with recovery of any excess costs from the employer once the allowance is exceeded either at the next valuation or at an earlier review of the contributions due including on termination of participation.

# APPENDIX F - GLOSSARY

**ACTUARIAL VALUATION:** an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

**ADMINISTERING AUTHORITY:** the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

**ADMISSION BODIES:** A specific type of employer under the Local Government Pension Scheme (LGPS) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

**BENCHMARK:** a measure against which fund performance is to be judged.

**BEST ESTIMATE ASSUMPTION:** an assumption where the outcome has a 50/50 chance of being achieved.

**BONDS:** loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

**CAREER AVERAGE REVALUED EARNINGS SCHEME (CARE):** with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

**MINIMUM RISK BASIS:** an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

**CPI:** acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

**COVENANT:** the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

**DEFICIT:** the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

**DEFICIT RECOVERY PERIOD:** the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

**DISCOUNT RATE:** the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount means lower liabilities and vice versa.

**EMPLOYER'S FUTURE SERVICE CONTRIBUTION RATE ("PRIMARY RATE"):** the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

**EMPLOYING BODIES:** any organisation that participates in the LGPS, including admission bodies and scheme employers.

**EQUITIES:** shares in a company which are bought and sold on a stock exchange.

**EQUITY PROTECTION:** an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

**EXIT CREDIT:** the amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

**FLIGHTPATH:** a framework that defines a de-risking process whereby exposure to growth assets is reduced as and when it is affordable to do so i.e. when "triggers" are hit, whilst still expecting to achieve the overall funding target.

**FUNDING OR SOLVENCY LEVEL:** the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

**FUNDING STRATEGY STATEMENT:** This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

**GOVERNMENT ACTUARY'S DEPARTMENT ("GAD"):** the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

**GUARANTEE / GUARANTOR:** a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor

will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

**HEDGING:** a strategy that aims to reduce funding volatility. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

**HEDGE RATIO:** The level of hedging in place as a percentage of the liabilities. This can be in relation to interest rates, inflation rates or real rates of return.

**ILL HEALTH CAPTIVE:** this is a notional fund designed to immunise certain employers against excessive ill health costs in return for an agreed insurance premium.

**INVESTMENT STRATEGY:** the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

**LETTING EMPLOYER:** an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

**LIABILITIES:** the actuarially calculated present value of all benefit entitlements i.e. scheme cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

**LGPS:** the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

**MATURITY:** a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

**MEMBERS:** The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

**MINIMUM RISK FUNDING BASIS:** more cautious funding basis than the existing valuation basis. The relevant discount rate used for valuing the present value of liabilities is based on the yields from Government Bonds or Swaps.

**ORPHAN LIABILITIES:** liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

**PERCENTILES:** relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.



**PHASING/STEPPING OF CONTRIBUTIONS:** when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

**POOLING:** employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

**PREPAYMENT:** the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

**PRESENT VALUE:** the value of projected benefit payments, discounted back to the valuation date.

**PROFILE:** the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

**PRUDENT ASSUMPTION:** an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

**RATES AND ADJUSTMENTS CERTIFICATE:** a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

**REAL RETURN OR REAL DISCOUNT RATE:** a rate of return or discount rate net of (CPI) inflation.

**RECOVERY PLAN:** a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

**SCHEDULED BODIES:** types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

**SCHEME EMPLOYERS:** employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

**SECTION 13 VALUATION:** in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

**SOLVENCY FUNDING TARGET:** an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

**VALUATION FUNDING BASIS:** the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

**50/50 SCHEME:** in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

# Investment Strategy Statement

## Flintshire County Council

### Administering Authority for the Clwyd Pension Fund

#### 1. Statutory Requirement for an Investment Strategy Statement

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

The Public Service Pensions Act 2013 (The Act) enables the Secretary of State to make regulations creating schemes of pensions for, amongst others, local government workers. In England and Wales, such a scheme was created by the Local Government Pension Scheme Regulations 2013 (The Regulations). These Regulations were made by the Secretary of State exercising powers in the Superannuation Act 1972.

Under powers contained in The Act and The Regulations, the Secretary of State made the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, which replace the 2009 Investment Regulations. These regulations came into force on 1<sup>st</sup> November 2016.

Regulation 7(1) requires administering authorities to formulate an Investment Strategy Statement (ISS) which must be in accordance with guidance issue by the Secretary of State, and replaces the existing requirement to produce and maintain a Statement of Investment Principles.

The ISS must include:

- (a) A requirement to invest money in a wide variety of investments;
- (b) The authority's assessment of the suitability of particular investments and types of investments;
- (c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- (d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) The authority's approach on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments that it will invest in particular investments or classes of investments. This, in effect, replaces Schedule 1 of the 2009 Regulations.

The statement must be published by 1<sup>st</sup> April 2017 and regularly reviewed and at least every three years. Under transitional arrangements key elements of the 2009 Regulations will remain in force until the ISS is published.

This document is designed to comply with the guidance given by the Secretary of State, is effective from 1 April 2017 and will be reviewed on a regular basis, with any material changes published.

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

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

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

## About the Fund

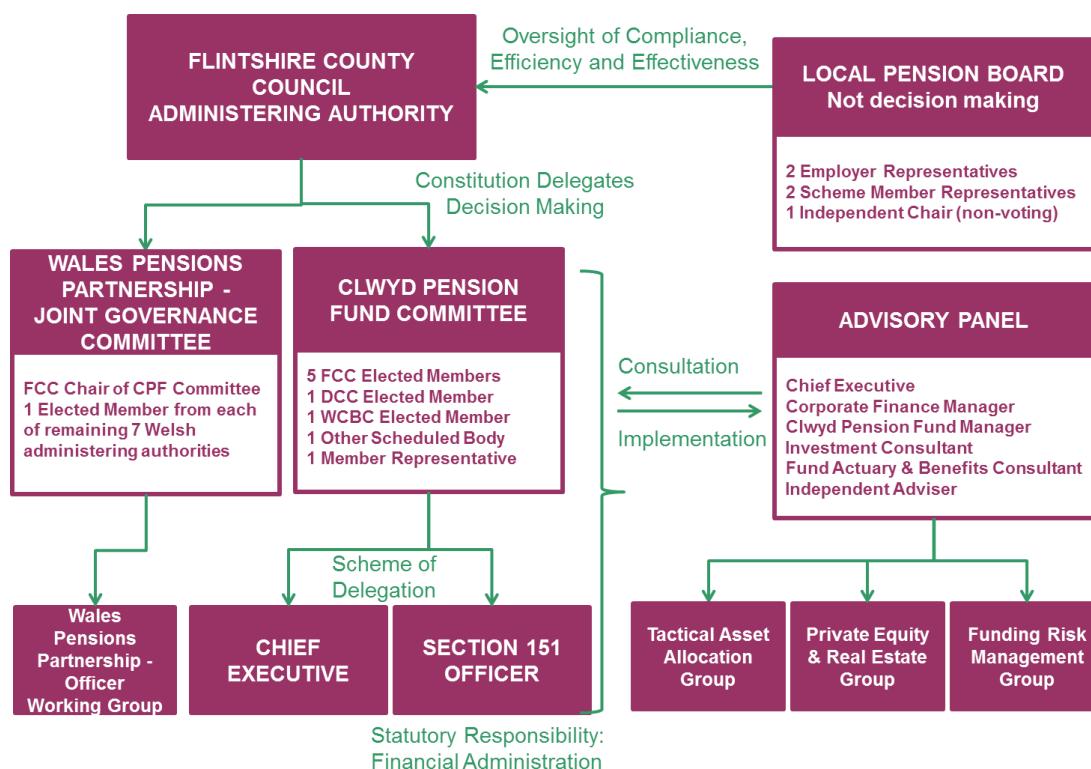
The Clwyd Pension Fund ("CPF") is a £1.8bn Local Government Pension Fund which provides death and retirement benefits for local government employees (other than teachers, police and fire-fighters) in North East Wales and employees of other qualifying bodies which provide similar services.

Total Fund membership is about 46,700 with about 16,000 active contributors from 43 contributing employers and about 30,500 retired members, widows and deferred members.

### Governance and Management of the Fund

The key decision making and management of the Fund has been delegated by Flintshire County Council ("the Council") to a formal Pension Fund Committee ("PFC"), supported by a Pensions Advisory Panel ("AP"). Before making strategic investment decisions the Clwyd Fund takes advice from a regulated investment consultant; JLT Employee Benefits. The Fund also receives advice from the Risk Management Advisers Mercer. The County Council's Section 151 Officer (Corporate Finance Officer) has a statutory responsibility for the proper financial affairs of the Council including Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Executive.

The Fund's governance structure is illustrated in the diagram below.



### *Aims and Objectives for the Management of the Fund*

In the Management of the Fund there is a Mission Statement and Governance Objectives (shown below). These apply to the approach to investing the Fund's monies as well as managing the overall Fund. These holistic objectives have been developed to guide the management of all aspects of the Fund.

#### *Our Mission Statement is:*

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

The key actions and areas of focus in the Fund's business plan are grouped into the four areas of governance, funding and investments, communications and administration, to align with the key aims and objectives of these strategies and policies. The specific aims relating to the investment management of the Fund are summarised below.

