



# Clwyd Pension Fund

Annual Report 2019 - 20

## CLWYD PENSION FUND ANNUAL REPORT 2019/20

### CONTENTS PAGE

Section		PAGE
<b>1</b>	<b>Structure of the report</b>	<b>3</b>
<b>2</b>	<b>Introduction by the Chief Executive of Flintshire County Council and the Chair of the Clwyd Pension Fund Committee</b>	<b>5</b>
<b>3</b>	<b>Annual Governance Statement</b>	<b>8</b>
<b>4</b>	<b>Governance, Training and Risk Management</b>	<b>13</b>
<b>5</b>	<b>Independent Advisor Annual Report</b>	<b>24</b>
<b>6</b>	<b>Pension Board Annual Report</b>	<b>35</b>
<b>7</b>	<b>Administration Report</b>	<b>41</b>
<b>8</b>	<b>Actuarial Funding and Flightpath Report</b>	<b>57</b>
<b>9</b>	<b>Investment Policy and Performance Report</b>	<b>62</b>
<b>10</b>	<b>Clwyd Pension Fund Accounts</b>	<b>80</b>
<b>11</b>	<b>Financial Report</b>	<b>127</b>
<b>12</b>	<b>Regulatory documents</b>	<b>141</b>
	- Governance Policy and Compliance Statement	142
	- Funding Strategy Statement	167
	- Investment Strategy Statement	217
	- Communication Strategy Statement	242
	<b>Best Practice documents held on the Fund website, please go to: <a href="https://mss.clwydpensionfund.org.uk/home/investments-and-governance/strategies-policies/index.html">https://mss.clwydpensionfund.org.uk/home/investments-and-governance/strategies-policies/index.html</a></b>	
	- Business Plan	
	- Administration Strategy	
	- Breaches Policy	
	- Risk Policy	
	- Conflicts of Interest Policy	
	- Training Policy	

## **Section 1- Structure of the report**

# **CLWYD PENSION FUND ANNUAL REPORT 2019/20**

## **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". The Clwyd Pension Fund Annual Report (the report) has been written in accordance with the regulations and guidance.

### **Structure**

The report is structured into a number of individual reports, each dealing with a significant element of the Clwyd Pension Fund's (the Fund) 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 2019/20.

Section 2 is an introduction by the Chief Executive of Flintshire County Council and the Chair of the Clwyd Pension Fund Committee which summarises the main themes of the report.

Section 3 is the Fund's Annual Governance Statement, a formal document which gives assurance in relation to the Fund's governance arrangements.

Section 4 is a report from the Pension Fund Manager which expands on 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 5 is a report from the Fund's Independent Advisor, which identifies the key achievements of the Fund and key challenges going forward.

Section 6 is the annual report from the Fund's Pension Board, highlighting its role in monitoring the Fund's activities during 2019/20.

Section 7 is a report from the Administration Manager, covering the performance of the administration of the Fund, and identifies key administrative challenges that the Fund faces going forward.

Section 8 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 9 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 2019/20.

Section 10 is the Fund's accounts, a formal document which shows the Fund's financial activity in 2019/20 and its position at 31st March 2020.

Section 11 is a report from the Deputy Head of the Fund which explains the financial activity of the Fund during 2019/20 in more detail.

The governance, management and activities of the Fund are framed by a number of Regulatory and Best Practice Documents. Four of these, the Governance Policy and Compliance Statement, the Funding Strategy Statement, the Investment Strategy Statement and the Communication Strategy Statement are included in the report in Section 12. They and other key policies and strategies referenced on the contents page of the report are available on the Fund's website at the address shown on the Contents Page. In addition, the Fund is subject to a triennial actuarial valuation, and the most recent of these, as at March 2019, may also be found on the website.

## Section 2- Introduction

### 2019/20 Overview

Welcome to the Clwyd Pension Fund (the Fund) Annual Report for 2019/20. Last year's Annual Report identified the main challenges for the Fund for 2019/20:

- A review of the Funding Strategy as part of the 2019 Actuarial Valuation;
- A review of the Investment Strategy Statement, including responsible investment and climate change;
- Managing the ongoing transition of assets into the Wales Pension Partnership (WPP) ;
- Making further progress in achieving the objectives of the Fund's Administration and Communication Strategies

The Fund was expecting changes to the benefit structure as a result of the national Local Government Pension Scheme (LGPS) cost control mechanism or changes to legislation and changes to the Fund's governance resulting from the LGPS governance consultation. Both of these have been deferred until 2020/21.

The results of the 2019 Actuarial Valuation showed major improvement with the funding position moving from 76% in the 2016 valuation to 91%, leading to a reduction in the level of employer contributions. The Funding Strategy has been reviewed alongside the valuation. The Flightpath Strategy has been integral to the improvement in the funding position. The valuation was finalised as the first effects of COVID-19 were appearing, and the impact will be monitored and managed as appropriate in 2020/21.

The impact of the COVID-19 pandemic is evident throughout this year's report. In particular it has affected investment performance leading to a negative return for the year. Whilst the performance in the first three quarters of the year was positive, this was outweighed by the effects of the downturn resulting from the pandemic in the latter part of the fourth quarter. However, set in a longer term context the return remains positive over the five years to March 2020, and remains ahead of the actuarial target. The Fund invests for the long term with a diversified portfolio balancing risk and return.

The review of the Investment Strategy Statement was undertaken during the year, leading to revised investment objectives. Each of the objectives is underscored by the Fund's desire to incorporate sustainability and demonstrate that it is effective as a responsible investor. The Fund's Investment Strategy Statement has been updated to reflect the level of returns required by the Fund's Actuary as included in the 2019 Fund Valuation, and the revised Responsible Investment Policy which now includes a statement on the management of climate risk.

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 it wants 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 but no further asset transfers were undertaken during 2019/20. Further asset transfers will be made during 2020/21. The Fund is represented on the WPP Officer Working Group and Joint Governance Committee. The WPP has a dedicated website, which includes the WPP annual report and policy documents and can be accessed here: <https://www.walespensionpartnership.org/>

The Fund's Administration and Communications Strategies were updated during the year. The Fund has introduced further improvements to ensure that data passing between the Fund and employers is robust, in particular by continuing to develop the i-Connect system which allows employers to directly enter information improving accuracy, timeliness and efficiency. The Fund also encourages members of the Fund to use the on-line facility Member Self Service (MSS) to view and update personal information.

The number of completed cases has increased reflecting additional resources within the team and improvements in technology during the year. This has contributed to improved performance which has generally had a positive impact on our Key Performance Indicators.

2019/20 has seen steady progress continue in a challenging environment and towards the end of the year the Fund managed the first impacts of the COVID-19 pandemic successfully, ensuring staff remained safe whilst maintaining service levels. Once again the Fund has been supported in its work by the Pension Committee and the Pension Board.

## **2020/21 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:

- Implementing the remedy for the McCloud court case, and any further "cost cap" changes
- Further transition of assets to the Wales Pension Partnership (WPP), and feeding into the ongoing development of WPP policies
- Carrying out compliance checks against The Pension Regulator's new Single Modular Code
- Implementing the Fund's Responsible Investment Policy including climate risk
- Implementing any governance changes as a result of the Scheme Advisory Board (SAB) Good Governance Review
- Understanding any risk and developing controls relating to cybercrime and business continuity
- Finalising and implementing the Fund's cash flow and liquidity policy
- Finalising implementation of digital systems including i-Connect for greater efficiencies in administration.

Clearly, monitoring and managing the impact of COVID-19 will also be a key task for the Fund.

## 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 website <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 below.

The Fund would like to thank all those involved with the management and administration of the Fund, especially during the unprecedented circumstances resulting from COVID-19, for their continuing hard work and dedication. The Fund would also like to thank the previous Committee Chair, Cllr Dave Hughes, who was in post until June 2019. In addition, the Fund would like to pay tribute to the late Councillor Huw Llewelyn Jones for his dedicated work over 12 years as a member of the Pension Committee.



**Ted Palmer**  
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 3- Annual Governance Statement**

### **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 2 other local authorities (Wrexham and Denbighshire) and 45 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 Clwyd Pension Fund Committee (the Committee). The Committee is made up of 5 of the Council's own councillors and 4 coopted members, representing the other 2 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 8 Welsh LGPS pension funds.

### **Governance arrangements**

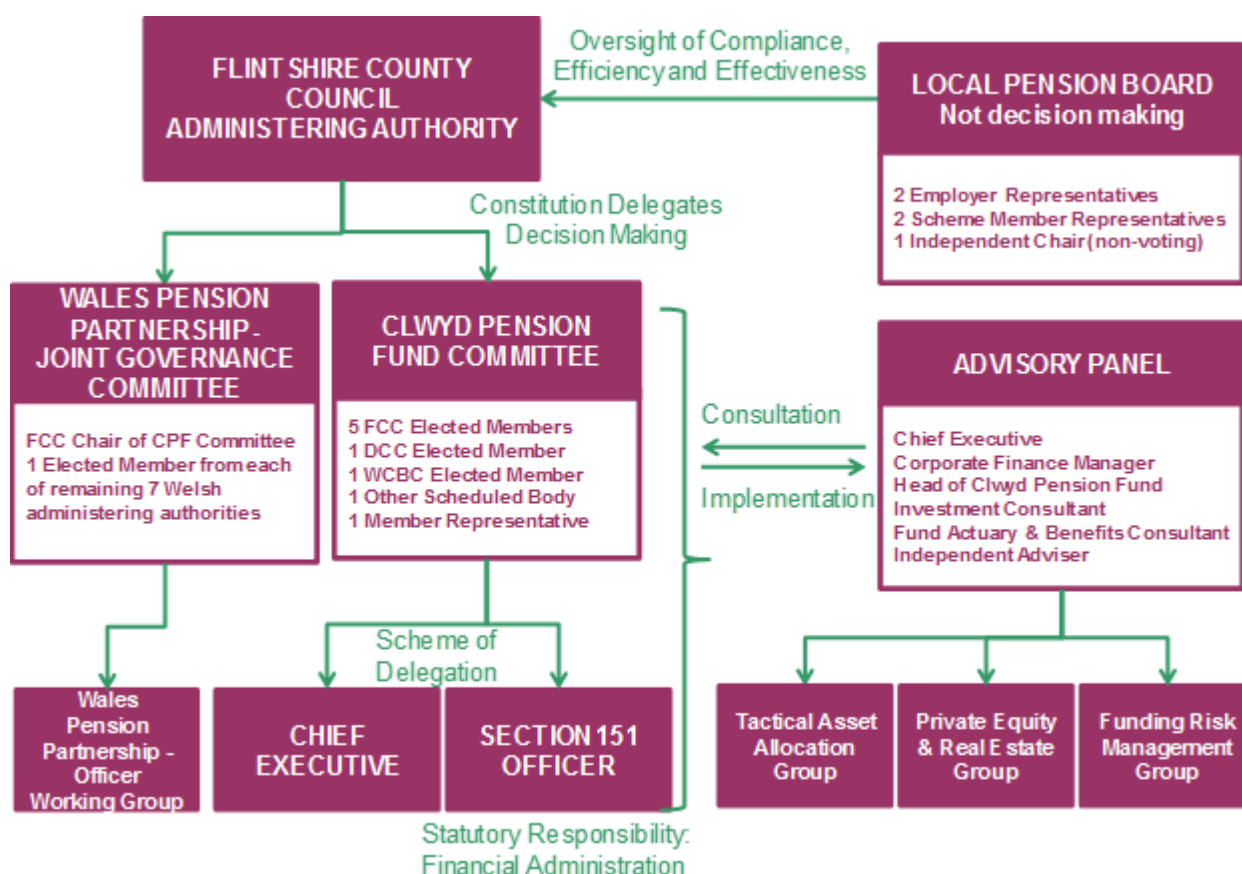
The governance framework of the Council comprises an underlying set of legislative requirements, good practice principles and management processes, which supports the philosophy of the Council's operations, the standards it sets itself, the behaviours it expects of itself and the principles it follows.

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 (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) 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 (the 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 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 (the Panel), which includes officers of the Council and advisors to the Fund. The Panel advises the Committee and carries out matters delegated to it by the 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 and are transferred immediately from the Pension Fund'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 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.

The risks currently identified as key risks are shown in Section 4 of the Fund's Annual Report.

## **Review of effectiveness**

The 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 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 2018/19 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.

### **The impact of COVID-19 on governance**

The last quarter of 2019/20 has seen the growing impact of the COVID-19 pandemic. A 'lock down' period commenced on 23<sup>rd</sup> March 2020 for Flintshire County Council, and includes Fund officers who are all employees of the Council. Arrangements are in place to enable officers to continue to undertake their duties. Meetings with the Fund's advisors continue, enabled by appropriate technology. Discussions included advice received from the Scheme Advisory Board (SAB) and The Pension Regulator (TPR) on the administration of the scheme during the pandemic. The impact of the pandemic arose at the end of the financial year and the effect in 2020/21 will be much more significant.

Following the Flintshire County Council Cabinet meeting on 17<sup>th</sup> March 2020, a decision was made to cancel all the Council's formal meetings and events. This included the Clwyd Pension Fund Committee, and subsequently the March and June 2020 meetings of the Committee were cancelled. Where appropriate existing delegated powers are used to make decisions. Members are kept informed through informal virtual meetings and by other electronic means. This will be kept under review and formal Committee meetings will be resumed when appropriate.

### **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 Head of the Clwyd Pension Fund, 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 2019/20.

### **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 2019/20 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.



**Ted Palmer**  
**Chair of Pension Fund Committee**  
**7<sup>th</sup> October 2020**



**Colin Everett**  
**Chief Executive**  
**7<sup>th</sup> October 2020**

## **Section 4 - Governance, Training and Risk Management**

### **Introduction**

This report covers the way in which Clwyd Pension Fund (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 (the Committee), supported by a Pensions Advisory Panel (the Panel). Additionally, the representation of stakeholders on the Committee with full voting rights was widened. In performing its role the Committee takes advice from the Panel (a group 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 the 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 Board can be found on the Fund's website, [mss.clwydpensionfund.org.uk](http://mss.clwydpensionfund.org.uk).

## Clwyd Pension Fund Committee

Committee Members		
<b>Flintshire County Council</b>	Cllr Ted Palmer	Appointed Sept 2020
	Cllr Aaron Shotton (Chair)	To Sept 2020
	Cllr Haydn Bateman (Vice Chair)	
	Cllr Billy Mullins	Appointed Sept 2020
	Cllr Kevin Hughes	To Sept 2020
	Cllr Ralph Small	
	Cllr Adele Davies-Cooke	To Feb 2020
	Cllr Tim Roberts	Appointed Feb 2020
<b>Denbighshire County Council</b>	Cllr Huw Llewelyn Jones	To March 2020 (Deceased)
<b>Wrexham County Borough Council</b>	Cllr Nigel Williams	
<b>Scheduled Body Representative</b>	Cllr Andrew Rutherford	
<b>Member Representative</b>	Mr Steve Hibbert	

## Advisory Panel

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

## Clwyd Pension Fund Local Board

Local Board Members			Voting Rights
<b>Independent Chair</b>	Karen McWilliam		X
<b>Employer Representatives</b>	Mark Owen		✓
	Steve Jackson		✓
<b>Scheme Member Representatives</b>	Paul Friday	To July 2019	✓
	Elaine Williams	Appointed October 2019	✓
	Phil Pumford		✓

## Investment Managers

The Fund has a number of investments with managers investing in Property, Private Equity, Private Debt, 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 Solutions UK Ltd</b>	122 Leadenhall Street, London
<b><u>External Auditors:</u></b> <b>Audit Wales</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>Utmost Life &amp; Pensions</b>	121 King's Road, Reading Utmost House. 6 Vale Avenue, Tunbridge Wells
<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>	Head of Clwyd Pension Fund	(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 2019/20

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 Committee, the 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 Committee members, Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the 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 12 of this Annual Report.

During 2019/20, we conducted a training needs analysis for Committee and Board members. The results of this analysis informed the training plan.

### Training Performance 2019/20

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:

- Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
- Hot Topic Training – targeting attendance of at least 80% of the required Committee members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Committee members, Board members or senior officers depending on the subject matter.
- General Awareness – each Committee member, 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. 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 Board Members and details all the training to be covered during the year.

Actual performance in 2019/20 was as follows:

- 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 3 additional training sessions offered, the attendance of the 9 Committee Members was as follows:
- |                            |   |
|----------------------------|---|
| • Responsible Investment   | 7 |
| • Investment strategy      | 7 |
| • Cash and Risk Management | 8 |
- c) General Awareness – Out of the total of 9 Committee members 6 of them completed at least one general awareness day in accordance with the policy.

The table below identifies the attendance at Committees and specific training undertaken during 2019/20 by the Committee during that year.