#### *Funding and Investments*

- Achieve and maintain assets equal to 100% of liabilities within the 15 year average timeframe, whilst remaining within reasonable risk parameters
- Determine employer contribution requirements, whilst recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination.
- Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability;
- Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

## Investment Strategy of the Clwyd Pension Fund

The following sections details the Fund's investment strategy, which takes into account Regulation 7(2) (a) and 7(2) (b) listed below:

### 2. Investment of money in a wide variety of investments

Regulation 7(2) (a) requires that administering authorities invest in a diversified portfolio of assets to ensure that risk is appropriately managed and volatility of overall return is reduced. The guidance that accompanies the regulations does not prescribe the specific asset classes over which Fund monies must be invested.

### 3. Suitability of particular investments and types of investments

Regulation 7(2) (b) requires that in assessing the strategic allocation for the Fund, an administering authority assesses the suitability of particular investments and types of investments against the need to meet pension obligations as they fall due.

In assessing the suitability and variety of investments, and considering the risks, the starting point should be the Fund's overall objectives. These are listed in the previous section "About the Fund".

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

#### Funding Principles

The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2017 includes a number of investment return assumptions:

- An investment return (discount rate) for the funding target of CPI inflation plus 2.0% p.a. (assumed 4.2%).
- An investment return for the future service contribution rate of CPI Inflation plus 2.75% p.a. (assumed 4.95%).

Over a three-year period an investment return above these assumptions will contribute to reducing the funding deficit and thus employer contributions, providing that liability assumptions such as longevity and inflation remain on target. The Fund's triennial Valuation considers all these factors when determining employer contribution rates. New employer rates will be implemented from 1st April 2017. The next Actuarial Valuation will be as at 31st March 2019 with implementation from April 2020.

A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013. The Statement outlines the strategy for recovering the funding deficit over 15 years. A copy of the FSS can be obtained from the Fund's web site at <http://www.clwydpensionfund.org.uk/>. The funding strategy will be monitored during 2017/20.

In managing the Fund, the key objectives are:

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

The Clwyd Pension Fund was funded at 76% of liabilities (2016 Actuarial Valuation) and employers' rates are currently structured to achieve a gradual return to 100% funding by 2031. Whilst stability of costs from the employers' rates has the higher priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice
- employers will adopt appropriate and economic policies in those areas where they have discretion and where the costs of their actions fall on the Fund
- the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will continue to take an active risk relative to its liability profile.

The investment principles of the Fund are stated in full below, and are intended to strike the appropriate balance between the strategy most suitable for long-term consistent performance and the funding objectives. A favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

### Investment Principles

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

The Fund's overall strategic risk and return profile is currently determined through its strategic asset allocation. In establishing the Fund's long-term strategic asset allocation, or strategic benchmark, the key factors are the overall level of return being sought, the minimum level of risk consistent with this and the impact of diversification in reducing this risk further. At asset class or mandate level, asset class weightings, appropriate benchmarks and out-performance targets are the key building blocks in framing this overall Fund strategy.

It is Fund policy to carry out a fundamental review of the Fund's structure and management arrangements at least every four years. The review includes research on market views for the longer-term risk, return and correlation profiles for different asset classes and a more tactical view on the global economic and market environment over the next three to five years. This research is used to determine an optimum future balance between the various assets classes and hence the Fund's fixed strategic benchmark.

The latest Fund review was undertaken in 2016/17 and changes as a result of this have now been fully implemented. Details of the investment strategy are included in following sections.



## Investment Strategy

### Setting the Strategy

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

The strategic benchmark highlighted later in this section takes account of the risk and return characteristics of each asset class and provides a reasonable long-term balance appropriate to the liabilities of the Fund. The Clwyd Pension Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The Committee recognise the benefits of diversification across asset classes, as well as within them, in reducing the risk that results from investing in any one particular market. Where they consider it advisable to do so, the Committee have appointed investment managers to select and manage the allocations across asset classes, in particular where it would not be practical (or appropriate) for the Committee to commit the resources necessary to make these decisions themselves.

In assessing the suitability of investments required to form the overall portfolio the Committee consider a number of characteristics of each asset class, and sub asset class. These characteristics include potential return, risk/volatility of returns, liquidity, duration and interest rate sensitivity. In setting and reviewing an overall investment strategy for the Clwyd Pension Fund the starting point is always the Actuary's assessment of the liabilities of the Fund. This assessment will include cash flow requirements and an assessment of the required return to ensure the long term solvency of the Fund, and it is essential that the investment strategy is compatible with this.

### 2016/17 Review

The 2016/17 review showed, using JLT Market Forecast Group output for Quarter 2 2016, that the expected market returns over the coming ten year period would mean that the Fund could be expected to generate a return of 6.5% p.a. (CPI inflation plus 4.5% p.a.). This is equivalent to CPI inflation plus 4.3% p.a. taking the CPI assumed in accordance with 31 March 2016 Actuarial Valuation. Investigations showed that the portfolio was well diversified and did not need a significant overhaul and the de-risking framework and Flight-path was well placed, subject to conclusion of a review by the Fund's consultants.

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

These opportunities led to four main areas of change.

- Global Equity exposure to be split between Active and Smart Beta portfolios.
- Remove allocation to Frontier Market Equity, due to continued geo-political risk and the uncertainty of returns in the medium term;
- A new allocation to Private Credit to take advantage of the current opportunity set;
- Reduce UK Property allocation and increase investment in Infrastructure, in the longer term;

These changes meant that the expected return could be increased by 0.1%, with minimal change to the projected Deficit Risk.

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

## **Investment Decisions**

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

### *Strategic Investment Decisions*

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

The Committee takes all such decisions themselves. They do so after receiving advice from their investment consultant. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

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

### *Tactical Investment Decisions*

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

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

### *Stock Selection Decisions*

All such decisions are the responsibility of the investment managers with which the Fund invests.

## Strategic Asset Allocation

In setting the Strategic Asset Allocation for the Clwyd Pension Fund the Regulations require the Committee to invest in a wide variety of investments and in doing so assess the suitability of particular types of investments. Subject to satisfying these elements of the Regulations the Clwyd Pension Fund is not constrained to certain types of investments; the new requirement is for the Committee to set their own limits. The Fund is therefore permitted to invest across a wide range of asset classes, including, but not limited to, the following:

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

## Balance between different types of investments

The Regulations require the administering authority to have regard for the diversification of the Fund's investments.

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

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

The investment structure agreed in the 2016/17 investment strategy review is detailed in the table below:

Asset Class	Strategic Allocation (%)
Developed Global Equity	8.0
Emerging Market Equity	6.0
Credit Portfolio	15.0
<i>Multi-Asset Credit (liquid)</i>	<i>12.0</i>
<i>Private Credit (illiquid)</i>	<i>3.0</i>
Real Assets Portfolio *	12.0
<i>Property</i>	<i>4.0</i>
<i>Infrastructure</i>	<i>8.0</i>
Private Markets	10.0
Tactical Portfolio	21.0
<i>Diversified Growth</i>	<i>10.0</i>
<i>Best Ideas **</i>	<i>11.0</i>
Managed Account ***	9.0
Liability Hedging	19.0

**Notes:**

\* The Target allocation of the underlying asset classes in the Real Assets portfolio will take some time to achieve due to the illiquidity of the asset classes involved.

\*\*The Best Ideas portfolio is tactically allocated according to shorter-term market views. This can be implemented by increasing the allocation to any of the asset classes listed above or by separate asset classes in any type of investment. This allocation is made through consultation with the Tactical Allocation Group, which is bound by the Tactical Allocation Portfolio Terms of Reference. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

\*\*\* The managed account includes allocations to Managed Futures and Hedge Funds.

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

## Asset Allocation and Long Term Expected Return on Investment

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

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

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

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

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

The Fund's strategic allocation, as set out below, does not assume any outperformance from the investment managers. The expected returns stated in this table are as at the date of the 2016/17 strategic review.

Asset Class	Strategic allocation (%)	Strategic range (%)	Conditional range (%) *	Expected return above Inflation (CPI) p.a.**
Developed Global Equity	8.0	5.0 – 10.0	0 – 30	+4.5%
Emerging Market Equity	6.0	5.0 – 7.5	0 – 15	+5.5%
Credit Portfolio	15.0	10.0 – 20.0	5 - 25	+2.1%
<i>Multi-Asset Credit (liquid)</i>	<i>12.0</i>	<i>10.0 – 15.0</i>	<i>5 - 20</i>	<i>+1.8%</i>
<i>Private Credit (illiquid)</i>	<i>3.0</i>	<i>2.0 – 5.0</i>	<i>0 - 10</i>	<i>+3.5%</i>
Real Assets Portfolio	12.0	10.0 – 15.0	5 - 20	+4.9%
<i>Property</i>	<i>4.0</i>	<i>2.0 – 6.0</i>	<i>0 – 10</i>	<i>+4.0%</i>
<i>Infrastructure</i>	<i>8.0</i>	<i>5.0 – 10.0</i>	<i>2 – 12</i>	<i>+5.3%</i>
Private Markets	10.0	8.0 – 12.0	8 – 12	+6.5%
Tactical Portfolio	21.0	15.0 – 25.0	10 – 30	+3.6%
<i>Diversified Growth</i>	<i>10.0</i>	<i>8.0 – 12.0</i>	<i>5 – 15</i>	<i>+4.2%</i>
<i>Best Ideas ***</i>	<i>11.0</i>	<i>9.0 – 13.0</i>	<i>5 – 15</i>	<i>+3.0%</i>
Managed Account****	9.0	7.0 – 11.0	5 - 15	+4.0%
Cash	-	0.0 – 5.0	0 – 30	+0.0%
Liability Hedging*****	19.0	10.0 - 30.0	10 - 30	+4.5%

## Notes:

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

\*\* Expected return is expressed as an excess long-term return over CPI Inflation to reflect extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2016/17 strategic review. CPI Inflation is used as the basis for expected returns as it is a proxy for valuing the liabilities.

\*\*\* The Best Ideas allocation is a short term (12 month horizon) tactical allocation based on the JLT's (the Fund's Investment consultant) "best ideas". The portfolio should be liquid and cost efficient.

\*\*\*\* The Managed Account includes allocations to Managed Futures and Hedge Funds

\*\*\*\*\* The Liability Hedging Portfolio, a combination of Liability Driven Investment (LDI) and synthetic equity instruments, will be managed as part of a de-risking approach. Given the nature of this mandate i.e. protection against liability changes, it is not intended to rebalance the allocation, which can lead to a movement away from the initial strategic allocation of 19% at inception of the mandate.

The inclusion of a diversified range of assets and the scope for tactical allocation in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. This was the case when modelling the revised investment strategy in 2016.

## Flight path strategy

In March 2014, the Fund established a Liability Hedging programme covering both nominal and inflation linked interest rates.

A Flight path for increasing the level of protection of the hedges was agreed along with other funding level triggers. An LDI manager was appointed to manage this hedging portfolio in relation to market yield triggers and the Funding and Risk Management group monitors the funding level triggers relating to the overall funding and investment risk management.

As part of the 31<sup>st</sup> March 2016 actuarial valuation and investment strategy review cycle, the officers and Fund consultants (Mercer and JLT) have reviewed the Flight-path and updated the interest rate and inflation triggers.

There are no formal funding level triggers in place although it has been agreed that when the funding level hits 100% or higher consideration will be given to whether the allocation to more liability matching assets should be increased.

The Fund implemented a static equity protection strategy in relation to the LDI mandate protecting against equity market falls on exposure of £330m. This was in place from 24<sup>th</sup> April 2017 which ran until 24<sup>th</sup> May 2018.

On 24<sup>th</sup> May 2018 a new dynamic Equity Protection strategy was put in place. This was after rigorous analysis and value for money considerations. The strategy protects against falls of 15% or more of the average market position over the previous 12 months on the £360m of equity exposure in the LDI portfolio. This will be financed by giving up some potential upside

return on a monthly basis. Whilst more complex to set up, the dynamic strategy provides advantages versus the previous static approach as follows:

4. Improved protection levels in upward trending markets
5. Expectation of better long-term risk adjusted returns (after fees and transaction costs) except in some extreme scenarios
6. Improved flexibility and on-going governance as it allows the structure to easily adapt to changing requirements including switching the protection off

Due to the requirements of implementing the strategy on a daily rolling basis, it was agreed that the strategy would be delivered using a counterparty bank rather than an investment manager

## Realisation of investments

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

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

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

## Cash Strategy

From 1st April 2011 the 2009 Investment Regulations required the Pension Fund to have a separate bank account from the Local Authority.

The Pension Fund does not have a strategic allocation to cash for investment purposes but holds surplus cash for paying:

- Benefits and transfers as per the Regulations.
- The administration costs of the Fund.
- The Investment management fees.
- Commitments to real assets and private market investments.

However, in extreme market conditions cash could be used as part of the Conditional Asset Allocation.

The aim is to avoid requiring to borrow for liquidity purposes, although Investment Regulations allow Pension Funds to borrow for a maximum of 90 days.

The cash could be deposited in one of the following, subject to cash flow requirements:

- The Pension Fund bank account with the National Westminster bank for daily liquidity.
- A deposit account with the National Westminster Bank with access up to 180 days' notice.

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

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

### **Stock Lending**

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



## **4. Approach to risk, including the ways in which risks are to be measured and managed**

Regulation 7(2) (c) requires that funds describe their approach to risk within their investment portfolio, including summarising the key risks and detailing the approach to mitigate the risk (where possible or appropriate).

### **Risk Register**

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

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

The risk register continually updated and key risks are considered on a regular basis at the Committee and Advisory Panel meetings.

The Committee is aware and seeks to take account, of a number of risks in relation to the Fund's investments, and these are detailed in the following paragraphs.

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence, if the investment returns are less than that required in the funding strategy the funding level will deteriorate, all else being equal. The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is controlled through diversification of asset holdings. The Fund has a bespoke Flightpath/Risk Management strategy that has established objectives to ensure that the Fund's exposure to interest rate risk and inflation risk is managed and monitored on an on-going basis.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely manager, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is considered in the Fund's Sustainability Policy is later in this document.

In considering the Fund's investment strategy, one must therefore bear in mind this balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising downside risk, within agreed parameters.

### **Solvency Risk and Mismatching Risk**

- These are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities.
- These are managed by setting a Fund-specific strategic asset allocation with an appropriate level of risk.

### **Manager Risk (including the Wales Pension Partnership)**

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and by monitoring and replacing any

managers where concerns exist over their continued ability to deliver the investment mandate.

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

### **Liquidity Risk**

- This is monitored according to the level of cash-flows required by the Fund over a specified period.
- Whilst ensuring that there is the appropriate liquidity within the assets held, the Fund invests in less liquid investments to take advantage of the "illiquidity premium" offered.
- Despite this the Fund holds an appropriate amount of readily realisable investments. The Fund's assets are invested in pooled funds which are readily realisable and there is a significant amount of liquidity based upon the existing strategic asset allocation.

### **Political Risk**

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- The Fund manages this by regular reviews of the investments and through investing in funds which give a wide degree of diversification.

### **Corporate Governance Risk**

- This is assessed by reviewing the Fund's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. The Fund's Sustainability Policy explains the approach in detail, and is included later in this document.

### **Legislative Risk**

- This is the risk that legislative changes will require action from the Committee so as to comply with any such changes in legislation.
- The Committee acknowledge that this risk is unavoidable but will seek to address any required changes so as to comply with changes in legislation.

### **Market Risk**

- This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.
- The Fund seeks to manage this risk through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers.
- The Fund has a significant weighting to a Tactical Allocation portfolio (TAP) which aims to take advantage of market risk, by making shorter term tactical allocations which suit the specific characteristics of the Clwyd Fund. This is achieved with an allocation to

Diversified Growth (with style diversification across two managers) and via an allocation to a Best Ideas portfolio.

- As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided, and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.
- Market risk comprises of the following three types of risk:

### **Currency Risk**

- This is the risk that occurs when the price of one currency moves relative to another (reference) currency. In this context, the Fund may be invested in overseas stocks or assets, which are either directly or indirectly linked to a currency other than Sterling. There is a risk that the price of that overseas currency will move in such a way that devalues that currency relative to Sterling, thus negatively impacting the overall investment return.
- The Fund seeks to address this within the TAP but does not take a strategic view on currency movements.

### **Interest rate risk and Inflation risk**

This covers the following risks:

#### **Interest rate risk**

- This is the risk that an investment's value will change due to a change in the level of interest rates. This affects debt instruments more directly than growth instruments.

#### **Inflation risk**

- This is the risk that the value of the Fund's liabilities which are inextricably linked to Consumer Price Index (CPI) inflation, increase at greater rate than the assets.
- The Committee also acknowledge the interest rate risk and inflation risk related to individual debt instruments. This is managed by the underlying investment managers through a combination of strategies, such as diversification, duration and yield curve management and investing in assets that move in line with inflation such as Infrastructure.
- Since 2014 the Fund has adopted a Flight-path approach to managing the specific inflation and interest rate risk. The Flight path is regularly reviewed and the appropriate trigger levels set.

## Risk Budgets

In formulating the revised investment strategy, expected risk and return figures were utilised for each asset class. The figures used in the 2016/17 strategic review are as follows.

Asset Class	Expected return above inflation p.a. *	Expected Risk (Volatility) p.a. **
Developed Global Equity	+4.5%	14%
Emerging Market Equity	+5.5%	20%
Credit Portfolio	2.1%	6%
Multi-Asset Credit (liquid)	+1.8%	5%
Private Credit (illiquid)	+3.5%	12%
Real Assets Portfolio	4.9%	11%
Property	4.0%	5%
Infrastructure	5.3%	14%
Private Markets	+6.5%	28%
Tactical Portfolio	+3.6%	9%
Diversified Growth	+4.2%	9%
Best Ideas **	+3.0%	9%
Managed Account ***	+4.0%	6%
Liability Hedging	+4.5%	15%

\* Expected return is expressed as an excess long-term return over Inflation (measured by CPI) to reflect the extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2016 strategic review. CPI is used as the basis for expected returns as they are a proxy for valuing the liabilities.

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

\*\*\* The managed account includes allocations to Managed Futures and Hedge Funds

## Proper advice

In assessing the Fund's strategy, including an assessment of the implicit risks, and setting the maximum limits Flintshire County Council as Administering Authority for the Clwyd Pension Fund has taken proper advice from Officers, JLT Employee Benefits (Investment Consultants) and Mercer (Actuaries and Risk Management Advisers).

As part of the Fund's governance structure, there are regular meetings between the Fund's officers, the Investment Consultants, the Actuaries and Risk Management Advisers and the Fund receives advice from these parties on a continuous basis.

## 5. Approach to pooling

Regulation 7(2) (d) requires that all authorities commit to a suitable pool to achieve benefits of scale. It also requires that administering authorities confirm the chosen investment pool meets Government's investment reform criteria, or to the extent that it does not, that Government is content for it to continue.