	Cllr A Shotton / Cllr B Mullin	Cllr H Bateman	Cllr Kevin Hughes	Cllr R Small	Cllr N Williams / Cllr T Bates	A Rutherford	Cllr A Davies- Cooke / Cllr T Roberts	S Hibbert
<b>Committees (3hrs)</b>								
<b>June 2019</b>	✓	✓		✓	✓	✓		✓
<b>September 2019</b>	✓	✓	✓		✓	✓	✓	✓
<b>October 2019 -Special</b>	✓	✓	✓		✓	✓	✓	✓
<b>November 2019</b>	✓	✓	✓	✓			✓	✓
<b>February 2020</b>		✓	✓	✓	✓	✓	✓	✓
<b>March 2020- Special (Postponed)</b>								
<b>CIPFA Framework Requirements 2017/18 – 2019/20 Refreshers</b>								
<b>Governance (0.5 day)</b>	✓		✓				✓	
<b>Administration( 0.5day)</b>			✓				✓	
<b>Funding &amp; Actuarial</b>								
<b>Investments (0.5 day)</b>	✓	✓	✓		✓	✓	✓	✓
<b>Accounting</b>								
<b>Additional Training &amp; Hot Topics</b>								
<b>CPF Annual Employer Admin Meeting (am)</b>		✓	✓				✓	
<b>CPF AJCM (pm)</b>	✓		✓					
<b>Responsible Investing (Sept 2019 Committee)</b>	✓	✓	✓		✓	✓	✓	✓

	Cllr A Shotton Cllr B Mullin	Cllr H Bateman	Cllr Kevin Hughes	Cllr R Small	Cllr N Williams/ Cllr T Bates	A Rutherford	Cllr A Davies – Cooke Cllr T Roberts	S Hibbert
Investment Strategy (November 2019 Committee)	✓	✓	✓		✓	✓	✓	✓
WPP Fund Wrappers and illiquids (day)		✓	✓	✓				
Cash Management and Funding strategy (Feb 2020 Committee)	✓	✓	✓	✓	✓	✓	✓	✓
Conferences (Restricted spaces)								
PLSA May 2019								
LGC Investment Summit (1.5 days) Sept 2019								✓
LGC Fundamentals Day 1 (Oct 2019)			✓					✓
LGC Fundamentals Day 2 (Nov 2019)			✓					✓
LGC Fundamentals Day 3 (Dec 2019)			✓					✓
LAPFF Annual Conference (2 days) Dec 2019								✓
LGA Annual Conference 1.5 days (Jan 2020)			✓			✓		
LGC Seminar (1.5 days) Feb 2020		✓	✓	✓			✓	✓

## Risk Management

### Background

Risk management is embedded in 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 the Fund's control, 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.

In particular the Fund recognises that there is a potential impact from the effects of the COVID-19 pandemic which was becoming apparent during March 2020. The immediate risks in relation to understanding and reporting on asset values as at 31st March 2020 were managed in conjunction with the Fund's advisors.

### Significant Risks

The table below shows those risks identified in the current risk register as key risks.

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 Overview	Risk Description	Current Risk Status	Internal Controls in Place	Target Risk Status
The Fund's objectives/legal responsibilities are not met or are compromised - external factors	<b>Externally led influence and change such scheme change (e.g. McCloud), national reorganisation, cybercrime, Covid-19 and asset pooling</b>		1 - Continued discussions at AP, PFC and PB regarding this risk 2 - Involvement of CEO / links to WLGA and WG 3 - Fund's consultants involved at national level/regularly reporting back to AP/PFC 4 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring) 5 - Asset pooling IAA in place 6 - Officers on Wales Pool OWG 7 - Ongoing monitoring of cybercrime risk by AP 8 - McCloud planning being undertaken 9 - Weekly Covid catch ups taking place with senior managers and advisers to consider/manage impact on Fund	
Services are not being delivered to meet legal and policy objectives	<b>Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit)</b> <b>- current issues include age profile, implementation of asset pools and local authority pay grades.</b>		1 - 2018/19 business plan includes workforce matters 2 - Review of admin structure in 2015/16 3 - Finance team restructure commenced (2017/18) 4 - Quarterly update reports consider resourcing matters 5 - Advisory Panel provide back up when required 6 - Additional resources, such as outsourcing, considered as part of business plan	

## Funding & Investment

Risk Overview	Risk Description	Current Risk Status	Internal Controls in Place	Target Risk Status
Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	<b>Market factors impact on inflation and interest rates</b>		<ul style="list-style-type: none"> <li>1 - LDI strategy in place to control/limit interest and inflation risks.</li> <li>2 - Use of a diversified portfolio which is regularly monitored.</li> <li>3 - Monthly monitoring of funding and hedge ratio position versus targets.</li> <li>4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee.</li> <li>5 - Consideration and understanding of potential Brexit implications.</li> <li>6 – Consideration and understanding of potential Covid–19 implications.</li> <li>7 -The level of hedging is being monitored and reported</li> </ul>	



## Administration & Communication

Risk Overview	Risk Description	Current Risk Status	Internal Controls in Place	Target Risk Status
Unable to meet legal and performance expectations (including inaccuracies and delays) due to employer issues	<b>Employers:</b> <b>-don't understand or meet their responsibilities</b> <b>-don't have access to efficient data transmission</b> <b>-don't allocate sufficient resources to pension matters (including due to Covid-19)</b>		1 - Administration strategy updated 2 - Employer steering group established 3 - Greater engagement through Pension Board 4 - Backlog project in place 5 - Establishment of ELT 6 - Increased data checks/analysis (actuary and TPR) 7 - Implemented further APP data checks to identify issues 8 - Updated Admin Strategy to include a compliance declaration 9 - Increased engagement with employers as to how they are managing due to Covid, and ongoing CPF requirements, and also increased monitoring of employer data coming into CPF	
Unable to meet legal and performance expectations due to external factors	<b>Big changes in employer numbers or scheme members or unexpected work increases (e.g. severance schemes or regulation changes including McCloud)</b>		1 - Ongoing task and SLA reporting to management/AP/PC/LPB to quickly identify issues 2 - Benefit consultants available to assist if required 3 - Recruitment to new posts 4 - McCloud planning being undertaken	
Service provision is interrupted	<b>System failure or unavailability, including as a result of cybercrime and Covid-19</b>		1 - 1 - Disaster recover plan in place and regularly checked 2 - Hosting implemented 3 - Implement lump sum payments via pensioner payroll facility 4 - Regular communications with Heywood re how dealing with Covid & early communications with FCC re how to ensure payments are made as a back up	

## Section 5 - Independent Advisor Annual Report



Prepared for

Philip Latham, Head of Clwyd Pension Fund, Flintshire  
County Council

Prepared by

Karen McWilliam, Independent Adviser to Clwyd Pension  
Fund

Date

10 July 2020

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## Introduction

This is my sixth annual report in my role as Independent Adviser to the Clwyd Pension Fund (the Fund), focussing on the year 2019/20.

### My role

I was originally appointed in early 2014 as Independent Adviser to the Fund and I am delighted to confirm that I was reappointed from April 2020 to continue in this role following a procurement process carried out by the Fund.

My remit is to provide independent advice to the Fund, predominantly on governance and administration matters. This includes reporting annually to stakeholders on whether the Administering Authority (Flintshire County Council (the Council)) is managing all risks associated with governance, investments, funding, administration and communication. It should be noted that I am not required to be, nor indeed am I, 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 those appointed advisers) to specifically advise on the governance of these areas rather than on these areas themselves.

This is my sixth annual report, and it sets out my views on the management and administration of the Fund and, in particular, how it this has evolved during 2019/20 (April to March), but also touches on some developments that have taken place since March 2020 particularly given the impact of the COVID-19 pandemic. I also highlight some of the ongoing challenges the Council will face, in its role as Administering Authority to the Fund, both in the short term and in the longer term.

### Overview

2019/20 has been a year where there have been significant development of the management and operations of the Fund. For the first time in a number of years, there have been no significant changes driven by regulatory changes and the focus has been on the evolution of the Fund's strategies and operations particularly focussing on areas such as digital solutions and responsible investing. As you might expect the impact of the COVID-19 pandemic shadows most of what has happened during the year and I am pleased to report the Fund's excellent response to this. 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

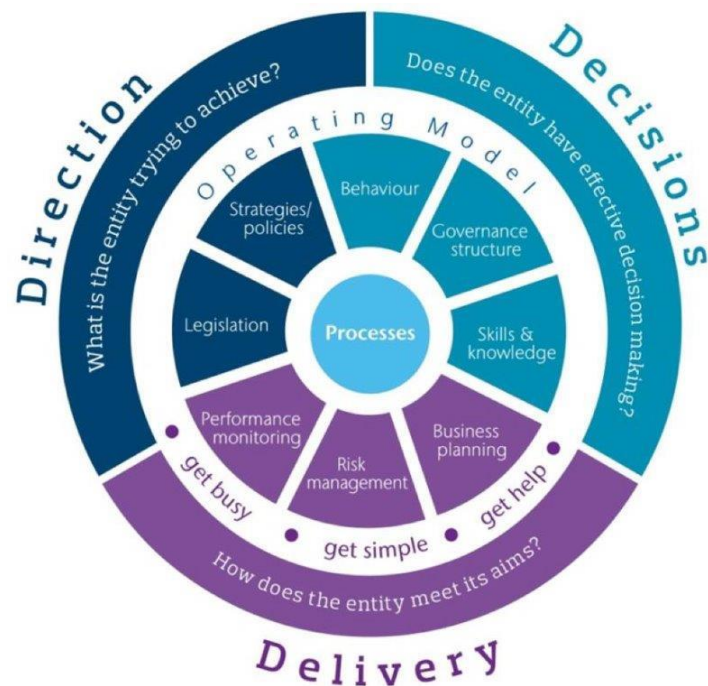
There are some key benefits from having effective governance in place, including:

- 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 Clwyd Pension Fund Committee (the Committee) (or equivalent).

The approach I take in advising the 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** (i.e. 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:

- Business continuity planning and testing, providing strong foundations for a robust response to COVID-19; implementing major change in ways of working with very little impact on business as usual.
- Fully resourced Administration Team with ongoing intensive training, and good progress in recruiting to Finance Team.
- Excellent standard of general governance, including business planning, monitoring and risk management.

The Fund went into 2019/20 in a strong position with governance arrangements that were well established and operating well including a Pension Board (the Board) providing invaluable assistance and a proactive Advisory Panel (the Panel). Unfortunately, through the year there were a number of changes in membership of the main decision-making body for the Fund – the Pension Fund Committee. Many of these changes are driven at Council level and therefore out of the hands of those involved in the management of the Fund. We were also very sad to hear of the death of Councillor Huw Jones who had been on the Panel/Committee since 2008 and had been a key contributor to the management of the Fund. I was also pleased at the training provided to the new members over a relatively short period to assist them in getting up to speed. Whilst new representatives have joined the Committee during the year we continue to have a good mix of representatives, including scheme member representation, and some with a strong level of knowledge and understanding due to a number of years of service on the Committee. I highlighted my concerns about resource levels, both within the Fund's Finance Team and Administration Team, as well as the need for workforce planning given the age profile of some senior members of staff. This has been an area that has taken a long time to turnaround given the need for a major review of the structure of the teams, a large recruitment drive and then intensive training of newly recruited and promoted staff. It is pleasing to note that activity has created a number of local jobs and well deserved internal promotions. During the year the Administration Team reached full capacity, and the Finance Team recruited to all but one of their vacant positions. The benefits of the increased resource and expertise can be seen in the improvement of the Fund's performance standards (which I comment on further below) and in the smooth delivery of major projects.

I don't think anyone could have pre-empted how we would finish 2019/20 given the speed and severity of the COVID-19 pandemic. However, regardless of the specific circumstances, it is fair to say that the Fund were in an excellent position to deal with it given the hard work they had done in developing their business continuity arrangements over the past two to three years. This included a further test of remote working as recent as December 2019. All members of staff moved to home working on 19 March 2020 in line with the Government's lock-down requirements. At the time of writing (July 2020) this continues to be the case with infrequent office visits by a small number of the team to deal with post and scanning. The team were immediately able to ensure normal business operations were maintained including accessibility by scheme members and employers via phone lines, email and the Member Self

Service (MSS) facility. All systems remained fully accessible for the officers of the Fund, ensuring ongoing payment of all pensions and benefits. Workarounds were put in place for some processes such as providing information relating to deaths and retirements. Decision making continued using existing urgency delegations that are in place, and engagement continued with the Committee and Board using video conferencing facilities. This was the smoothest, quickest and most effective transition to remote working that I have experienced for Local Government Pension Scheme (LGPS) teams, and this is clearly as a result of the business continuity testing that had been carried out.

More generally:

- I feel that the current governance structure is well established and is working as intended. The structure has been proven to allow decisions to be made urgently where required and minimises the risk of inadequate governance during changes in Committee members.
- Attendance at Committee, Board and Panel meetings and training events has been excellent throughout the year.
- The Board continues to play an integral part in the governance of the Fund (recognising my role as Chair of the Board). During 2019/20, the Board had a change in membership, with Elaine Williams taking over from Paul Friday who resigned. The Board have produced a separate report (which can be found elsewhere in this annual report) 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 was extremely pleased at the increased number of applications to join the Board during the recruitment process which I believe was in part driven by the clear digital approach the Administering Authority took to the recruitment process.
- 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 properly highlighted during meetings and they were managed appropriately. I am not aware of any potential conflict situations that were not notified in accordance with the Fund's Policy.
- The risk management framework is embedded including in the day to day management of the Fund. 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 continuously develop 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, and further measures are being developed as the Fund's strategies evolve. 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 or improving performance in many areas.
- Business planning continues to be integral to the day to day running of the Fund. The 2019/20 to 2021/22 business plan was agreed by the Committee in February 2019 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 the 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 Fund are well engaged, committed to their roles and well trained (or in the process of being trained).

### Looking to the future:

There are several matters relating to governance that I will be particularly interested in during 2020/21, most of which have been included in the Fund's ongoing business plan which was approved in March 2020:

- It is sad to have to admit that the impact of the COVID-19 pandemic is likely to have a long-term impact on the governance and management of all Pension Schemes. Not least this is likely to result in remote working for many Fund officers during most, if not all, of 2020/21. However, given how quickly officers have adapted to the new ways of working - including the development of new more efficient processes, quick reviews of the appropriateness of ongoing policies and strategies, and making use of robust flexible governance arrangements - it would be good to see what improvements can be adopted or further developed to help the Fund continue to meet its objectives in a more efficient or effective way.
- Resources – the Finance Team continue to have one vacant post which is critical to the overall governance and management of the Fund. There have been several unsuccessful attempts at recruiting to this post and this was also an issue for other Finance Team posts which had to be restructured in order to find successful candidates. Unfortunately this is a regular issue within Local Government Pension Scheme (LGPS) teams throughout the UK, with lack of experienced recruits and public sector pay rates often being contributing factors. It is critical that a solution is found and that this post is filled early in the first half of 2020/21.
- The McCloud remedy programme of work will mainly be carried out by the Administration Team (and mentioned in more detail later in this report) but the impact on resources and focus will be felt throughout the whole Fund governance structure. This will likely extend from 2020/21 through to 2022/23 and so I will be keen to:
  - monitor the impact of this programme on the overall governance of the Fund with a view to evidencing little or no detriment to delivering business as usual and other areas within the Fund's business plan and
  - see clear and regular reporting throughout the programme on the delivery of the McCloud remedy to the Committee, Board and Panel.
- We expect to see two governance related national initiatives launched during the year; the Ministry for Housing, Communities and Local Government (MHCLG) consultation and statutory guidance relating to the LGPS Good Governance project facilitated by the Scheme Advisory Board (SAB), and The Pension Regulator's (TPR) Single Modular Code, which will replace TPR's Public Service Code of Practice. These are expected to encompass some overlapping themes, such as increased clarity on the need for high standards of knowledge and skills, and the proper management of potential conflicts. The MHCLG Good Governance response is expected to highlight the need for LGPS



administering authorities to be able to manage their pension funds with unnecessary restriction due to other local authority policies such as pay freezes. On the face of it, I expect the Fund to already be able to evidence most of the expected requirements from these two initiatives.

- I am becoming concerned at the changes to Committee membership outside of the Welsh local authority election cycle. This clearly has an impact on the governance of the Fund, not least the additional resource required to train new members, and the fact there is generally a long period before members begin to feel comfortable in their understanding of pension fund matters. The Fund is able to manage this and many of these changes are unavoidable, but I would encourage dialogue with the Council to ensure the need for continuity is understood and unnecessary change is avoided. It is also critical that they appreciate the need for a strong Chair given their role as a member of the Wales Pension Partnership (WPP) Joint Governance Committee.
- Cybercrime is a major risk to all organisations and pension funds can be particularly vulnerable given the assets that are being managed, the payment of benefits to scheme members and the personal data held. Work has already commenced by the Fund to consider this risk including the controls that are in place. I look forward to seeing how this evolves so the appropriate assurances can be provided on an ongoing basis.

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

### **Key achievements:**

- Successful completion of the 31<sup>st</sup> March 2019 Actuarial Valuation including improved engagement with employers
- Investment Strategy Statement review including an enhanced Responsible Investment Policy with clear priorities
- Seamless production of the Annual Report and Accounts
- Improvements in the governance of WPP.