The Clwyd Pension Fund is participating in the development of the WALES Pool. The proposed structure and basis on which the WALES Pool will operate was set out in the July 2016 submission to the Government.

The WALES Pool received confirmation from the Minister for Local Government that he was happy that the proposals met the required criteria, with the exception of the size requirement. However, the Minister confirmed in his letter to the Welsh Funds that given the special position of Wales, and the long history of collaboration he was content with the final proposal.

The agreed objectives of the WALES Pool are:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

In the longer term, subject to the above mentioned objectives being met, the Clwyd Fund is committed to investing all of its assets through the WALES Pool.

### Structure and governance of the WALES Pool

The Pool has appointed Link Fund Solutions Ltd to establish and run a collective investment vehicle for the sole use of the LGPS funds in Wales. A diagram showing the governance structure is shown on the next page.

A Joint Governance Committee (JGC) was established in 2017 to oversee the operator. The Committee comprises elected members – one from each of the eight participating funds. It is anticipated that this may be the Chairs of the respective Pensions Committees though administering authorities may choose to nominate alternative members if appropriate. This arrangement provides accountability for the operator back to individual administering authorities.

The JGC is setup formally as a Joint Committee between the participating administering authorities. It will operate on the basis of "One Fund, One Vote", though the intention is that any decisions are reached on a consensus wherever possible. A formal Terms of Reference for the Committee has been agreed.

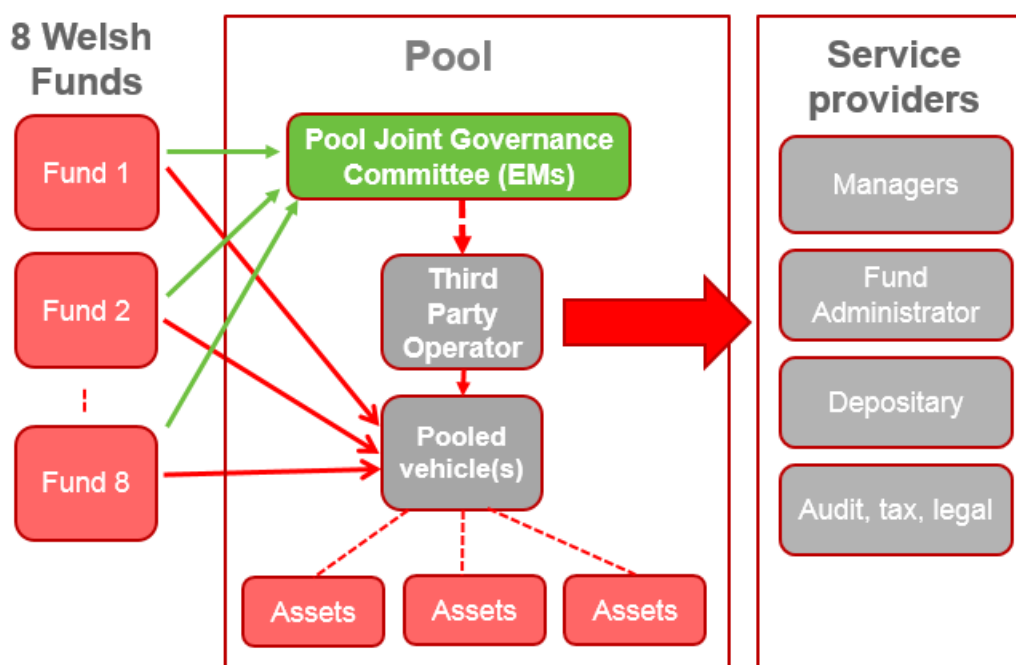
Each authority has committed to the pool by agreeing and signing an Inter-Authority agreement. The agreement sets out the principles behind the WALES pool, and will commit the administering authorities to sharing the costs of setup.

The Wales Pension Partnership Officer Working Group has been established as part of the Wales Pension Partnership Inter Authority Agreement to support and advise the Joint Governance Committee on such matters as the Joint Governance Committee may reasonably request or any matters relating to the pooling agreement which are raised by any of the authorities' Section 151 Officers or Monitoring Officers.

Each authority delegates to officers to the Officer Working Group. In relation to Clwyd Pension Fund, the Pension Fund Committee determines which of its officers sit on the Officer Working Group. Each authority's Section 151 Officer and Monitoring Officer are entitled to attend the Officer Working Group

Each authority has committed to the pool by agreeing and signing an Inter-Authority agreement. The agreement sets out the principles behind the WALES pool, and will commit the administering authorities to sharing the costs of setup.

### **Governance Structure of the WALES Pool**



Link Fund Solutions is responsible for selecting and contracting with investment managers for each of the sub-funds as well as appointing other service providers such as a depository asset servicer, and an external valuer as necessary.

Listed bonds and equities will be invested through a UK based Authorised Contractual Scheme (ACS) in order to benefit from the tax transparent nature of the vehicle. It may be that alternative vehicles are more appropriate for some asset classes. As well as considering the options with Link Fund solutions, advice will be sort of the final proposed approach from a tax efficiency and legal compliance basis.

It is likely that it will take some time for the illiquid asset classes to transition into the Pool, and the process and benefits of doing so will be discussed with the operator. Given the Clwyd Fund has a significant proportion of its assets in alternative, less liquid investments it may be some time before all of the Fund's assets are able to be pooled.

## 6. Approach to Environmental, Social and Governance issues

And

## 7. Policy on exercising voting rights

Regulation 7(2)(e) requires administering authorities to demonstrate that it considers any factors that are financially material to the performance of the fund's investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

Regulation 7(2) (f) requires administering authorities to explain their policy on exercising rights (including voting rights) attaching to investments. The guidance refers to the Financial Reporting Council's UK Stewardship Code and requires that funds explain, where appropriate their policy on stewardship with reference to the Stewardship Code.

### Responsible Investing Policy

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to actively engage with companies, and to vote. Due to the Fund investing mainly in pooled funds it is not possible to impose the Fund's own voting policy, but on appointment the Fund ensures that the fund manager has voting guidelines in line with the Clwyd Fund's policies.

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

As part of this the Fund, subject to fiduciary duties, makes selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry

The Fund regularly meets with existing and new managers to discuss opportunities within the environmental area.

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

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) whose primary aims are to seek improvements in the corporate governance of the companies in which member funds invest, and also to promote Socially Responsible Investment (SRI) on

environmental issues and issues relating to overseas employment standards. This very much reflects the principles built into the Fund's own Sustainability Policy.

The Fund is also a member of the Pension and Lifetime Savings Association (PLSA) which also provides further guidance on Governance and Social Responsibility issues as well as the wider pension issues.

The Clwyd Pension Fund has incorporated these areas and others into its Sustainability Policy (below).



## Sustainability Policy

### Definition

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

### Legal Framework, Constraints & Considerations

In framing a Sustainability Policy, the following are pertinent –

- There already exists a requirement for the Fund to include within its Investment Strategy Statement (ISS) details of its policy on social, ethical and environmental issues. This Sustainability Policy encompasses such issues and will be updated as required to take account of relevant new regulatory requirements.
- The Fund is required to fulfil its overriding fiduciary duty to focus as a primary consideration on financial performance and the maximisation of Fund returns, after taking full account of all existing and future financial risks. Such risks increasingly include sustainability issues.
- Whilst the financial criterion is maintained as a key investment decision criterion, this has now been broadened to include non-financial criteria, subject to certain caveats, and the Fund is required to give an explanation of the extent to which non-financial factors will be taken into account and its approach to social investments.
- The investment industry tends to focus on short term factors in terms of company interaction, shares prices and performance, and fund managers incentives tend to reflect this rather than being aligned with the longer-term objectives of pension fund investors.

#### Objective

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

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

## United Nations Principles for Responsible Investing (UNPRI)

Given the constraints outlined above and particularly the pooled nature of many of the Fund's investments, it would be difficult for the Fund to become a formal signatory to the UNPRI.

### United Nations Principles for Responsible Investing (UNPRI)

The Clwyd Pension Fund –

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

The Fund Objective stated above already encompasses most of the UNPRI.

## Application of Sustainability Principles

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

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

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

## Sustainability Approach

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

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

### Sustainability Approach

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

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

## Investment Strategy

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

### Environmental

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

### Social

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

### Ethical

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

#### Investment Strategy

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

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

## Company Engagement & Voting

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

In order to monitor the performance of external managers in terms of their degree of compliance with the guidelines and the performance of underlying investments with the Fund's sustainability objectives, there needs to be regular reporting and disclosure on sustainability issues, particularly areas of concern, as well as actions taken to address these.

## Company Engagement & Voting

### The Clwyd Fund –

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

## Investment Management & Monitoring of Performance

Investment managers need to be made aware of the Fund's Sustainability Policy

### Investment Management & Monitoring of Performance

The Clwyd Pension Fund –

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

## Investment Manager Selection & Contracts

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

### Investment Manager Selection & Contracts

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

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



## Collaboration

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

### Collaboration

The Clwyd Pension Fund –

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

## Reporting & Disclosure

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

### Reporting & Disclosure

The Clwyd Pension Fund –

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

## UK Stewardship Code

The Financial Reporting Council (FRC) first published the UK Stewardship Code in 2010, and revised it in 2012. The Code aims to enhance the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns to shareholders. The Code sets out a number of areas of good practice to which the FRC believes institutional investors should aspire. Since December 2010 all UK-authorized Asset Managers are required by the Financial Conduct Authority to produce a statement of commitment to the Stewardship Code or explain why it is not appropriate to their business model.

The Stewardship Code has seven principles, and the ISS guidance requires that administering authorities become signatories to the Code, and state how they implement the principles on a “comply or explain” basis.

The Fund applied and was approved as a Tier One signatory in March 2018, and can be seen on the [FRC website: https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements/asset-owners](https://www.frc.org.uk/investors/uk-stewardship-code/uk-stewardship-code-statements/asset-owners).

The compliance position is shown in Appendix 2.

In practice the Fund applies the Code both through its arrangements with its asset managers and through membership of the LAPFF. In the future as a member of the WALES Pool, the Committee expects that both the Pool and the underlying fund managers to comply with the Stewardship Code.

## Social investments

The Government guidance also addresses the issue of “social investments”; meaning those that deliver a social impact as well as a financial return. The Government considers that social investments are appropriate for LGPS funds where either the social impact is simply in addition to the financial return. It also considers that investments where some part of the financial return is forgone in order to generate the social impact are also appropriate, where the administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Much of the Fund’s approach is set out in the Sustainability Policy contained earlier in the document, but a specific response to this issue is set out below.

### Approach

The Clwyd Pension Fund is a strong believer in sustainability across all areas, including environmental, social and governance, and fully embodies these non-financial factors in its decision-making and monitoring processes. More specifically, it –

- Will endeavour to ascertain the extent to which potential fund managers are formal signatories to, support and comply with the UNPRI and seek to ensure full disclosure of the environmental, social and ethical policies and practices of such managers;
- Will, as part of its appointment process, give full consideration to a manager's philosophy, people and investment process, as well as its track record in terms of financial returns;
- Will give an appropriate weight to all such non-financial factors, including a manager's environmental, social and governance standing, as part of its decision-making process;
- Will encourage existing and long-standing managers to adopt the best environmental, social and governance standards and monitor progress, as appropriate;
- Will, subject to fiduciary considerations, make selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry etc.
- Will, subject to fiduciary considerations, make selective investments in managers with a social and environment impact focus whose aim is to “do good as well as doing well commercially”.
- Will look for investment opportunities across all sectors that offer potential for catalysing economic growth, particularly in deprived areas.

### Impact

The Clwyd Pension Fund is eager to ascertain the impact of such this approach and is eager to assess and quantify, where feasible, the outcomes from its investments. More specifically, it -

- Will monitor the performance of managers in pursuing such objectives and specifically seek information on relevant environmental and social factors at all meetings with them;
- Will encourage managers to assess and quantify, where feasible, the impact of such factors in terms of employment, health and well-being and education and training, environmental impact and regeneration etc.
- Will monitor the outcome data of managers investing directly in companies and areas that match the Fund's environmental and social objectives.

## 2. Further Information

This Investment Strategy Statement was agreed by the Clwyd Pension Fund Committee on 21 March 2017, and minor amendments have been made to update in August 2018

If you require further information about anything in or related to this Investment Strategy Statement, please email:

**Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council**  
**E-mail - [Philip.latham@flintshire.gov.uk](mailto:Philip.latham@flintshire.gov.uk)**

## Appendix A – Myners Principles – 2017/18 Compliance

### Principle 1

Administering authorities should ensure that:

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

Key Areas and Guidance	Comment & Actions	Compliance
It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.	The administering authority delegates investment decisions to the Clwyd Pension Fund Committee. The Committee delegate functions to Officers who take investment advice as required from a Pension Advisory Panel who provide appropriate focus and skills on investment decision making. Further, a Tactical Allocation Group has been formed to take advantage of short term opportunities that are consistent with the long term risk and return goals of the Fund. Representatives and roles are defined in the ISS. This new governance structure was implemented from May 2014.	Full
The board should have appropriate skills for effective decision-making.	Training is given priority status through compliance with CIPFA Knowledge and Skills Code of Practice for elected members and ongoing sessions provided regularly through managers, collaboration and seminars. The Fund has produced a training policy for Members and Senior Officers. A needs assessment process will be introduced for members of the new Committee.	Partial
There should be sufficient internal resources and access to external resources for trustees and boards to make effective decisions.	The Committee has access to experienced and trained officers and an Advisory Panel of professionals qualified to provide proper advice.	Full
There should be an investment business plan with progress regularly evaluated.	The three year business plan includes an investment business plan, which is approved by the Committee who then receive updates on progress each Committee.	Full
The remuneration of trustees should be considered.	Remuneration and expenses are reviewed, considered and set by Council.	Full

Particular attention should be paid to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).	The Investment Consultant, Actuary and Independent Adviser all have contracts which are regularly reviewed. Performance of the Investment Consultant and Actuary will be monitored by the Independent Adviser. The Investment Consultant and Independent Adviser contracts were tendered in 2013/14 and new provider contracts commenced in April 2014, and will be formally retendered in 2019.	Full
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## Principle 2

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

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

### Principle 3

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

Key Areas and Guidance	Comment & Actions	Compliance
Trustees should have a clear policy on willingness to accept underperformance due to market conditions.	Most managers have market-related benchmarks. There is clear acceptance of the fact that markets can be volatile in the short term. The setting of the Fund's strategic benchmarks is based upon the probable long-run performance of specific asset classes. Similarly, whilst the Fund's aim is that managers will outperform their benchmarks at all times, periods of under-performance are accepted as long as longer-term performance remains intact. A Tactical Allocation Portfolio, which looks to take advantage of short term opportunities that are consistent with the long term risk and return goals of the Fund, form part of the new investment strategy.	Full
Trustees should analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.	At each Fund Review exercise, optimization techniques are used that take account of probable performance and risk factors as well as asset class correlations and the Fund's actuarial position. The implementation of the flight-path strategy now requires regular monitoring of the funding position. Such issues will be looked at again as part of the next Fund Structure review.	Full
Trustees should take into account the risks associated with their liabilities' valuation and management.	These risks are considered as part of the Fund's flight-path strategy for managing funding risks such as interest rates and inflation. Each Fund Review exercise is aimed at achieving an overall long-term rate of return adequate to cover liability growth (pay/price inflation, interest rate changes and mortality) and to return, in time, to full funding status.	Full
Trustees have a legal requirement to establish and operate internal controls.	Committee members receive regular independent reports from Internal Audit and External Audit on internal controls. Any actions recommended by these bodies are actioned promptly.	Full
Trustees should consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.	The Fund's investment strategy is considered as part of the regular actuarial process used to review and set employers' rates of contribution and consistency between the two is an important factor.	Full



## Principle 4

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

Key Areas and Guidance	Comment & Actions	Compliance
There is a formal policy and process for assessing individual performance of trustees and managers.	The performance of the Committee is assessed by the Independent Adviser and published in the Annual Report. In line with the ISS, the performance of the Fund and its fund managers is formally monitored by the Investment Consultant and Officers. The Investment Consultant provides regular performance monitoring reports to both the Advisory Panel and Committee.	Full
Trustees should demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).	Records of attendance at Committee and training events are maintained and reported in the Annual Report. Participation is recorded in the Committee minutes.	Full
The chairman should address the results of the performance evaluation.	All current performance evaluation documents (Training records, Independent Adviser, risk, Audit) are brought to Committee. The Chairman has a key role in this, but also taking input from Officers and the Advisory Panel, with appropriate actions being agreed. .	Full
There should be a statement of how performance evaluations have been conducted.	Investments and Investment Managers are monitored on a quarterly basis by Committee and Advisory Panel. All advisers have fixed term contracts and the performance of contract specifications is reviewed annually as part of the overall governance review.	Full
When selecting external advisers, relevant factors including past performance and price should be taken into account.	Advisers are selected competitively, based on performance, price and other factors.	Full

## Principle 5

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

Key Areas and Guidance	Comment & Actions	Compliance
Policies regarding responsible ownership should be disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.	The Fund's Sustainability Policy and its Statement on Non-financial Factors and Social Investing are included as part of the ISS The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which considers responsible investment on a collaborative basis. The Fund is Tier One signatory to the UK Stewardship Code.	Full
Trustees should consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.	In formulating investment strategy, the Fund is always mindful of sustainability issues and these are an increasing focus for the Fund across all asset classes. Similarly, when appointing managers, questions are asked about engagement and sustainability although this is probably not given sufficient weight in the evaluation of managers for selection. To ensure best practice, the Fund has produced its own Sustainability Policy which is regularly monitored and managed. In all manager selection exercises undertaken, the sustainability policy that fund managers apply to their investments is reviewed.	Full
Trustees should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.	The Fund is aware of the voting policies of its underlying managers. A questionnaire is issued periodically to all fund managers on their sustainability policy and their replies explain their approach.	Full
Trustees ensure that Investment Consultants adopt the ISC's Statement	The Investment Consultant supports and adheres to the standard agreed with the investment consulting industry	Full

## Principle 6

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

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

## Appendix B – FRC UK Stewardship Code – Compliance

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

<b>Principle 4</b>		
Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	Whilst there is broad guidance in the Fund's ISS and Sustainability Policy, as noted earlier responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.	Full
<b>Principle 5</b>		
Institutional investors should be willing to act collectively with other investors where appropriate.	The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which engages with companies on environmental, social and governance issues on behalf of its member authorities. The LAPFF is a signatory to the United Nations Principles for Responsible Investing.	Full
<b>Principle 6</b>		
Institutional investors should have a clear policy on voting and disclosure of voting activity.	Whilst all the Fund's holding are through pooled voting, it takes its voting responsibilities seriously and its voting policy is detailed as part of its ISS and in its Sustainability Policy document. Within this constraint, the Fund seeks to exercise the voting rights attaching to all its UK equity holdings and, where practical, its overseas stocks. A summary of manager voting is included in the Fund's Annual Report.	Full, but further improvements are possible
<b>Principle 7</b>		
Institutional investors should report periodically on their stewardship and voting activities.	The Fund reviews its ISS and Sustainability Policy document on an annual basis and publishes these both in the Annual Report and Accounts and on the Fund's web site. In addition, the activity undertaken by the LAPFF is reported to the Pension Fund Advisory Panel as are summary voting records from managers. All managers provide details of voting activity and a summary is provided in the Fund's Annual Report.	Partial

Cronfa Bensiynau Clwyd

Clwyd Pension Fund



**FLINTSHIRE COUNTY COUNCIL**

**Administering Authority for  
Clwyd Pension Fund**

**COMMUNICATIONS STRATEGY**

**September 2019**

# COMMUNICATIONS STRATEGY

## Introduction and Background

This is the Statement outlining our Pension Communication Strategy for the Clwyd Pension Fund ("the Fund") as per Regulation 61 of the LGPS Regulations 2013, and has been developed following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund, and effective communications will also help to maintain the efficient running of the Scheme.