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:

- 31<sup>st</sup> March 2019 triennial Actuarial Valuation - the process seems to have gone extremely smoothly. A key objective was to introduce increased engagement with employers of the Fund at this valuation, which I understand has been well received by employers. The Actuary also noted an improvement in the quality of data since the 2016 valuation which I am pleased to see. Finally it is positive that nearly all the employers in the Fund have chosen to include an additional premium to cover expected costs from the McCloud remedy.
- The Fund's Investment Strategy Statement was revised in the second half of 2019 with a particular focus on enhancing the Responsible Investment Policy within this. This involved a large amount of engagement with the Committee including training and then

developing Fund beliefs on responsible investments upon which the revised policy was then based. I was pleased to see that this included some clear priorities such as:

- Measuring carbon exposure within the Fund's investment portfolio and then setting a target for carbon reduction
  - Having a dedicated Social/Impact allocation of 4% by 2023
  - Improved public disclosure and reporting of Environmental Social and Governance (ESG) matters relating to the Fund's investments
  - Aiming to remain a Tier One signatory of the Stewardship Code.
- For the past two years, the production of the Fund's annual report and accounts has been difficult due to vacancies within the Finance Team. Even though some of the work can be outsourced to external consultants, this is not a long-term solution due to the lack of Fund specific knowledge. A new Pension Fund Accountant has now been recruited and the development of the Annual Report and Accounts was seamless for 2019/20.
  - The establishment of the WPP to allow asset pooling in Wales has been ongoing for several years now, and the Fund continues to transfer some of its assets over to WPP's investment sub-funds. It is clearly critical that the Fund has confidence in the ongoing management of WPP to ensure its assets are appropriately safeguarded as well as meeting the investment return targets within the Fund's Investment Strategy Statement. I have had some concern in previous years that some of the governance arrangements have been given lower priority due to the focus being on determining and establishing the investment sub-funds. It is my understanding that the investment sub-funds that are being established are continuing to meet the requirements of the Fund, in that they are suitable alternatives to existing assets being held and they are aligned to the Fund's Investment Strategy Statement. I am also pleased to see good progress around some of the governance aspects of the WPP, including development of the business plan for 2020/21, development of a WPP Responsible Investment Policy and regular meetings with the Chairs of the Wales Local Pension Boards. I am aware that the dedication and commitment of Fund officers has contributed to the success of WPP and ensured that the Fund has been on the front foot in the ongoing development of the Partnership. It would be extremely risky for the Council to take a back seat in the work of WPP given the impact asset pooling could have on the ongoing performance of the Fund.

My general opinion is again that governance of the 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 Committee to spend their time focusing on strategy. The Council makes good use of external consultants as appropriate, but the knowledge and understanding of individuals within the Pension Fund Team continues to be excellent including relating to recent new recruits, allowing the Fund to benefit from the best ideas from all sources.

## Looking to the future:

- One of the key projects for 2020/21 will be implementation of the Fund's updated Investment Strategy Statement, and particularly the agreed Responsible Investment priorities. 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. There may also be new national guidance issued from the SAB which will need to be considered and which may drive further changes to the Fund's Responsible Investment Policy.
- As mentioned above, there has been significant progress in the transition of assets to the WPP and development of some of the governance policies and processes. The 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. I hope to continue seeing improvements by WPP, provision of sub-funds that meet the Fund's requirements and particularly no or little impact on the delivery of this as a result of the COVID-19 pandemic. It will be important that robust reporting and monitoring information in relation to the sub-funds set up by WPP is available and there is sufficient ongoing involvement of the Fund at both the Joint Governance Committee and Officer Working Groups.

## Administration and Communications

### Key achievements:

- Data improvements including for the 2019 Actuarial Valuation
- Good progress on the mandatory Guaranteed Minimum Pension (GMP) reconciliation project
- Further successful i-Connect rollout to employers of the Fund
- Continuing increase in scheme member registration for the MSS facility
- General improvement in business as usual service standards.

The first part of 2019/20 was a particularly busy period for the Pensions Administration Team as they prepared the data for the 2019 triennial Actuarial Valuation. As mentioned previously a lot of work had been carried out by the team in identifying and resolving data issues. This also included checks in relation to TPR standards for common and scheme specific data. The scheme specific data checks evidenced an increase in quality of data from 68% to 82% compared to the previous year, with the common data checks being maintained at 92% despite an increase of more than 4,000 scheme members in the data checks. I am delighted to see such an improvement, which will assist with making the calculation of benefits more efficient and annual benefit statements more accurate.

The team also made good progress on the GMP reconciliation project, which must be carried out by all pension schemes that have been contracted out. Much of this work was outsourced which I am extremely supportive of given the amount of work involved and the efficiencies that could be introduced by the external provider. The Pension Administration Team were

diligent in overseeing the work and ensuring appropriate quality checks throughout. Outsourcing this work meant the team were able to continue implementing 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 MSS facility. Currently approximately 43% of active scheme members are registered to use the facility (and approximately 34% of all scheme members) – both of these have increased by approximately 8% since my report last year. 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 MSS 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. Since then the Pensions Administration Team has been launching it 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. Currently 35 out of 48 employers are live on the system, meaning electronic data is being submitted monthly for 94% of active members. TPR actively encourages this form of data submission so I am delighted to see this system nearly fully rolled out across all employers.

I am also delighted at the ongoing improvements in the turnaround times for processing benefits and communications within the Pensions Administration Team. Key performance indicators are monitored for the main processes including dealing with retirements, quotations of benefits, deaths and providing information to new scheme members. In all areas monitored, the percentage of cases completed within the service standard for the Pensions Administration Team has increased, with 83% of nearly 9,000 individual member processes completed within the agreed service standard (an increase of approximately 23% compared to 2018/19). There has also been an increase of about 18% in relation to the total process time i.e. including any time waiting for information from employers or scheme members.

My general opinion is that the 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 Committee's engagement on administration is also excellent (as is the Board's).

### Looking to the future:

- As mentioned previously, the McCloud remedy is going to be a major programme of work and the greater part of this work will be carried out within the Pensions Administration Team. Given the magnitude of this and the potential impact on individual scheme members' benefits, it will need to be well controlled and resourced, with robust quality checks and efficiencies gained through bulk processing where at all possible. It will also put a strain on employers in providing data which will need to be well managed,

recognising the differences in how employers hold and can collate their own data. Further the communications will need to be clear and focussed on individual circumstances.

- The McCloud remedy is going to have to be the main focus for the Pensions Administration Team in 2020/21 but I would still hope to see i-Connect implemented for the final employers in the Fund.
- Finally I would expect resourcing levels to be adapted appropriately and training to be carried out so that the McCloud remedy has no or little impact on other day to day processes and I would hope to see evidence of this through the ongoing monitoring of key performance indicators.

## 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. I am delighted to have been reappointed as the Independent Adviser to the Fund and I look forward to continuing to work with everyone involved in the management of the Fund. 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 Fund business.

## Contact Information

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## **Section 6 - Pension Board Annual Report**

### **Introduction**

This is the fifth annual report of the Clwyd Pension Fund Board based on the financial year from 1 April 2019 to 31 March 2020.

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

The Public Service Pensions Act (PSPA) 2013 requires each Administering Authority in the Local Government Pension Scheme (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 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 (TPR), 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 (the Fund), we have very much embraced this role as being about partnership. We work closely with the Pension Fund Committee (the 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 2019/20 is as shown in the table below. Paul Friday, one of our Member Representatives resigned from his role in July 2019 and we thank Paul for his contribution to the Board. Following an application and interview process Elaine Williams was appointed to replace Paul from October 2019 and we welcome Elaine to the Board. We were extremely pleased at the increased number of applications to join the Board and we thank all the applicants for their interest.

During 2019/20 we held three Board meetings (in July 2019, October 2019 and February 2020). At the October 2019 meeting, as part of our regular review of the Board's effectiveness, we agreed to extend the duration of meetings to ensure we cover all topics in sufficient detail and meetings are now scheduled for 4½ hours. It was the Board's preference to have longer meetings, rather than more frequent meetings. All meetings during 2019/20 were quorate. Attendance at the Board meetings during 2019/20 was as follows:



		July 2019	October 2019	February 2020
Mr Phil Pumford	Member Representative	✓	✓	✓
Mr Paul Friday (to August 2019)	Member Representative	✓	N/A	N/A
Mrs Elaine Williams (from October 2019)	Member Representative	N/A	N/A	x
Mr Steve Jackson	Employer Representative	✓	✓	✓
Mr Mark Owen	Employer Representative	✓	x	✓
Mrs Karen McWilliam	Independent Chair	✓	✓	✓

The meetings were also attended by the Board Secretary (The Head of the Clwyd Pension Fund) and Fund Officers who support the Board.

As members of the Board, we have all committed to following the requirements of the Fund's Training Policy which also ensures we meet the legal requirement to have the proper level of knowledge and skills to carry out our Board duties. We attended a range of events and training in 2019/20 to complement the induction training we undertake on appointment. In addition, we are invited to attend the Fund's 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	Phil Pumford	Elaine Williams
<b>Committees</b>				
June 2019			✓	
September 2019	✓			
October 2019	✓			
November 2019	✓		✓	✓
February 2020			✓	✓
<b>WPP Pension Board Meeting</b>			✓	
<b>CIPFA Framework</b>				
Governance				✓
Investments & Accounting	✓			
Administration				✓
<b>Additional &amp; Hot Topics</b>				
Annual Joint Consultative Meeting	✓	✓		
Investment Strategy	✓		✓	✓
Responsible Investing	✓			
Cash Management & Funding			✓	✓
LGA Fundamentals Day 1				✓
LGA Fundamentals Day 2				✓
LGA Fundamentals Day 3				✓
<b>Conferences</b>				
LGC Investment Seminar		✓		



## What has the Pension Board done during 2019/20?

Our meetings include several standing items, including:

- latest Committee papers,
- reviewing the administration of the Fund including performance against Key Performance Indicators (KPIs) and data improvement activity
- reviewing the Fund's risk register,
- receiving updates on all compliments and complaints, and
- monitoring of our allocated budget.

We continue to focus on the administration of the Fund and have been delighted with progress in this area. Despite the difficulties in recruiting staff with pensions experience, the resourcing of the Administration Team has improved, and we were informed in July that the team were fully staffed. This was particularly pleasing for the Board given our focus on the issue of resources over recent years. Progress towards improved accessibility to pensions information by scheme members through greater digital engagement and communication through the Member Self-Service (MSS) facility has been positive. We have monitored closely the activity with employers on data improvement and we were pleased to see excellent progress including with the ongoing roll-out of the i-Connect system which has been integral to improvements in data quality.

Other key areas of discussion for us during the year included:

- We engaged with Fund Officers on the development of the Fund's Business Continuity Plan. We monitored the practical activities being undertaken by the Fund to assist in the development of that Plan. We heard the success of a disaster recovery test day in February 2020 informing staff they could not have access to the office and were required to work from another location the following day. We were pleased to learn that only minor issues arose during the test day which was also a day when the pensioner payroll was being run. We also learned from the outcome of a bomb scare in the Council Offices which highlighted issues when staff were mid-way through processing a payment run. This is helping to inform the development of the Fund's Business Continuity Plan but, perhaps more importantly, this has assisted the Fund in responding quickly and extremely positively to the impact of the COVID-19 pandemic on providing a normal service to members and employers with all staff working from home.
- We continue to look for assurance on the management of cybercrime risk for the Fund's stakeholders given the continual changing environment in this area. In July 2019, Pension Fund Officers contacted Fund employers and third-party providers to ascertain if they have cybercrime insurance. Building on this engagement in October 2019 we requested that Fund Officers carry out further engagement with the Fund's main IT suppliers on this subject, given the risk to the Fund. At our February 2020 meeting we then considered a draft questionnaire for key suppliers including the pensions administration software supplier and the host authority, Flintshire County Council (the Council). The Fund Officers

will be issuing this questionnaire to obtain information on both organisations' cyber security approach. The answers are to be used to assist the Fund in obtaining further assurances as to how both organisations manage cyber risk on their behalf.

- We received regular updates on the progress of asset pooling through the Wales Pensions Partnership (WPP) given the direct impact this can have on the Fund. Our focus remains on the governance of WPP and during the year we have closely monitored their activity in this area including the development of key policies and the WPP's Business Plan. By February's Board meeting we heard of a more positive position with good progress being made on the development of the WPP Business Plan and the expectation that it would be approved at the next Committee meeting. We welcomed greater positive engagement with WPP through the introduction of bi-annual meetings with Welsh Pension Board Chairs and the Host Authority. A report provided at our July 2020 meeting from the Chair of the Board from the first of those meetings (April 2019) and then from Mr Pumford in our October 2019 meeting (from the joint October 2019 meeting) included updates on governance related aspects of pooling. The area of Responsible Investment was reported to the Board during the year including the development of a WPP Responsible Investment Policy. High-profile developments that we received updates on from Pension Fund Officers included the impact of the Woodford case on Link Fund Solutions (as administrator to Woodford) and we have asked that regular updates on developments in these areas are provided.
- We added a standard item to our agenda during the year on the topic of the Guaranteed Minimum Pension (GMP) Reconciliation Project which could impact the amount of some pensions in payment. We were pleased with the progress made and the diligent approach taken through the reconciliation and rectification stages of the project. The Board recognised that the project, being supported by Equiniti, is particularly sensitive given the pensioner overpayment cases that are to be addressed. At our February meeting the Board agreed that they would support historical pension overpayments not being reclaimed.
- The Board asked to be kept updated on the potential impact of Brexit on the Fund and how any potential risk to the Fund was being managed. We received regular updates from the Pension Fund Officers and will continue to do so as the proposals for the future relationship with the EU (which needs to be agreed by 31 December 2020) evolve.
- The impact of the McCloud Supreme Court judgement on the Fund has been monitored closely by the Board with updates provided at each meeting. We have been keen to understand developments nationally and what impact that has on the Fund, including monitoring risks in this area on the Fund's Risk Register. We received an update about the impact of McCloud on the recent 2019 valuation as well as asking about queries from members on this topic. We have been pleased with the Fund's engagement on this issue and expect it to be a major project for the Fund throughout 2020/21 and 2021/22 as a minimum.

- A key area for the Board is assessing compliance with The Pensions Regulator's (TPR's) Public Service Code of Practice and during the year the Board reviewed the annual assessment of the Fund against the Code. We noted the positive improvement in that five areas moved from partially compliant to compliant in the latest assessment, and no areas had moved from being compliant to partially or non-compliant. The Board worked through the amber (partially compliant) and red (non-compliant) in detail with Fund Officers during the February 2020 meeting. We also acknowledge the expected changes in this area with a new TPR Single Modular Code expected later in 2020 to replace the existing Public Service Code of Practice.
- The Board continued to monitor topical developments and have taken a close interest in a number of areas during the year including the progress of the Scheme Advisory Board's (SAB) Good Governance Project, reviewing the findings of Phase 1 and Phase 2. In addition, the legal requirement for investment consultants to set objectives through the Investment Consultancy and Fiduciary Management Market Investigation Order 2019 has been monitored by the Board.

The Board's budget and final spend for 2019/20 are summarised below:

Item	Budget 2019/20	Actual 2019/20	Variance
	£	£	£
Allowances and Expenses	2,136	321	(1,815)
Training	18,432	6,880	(11,552)
Advisor Fees	44,420	43,885	(535)
Other Costs	4,200	3,800	(400)
<b>Total</b>	<b>69,188</b>	<b>54,886</b>	<b>(14,302)</b>

### What will the Pension Board do in the future (in particular in 2020/21)?

We have a number of items on our forward plan for 2020/21, 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 implementation of the resources and plans to implement the remedy required from the McCloud Supreme Court Judgement on the Fund – this will be our main focus and the Board has agreed to be part of the Programme Steering Group for the Fund providing ongoing guidance and assistance for what will be a major programme of work. This has a number of risks inherent with it, not least the potential resourcing impact on the day to day Fund services for scheme members and employers.
- The impact of the COVID-19 pandemic on the Fund – this relates to the day to day operations of the Fund including communications with scheme members and employers, the financial impact on the Fund's assets and liabilities, and the potential that some employers may have financial problems impacting on the payment of pension contributions

or even cease to exist. Given this is likely to go into 2021/22, the Board will be monitoring this both in relation to short-term adjustments but also longer-term plans.

- Membership of the Committee – including the potential impact of changes in membership, and ensuring quick and effective training is provided for new members.
- Ongoing further consideration of several of the areas noted above, including:
  - Business Continuity assessment and documentation through the Fund's Business Continuity Plan.
  - GMP Reconciliation Project progress and completion.
  - Cybercrime and the resilience of the Fund's systems.
  - Continuous monitoring of both the Administration Team and Finance and Governance Team resources, and monitoring how current resources are improving performance against service standards and Key Performance Indicators.

A budget for 2020/21 has been agreed as follows:

Item	£
Allowances and Expenses	2,058
Training	21,284
Advisor Fees	45,570
Other Costs	4,280
<b>Total</b>	<b>73,192</b>

## Conclusion and final comments

In our view 2019/20 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 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. 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

Elaine Williams, Member Representative

Steve Jackson, Employer Representative

Mark Owen, Employer Representative

**Clwyd Pension Fund Board**

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

## Section 7- Administration Report

### Introduction

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

### How our service is delivered

The Fund's day to day administration service is provided by the Pension Administration Team which consists of a total of 33.5 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 Communications Team and
- an Employer Liaison Team (ELT)

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 49,000 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 14,500 pensioners and dependents paying more than £6 million per month. The ELT 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 focused, 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 (the Board) and the Clwyd Pension Fund Committee (the 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 (the Council) is required by law to administer the Local Government Pension Scheme (LGPS) in Flintshire. It is accountable to the Committee, the Board, participating employers, and scheme members. The responsibilities for scheme administration are met in-house by the Pension Administration Team based within the Chief Executive's Department within the Council. 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 2019/20 the Pension Administration Team has been addressing a number of significant challenges as described below.