Flintshire County Council (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). The Fund comprises 43 employers with active members, and approximately 47,000 scheme members (including active members, deferred and pensioner members).

The Statement sets out who we will communicate with, how this will be done and how the effectiveness of that communication will be monitored. It outlines the type of communications the administering authority would like to provide to its stakeholders and how we are moving more towards electronic communications rather than paper based.

The Clwyd Pension Fund recognises that there are several distinct stakeholder groups, such as;

- Scheme Members (active, deferred, pensioner and dependant members) and prospective Scheme Members
- Scheme employers and prospective Scheme employers
- Pension Fund Committee and Pension Board members, Advisory Panel
- Pension Fund Staff
- Other interested organisations including Government Departments, Scheme Advisory Board and Advisors to the Pension Fund.

The main means of communication with these key stakeholders are outlined in this statement, which includes making more use of technology to provide quicker and more efficient communications for the Fund's stakeholders.

## Implementation

The Clwyd Pension Fund's business plans for 2019/20 to 2021/22 include a number of projects which will improve communications and help meet the aims and objectives of this Statement.

These include:

- a major review of the Fund's website
- implementing self-service web functionality to scheme members
- implementing new software that will allow employer data to be loaded directly, and therefore more efficiently, into the pension administration software – this in turn will assist in more timely communication with scheme members.

## Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:

### Statements of policy concerning communications with members and Scheme employers

61. (1) *An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —*

- (a) members;*
- (b) representatives of members;*
- (c) prospective members; and*
- (d) Scheme employers.*

(2) *In particular the statement must set out its policy on —*

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;*
- (b) the format, frequency and method of distributing such information or publicity; and*
- (c) the promotion of the Scheme to prospective members and their employers.*

(3) *The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).*



This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of communications.

Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and other legislation includes various requirements relating to the provision of information relating to pensions (in addition to the requirements in the Local Government Pension Scheme Regulations). The Clwyd Pension Fund aims to adhere with all such legislation and related statutory or best practice guidance. This includes the Pension Regulator's Code of Practice for Public Service Pension Schemes.

There are other regulatory requirements that the Fund adheres to, including the General Data Protection Regulations, the Freedom of Information Act and legislation around the use of Welsh language.

## **Our Aims and Objectives**

### *Mission Statement*

The Clwyd Pension Fund Mission Statement is:

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

In addition, we have specific aims and objectives in relation to our communication responsibilities as set out below.

### *Communication Aims and Objectives*

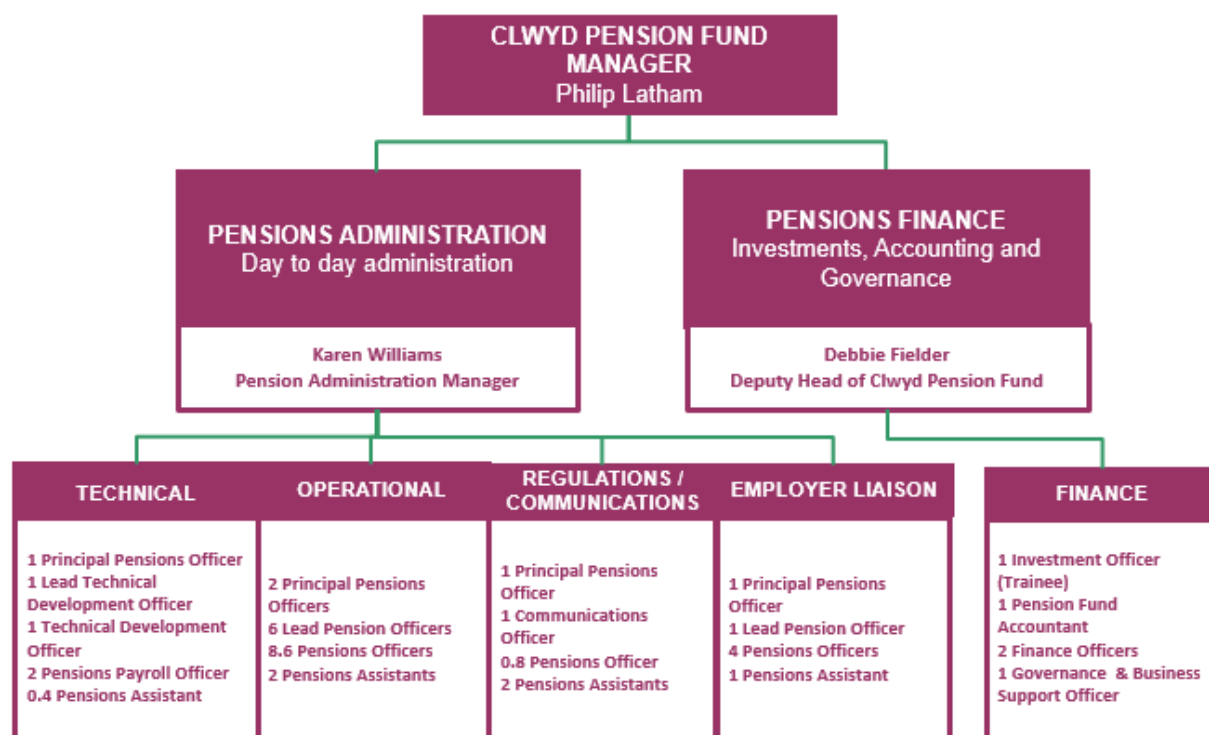
This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, as follows;

- Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits
- Communicate in a clear, concise manner
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders, but with a default of using electronic communications where efficient and effective to do so.
- Look for efficiencies and environmentally responsible ways in delivering communications through greater use of technology and partnership working.
- Regularly evaluate the effectiveness of communications and shape future communications appropriately.

## Delivery of Communications

Flintshire County Council has delegated responsibility for the management of the Pension Fund to the Clwyd Pension Fund Committee, taking into consideration advice from the Pensions Advisory Panel and the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

The communication aspect of the Fund is undertaken 'in-house' by a dedicated Regulations and Communications Team including a designated Communications Officer. The operational structure of the Clwyd Pension Fund is illustrated in the schematic diagram below. This structure has been reviewed during 2018/19 and the outcome of the final review is as follows:



The Clwyd Pension Fund may consider using external means to provide some of their communication services, which is likely to include various software packages to allow high quality electronic communications. In addition, the Pension Administration Section will look for opportunities to work collaboratively with other funds so as to reduce development costs and enhance the quality of information. This might include:

- Working with other funds through the Pensions Officer Group networks or the All Wales network to produce communications, which can then be customised further where necessary to meet the needs of the Clwyd Pension Fund
- Participating in joint training sessions with other funds.

## How we Communicate

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance. The Fund recognises that communicating in a clear informative style is vital in achieving this aim.

The Clwyd Pension Fund always aims to use the most appropriate communication medium for the audience receiving the information. This may involve using more than one method of communication based on the intended audience, albeit the Fund will aim to utilise electronic communications where appropriate to do so given the efficiencies and ease of access it provides, as well as it being more environmentally friendly. Scheme members will be able to elect not to receive electronic communications, in which case they will be continued to be sent hard copy communications only where the Fund is required to do so.

There may be circumstances where information is issued electronically, but for practical reasons (including costs), equivalent information will not be issued to those members who have elected not to receive electronic communications. For example, if a member's email address is held, a short email might be issued highlighting a new article placed on the Fund's website which is not a matter that legally requires notification to all scheme members. This will equally apply to members who have not registered for Member Self-Service.

Consequently, for those members who have not registered for Member Self-Service or who have not opted to receive paper copies of our communications, we will continue to send scheme communications in paper format where we are required by law to issue a communication; communications may not be issued where there is no legal requirement. We will continue to promote Member Self-Service for these members as all communications (whether required by law or not) will be notified using Member Self-Service.

Furthermore, the Fund may use facilities such as Twitter to communicate short alerts.

All of the Clwyd Pension Fund's generic scheme member communication material is bi-lingual. Clwyd Pension Fund complies with Welsh language legislation and we ensure all communications are published in both English and Welsh languages at the same time. Scheme members are also able to receive all personal correspondence in Welsh should that be their preferred language.

The Fund's information is also available in alternative formats for example, Braille, large print, BSL Video/DVD, audio tape and other languages on request.

The Fund also adheres to other legislative requirements, including the General Data Protection Regulations, Freedom of Information Act, and pension disclosure legislation. The Fund also aims to adhere to good practice standards such as the National Website Standards.

## Methods of Communication

The following sections summarise the key methods of communication used by the Fund. The frequency of each communication is not restricted and may vary depending on the urgency of the information being conveyed.

### a) With Scheme Members and Prospective Scheme Members

Effective communication promotes the LGPS as a benefit, therefore reducing the impact of misleading media information.

<i>Website</i>	<p>The Fund's website (<a href="http://www.cronfabensiynaclwyd.org.uk">http://www.cronfabensiynaclwyd.org.uk</a> (Welsh) or <a href="http://www.clwydpensionfund.org.uk">http://www.clwydpensionfund.org.uk</a> (English)) is available to everyone. It contains information about the Fund and the LGPS. Members are able to download scheme literature and forms. More detailed information on the scheme can also be obtained on the national LGPS website at <a href="https://www.lgpsmember.org">https://www.lgpsmember.org</a></p> <p>Clwyd Pension Fund's website has to adhere to national standards regarding accessibility to the website and how the content is structured.</p>
<i>Member Self Service (MSS)</i>	<p>Member Self Service is available to the Fund's scheme members. It allows members to log into a secure web area to view information held on their Fund record. Some of the facilities available to members include: ability to update their own personal details, update death grant expressions of wish, calculate retirement estimates and review Annual Benefit Statements online. Electronic communications are issued directly to scheme members via the Member Self Service facility; these are generally via an email alert directing the member to log into their Member Self Service to view the relevant information.</p>
<i>Annual Benefit Statements</i>	<p>These statements are distributed annually to all active and deferred scheme members. These statements are issued to members' via their Member Self Service accounts and are downloadable from there. Paper statements are only issued to home addresses by member request.</p>

<i>Generic Newsletters</i>	<p>The Fund issues a periodic newsletter called Penpal to contributing members, bringing to their attention information such as changes to scheme rules, and including important Facts &amp; Figures from the Annual Report. This is issued once a year.</p> <p>The Fund also sends a newsletter once per year to its pensioners entitled Clwyd Catch Up. This is usually sent with the annual pensions increase notification and explains how their new annual rate of pension has been calculated. It also includes topical information such as relating to the budget and State benefits.</p> <p>Both newsletters are uploaded onto our Member Self Service portal for members to download them. If any members have opted out of using MSS, they receive a hard copy through the post.</p> <p>All newsletters are available to view on the Fund's website.</p>
<i>Regulatory Update Newsletters</i>	<p>Pensions Extra and Deferred Diaries are newsletters that are issued on an ad hoc basis to notify pensioner and deferred members of urgent issues concerning the LGPS.</p> <p>All newsletters are available to view on the Fund's website.</p>
<i>Pension Presentations/ Workshops/Drop-in Sessions</i>	<p>The Fund offers LGPS presentations, workshops, and drop-in sessions throughout the year on any pension related matters. Employers can also request for an officer from the Fund to visit and speak with their staff about the LGPS. The information given out at these events is constantly reviewed to ensure that it is up-to-date and takes into account any changes in the pension regulations. LGPS literature, ranging from scheme booklets to death grant expression of wish forms, are always promoted at these events. Members are informed of where they can be found on our website for download or electronic copies can be emailed directly to the member.</p>
<i>Telephone and email / Open Office Policy</i>	<p>All members and prospective members have the opportunity to telephone, fax or email the Fund for information (<a href="mailto:pensions@flintshire.gov.uk">pensions@flintshire.gov.uk</a>).</p> <p>Members are also able to visit the Clwyd Pension Fund offices by appointment only so that they can discuss general LGPS matters. However, estimates are not able to be provided on the day of the one-to-one.</p>

<i>Pre-Retirement Courses</i>	The Communications Officer attends regularly organised pre-retirement courses to inform members who are approaching retirement age about Local Government retirement procedures. The courses are run in partnership with Gwynedd Pension Fund and are offered to all North Wales LGPS members via their employers.
<i>Literature</i>	<p>The Fund ensures pension-related literature is available to scheme members, including:</p> <ul style="list-style-type: none"> <li>• A Short Scheme Guide to the Local Government Pension Scheme, which is sent to all members upon joining the Clwyd Pension Fund.</li> <li>• A retirement pack sent to all members about to retire.</li> <li>• Fact-sheets on numerous areas including ill-health retirement, maternity leave, flexible retirement and commutation.</li> </ul> <p>All Fund literature is available on the website enabling 24 hour access.</p>
<i>Pensions Taxation Correspondence</i>	The Fund has a separate policy on how it will communicate with scheme members to help them understand whether they may be impacted by the annual or lifetime allowance. This is because this is a particularly complex area. This policy is focussed on providing basic information to all scheme members and more detailed information where it appears a member may be at risk of exceeding the annual or lifetime allowance, based on their Clwyd Pension Fund membership.
<i>Annual Report</i>	The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment principles, funding strategy, risk, governance, audit and administration. It is available on the Fund's website.

## **b) With Employers**

Effective communication between the Fund and its employers reduces errors, improves efficiency, ensures more timely communications to scheme members and leads to good working relationships. The main means of communication with employers are outlined below.

<i>Administration Strategy</i>	The Fund's Administration Strategy provides an overview of how the administering authority and employers will work together to achieve a high quality service. It sets out, in detail, the obligations and responsibilities of both the Fund and the employer to achieve set performance standards. This is available on the Fund's website.
<i>Service Level Agreements (SLAs)</i>	SLAs ensure best practice and also comply with audit requirements. The SLA sets out, in detail, the obligations and responsibilities of the employer, concerning all aspects of LGPS administration. These Agreements are reviewed and updated annually taking into account changes made to the regulations and feedback from the Fund's employers. All the Fund's employers are required to sign and return the SLA each year which helps to ensure they acknowledge their responsibilities.
<i>Employer key contact officers and meetings</i>	<p>We expect each employer in the Fund to designate a named individual to act as their key contact officer; this individual will be the main contact with regard to any aspect of administering the LGPS and the employer must keep the Fund aware of the contact details for that person.</p> <p>The Operations Section consists of teams led by Principal Pensions Officers. Each team is responsible for the day to day operations for specific employers. The designated Principal Pensions Officer, will contact, and where relevant, meet with the employer's key contact officer to discuss any issues relating to the LGPS and/or raise any issues around the performance of the employer or services provided by the Fund. Further meetings will be arranged if necessary, and may be escalated to include the Pensions Administration Manager.</p>
<i>Annual Employer Meeting</i>	Employers have the opportunity to meet with members of staff from the Clwyd Pension Fund and receive updates and presentations from selected speakers who address the current issues and changes to the Clwyd Pension Fund and the LGPS.

<i>Annual Joint Consultative Meeting (AJCM)</i>	The AJCM invites employers, Trade Union representatives and other scheme member representatives to discuss the latest pension issues and to keep up-to-date with Local Government Pension Scheme changes and matters affecting the Fund. The AJCM is normally attended by the Fund Actuary, Investment Consultant and Independent Adviser and usually includes presentations summarising the main aspects of the Fund's annual report and accounts.
<i>Training Sessions</i>	Training sessions are offered to each employer. The sessions include training on the LGPS regulations and administration procedures and are offered to all relevant staff.
<i>Website</i>	<p>All employers have access to the Fund's website (<a href="https://mss.clwydpensionfund.org.uk">https://mss.clwydpensionfund.org.uk</a>) which includes a range of information relating to the scheme benefits and also management of the Clwyd Pension Fund.</p> <p>The employers also have their own website section: <a href="https://mss.clwydpensionfund.org.uk/home/employers/index.html">https://mss.clwydpensionfund.org.uk/home/employers/index.html</a> that they can visit to find out how to implement LGPS regulations.</p> <p>Additional guidance can also be found on the LGA website: <a href="https://www.lgpsregs.org/">https://www.lgpsregs.org/</a></p>
<i>Email Updates</i>	The Fund communicates with employers using an email distribution list including key staff from all employers. This distribution list is used to highlight general updates about the LGPS and to remind employers of facilities available to them and their staff, i.e. pension presentations and drop-in sessions. The Fund emails employers to inform them when a news alert is added to the website.
<i>Employer Bulletins</i>	The Clwyd Pension Fund Employer Bulletin will be emailed to employers annually to inform them of important LGPS issues. It will also be used to summarise all of the LGPS changes for the past 12 months and will also include updates on any major changes expected. Additional employer bulletins are issued throughout the year if urgent information needs to be sent to our employers.



<i>i-Connect</i>	i-Connect is the software that all employers in the Fund should work towards using to submit information to the Pension Administration Section. The system provides for efficient and timely data submission due to the automated validation it provides. Once i-Connect has been implemented and training has been provided to an employer, any employer not providing data using i-Connect will be charged additional administration costs due to the fact that other methods can result in great time spent validating data and hence significant delays in processing, which in turn impact the quality and timeliness of information provided to scheme members. On request, training will be provided by the Technical Team to ensure all employer key contact officers understand how to use the system. (Note – at the point of writing, i-Connect is still being implemented with the final employers due to go live by the end of 2020/21).
<i>Employer specific events</i>	A Fund Officer is available to attend any employer specific events to assist employers in understanding their responsibilities.