### **Guaranteed Minimum Pension (GMP) Reconciliation**

The Government removed the status of contracted-out from pension schemes in April 2016. Prior to this, contracted-out pension schemes had to ensure the benefits they paid met a minimum level and one element of this was a 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 ceased to provide this service in 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 has been undertaken to determine the correct benefits, ensuring all systems are updated and processing a number of over/underpayment calculations. As part of the reconciliation 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.

This exercise was outsourced to a company called Equiniti and a close working relationship with the Administration Team has been developed. The reconciliation part of the exercise is now complete and extract files to update affected active and deferred member records are being uploaded to the administration system. Due to the complexity of the scheme and the impact of COVID-19, timescales were reviewed and the exercise is now due to be completed by the end of 2020. Monthly update meetings continue to be held in order to monitor progress of this project and any decisions needed in order to complete the exercise are reported during these meetings.



### **Local Government Association (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, along with a number of other founder members have participated in a LGPS Framework working party. This has resulted in the successful launch of a procurement framework for Pensions Administration Software. This framework provides easy and efficient access to specialist providers who are best placed to deliver pensions administration software to support the LGPS (and wider public sector schemes). Using the National LGPS Framework complies with procurement regulations and will save the Fund significant time and money by allowing quicker and more efficient procurement of high-quality and value for money services when required.

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

Since GDPR was introduced on 25<sup>th</sup> May 2018, stricter data compliance requirements and much higher fines for non-compliance have been in place nationally. To maintain compliance, the Council has implemented data breach handling procedures to comply with GDPR rules requiring the reporting of any serious data breach within 72 hours to the Information Commissioner's Office.

The Fund has a specified Data Protection Representative who is a member of the Council's Information Compliance Officers Group (ICOG). The representative attends quarterly meetings with these group members to discuss data protection issues. This includes issues such as: learning from previous breaches, pro-actively working towards preventing future breaches, and officially documenting privacy notices across all the Council Departments.

All staff members of the Pensions Administration Team have completed data protection online training and this training is renewed every 12 months as part of maintaining compliance.

## **COVID-19 Update**

The coronavirus pandemic forced staff members to work from home and to make changes to processes ensuring service delivery was maintained. In December 2019 the Fund undertook a series of important steps including a full disaster recovery test, imitating a real life scenario and advising staff that County Hall was inaccessible. This included testing pension payments could still be processed, staff members had adequate equipment to work from home and procedural guidance notes were accessible on-line. All of this meant we were in a good position to deal with the impact of the pandemic at short notice.

All staff meetings and training sessions have continued via virtual methods. Adaptations to procedures such as accepting electronic documentation via Member Self Service (MSS) have contributed to ensuring a business as usual approach and avoiding any unnecessary delays in processing benefits.

## **New KPI Monitoring**

The Fund is required to measure and report monthly performance on a regular basis in order to ensure timescales are being met, as set out in the Fund's Administration Strategy. The Fund currently measures 7 categories of workflow, incorporating the legal requirement, overall member experience and the Fund's internal target. However, increasing external scrutiny on all Funds to report additional information has prompted the Fund to undertake a review of its current measures. Utilising Chartered Institute of Public Finance and Accountancy (CIPFA) guidance, the Fund has integrated a further 6 categories of workflow to report on as part of the monthly KPI monitoring.

The review also highlighted the impact that timely provision of data from employers can have on the Fund's capability to meet timescales. An additional measure has been developed to identify when employers have or have not met their Service Level Agreement (SLA) timescales and this is being rolled out in 2020/21. This measure will help the Fund and employers understand what is being achieved and also where improvements are required.

## **i-Connect**

i-Connect is the facility used by employers which enables them to upload their member data to the Fund on a monthly basis. This includes the notification of new starters, leavers, name changes, address changes and job changes. i-Connect ensures timely and accurate data is provided to the Fund and replaces the requirement for employers to submit a year end return. The Fund successfully on-boarded the first employer to i-Connect in 2016 and has since been on-boarding employers in accordance with timescales set out in the administration business plan. Currently the Fund has 35 out of 48 employers live on I-Connect which covers 94% of the active membership. The target is to have all employers using I-Connect by the end of 2020.



## **Website regulations**

Regulations have come into force that require public sector websites to meet national accessibility standards and to publish an accessibility statement on their websites. To meet the government's requirements, websites must achieve level A of the Web Content Accessibility Guidelines (WCAG 2.1). This means that websites should be accessible to people with impairments to their vision, hearing, mobility and thinking and understanding.

To ensure that the Fund's website is compliant with these accessibility regulations, our website should be compliant (or working towards being compliant) by 23/09/2020. At the very least, the Fund must have a website accessibility statement in place by this target date. The Fund is currently researching companies who perform website 'audits' and who are qualified to confirm our compliance with these regulations. Once a suitable company has been chosen and a contract is in place, we will work closely with the company to ensure we are compliant. It is anticipated that our website will still be a work in progress towards compliance by this deadline date but our accessibility statement will be in place by then.

## **National Pensions Dashboard**

The Pensions Administration Manager is participating in a Pensions and Lifetime Savings Association (PLSA) working group on the development of a new Dashboard. The Dashboard is being designed to allow all pension savers in the UK access to view the values of all of their pension pots, including state pension, through one central platform. A consultation was undertaken by Government in early 2019 which sought views on the potential phasing of the introduction of the pensions dashboards as well as how the architecture, funding and governance arrangements would work.

## **Member 1-2-1 Sessions**

The 1-2-1 member sessions completed this year increased significantly compared to previous years' uptake. The sessions ran from September 2019 through to February 2020. The communications team met with 490 members across 16 employers, covering a mixture of active and deferred member records. The 1-2-1 sessions will continue to be an annual occurrence moving forward.

## **Other Expected National Changes**

### **Cost Management Process**

Public Sector Pension Schemes (including LGPS) have been designed to ensure sustainability for 25 years. LGPS has a 2% buffer either side of 19.5% for employer future service pension rates (calculated at a national level). On 6 September 2018 it was announced that the buffer had been breached which means that LGPS is currently under review in order to bring it back to within tolerance. Possible scheme change recommendations to address this issue include a reduction in employee contribution rates. In turn, employer contribution rates could increase. Any scheme changes were originally to be effective from 1 April 2019.

## **McCloud Case**

When the LGPS changed from a final salary to a career average pension scheme in 2014, protections for older scheme members were introduced. Similar protections were provided in other public sector pension schemes. The Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. This ruling is often called the 'McCloud judgment'.

The Government is consulting on exactly what changes need to be made to remove the discrimination from the LGPS. If scheme members qualify for protection it will automatically be applied and they do not need to claim.

From an administrative perspective the impact of the court case is likely to result in a change to how benefits are calculated going forward and may also impact a small number of members who have left. This is likely to significantly impact on administration processes and systems as well as requiring a robust communication exercise with employers and scheme members. The additional resource and administration budget requirements to implement the remedy will be substantial.

## **£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. It is not yet known if this will definitely impact all local authorities and other public bodies in Wales. However, if implemented within the LGPS it 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 would 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 would be 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 that changes to current processes and the administration system would be required.

## **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.

## Looking ahead

### 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, 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 Committee, Board and Advisory Panel (the 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 Communications 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 All Wales Communications Group has also seen meetings resume in March of 2020. The LGA also hosts a national communications group (CWG) 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.

The Communication Strategy and Administration Strategy are available on the Fund's website. The strategies were reviewed in 2019 and will not be revisited again until September 2022 (as they are reviewed triennially) unless any fundamental elements change in the meantime that warrant an amendment to the current versions.

As part of these Strategies, Employer Compliance Statements (ECS) were introduced in February 2019. The ECS is an additional checklist for employers to complete when supplying year-end data to the Fund. This is to ensure employers have clarification on their responsibility for supplying correct and verified member data. Since the introduction of the ECS, they have now been adopted as part of the normal year-end process and all employers are responsible for completing and supplying a completed statement to the Fund each year.

### 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 and, through individual agreements, can assist with project work such as retrospective changes to the regulations. 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.

## **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 schemes 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. The Council currently has 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 (TPR) 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 TPR 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 Fund's data quality was measured in 2019/20 and the scores are 97.4% for common data and 97.2 % 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 2019/20

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 surveys completed in 2020 and 2019 are shown in the table below.

The Fund.....		2019	2020	Target
Administration	... offers documentation, guidance and information in a professional manner?	81.4%	94.0%	90%
	... is proactive in its approach to provide a service to members?	70.1%	87.6%	
	... gives an appropriately timed service with regular updates?	65.9%	83.9%	
	... is customer focused and meets the needs of its members?	70.1%	87.2%	
	... has provided a high quality service throughout to its members?	69.0%	86.0%	
Communications	... promotes the scheme as a valuable benefit and provides sufficient information so you can make informed decisions about benefits?	65.9%	82.2%	90%
	... communicates in a clear and concise manner?	64.9%	84.9%	
	... uses the most appropriate means of communication?	72.1%	86.2%	
Employer Survey	...offers documentation, guidance and information in a professional manner?	100%	100%	90%
	...is proactive in their approach to provide a service to employers?	87.5%	93.3%	
	...gives an appropriately timed service with regular updates?	87.5%	100%	
	...is customer focused and meets the needs of its employers?	87.5%	100%	
	...has provided a high quality service to you in your role as employer?	87.5%	93.8%	
	... ensures you are aware of your LGPS employer related roles and responsibilities for the administration of the Clwyd Pension Fund?	75%	93.8%	
	... communicates in a clear and concise manner?	100%	93.8%	
	... 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:

*"A good professional service is offered which is always very informative"*

*"Having retired abroad I have found the MSS very helpful."*

*"The website is easily accessible and user-friendly. Queries are dealt with in an efficient and timely manner. The process for re-setting passwords / dealing with access issues is straightforward and easily achieved."*

*"I have always found the service to be approachable, informative and thoroughly professional."*

## 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 2020/21, the review of the Fund's website will continue. This will ensure that the website is continuing to adhere to national standards regarding accessibility.

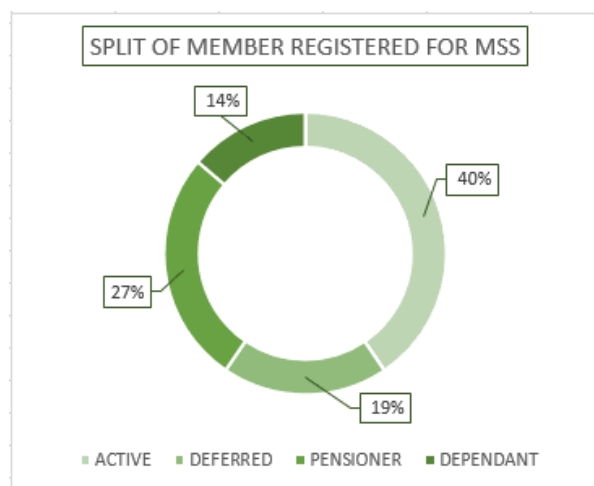
Within the website there are multiple sections to help users navigate their way around and to find the information which they are looking for. Users are able to download scheme literature and forms from the website. All policies, strategies and information on the investments of the Fund are also available.

### 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

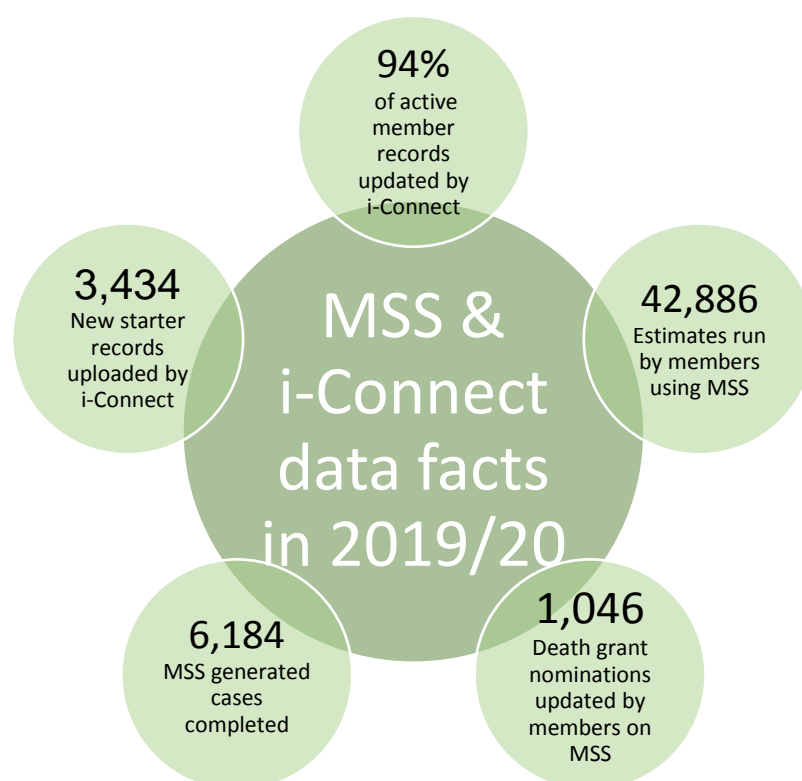


Members who use MSS receive their correspondence electronically, automatically uploaded to their account. They are notified by email each time information is uploaded.

### **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 Fund's pension 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.

Usually, before IDRP is instigated, an 'informal' complaint is raised by a member and the Pensions Administration Manager or Principal Pensions Officers will attempt to resolve the complaint and confirm this in writing where possible. If the complaint is against an employer decision, it is the employer's responsibility to attempt to resolve this complaint. If the member is dissatisfied with the response, they may appeal. IDRP has a two stage process under LGPS regulations.



Written appeal applications must be made using the Fund's official IDRP forms and must be returned to the Fund within six months of the date of the decision that the member is appealing against.

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 2019/20 and their outcomes:

2019/2020	Received	Upheld	Rejected	Ongoing
Stage 1 - Against Employers	9	1	4	4
Stage 1 - Against Administering Authority	2	0	2	0
Stage 2 - Against Employers	1	0	1	0
Stage 2 - Against Administering Authority	0	0	0	0

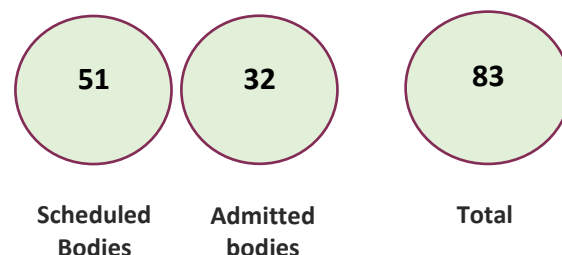
Appeal Contact details:	Mrs Karen Williams Pensions Administration Manager, Clwyd Pension Fund, County Hall, Mold, CH7 6NA
Stage One decision maker:	Mr Yunus Gajra West Yorkshire Pension Fund, P O Box 67, Bradford, BD1 1UP
Stage Two decision maker:	Mr Robert Robins, Flintshire County Council, Democratic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

## Scheme Membership details

Details of the number and type of employers and of new pensioners during 2019/2020 and member trends may be seen below.

### Summary of Employers as at 31<sup>st</sup> March 2020

Employers	Active	Ceased	Total
Scheduled bodies	31	20	51
Admitted bodies	17	15	32
<b>Total</b>	<b>48</b>	<b>35</b>	<b>83</b>



### 2019/2020 New Pensioners

Retirement Type	Number of Cases
Ill Health	31
Early	621
Normal Retirement Age (NRA)	8
Late	87
Redundancy/Efficiency	55
Flexible	31
Triv Comm	69
<b>Total</b>	<b>902</b>

### Member Trends:

Year	Contributors	Deferred Members	Pensioners	Dependent Pensioners	No. of Enhanced Benefits (Other)	No. of Ill Health Enhanced Benefits
2015/16	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)
2019/20	17,211	17,745	12,751	1,988	54 Members	18 Members (tier 1 only)

## 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.

	2019/20	2018/19	2017/18	2016/17	2015/16
Amounts under £100	4,435	6,270	6,164	4,694	6,062
Number of cases	129	154	150	109	146
Overpayments Recovered	29,277	39,685	51,265	30,095	28,126
Number of cases	76	90	102	81	77
Overpayments Written Off	0	2,742	990	1,741	1,284
Number of cases	0	4	3	5	5

## Key Performance Indicators (KPI)

Reviewing the task management system and work processes is a continuous exercise undertaken to achieve and report accurate KPI data. The seven processes below are currently reported on, however, the Fund is developing further measurements of service provision in order to increase the transparency of performance. All seven areas have seen a noticeable improvement in completion within target dates this year. The KPI requirements can be found in the Fund's Administration Strategy.

Process	Legal Requirement	No.	%	CPF Administration element target	No.	%
		2019/20			2019/20	
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	3363	50%	15 working days from receipt of all information	3363	97%
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)	1779	94%	15 working days from receipt of all information	1779	60%
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request	224	68%	20 working days from receipt of all information	224	82%
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate)	369	99%	20 working days from receipt of all information	369	92%
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>	1330	75%	10 working days from receipt of all information	1330	95%
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	1005	99%	15 working days from receipt of all information	1005	88%
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)	165	75%	15 working days from receipt of all information	165	52%

## Other performance information

Full time equivalent staff in the Pension Administration Team 33.5	Total Fund members 49,695	Ratio of staff to members of Fund 1:1483	Average cases completed per total members of staff 824
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The total number of cases completed annually continues to increase. This has had a positive effect on the performance levels achieved across all areas. Additional resource and developments in technology have contributed towards this success and will continue to be monitored to ensure levels do not drop. In order to satisfy legal requirements the KPI's noted above are measured at a specific point within the case. These numbers will therefore, not match the completed cases shown below which also include other areas of work.

### Completed Cases 2019/20

Case Type	Cases
New Starters	3,010
Address changes. Inc. MSS	1,679
Defers	1,400
Refunds	919
Retirements (all types)	1,408
Estimates (all types)	995
Deaths (deferred, active and pensioners)	462
Transfers In	196
Transfers Out	311
Divorce Quote	84
Divorce Share	5
Aggregation	896

**2018/19**

**Total cases completed**  
**25,100**

**2019/20**

**Total cases completed**  
**27,589**

## 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

## **Section 8 - Actuarial Funding and Flightpath Report**

### **An update from the Actuary**

I am delighted to provide my update from an actuarial perspective on the activities of the Clwyd Pension Fund (the Fund) during 2019/20. 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 Advisory Panel (the Panel) and the Funding and Risk Management Group (FRMG). The Panel provides an opportunity for all of the Fund's professional advisors to collaborate, in conjunction with the Fund Officers, to help the Fund achieve its long term objectives. The FRMG is established to specifically manage the Flightpath Strategy and the group has continued to provide strong oversight of the framework to support the long term objectives of the Fund. In particular the response to the COVID-19 pandemic has been excellent, meaning that there has been no impact on the Fund's operation despite the major challenges of working remotely. This is testament to the governance and oversight of the Fund and in particular the work of the Officers.

### **2019 Actuarial Valuation**

The Fund's triennial Actuarial Valuation took place with an effective date of 31 March 2019. This gave us the opportunity to review the financial health of the Fund and refresh the objectives. These objectives are set out in the Funding Strategy Statement. The outcome of the valuation is to set employer contribution levels for the period 1 April 2020 to 31 March 2023 and these contributions are set out in my formal Actuarial Valuation Report.

In assessing these contribution levels, I considered the experience of the Fund since the previous valuation (including demographic factors such as changes in life expectancy and changes in the membership profile). I also utilised the employer risk management framework set up by the Fund, which considers an employer's ability to support their obligations to the Fund by reviewing their covenant. The results of the valuation showed a major improvement in the funding position from 76% to 91%, which is testament to the work carried out by the Fund and is a reflection of the work of the Flightpath Strategy framework that has provided greater certainty of funding outcomes. This improvement allowed us to reduce the overall average employer contributions required based on a reduced average period over which deficit contributions are paid into the Fund from 15 years to 13 years.

Overall, positive feedback was received from employers on the process and the eventual outcomes in terms of the balance between the affordability of contributions and the long term financial health of the Fund. My valuation report was signed off as at 31 March 2020 which coincided with the early stages of the COVID-19 pandemic and the associated uncertainty in market and economic outlook. I discuss this further below.

Following the completion of 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 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 Impact of COVID-19**

The uncertainty surrounding COVID-19 triggered the most significant fall in domestic and overseas equities since the global financial crisis of 2008, although we have seen some recovery at the time of writing my statement. Whilst the Fund has equity protection in place, the funding level has still been impacted by the volatility that COVID-19 has produced.

The potential impact of COVID-19 is creating a lot of uncertainty and the long term economic impact will have a number of consequences which need to be managed effectively. As well as the potential impact on the financial health of the Fund, it has the potential to affect the Fund's operational arrangements (especially given the need to work remotely) and the affordability of contributions for employers.

While LGPS Funds are long term investors, the COVID-19 impact needs careful management and collaboration between the employers and the Fund.

The response to the crisis by the Fund officers has been excellent and there has been no impact on the running of the Fund. This is testament to the governance structure in place and I am confident that the strong oversight this provided means we are well placed to navigate the uncertainty and challenges that come from COVID-19.

## **Risk Management Framework**

### **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 6 years now and there have been big strides forward in achieving the objectives of reaching full funding by 2026.

Over most of the 2019/20 accounting year, the level of risk hedging (the "hedge ratio") within the framework did not change 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 too expensive at the current time. The various triggers built into the Flightpath Strategy were reviewed alongside the Actuarial Valuation and will continue to be reviewed in light of the impact of COVID-19.

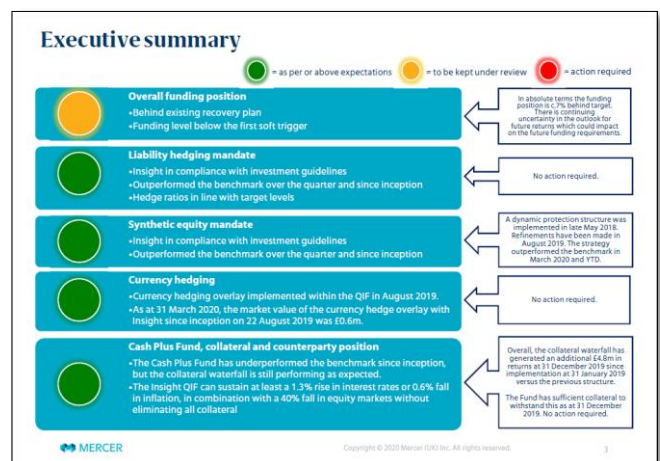


However, in September 2019, the Government announced that the Retail Prices Index (RPI) should be reformed to the lower CPIH inflation measure (Consumer Price Index with owner occupiers' housing costs included) and a consultation was announced on 11 March 2020 as part of the Budget. The consultation is expected to close in August 2020 with an announcement due in autumn 2020. This potential RPI reform poses a risk to the value of the Fund's holdings of inflation-linked assets as part of the Flightpath Strategy framework. The Fund therefore decided during early 2020 to reduce the inflation exposure by 50% on a temporary basis to partly mitigate this risk. Retaining some inflation exposure protects an unanticipated increase in inflation up to the finalisation of the RPI reform, which could have a detrimental effect on the funding position.

Primarily as a consequence of the impact of COVID-19 and the substantial market falls, the funding plan was behind the target set as part of the 2019 valuation as at 31 March 2020. Overall, using consistent actuarial assumptions, the funding position was estimated to be 85% as at 31 March 2020 which was 7% behind the expected funding level under the new deficit recovery plan. The funding position has improved since 31 March 2020 due to markets improving. As at 31 May 2020, the funding position had improved from 85% to 89%.

The Fund is also in a relatively unique position compared to some other pension funds as the Flightpath Strategy has provided protection due to the level of risk hedging in place. This will help provide more certainty in funding and contributions in the long term. In particular, the equity protection element of the Flightpath Strategy, remained in place throughout the year and beyond in order to protect the Fund and employers and this offset some of the market impact of the pandemic.

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 2020 is shown. It can be seen that all aspects were in line with expectations apart from the funding level.



## **Changes in the Equity Protection Strategy and Currency Hedging Framework**

In order to protect the Fund's current strong position, the Fund protects against material ongoing falls in the equity markets via the use of an Equity Protection Strategy. Whilst it does not protect against all falls and all equity assets, as this would be too expensive, the aim is to provide further certainty in employer contributions (all other things equal) in the event of a significant equity market fall.

From 1 August 2019, the Fund increased the equity protection levels of Flightpath assets by 5% in order to further reduce the likelihood of contribution increases in the future. The strategy now protects against falls of 10% or more of the average market position over the previous 12 months. The equity protection structure and cost will continue to be monitored in light of COVID-19.

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 provided the Fund with broadly a 50% strategic hedge ratio.

During August 2019, it was decided to further increase the overall currency hedge to 75% until the outcome of Brexit is clearer.

## **What are going to be the biggest challenges during 2020/21?**

As well as the challenge of dealing with the ongoing implications of the COVID-19 pandemic there are a number of other challenges that the Fund will need to navigate. We mustn't forget that Brexit is on the horizon which will no doubt throw up further challenges depending on the outcome.

## **McCloud judgment remedy**

The McCloud judgment in the LGPS refers to the legal decisions in the Sargeant/McCloud cases for the Fire and Judiciary pension arrangements. The Court ruled that transitional protections afforded to older members when these schemes were amended constituted unlawful age discrimination. Remedial action, in the form of benefit changes for these schemes will therefore be required. Given that the LGPS also put in place protections for older members as part of the 2014 reforms, a remedy will also be required for the LGPS. Once implemented, the McCloud impact is likely to put significant strain upon the administration teams across all funds.

Although the remedy is not known yet, the vast majority of the Fund's employers included a provision for the potential McCloud cost within their certified contributions from 1 April 2020. The timescale for implementation of the remedy is currently unknown for the LGPS. A consultation will take place over the summer of 2020 and an assessment of the financial and operational impact will be needed with consideration as to whether the allowance made in the valuation is adequate.

Whilst we would not expect to change contributions until the next valuation for those employers who made an allowance at the valuation, we will notify employers of the impact (if any) of the final remedy. For those employers who did not make an allowance, consideration will be given to the cost being allowed for in the required contributions.

### **Regulation changes**

We are also expecting a number of regulation changes to take place over 2020, including:

- The ability to review employer contribution rates in-between valuations is expected to be introduced in certain circumstances which will be important for managing the current uncertainty
- The introduction of a 'deferred employer' status that would allow employers to defer the triggering of an exit payment by remaining in the Fund with no employees earning further benefits.

The Fund will update the Funding Strategy Statement to reflect these changes when they are implemented.

Despite the big challenges outlined in my statement, I remain confident we are well placed to navigate them in the best way possible by reacting to the ever changing circumstances over the year.



**Paul Middleman FIA**  
**Fund Actuary**

## Section 9 – Investment Policy and Performance Report

I am pleased to provide an update from an investment perspective on the activities of the Clwyd Pension Fund (the Fund) during 2019/20. 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 Fund Advisory Panel and the Funding and Risk Management Group (FRMG).

### 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 has been updated as part of the Investment Strategy Statement review that has been undertaken and concluded in the year. The revised ISS is appended to this report and sets out the funding and investment objectives for the Fund. The specific investment objectives are:

- Achieve and maintain assets equal to 100% of liabilities within the 13-year average timeframe, whilst remaining within reasonable risk parameters
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- 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
- Aim to use the Wales Pensions Partnership (WPP) as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's Investment Strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

Each of these specific objectives have embedded within them the Fund's desire to incorporate sustainability in its long-term approach and to demonstrate that it is acting effectively as a Responsible Investor. To ensure that the Fund is addressing the issues of being a Responsible Investor, the policies in this area were reviewed at the same time as the Investment Strategy. There is a separate section later in this report that addresses the revisions to the Responsible Investment Policy.

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.

The year was dominated by the impact of the COVID-19 crisis on the final three months. Market volatility reached levels never before seen, surpassing those witnessed in the 2008/09 Global Financial Crisis. Significant falls in global markets resulted and uncertainty around the long-term economic outlook resulting from lockdowns seen across the world have affected the Fund in a number of ways. Whilst the Fund has a Risk Management Framework in place, which has protected to an extent, there is no avoiding the longer-term impact of COVID-19. This report and the

report of the Fund's Actuary and Risk Management adviser addresses the issues in some detail.

## Market Commentary

Following a strong 2019, investment markets started 2020 with the worst quarter since the end of 2008, as the global economy went through an unprecedented synchronised shutdown in light of the COVID-19 crisis.

Over 2019, the global economy continued its expansion, led by the US, which saw a tightening labour market, rising wages and consumer confidence, fuelled by the business-friendly stance of the Trump administration even though trade tensions took some toll on business confidence. Japan, the UK and continental Europe saw more measured growth even though economic data from continental Europe over the year has been hinting at a continued slowdown. In the UK, the outcome of the 2019 election was well received by markets, though uncertainty over how Brexit proceedings will unfold still remains. Headwinds for emerging markets began to soften in early 2019, with improvement on the trade front. In Quarter 1 2020, however, the global economy entered what is expected to be the most severe downturn since the Great Depression while oil prices collapsed simultaneously as a price war between Russia and Saudi Arabia escalated while global demand collapsed simultaneously. Unprecedented monetary easing and fiscal programmes not seen since World War II cushioned the blow somewhat.

Quarter 2 2019 was volatile but global equity markets ended the quarter on a positive note in both US Dollar and sterling terms. Quarter 3 2019 saw a sell-off during August 2019 amid global slowdown fears as well as continued trade tensions. The correction was not as severe as in late 2018 and global equity markets recovered in the end, finishing the third quarter pretty much flat in US Dollar terms but positive in sterling terms. Equity markets then rallied in the fourth quarter as progress on the trade front, as well as the prospect of prolonged easy monetary conditions on a global level, lifted sentiment. Unhedged UK investors saw most of these gains offset by the strong sterling appreciation, which accompanied the outcome of the December 2019 General Election, which was generally well received by markets. The COVID-19 pandemic which originated in China in December 2019 and started to spread globally from the second half of the first quarter of 2020 prompted governments to shut down entire countries including the US, UK and most of Europe. The abrupt halt in business activities and collapse in corporate earnings prompted investors to flee equity markets and shift into safe haven assets with the result being the worst equity sell-off since 2008 even though sterling weakening against US Dollar offset losses somewhat for unhedged UK investors.

Bond markets performed well in 2019 in both US Dollar and sterling terms amidst more dovish central bank rhetoric and a cutting cycle initiated by the Fed that continued up to the end of the third quarter of 2019. Unprecedented monetary easing measures across the globe with the Bank of England cutting the benchmark rate to 0.1% on 19 March 2020 and reinitiating quantitative easing led to a government bond rally in the first quarter of 2020 as yields fell to the lowest level in history across the globe. Amidst the general market volatility the uncertainty about the future of RPI has been weighing on the index linked gilt market. It is difficult to isolate the impact of the uncertainty around RPI from general market uncertainty, such as the potential deflationary impact

of COVID-19 or the potentially inflationary impact of monetary easing. Inflation linked government bonds globally have fallen in value relative to nominal assets. A consultation on the future of RPI was launched in March 2020 and whilst some market participants took heart in that it recognised that converting RPI to CPIH would have an impact on index linked gilt holders, the general consensus appears to remain that RPI will converge to CPIH from 2025 or 2030 without any spread adjustment being applied to compensate index linked gilt holders (and other recipients of RPI linked payments). The findings of the consultation and a decision from the government are expected later this year.

UK Property saw moderate returns relative to other risk assets over 2019 but the market was severely impacted by the COVID-19 crisis in March 2020, with heightened market volatility leading to material uncertainty clauses being added to valuations at the date this report is written. In-line with other risk assets, property values experienced significant falls over the first quarter, with buildings let to non-food retail, hotels and leisure tenants worst affected, while those with long-term secure income proving more resilient thus far.

At a global level, developed markets as measured by the FTSE World index, returned -6.0%. Meanwhile, a return of -13.0% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned -8.0% as indicated by the FTSE World Europe ex UK index. At a country level, UK stocks as measured by the FTSE All Share index returned -18.5%. The FTSE USA index returned -2.3% while the FTSE Japan index returned -2.1%. The considerable underperformance of UK equities is attributed to the index's large exposure to oil, gas and basic materials.

Equity market total return figures are in Sterling terms over the 12-month period to 31 March 2020.

UK Government Bonds as measured by the FTSE Gilts All Stocks Index returned 9.9%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 17.6% over the year as the longer end of the nominal yield curve fell by more than the shorter end. The yield for the FTSE Gilts All Stocks index fell over the year from 1.36% to 0.66% while the Over 15 Year index yield fell from 1.48% to 0.75%.

The FTSE All Stocks Index -Linked Gilts index returned 2.2% with the corresponding over 15-year index exhibiting a return of 2.0%. Falling inflation expectations offset falling nominal yields to an extent, cushioning the fall of real yields somewhat which explains the underperformance of index-linked gilts relative to nominal gilts.

Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 1.7%.

Bond market total return figures are in Sterling terms over the 12-month period to 31 March 2020.

UK property investors continued to benefit from the improving property market. Over the 12-month period to 31 December 2019, the IPD UK All Property Index returned 2.11% in Sterling terms. Of the three main sectors of the UK Property market, 2 sectors record positive returns and one shows negative over the period (retail: -6.42%; office: 5.02%; and; industrial 7.24%).



The price of Brent Crude Oil fell 67.0% from \$ 68.55 to \$ 22.60 per barrel over the one-year period. Over the same period, the price of Gold increased 24.4% from \$ 1295.72 per troy ounce to \$ 1612.10.

The S&P GSCI Commodity Spot Index returned -38.1% over the one-year period to 31 March 2020 in Sterling terms.

Over the 12-month period to 31 March 2020, Sterling depreciated by 4.8% against the US Dollar from \$1.30 to \$1.24. Sterling depreciated by 7.2% against the Yen from ¥144.23 to ¥133.86. Sterling depreciated against the Euro by 2.6% from €1.16 to €1.13 over the same period.