**c) With Pension Fund Committee and Pension Board members:**

Effective communication ensures that Pension Fund Committee and Pension Board members are appropriately knowledgeable and able to act in the best interests of the Fund and its members.

Members are provided with regular reporting on all areas relevant to pensions, including investment, funding, audit, governance, administration and risk. This is communicated in a variety of formats including via the external website, the infonet, the annual report and accounts, through committee meetings and through regular training in line with the Fund's Training Policy.

The majority of reports provided to Pension Fund Committee members, together with the meeting minutes, are available on the Council's website:-

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

<http://committeemeetings.flintshire.gov.uk/ieListMeetings.aspx?Committeeld=445&LLL=0>

The Committee papers also include the minutes from the latest Pension Board meeting.

**d) Information for Fund Staff:**

Effective communication ensures that Fund staff are confident and prepared to undertake their role, as follows:

<i>Clwyd Pension Fund Manager</i>	The Clwyd Pension Fund Manager ensures they are available for any of the Fund staff who may want a one-to-one with them. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.
<i>Pensions Administration/Finance Manager</i>	The Pensions Administration Manager, Clwyd Pension Fund Manager and Deputy Head of Clwyd Pension Fund ensure they are available for any Fund staff who may want a one-to-one with them. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.
<i>Administration Section Meetings</i>	Normally held on a monthly basis to discuss operational and technical issues, ensuring there is a shared understanding of any issues and developing a consistent approach towards addressing them. In addition, the Pensions Administration Management team meet fortnightly.
<i>Appraisal and Training</i>	All new members of staff undergo an induction procedure to acquaint them with the operational running of the Fund. Subsequently, all pension staff also receive both in-house and external training. Staff at all levels in the Fund have annual assessments, with a mid-year review, during which there are open discussions of work issues and areas for development. This dialogue is supplemented by regular one-to-one meetings within team structures.
<i>TEC (Training &amp; Education Centre)</i>	Clwyd Pension Fund utilises an e-learning facility. This allows Fund staff to work through these e-learning modules to enhance other learning and on-the-job training that they receive. The modules include a timeline of LGPS regulations and how to process calculations

**e) Communicating with other bodies:**

There are a number of other interested parties with whom we communicate as required, including:

<i>Ministry of Housing, Communities, and Local Government (MHCLG)</i>	The Fund has regular contact with MHCLG as a responsible LGPS Fund, participating and responding to consultations, as required.
<i>Local Government Association (LGA)</i>	The LGA liaises with LGPS Funds and MHCLG to ensure that all LGPS regulations are administered correctly as per MHCLG's instructions.
<i>Scheme Advisory Board (SAB)</i>	The national SAB was established following the Public Services Pensions Act 2013. It provides advice to the Fund and Local Pension Boards in relation to the effective and efficient administration and management of the Scheme and their funds. We therefore liaise with the SAB as appropriate.
<i>The Pensions Regulator</i>	The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. The Fund liaises with the Regulator as required to ensure that it is compliant with the Pensions Regulator's Code of Practice.
<i>Trade Unions</i>	The Fund works with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts are made to ensure all pension related issues are communicated effectively with the trade unions. The trade unions are represented on the Pension Fund Committee and Pension Board.
<i>Employer Representatives</i>	The Fund communicates with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups. Employers are represented on the Pension Fund Committee and Pension Board.
<i>AVC Provider</i>	Additional Voluntary Contributions (AVC) are held and invested separately from the LGPS. The Fund's current AVC providers are Prudential and Equitable Life (closed). A new AVC provider is expected to take over administration of AVCs previously covered by Equitable Life during 2019/20.

<i>Pension Fund Investment Managers, Advisers and Actuaries</i>	<p>The Clwyd Pension Fund Manager, Deputy Head of Fund and Finance team have regular meetings with;</p> <ul style="list-style-type: none"> <li>– the Fund Managers who invest funds on behalf of the Fund</li> <li>– Investment Advisers who provide help and advice on the asset allocation and investments of the Fund</li> <li>– the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund</li> </ul> <p>The Independent Adviser, the Fund Actuary and the Investment Adviser are all members of the Pension Fund Advisory Panel, and attend all Pension Fund Committee meetings.</p>
<i>Welsh Government</i>	<p>The Fund sometimes needs to liaise with Welsh Government on matters that might impact the delivery of the LGPS, such as local government reorganisation.</p>
<i>Wales Pension Partnership (WPP)</i>	<p>The Fund is a member of the Wales Pensions Partnership which has appointed an Operator to invest assets for all Wales LGPS Funds. Some of the administration and management of the partnership is carried out by the Host Authority, Carmarthenshire Council. The Fund is represented on the WPP Joint Governance Committee by the Chair of the Pension Fund Committee and on the Officer Working Group by an Officer determined by the Pension Fund Committee. As a result of this the Fund will have ongoing relationships with a number of LGPS Funds and organisations within this and other asset pools. Regular reports on the performance of and decisions made by the pool will be presented at Committee meetings and to members via the Fund's annual report and accounts.</p>
<i>Pension Fund Custodian</i>	<p>The Fund's Custodian ensures the safekeeping of the Funds investment transactions and all related share certificates where not invested with the Wales Pensions Partnership.</p>
<i>Pensions and Lifetime Savings Association (PLSA)</i>	<p>The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice. The Clwyd Pension Fund Manager is a representative on the PLSA Local Authority Committee.</p>
<i>Class User Group</i>	<p>The Pension Administration Manager and other Pensions Officers attend the Class User Group meetings twice a year to discuss software issues and required upgrades to Altair, the Fund's</p>

	administration system. This also includes additional user groups for i-Connect and Member Self Service.
<i>Local Authority Pension Fund Forum (LAPFF)</i>	The Fund is a member of LAPFF which was established to help local authority Funds share information and ideas about socially responsible investing.
<i>Regional Forums</i>	The Shrewsbury Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Administration Managers and other Pension Officers from LGPS Funds in the region, to share information and ensure uniform interpretation of the LGPS, and other prevailing regulations.
<i>Partnership Manager Meetings with the 8 Pension Funds in Wales</i>	The Pensions Administration Manager and other Pension Officers regularly meet representatives from the other LGPS Pension Funds in Wales to discuss best practice, to ensure that all Welsh Funds have a consistent approach to their administration procedures.
<i>Welsh Communications Group with the 8 Pension Funds in Wales</i>	All of the Communication Officers from the Welsh Pension Funds meet as and when required to share ideas about forms of communication.
<i>Shared Services Communications Group</i>	The Communications Officer and other Pension Officers also attend a regional Communication Group on a quarterly basis, to ensure continuity and share ideas about forms of communication.
<i>Requests for information</i>	Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality, by the Flintshire County Council Freedom of Information Officer.
<i>Consultations</i>	There are occasions when the Fund will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the Fund. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.

<i>Press releases and comments</i>	Press releases or comments regarding the Clwyd Pension Fund are made either via the Corporate Communications team within Flintshire County Council or in collaboration with them.

### Measuring whether we meet our Communication Objectives

The Fund will monitor success against our communication objectives in the following ways:

Objectives	Measurement
Promote the Scheme as a valuable benefit and provide sufficient information so members can make informed decisions about their benefits.	Annual satisfaction surveys with scheme members achieving 90% of scores in positive responses in these areas.
Communicate in a clear, concise manner.	Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas.
Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders, but with a default of using electronic communications where efficient and effective to do so.	Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas.  5% per year increases in the proportion of scheme members registered on Member Self-Service with a long-term target of 75% of all active and deferred members being registered users.
Look for efficiencies and environmentally responsible ways in delivering communications including greater use of technology and partnership working.	Evidence of use of digital communications as a default in all situations unless valid reasons not to do so for efficiency or effectiveness.
Regularly evaluate the effectiveness of communications and shape future communications appropriately.	Satisfaction survey is undertaken annually (as a minimum).  Results from satisfaction survey are thoroughly analysed and investigated, and trends monitored from previous years.  Detailed analysis of survey results is used to identify areas to improve communications in future.

An overview of our performance against these objectives will be reported within the Fund's annual report and accounts and also reported on an ongoing basis to the Pension Fund Committee and Pension Board.

If performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Fund will formulate an improvement plan. This will be reported to the Funds' Pension Fund Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

### **Key Risks**

The key risks to the delivery of this Strategy are outlined below. The Clwyd Pension Fund Manager, the Pensions Administration Manager and other officers will work with the Pensions Advisory Panel, Pension Fund Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Issuing incorrect or inaccurate communications
- Failure to maintain employer database leading to information not being sent to correct person
- Lack of clear communication to employers, scheme members and pensioners

### **Approval, Review & Consultation**

This Strategy Statement was approved in March 2016 by the Clwyd Pension Fund Committee and further minor amendments approved using officer delegations in September 2018. Further updates were made and approved by the Clwyd Pension Fund Committee in June 2019.

It will be formally reviewed and updated at least every three years or sooner if the communication management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing this Strategy we have consulted with the relevant employers, the scheme member and employer representatives on the Clwyd Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on our website.

### **Costs**

All additional costs relating to this Strategy Statement are met directly by the Fund unless mentioned otherwise.

### **Further Information**

Any enquiries in relation to the Fund's communications or the principles or content of this Strategy Statement should be sent to:

Karen Williams  
Pensions Administration Manager  
Flintshire County Council  
County Hall,  
Mold,  
Flintshire  
CH7 6NA

E-mail - [karen.williams@flintshire.gov.uk](mailto:karen.williams@flintshire.gov.uk)

Telephone – 01352 702963