## **Clwyd Pension Fund Investment Performance 2019/20**

Due to the market falls as a result of COVID-19, the Fund's return was negative in the year, with an overall return of -5.1% for the twelve months, behind the Actuary's long-term return assumption of CPI +2.75%, as quoted in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS).

The return of -5.1% compared with a composite benchmark (of the underlying manager benchmarks) of -1.0% and a composite target of -0.7%. Whilst the returns for the year were below the required rate, with the impact of the first quarter of 2020 being significant, it remains appropriate to see this in context of the longer-term performance. Over five years to the 31 March 2020 the Fund achieved a return of +4.8 per annum compared with a composite benchmark of +4.6% 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 -10.4% with the market volatility and falls in market values in the last quarter of the financial year resulting in poor performance in both areas. Both Wellington Emerging Markets Core and Local portfolios underperformed their targets over the 12 months. Both of the Fund's Global Equity managers outperformed their targets during the year, however given the market conditions this both meant negative absolute returns. The Russell WPP Global Opportunities Fund returned -4.7%, and the BlackRock World Multi-factor Equity Fund returned -8.2%, compared to their targets of -4.8% and -8.5% respectively.

The Multi-Asset Credit (MAC) portfolio produced a negative return of -10.5% underperforming its target. This portfolio was due to transition to the WPP MAC portfolio in January 2020, however due to the COVID-19 related volatility in markets it has been postponed. At the time of writing, it is due to transition at the end of July 2020.

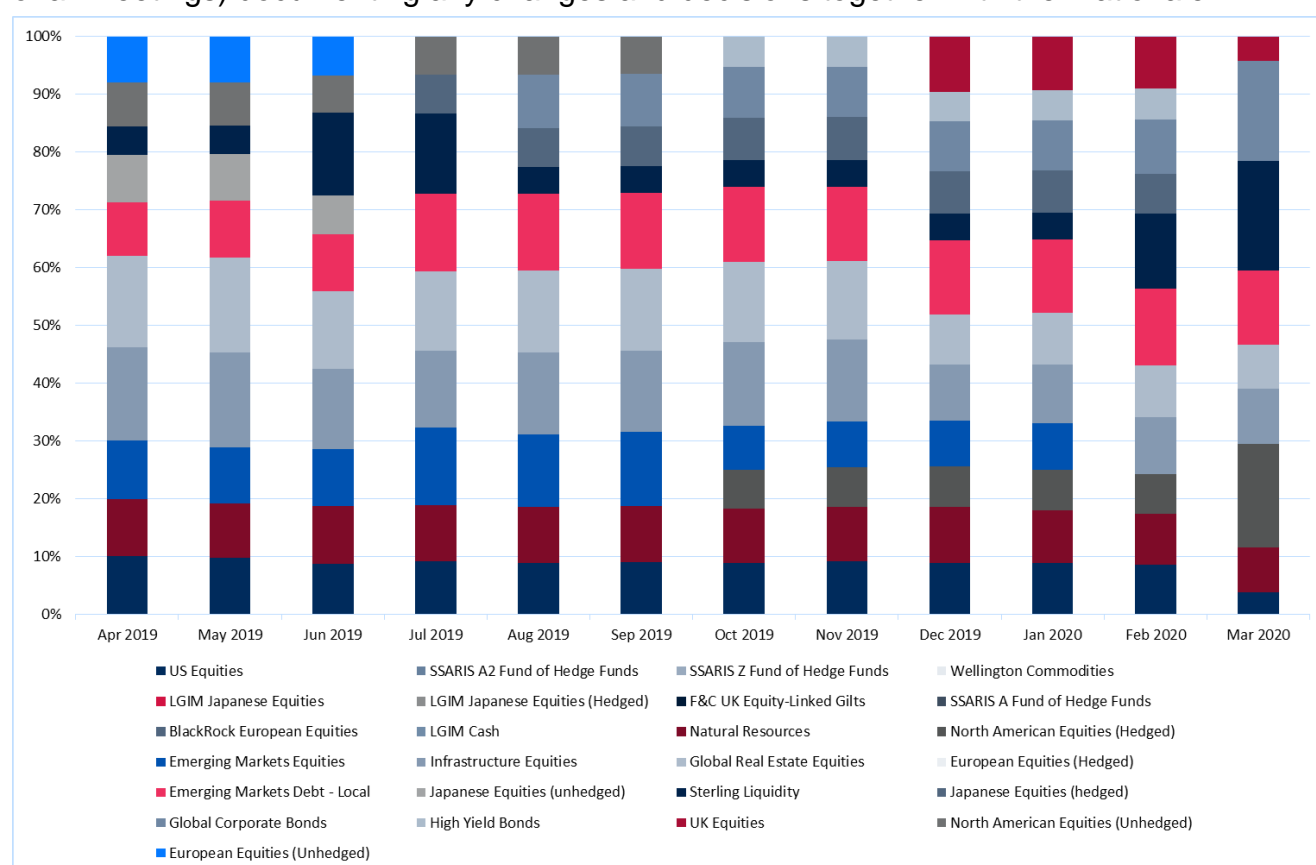
The Private Credit managers; BlackRock and Permira manage North American and European portfolios respectively, and have continued to commit during the year. Whilst it will take some time to drawdown the full commitment, and the COVID-19 pandemic is likely to see a pause in investments being made, the performance of the portfolios during 2019/20 was affected by the pandemic with values being written down in the final quarter. However, due to positive returns in the previous three quarters the total return for the year was positive at +0.2%.

In a year which saw significant volatility in the first quarter of 2020, the two elements of the Tactical Allocation Portfolio both suffered; at a headline level there was



performance of -5.1% which was under the benchmark. However, the portfolio (before the strategic review) comprises two elements; a Diversified Growth Portfolio, which returned -6.1% and a Best Ideas Portfolio that produced a return of -4.2%. Within the Diversified Growth Portfolio, both of the managers underperformed their benchmarks; Investec had a negative return of -9.9% and Pyrford returned -2.3%.

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 Mercer monitor and review the portfolio and make recommendations to the 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, Corporate Bonds and High Yield US 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. One key holding during the year has been the Sterling Liquidity (cash) fund. This has been particularly helpful in February and March 2020 as market volatility and falling valuations hit all investors.

The Managed Account Platform with MANFRM contains a Managed Futures & Hedge Funds portfolio, which produced a positive absolute return of +1.2% during the year.

The portfolio was restructured as part of the strategic review and the new structure was in place with effect from April 2020.

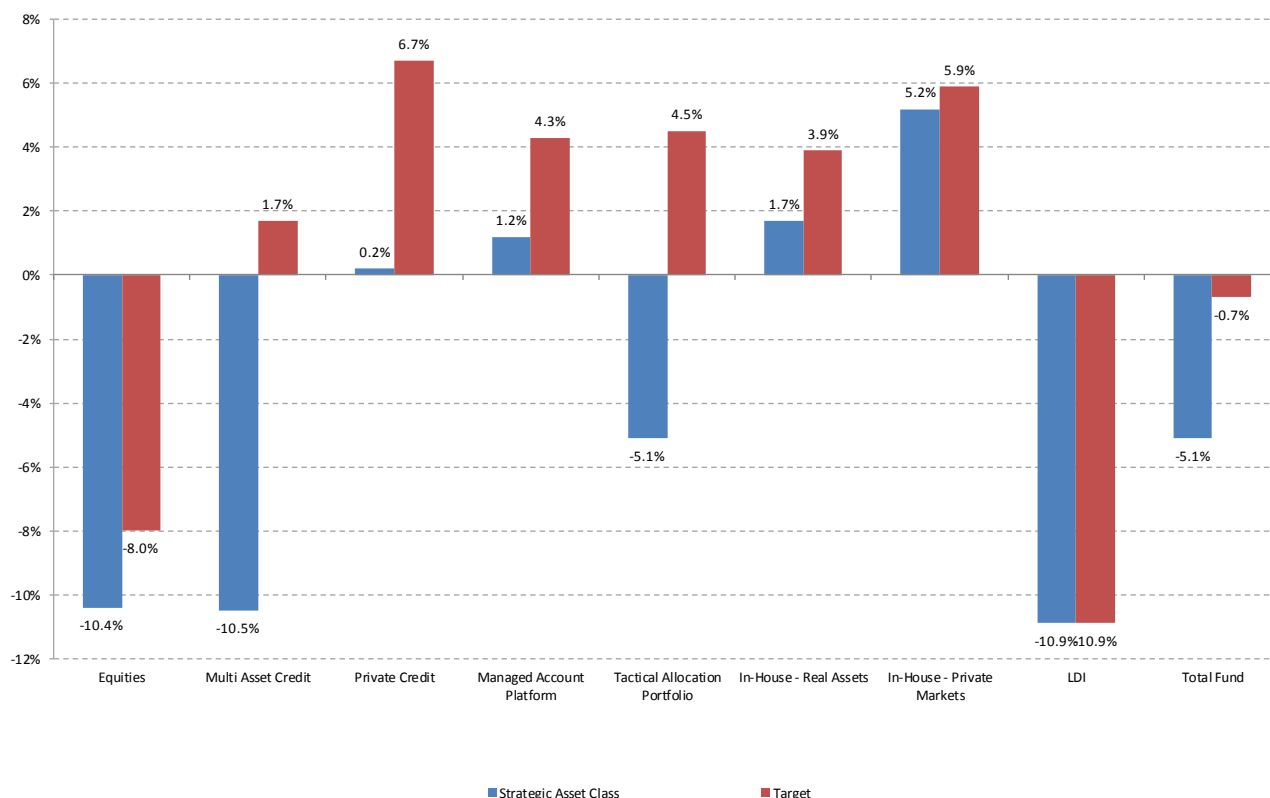
In the 12 months under review the internally managed private markets assets achieved a strong positive return of +5.2% and the Real Assets portfolio +1.7%. Valuations of these “Alternative assets” were affected by the impact of COVID-19, however at this stage the impact seen is less dramatic due to the illiquid nature of the assets. Within the Private Markets portfolio Private Equity performed best returning +6.7%.

The Liability Driven Investment portfolio (a key component of the Flightpath/De-Risking Framework) which consists of regional synthetic Global Equities, Gilt and inflation exposures (as well as equity protection and currency hedging strategies) returned -10.9% in 2019/20. However, the performance of this portfolio over the short term is less relevant due to its risk management characteristics. The performance of this portfolio (renamed Cash and Risk Management Framework in the strategic review) in the period was also skewed by the exposure to Global Equity. Whilst the risk management elements of the portfolio performed as expected and managed the fund’s risks, the dramatic fall in equity markets in February and March 2020 resulted in the overall fall in values.

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 chart below summarises the performance of the key components of the Fund’s Investment Strategy versus their target.



Source: Mercer

## Summary of Investment Performance 2019/20

The market conditions for the first nine months of the year were beneficial for investors, and the Fund benefited from these strong investment markets. The Fund saw positive returns across most asset classes, and the market value of the Fund was just over £2.0 Billion at 31 December 2019. However, in February and March 2020 markets suffered significant falls as a result of COVID-19 concerns and global lockdowns. Volatility in markets was recorded at even higher levels than the Global Financial Crisis in 2008/09, and as a result, the total Fund return was -11.2% for the quarter ending 31 March 2020.

As a result the performance of the Fund for the twelve months under review was - 5.1%. Since late March 2020, financial markets have moved into positive territory and the Fund's returns have moved in a similar way.

The Fund's focus on risk management has been beneficial during the year when comparing to other LGPS Funds with an investment strategy more heavily weighted to Equities. 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 reviewed in conjunction with the Actuarial Valuation in the year, with the final strategy being approved for consultation by the Committee in November 2019. In reviewing the Fund's Investment Strategy, a number of factors were considered:

- The global economic and market background
- Review of asset classes under consideration
- Assessment of the results of the 2019 Actuarial Valuation
- Proposed revised strategy

The new strategy is shown in the table below, and shows the change from the existing strategy:

Asset Class	Current Strategic Allocation	Proposed Strategy	Change
Developed Global Equity	8.0%	10.0%	+2.0%
Emerging Market Equity	6.0%	10.0%	+4.0%
Diversified Growth	10.0%	-	-10.0%
Hedge Funds	9.0%	7.0%	-2.0%
TAA/Best Ideas	11.0%	11.0%	-
MAC	12.0%	12.0%	-
Property	4.0%	4.0%	-
Private Equity	10.0%	8.0%	-2.0%
Local/Impact	-	4.0%	+4.0%
Infrastructure	8.0%	8.0%	-
Private Credit	3.0%	3.0%	-
Cash & Risk Management Framework	19.0%	23.0%	+4.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	

The first key consideration in reviewing the Investment Strategy is the key assumptions contained within the Actuary's valuation. These assumptions include a required rate of investment return. For the 2019, Valuation the Actuary has assumed a rate of return of Inflation (measured by the Consumer Prices Index (CPI)) +1.75% for past service and Inflation or CPI +2.25% for future service. It is therefore crucial that the Investment Strategy achieves a return in excess of this future service rate of CPI +2.25%.

The key desired outcomes from the review were to set a long-term Strategic Asset Allocation for the Fund that would:

- deliver the level of returns required by the Fund's Actuary, and;
- do this at an acceptable level of risk, and;

- where possible seek to reduce the overall level of investment management fees paid by the Fund.

The other key consideration when considering implementation of the Investment Strategy was the role of the WPP.

The revised strategy (shown in the table above) was assessed against Mercer's long term market forecasts, and we have estimated that the new strategy will deliver a long term (10 year) return of 5.6% per annum, compared to the existing strategy which delivers an estimated 5.4% per annum. This forecast return of 5.6% (or CPI +3.4%) is comfortably ahead of the Actuary's required rate of return of CPI +2.25%.

We have also assessed the risks of the revised strategy and estimate that the overall risk levels increase by around 1.5% when compared to the existing strategy. We assess that this level of risk is acceptable to the Fund and, that due to the strategic overall approach to risk management, is appropriate.

The key changes to the strategy are:

#### **Removal of allocation to Diversified Growth Funds (DGF)**

- Performance across the DGF universe has been poor.
- The Fund has other ways to invest tactically, such as the Best Ideas portfolio.
- Overall diversification within the total Fund leads to a less compelling case to invest in DGFs.

#### **Increase allocation to Global and Emerging Market Equities**

- Linked to removal of DGF allocation, both DGFs had an underlying allocation to equity. The increased allocation is therefore, at least in part designed to replace this.
- In the longer term, Emerging Market equities will offer the potential for higher returns than Developed Global Equity.
- The Fund is allocating to a Low Carbon ESG portfolio to support the Fund's proposed Responsible Investment objectives.

#### **Reduce Strategic weight, and restructure Hedge Fund allocation**

- Allocation to Hedge Funds was 7% of the total Fund; existing strategic target weight was 9%.
- Performance had been weak, plus the wider investment allocations that the Fund has; the new strategy has a reduced strategic weight of 7%.
- Since the mandate was originally designed, the Fund's Risk Management Framework has evolved to cover a number of areas.
- Hedge Fund mandate restructured to offer wider opportunity set.

#### **Creation of an explicit Local/Impact portfolio**

- The Fund's In-House Private Markets portfolio has a number of investments that are seeking to make a positive contribution to the Environment or Society more widely whilst still making an appropriate level of investment return.

- This change to the strategy explicitly creates an allocation to this area, and enables the Fund to continue to make these specific investments.
- Funded in part by a reduction in the strategic weight for Private Equity; however, this includes a number of existing investments that have been identified to form the basis for the new portfolio.

### **Increase allocation to Cash and Risk Management Framework**

- Framework has been in place for a number of years and has evolved in a number of ways to help the Fund effectively manage its investment risks.
- Valuation of the portfolio has increased over time and has moved to an overweight position versus the strategic weight.
- It is not appropriate to look to reduce this.
- This allocation will also be used to manage the Fund's cash-flow requirements. This change effectively brought the strategic weight in line with the actual position.

The Fund's Investment Strategy continues to be more diversified than most Local Government Pension Scheme (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 remains 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 continuing the move to more diversified strategies as the average LGPS fund has 51% allocated to equity, compared to 55% as at 31 March 2019, and 62% as at 31 March 2017. However, this is still significantly higher than the Fund is.

The Cash and Risk Management Framework is a key feature of the Fund's Investment Strategy and looks to manage a number of the key risks. As described above the strategic target weight has been increased as part of the recent review, demonstrating that it remains strategically important. This portfolio is explained in more detail in the Risk Management section of the Actuary's report.

Since 2015, the Fund has invested via the Tactical Allocation Portfolio which included a Diversified Growth Portfolio comprising two DGF managers (Investec and Pyrford) and a Best Ideas Portfolio. The new strategy has removed the allocation to DGF, with the Best Ideas portfolio remaining.

The Best Ideas Portfolio is a short-term (12-month horizon) tactical allocation based upon Mercer'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 material size of this allocation (11% of total Fund assets), further detail is provided in the Performance section of this report.

The Fund's existing strategic asset allocation, strategic and conditional ranges (established following the 2016 review), is shown below.

Strategic Asset Class	Strategic Allocation (%)	Strategic Range (%)	Conditional Range (%)
Global Equity	8.0	5.0 – 10.0	0 – 30
Emerging Markets Equity	6.0	5.0 – 7.5	0 – 15
Credit Portfolio	15.0	10.0 – 20.5	0 – 25
Multi Asset Credit	12.0	10.0 – 15.0	5 – 20
Private Credit	3.0	2.0 – 5.0	0 – 10
Managed Account Platform	9.0	7.0 – 11.0	5 – 15
Tactical Allocation Portfolio	21.0	15.0 – 25.0	10 – 30
Diversified Growth	10.0	8.0 – 12.0	5 – 15
Best Ideas Portfolio	11.0	9.0 – 13.0	5 – 15
Private Markets	10.0	8.0 – 12.0	8 – 12
Real Assets	12.0	10.0 – 15.0	5 – 20
Property	4.0	2.0 – 6.0	0 – 10
Infrastructure*	8.0	5.0 – 10.0	2 – 12
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 table below shows the revised strategic asset allocation, which will take effect from April 2020.

Strategic Asset Class	Strategic Allocation (%)	Strategic Range (%)	Conditional Range (%)
Developed Global Equity	10.0	5.0 – 15.0	0 – 30
Emerging Market Equity	10.0	5.0 – 15.0	0 – 30
Hedge Funds	7.0	5.0 – 9.0	0 – 15
TAA/Best Ideas	11.0	9.0 – 13.0	0 – 20
Multi-Asset Credit	12.0	10.0 – 14.0	0 – 20
Cash and Risk Management Framework	23.0	10.0 – 35.0	0 – 40
<b>Private Markets</b>			
Property	4.0	2.0 – 6.0	0 – 8
Private Equity	8.0	6.0 – 10.0	0 – 15
Local/Impact	4.0	0.0 – 6.0	0 – 8
Infrastructure	8.0	6.0 – 10.0	0 – 15
Private Credit	3.0	1.0 – 5.0	0 – 6

The following table shows the strategic allocation compared to the actual asset allocations as at 31 March 2019 and 31 March 2020. The table reflects the previous strategic weights as the new strategy takes effect from April 2020.

Manager	Mandate	Strategy 18/19	Actual 31/03/19	Strategy 19/20	Actual 31/03/20
<b>Equities</b>					
WPP Global Opportunities	Global Equity	4.0%	4.2%	4.0%	4.2%
Wellington Management International Ltd	Emerging Markets Equity	6.0%	6.4%	6.0%	5.7%
BlackRock	Global Equity	4.0%	3.8%	4.0%	3.7%
<b>Credit</b>					
Stone Harbor Investment Partners	Multi-Asset Credit	12.0%	10.9%	12.0%	10.3%
Permira <sup>(1)</sup>	Private Credit	1.8%	1.4%	1.8%	1.5%
BlackRock <sup>(1)</sup>	Private Credit	1.2%	0.3%	1.2%	0.8%
<b>Managed Account Platform</b>					
ManFRM	Managed Futures & Hedge Funds	9.0%	7.4%	9.0%	7.9%
ManFRM	Hedge Funds (Legacy)		0.1%		
<b>Tactical Allocation Portfolio</b>					
Pyrford International		5.0%	4.5%	5.0%	4.6%
Investec Asset Management <sup>(2)</sup>	Diversified Growth	5.0%	4.5%	5.0%	4.2%
In-house	Best Ideas Portfolio	11.0%	10.7%	11.0%	10.8%
<b>In-House - Real Assets</b>					
Various	Property	4.0%	6.6%	4.0%	7.1%
Various	Infrastructure	6.0%	3.6%	6.0%	6.3%
Various	Timber/Agriculture	2.0%	1.3%	2.0%	1.1%
<b>In-House – Private Markets</b>					
Various	Private Equity	8.0%	8.9%	8.0%	9.8%
Various	Opportunistic	2.0%	2.6%	2.0%	3.0%
Insight	Liability Driven Investments	19.0%	22.7%	19.0%	17.9%
<b>Cash</b>			0.3%		1.1%

1) The Credit Portfolio has a 3.0% allocation to Private Credit, which was established in 2017. Draw down will take some time. As part of the strategic review, Private Credit now forms part of the overall Private Markets portfolio.

2) Investec Asset Management were renamed Ninety One in March 2020.

## Responsible Investment

In 2019, the Fund undertook a review of its Responsible Investment Policy in conjunction with the overall review of the Strategic Asset Allocation. The target for this review was to re-affirm the Fund's existing beliefs, supplement these with additional views if appropriate and consider ways in which these views could be implemented. As a result of this review, the Fund's long standing Responsible Investment Policy was updated to reflect current attitudes and thinking. In addition, to help formally frame the policies the Fund has set a number of high-level beliefs that will sit over the more detailed policies, and will convey the Fund's overarching attitude to being a Responsible Investor.

The Fund's ISS includes the full Responsible Investment Policy and includes the approach to Investment Pooling, Stewardship and Engagement and Reporting and disclosure. The Policy includes the Fund's Responsible Investment beliefs, and a set of Principles. It also sets five key Strategic Responsible Investment Priorities for the work in this area over the next three years.

## Engagement and Voting

The Fund requires that its managers report how they voted the shares held within their portfolios. A summary of the voting activities of the managers for 2019/20 is shown in the following table.

Manager	Annual/ Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/ Withheld
<b>BlackRock</b>	186	2,514	2,342	156	10	6
<b>Ninety One</b>	117	1,425	1,353	46	9	12
<b>Pyrford</b>	60	890	859	31	0	0
<b>WPP- Russell</b>	93	817	696	84	2	35
<b>Wellington</b>	161	1,498	1,244	196	30	28

## 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. The Fund's major asset managers Wellington, BlackRock, Insight, Pyrford, Ninety One, MAN Group and Stone Harbor are all UN PRI signatories. For sake of completeness, Russell are not considered a direct manager of assets as

they manage a portfolio of underlying investment managers. These underlying investment managers are being encouraged to become signatories to the UN PRI.

### Summary of the Longer Term

The market value of the Fund has increased from approximately £943m in 2010 to £1,777m in 2020.

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	-5.1	-1.0	-4.8
3	+1.3	+2.9	+1.9
5	+4.8	+4.6	+5.2
10	+5.9	+6.0	+6.9
20	+4.8	+4.9	+5.5

Source: Mercer, PIRC

The following table documents the changes in the Fund's 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 in 2019, and the new strategy will take effect from April 2020, therefore the existing strategy is shown as this was in place at 31 March 2020.

Investment	2001 (%)	2004 (%)	2007 (%)	2011 (%)	2015 (%)	2017 (%)	2020 (%)	LGPS Average
<b>Equities</b>								
Global Unconstrained	-	-	5.0	5.0	8.0	4.0	4.0	
Global Developed (Smart Beta)	-	-	-	-	-	4.0	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	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>14.0</b>	<b>51.0</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	12.0	
Private Credit (illiquid)	-	-	-	-	-	3.0	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>15.0</b>	<b>21.0</b>
<b>Liability Driven Investment</b>	-	-	-	-	<b>19.0</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	4.0	
Infrastructure	0.5	5.0	1.5	2.0	2.0	6.0	6.0	
Timber/ Alternatives	-	-	1.5	2.0	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	10.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	-	-	-	
Hedge Fund Managed Account Platform	-	-	-	-	9.0	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	10.0	
Tactical Allocation (Best Ideas)	-	-	-	-	9.0	11.0	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>52.0</b>	<b>28.0</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	2	Threadneedle Low Carbon	1
Franklin Templeton	2		
InfraRed Active Property	3		
North Haven Global Real Estate	3		
Paloma Real Estate	2		
Partners Group Global Real Estate	2		

<b>Timber</b>			
		BGT Pactual Timberland	2
		Stafford Timberland	3
<b>Agriculture</b>			
		Insight Global Farmland	1
		GMO	1
<b>Infrastructure</b>			
Access Capital Infrastructure	1	InfraRed Environmental	1
Arcus European Infrastructure	2	Impax Infrastructure	2
Base Camp	1		
Carlyle Global Infrastructure	1		
GSAM West Street Infrastructure	1		
HarbourVest Real Assets	1		
Hermes Infrastructure	1		
InfraRed	2		
Innisfree	1		
JP Morgan Infrastructure	1		
Newcore Strategic	1		
North Haven Global Infrastructure	3		
Pantheon	1		
Partners Group Direct Infrastructure	1		
<b>Total Funds</b>	<b>40</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	4	Environmental Technologies	3
August Equity	3	Ludgate Environmental	1
Capital Dynamics	3		
Carlyle	2		
Charterhouse	3		
ECI	3		
Granville Baird	2		
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 Life Fund	1
Partners Group	10		
Standard Life	2		
Unigestion	2		
<b>Opportunistic</b>			
BlackRock European Property	2	Foresight Regional Investment	1
Carlyle	2	Development Bank of Wales	1
Dyal	1		
JP Morgan Secondary's	1		
Marine Capital	1		
Marquee Brands	1		
NB Credit Opportunities	1		
North Haven Asia	1		
Pinebridge Structured Capital	1		
<b>Total Funds</b>	<b>65</b>		<b>11</b>

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



**Kieran Harkin**  
**Head of LGPS Investments**



## Section 10 - Clwyd Pension Fund Accounts 2019/20

### FUND ACCOUNT

2018/19			2019/20
£000		Note	£000
	<b>Dealings with members, employers and others directly involved in the Fund</b>		
(74,327)	Contributions	7	(77,108)
(4,379)	Transfers in		(6,108)
<b>(78,706)</b>			<b>(83,216)</b>
	Benefits payable :		
59,825	Pensions	8	63,070
11,910	Lump sums (retirement)		13,531
1,891	Lump sums (death grants)		2,360
<b>73,626</b>			<b>78,961</b>
6,625	Payments to and on account of leavers	9	4,446
<b>80,251</b>			<b>83,407</b>
<b>1,545</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>191</b>
26,770	Management expenses	10	24,377
<b>28,315</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>24,568</b>

<b>Returns on Investments</b>			
(14,413)	Investment income	<b>11</b>	(11,741)
(95,178)	Change in market value of investments	<b>12</b>	76,509
<b>(109,591)</b>	<b>Net return on investments</b>		<b>64,768</b>
<b>(81,276)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>		<b>89,336</b>
(1,785,499)	<b>Opening net assets of the scheme</b>		(1,866,775)
<b>(1,866,775)</b>	<b>Closing net assets of the scheme</b>		<b>(1,777,439)</b>

## NET ASSETS STATEMENT

2018/19			2019/20
£000s		Note	£000s
1,862,743	<b>Investment Assets</b>	<b>13</b>	1,774,622
<b>1,862,743</b>	<b>Net Investment Assets</b>		<b>1,774,622</b>
29	<b>Long-term debtors</b>	<b>18</b>	204
5,817	<b>Debtors due within 12 months</b>	<b>18</b>	4,725
(1,814)	<b>Creditors</b>	<b>19</b>	(2,112)
<b>1,866,775</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>1,777,439</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 118.

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

### **General**

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

The LGPS is a contributory defined scheme established by statute, which provides pensions and other benefits to employees and former employees of Flintshire County Council and the scheduled and admitted bodies in North East Wales. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The 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 2020. Employers also pay contributions to the Fund based on triennial funding valuations. The last valuation was at 31st March 2019, the findings of which became effective on 1st April 2020. The valuation showed that the funding level increased from the previous valuation (31st March 2016) from 76% to 91%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over a 13 year period from April 2020. Currently employer contribution rates range from 11.5% to 29.4% of pensionable pay.

The Accounts have been prepared during the national emergency situation arising from the global COVID-19 pandemic and reference will be made to any known impacts of this as required within the document. As required, the Accounts have been prepared in accordance with the 2019/20 Code of Practice on Local Authority Accounting which is based on International Financial Reporting Standards (IFRS).

### **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  $1/49$ th. 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 Utmost (previously Equitable Life) as its AVC providers. Equitable Life closed its operation following a vote amongst its policyholders and subsequent approval by the High Court. As a result, investments held with Equitable Life were transferred to Utmost Life and Pensions ("Utmost") on 1 January 2020. 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 2019/20 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 Fund has an approved Investment Strategy Statement which details 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 49 employer bodies within the Fund with active members (including Flintshire County Council) and over 49,000 members as detailed below.

2018/19		2019/20
No.		No.
42	Number of employers with active members	49
16,528	Active members	17,211
12,981	Pensioners receiving benefits	14,739
18,583	Deferred Pensioners	17,745
<b>48,092</b>		<b>49,695</b>

The scheduled bodies which contributed to the Fund during 2019/20 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, Flint, Gresford, Gwernymynydd, Hawarden, Holywell, Hope, Marchwiel, Mold, Northop, 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	Hafan Deg
Aura Leisure & Libraries Ltd	Churchill	Holywell Leisure Ltd
Bodelwyddan Castle Trust	Civica UK	Home Farm Trust Ltd
Careers Wales	Denbighshire Leisure	Newydd Catering & Cleaning Ltd
Cartref y Dyffryn Ceiriog	Denbigh Youth Group	Wrexham Commercial Services
Cartref NI	Freedom Leisure	
	Glyndwr Students' Union	

## NOTE 2 - BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year end as at 31st March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 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 118 of this Annual Report.

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:

- 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). These changes are unlikely to have any material impact on the Fund's financial statements. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment of Settlement

## **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.

Where the Fund has invested in Fund of Funds arrangements and underlying fees are incurred these are not recognised in the Funds accounts, in accordance with guidance from CIPFA. Details of underlying fees may be found in the Fund's Annual Report.

## **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 (see page 118).

### **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 2020 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>Potential Impact of Covid-19</b>	The potential impact of the Covid-19 pandemic has and will continue to affect the valuation of assets and liabilities. As far as possible the effects have been estimated and reflected in the accounts but such estimates must be viewed in the context of the extent and seriousness of the pandemic and the volatility and uncertainty it has caused. The Fund has a risk management framework in place and, in particular, equity protection which will help mitigate some of the impact of significant falls in equity markets if they persist.	The effects on the net pension liability of changes in asset values and individual assumptions can be measured. For instance, a 10% decrease in asset values would have reduced the 2019 valuation funding level of 91% to 82%. A 0.25% p.a. reduction in the discount rate would in isolation have reduced the funding level to 88% (a 0.25% p.a. increase in assumed inflation would have a similar impact). A combination of the asset and discount rate changes would reduce the funding level to 79%.
<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 effect is as stated above.
<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	Note 15 summarises the techniques used, the key sensitivities underpinning the valuations and the sensitivity or tolerance around the values reported.

	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. This may be affected in 2019/20 as a result of the potential impact of COVID 19 discussed above.	
<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.	The effect is as stated above in relation to the potential impact of COVID-19.

## 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 2020. 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

2018/19		2019/20
£000s		£000s
(27,244)	Administering Authority - Flintshire County Council	(28,575)
(43,575)	Scheduled bodies	(45,132)
(3,508)	Admitted bodies	(3,401)

<b>(74,327)</b>	<b>Total</b>	<b>(77,108)</b>
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By type

<b>2018/19</b>		<b>2019/20</b>
<b>£000s</b>		<b>£000s</b>
(15,519)	<b>Employees contributions</b>	(16,337)
	<b>Employers contributions:</b>	
(38,370)	Normal contributions	(40,791)
(18,885)	Deficit contributions	(19,208)
(1,553)	Augmentation contributions	(772)
<b>(58,808)</b>	<b>Total employers' contributions</b>	<b>(60,771)</b>
<b>(74,327)</b>	<b>Total contributions</b>	<b>(77,108)</b>

## NOTE 8 – BENEFITS PAYABLE

By employer

<b>2018/19</b>		<b>2019/20</b>
<b>£000s</b>		<b>£000s</b>
26,877	Administering Authority - Flintshire County Council	27,376
45,611	Scheduled bodies	50,183
1,138	Admitted bodies	1,402
<b>73,626</b>		<b>78,961</b>



By type

2018/19		2019/20
£000s		£000s
59,825	Pensions	63,070
11,910	Lump sums (retirement)	13,531
1,891	Lump sums (death grants)	2,360
<b>73,626</b>		<b>78,961</b>

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

2018/19		2019/20
£000s		£000s
6,257	Transfer values paid (individual)	4,025
149	Refunds of contributions	226
219	Other	195
<b>6,625</b>	<b>Total</b>	<b>4,446</b>

## NOTE 10 – MANAGEMENT EXPENSES

2018/19		2019/20
£000s		£000s
2,020	Oversight and Governance	1,999
22,811	Investment Management Expenses (see Note 10A)	20,353
1,939	Administration costs	2,025
<b>26,770</b>	<b>Total</b>	<b>24,377</b>

The Oversight and Governance costs include the fees payable to Audit Wales for the external audit of the Fund of £39k for 2019/20 (£39k in 2018/19).

## Note 10A – INVESTMENT MANAGEMENT EXPENSES

2018/19		2019/20
£000s		£000s
2,264	Transaction costs	1,829
14,181	Fund Management Fees	15,300
31	Custody Fees	43
6,335	Performance related fees	3,181
<b>22,811</b>	<b>Total</b>	<b>20,353</b>

The main contributor to the reduction in Investment Management Expenses was a lower level of performance fees in private markets.

## Note 10B – WALES PENSION PARTNERSHIP MANAGEMENT EXPENSES

2018/19		2019/20
£000s		£000s
64	Oversight and Governance	70
364	Transaction Costs	200
17	Fund Management Fees	79
0	Custody Fees	13
<b>445</b>	<b>Total</b>	<b>362</b>

Fees for 2018/19 include costs of transition

Included in Management Expenses in Table 10 is the cost of the Fund's involvement in the Wales Pension Partnership (WPP) collective investment pooling arrangement. These are further analysed in the table above. The Oversight and Governance costs are the annual running costs of the pool which includes the host authority costs and other external advisor costs. These costs are funded equally by all eight of the local authority pension funds in Wales. Fund Management Fees are payable to Link Fund Solutions (the WPP operator) and include the operator fee and other associated costs. These costs are based on each Fund's percentage share of WPP pooled assets and are deducted from the Net Asset Value (NAV). The underlying manager fees for the Global Opportunities sub fund are not included in this table, but are disclosed elsewhere in the Annual Report. Further details on the WPP can also be found elsewhere in the Annual Report.

## NOTE 11 - INVESTMENT INCOME

2018/19	2019/20
Restated	
£000s	£000s
(5,976) Private equity income	(1,827)
(4,834) Pooled Investments	(5,859)
(3,064) Pooled property investments	(3,817)
(38) Interest on cash deposits	(60)
(501) Other income	(178)
<b>(14,413) Total</b>	<b>(11,741)</b>

Private equity income varies year on year depending on the point in the maturity cycle of the debt.

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

	Market value 2018/19	Purchases	Sales	Change in market value	Market value 2019/20
	£000s	£000s	£000s	£000s	£000s
Bonds	203,790	0	(428)	(21,099)	182,263
Pooled investment vehicles	1,089,905	10,341	(78,621)	(75,736)	945,889
Pooled Property Funds	122,836	10,179	(9,322)	2,958	126,651
Infrastructure	66,604	53,424	(6,301)	(1,571)	112,156
Timber and agriculture	23,274	0	(3,526)	165	19,913
Private equity	211,584	41,948	(43,268)	16,585	226,849
Hedge Fund	138,985	0	(511)	2,189	140,663
	<b>1,856,978</b>	<b>115,892</b>	<b>(141,977)</b>	<b>(76,509)</b>	<b>1,754,384</b>
<b>Other investment balances:</b>					
Cash	5,765			0	20,238
<b>Net investment assets</b>	<b>1,862,743</b>			<b>(76,509)</b>	<b>1,774,662</b>

	Market value 2017/18	Purchases	Sales	Change in market value	Market value 2018/19
	£000s	£000s	£000s	£000s	£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	11,470	(12,958)	8,802	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>

## NOTE 13A – ANALYSIS OF INVESTMENTS

2018/19		2019/20
£000		£000
<b>Bonds</b>		
203,790	Corporate - unquoted	182,263
<b>Pooled investment vehicles</b>		
118,828	Managed equity funds - quoted overseas	100,300
149,723	Managed equity funds - unquoted	140,136
422,855	Liability driven investments - unquoted	317,546
83,524	Multi strategy investments - quoted	81,563
282,233	Multi strategy investments - unquoted	265,433
32,744	Fixed income funds - unquoted	40,911

<b>Pooled property funds</b>		
43,748	Open-ended - unquoted	42,958
79,088	Closed-ended - unquoted	83,693
<b>Infrastructure</b>		
15,133	Limited Liability Partnerships - quoted	8,403
51,471	Limited Liability Partnerships - unquoted	103,753
<b>Timber &amp; Agriculture</b>		
23,274	Limited Liability Partnerships - unquoted	19,913
<b>Private equity</b>		
<b>Limited Liability Partnerships:</b>		
46,840	Opportunistic funds - unquoted	52,660
164,744	Private equity funds - unquoted	174,189
138,985	<b>Hedge funds unquoted</b>	140,663
<b>1,856,978</b>		<b>1,754,384</b>
5,765	<b>Cash</b>	20,238
<b>1,862,743</b>	<b>Total investment assets</b>	<b>1,774,622</b>
<b>0</b>	<b>Total investment liabilities</b>	<b>0</b>
<b>1,862,743</b>	<b>Net investment assets</b>	<b>1,774,622</b>

Included in Pooled investment vehicles is £74,931k (2018/19 £78,673k) invested with the Wales Pensions Partnership.

The COVID-19 pandemic has impacted global and property markets. As the result of the volatility in market conditions, year-end valuation reports provided to the Fund include statements that there are material valuation uncertainties related to the Pooled Property Investments held.

The total value of these funds as at 31<sup>st</sup> March 2020 is £126.7m.

## NOTE 13B – ANALYSIS BY FUND MANAGER

2018/19			2019/20	
£000	%		£000	%
422,854	22.8	Insight	317,546	18.1
203,790	11.0	Stone Harbor	182,263	10.4
198,871	10.7	Mobius	190,404	10.9
83,362	4.5	Investec	75,029	4.3
78,672	4.2	Russell Investments	74,931	4.3
138,985	7.5	MAN Group	140,663	8.0
118,828	6.4	Wellington	100,300	5.7
83,524	4.5	Pyrford	81,563	4.7
77,034	4.1	Blackrock	65,205	3.7
26,760	1.4	Private Debt	40,911	2.3
164,744	8.9	Private Equity	174,189	9.9
122,836	6.6	Property	126,651	7.2
66,604	3.6	Infrastructure	112,156	6.4
46,840	2.5	Opportunistic	52,660	3.0
23,274	1.3	Timber/Agriculture	19,913	1.1
<b>1,856,978</b>	<b>100</b>	<b>Total</b>	<b>1,754,384</b>	<b>100</b>

The UK holdings as at 31<sup>st</sup> March 2020 account for 30% of total investments at market value.

2018/19			2019/20	
£000	%		£000	%
616,724	31	UK	534,326	30
1,240,254	69	Overseas	1,220,058	70
<b>1,856,978</b>	<b>100</b>	<b>Total</b>	<b>1,754,348</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.

2018/19		Manager	Holding	2019/20	
£000	%			£000	%
422,854	23	Insight	LDI Active 22 Fund	317,546	18
138,935	8	MAN Group	Hedge Fund and Managed Account Platform	140,663	8
131,656	7	Stone Harbour	SHI LIBOR Multi Strategy No2 Portfolio	117,835	7

## NOTE 14 – DERIVATIVES

No derivative instruments were held by Clwyd Pension Fund at 31 March 2020 or 31 March 2019.

## 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 possible material uncertainty clauses.	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 value at 31 March 2020	Value on Increase	Value on Decrease
	%	£000	£000	£000
Pooled investment vehicles (incl LDI)	10%	40,911	45,004	36,820
Pooled Property Funds	10%	115,468	127,015	103,921
Infrastructure	10%	97,293	107,022	87,563
Timber and agriculture	7%	19,913	21,306	18,519
Private equity (incl Opportunistic Funds)	10%	226,849	249,534	204,164
Hedge Fund	10%	0	0	0
<b>Total</b>		<b>500,434</b>	<b>549,881</b>	<b>450,987</b>

	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>

The following tables show the position of the Fund's assets at 31st March 2020 based on the Fair Value hierarchy:

2019/20	Quoted Market Price  Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total  £000
Bonds	0	182,263	0	182,263
Pooled Investment Vehicles	181,863	723,115	40,911	945,889
Pooled Property Funds	0	11,183	115,468	126,651
Infrastructure	8,403	6,460	97,293	112,156
Timber and agriculture	0	0	19,913	19,913
Private equity	0	0	226,849	226,849
Hedge Fund	0	140,663	0	140,663
<b>Total</b>	<b>190,266</b>	<b>1,063,684</b>	<b>500,434</b>	<b>1,754,384</b>

2018/19	Quoted Market Price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£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>

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

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

	Market Value 2018/19	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Realised gains/ (losses)	Unrealised gains/ (losses)	Market Value 2019/20
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Financial assets at fair value through profit and loss</b>								
Pooled investment vehicles (incl LDI)	32,744	9,561	(480)			0	(914)	40,911
Pooled Property Funds	56,165	10,178	(9,322)	56,057		2,149	241	115,468
Infrastructure	51,471	53,214	(6,301)			1,853	(2,944)	97,293
Timber and agriculture	23,274	0	(3,526)			462	(297)	19,913
Private equity (incl Opportunistic Funds)	211,584	41,949	(43,268)			14,067	2,517	226,849
Hedge Fund	5,656						(5,656)	0
<b>Net investment assets</b>	<b>380,894</b>	<b>114,902</b>	<b>(62,897)</b>	<b>56,057</b>	<b>0</b>	<b>18,531</b>	<b>(7,053)</b>	<b>500,434</b>

	Market Value 2017/18	Purchases	Sales	Transfers into Level 3	Transfers out of Level 3	Realised gains/ (losses)	Unrealised gains/ (losses)	Market Value 2018/19
	£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 Funds)	188,399	39,137	(37,577)			8,095	13,530	211,584
Hedge Fund	6,645						(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>

## 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	2018/19 Loans and receivables £000	Financial liabilities at amortised cost £000		Fair Value through profit and loss £000	2019/20 Loans and receivables £000	Financial liabilities at amortised cost £000
<b>Financial assets:</b>						
203,790			Bonds	182,263		
1,089,905			Pooled investment vehicles	945,889		
122,836			Property	126,651		
66,604			Infrastructure	112,156		
23,274			Timber and agriculture	19,913		
211,584			Private equity	226,849		
138,985			Hedge Fund	140,663		
	5,765		Other investment assets - cash		20,238	
	373		Debtors			
<b>1,856,978</b>	<b>6,138</b>	<b>0</b>		<b>1,754,384</b>	<b>20,238</b>	<b>0</b>
<b>Financial liabilities:</b>						
		(513)	Creditors			(2,112)
<b>0</b>	<b>0</b>	<b>(513)</b>		<b>0</b>	<b>0</b>	<b>(2,112)</b>
<b>1,856,978</b>	<b>6,138</b>	<b>(513)</b>	<b>Total</b>	<b>1,754,384</b>	<b>20,238</b>	<b>(2,112)</b>

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

2018/19		2019/20
£000		£000
<b>Financial assets:</b>		
95,178	Designated at fair value through profit and loss	(76,509)
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>95,178</b>	<b>Total</b>	<b>(76,509)</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 1 year average timeframe, whilst remaining within reasonable risk parameters.

The strategy at March 31<sup>st</sup> was 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. 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 23% with Insight managing the LDI mandate, which is within this limit.

When reviewing the Investment Strategy in 2019/20, as well as addressing the potential for investment return, the Fund also considered the risk of the proposed strategy when compared to the previous one. Risk is assessed by using a Value at Risk (VaR) approach. This approach measures the risk of loss for investments and estimates how much an investment strategy might lose (with a given possibility) given normal market conditions, in a set time period such as a day or a year.

The Fund needs to take risk within its Investment Strategy in order to achieve an adequate level of return above the Actuary's future service discount rate of Inflation (CPI) +2.25% per annum.

At a total Fund level, the total expected return of the previous strategy was 5.4% per annum with a VaR of £437.9m. The revised strategy as described earlier in the document increases the potential return to 5.6% per annum, with a VaR of £444.6m. The potential for increased return is reflected in the marginal increase in risk.

The revised Investment Strategy, effective from 1<sup>st</sup> April 2020 will be to hold:

- 77% in return-seeking investments comprising UK and overseas equities pooled funds, investment property funds, hedge funds, private equity, venture capital and infrastructure;
- 23% 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.

### 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 7.44%, 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 2019	1,862,743	6.66%	1,986,728	1,738,758
As at 31 March 2020	1,774,622	7.44%	1,906,676	1,642,570

### 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 2019		209,554	207,574	211,535
As at 31 March 2020		202,501	200,881	204,121

## 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 2020:

Assets exposed to currency risk	Value	%ge change	Value on increase	Value on decrease
	£000s	%	£000s	£000s
As at 31 March 2019	1,240,254	8.20	1,341,923	1,138,585
As at 31 March 2020	1,220,058	6.84	1,303,521	1,136,597

## 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 to 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 2020, liquid assets were £1,253m representing 71% of total fund assets (£1,476m at 31 March 2019 representing 80% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

### NOTE 18 – DEBTORS

2018/19		2019/20
£000s		£000s
29	<b>Long-term debtors</b>	204
	<b>Short-term debtors</b>	
1,264	Contributions due - Employees	1,285
4,140	Contributions due - Employers	3,379
339	Prepayments	0
74	Sundry debtors	61
<b>5,817</b>	<b>Total Short-term debtors</b>	<b>4,725</b>
<b>5,846</b>	<b>Total</b>	<b>4,929</b>

## NOTE 19 – CREDITORS

2018/19	2019/20
£000	£000
(130) Contributions received in advance	(20)
(1,082) Benefits payable	(1,489)
(98) Administering authority	(104)
0 HMRC	(66)
(504) Sundry creditors	(433)
<b>(1,814) Total</b>	<b>(2,112)</b>

## NOTE 20 - ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Clwyd Pension Fund has engaged two additional voluntary contribution (AVC) providers: Prudential Assurance Company Ltd and Utmost Life and Pensions Limited (formerly 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.

2018/19	2019/20
£000	£000
<b>1,270</b> Contributions in the year	<b>1,031</b>
<b>Value of AVC funds at 31 March:</b>	
5,395 Prudential	5,434
408 Utmost (formerly Equitable Life)	408
<b>5,803 Total</b>	<b>5,842</b>

## NOTE 21 – AGENCY SERVICES

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

2018/19		2019/20
£000s		£000s
519	Conwy County Borough Council	499
1,733	Denbighshire County Council	1,699
3,088	Flintshire County Council	3,056
20	Powys County Council	20
2,150	Wrexham County Borough Council	2,104
55	Coleg Cambria	56
49	Other employers	54
<b>7,614</b>	<b>Total</b>	<b>7,488</b>

## NOTE 22 - RELATED PARTY TRANSACTIONS

### Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2020, five Members of the Clwyd Pension Fund Committee had taken this option.

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

### Flintshire County Council

During the year Flintshire County Council incurred costs of £1.9m (£1.8m in 2018/19) 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 Chair of the Pension Fund Committee, the Flintshire Chief Executive and the Flintshire s.151 officer. Total benefits attributable to key management personnel are set out below:

2018/19	2019/20
£000s	£000s
26 Short-term benefits	17
23 Post-employment benefits	(5)
<b>49</b>	<b>12</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:

- Sales of £32m and £30m Insight Investment
- Purchase of £31m JP Morgan Infrastructure Fund

## NOTE 24 - CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31 March 2020, the Fund has contractual commitments of £1,013m (£1,009m in 2018/19) in private equity, infrastructure, timber and agriculture, and property funds, of which £802m (£685m in 2018/19) has been deployed, leaving an outstanding commitment of £211m (£324m at 31 March 2019).

## 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. The valuation is not carried out on the same basis as that used for setting fund contributions 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.

2018/19		2019/20
Restated		
£m		£m
2,893	Present value of promised retirement benefits	2,835
1,867	Fair value of scheme assets	1,777

As noted above, the liabilities above are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 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	2019/20
	%	%
Inflation/pension increase rate assumption	2.20	2.10
Salary increase rate	3.45	3.35
Discount rate	2.40	2.40

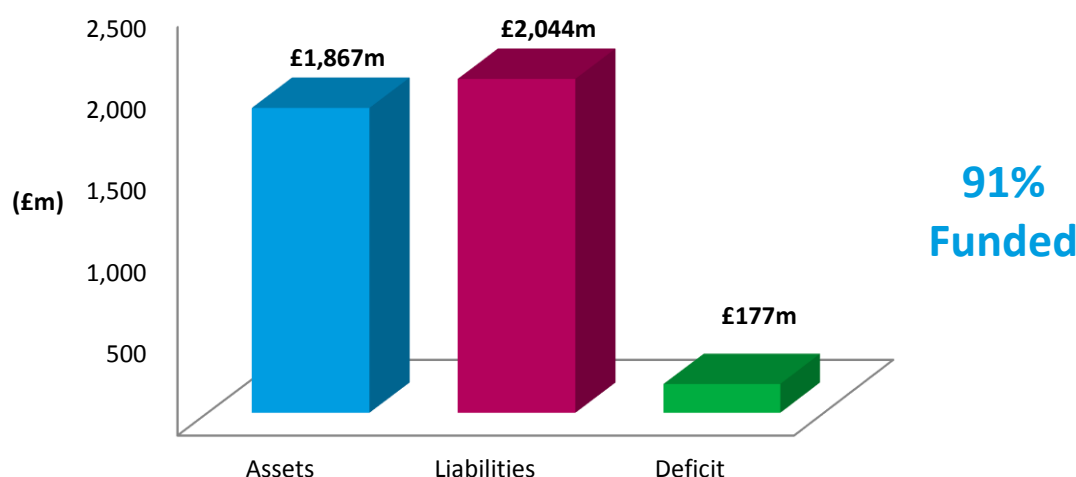
## CLWYD PENSION FUND

### ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020 - 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 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £1,867 million represented 91% of the Fund's past service liabilities of £2,044 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £177 million.



The valuation also showed that a Primary contribution rate of 17.3% 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 FSS is to achieve and 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.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this Actuarial Valuation the average recovery period adopted is 13 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £16m per annum on average in £ terms (which allows for the

contribution plans which have been set for individual employers under the provisions of the FSS and includes the estimated costs in relation to McCloud judgement where appropriate), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the Actuarial Valuation dated 31 March 2020.

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

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

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

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.15% per annum	4.65% per annum
Rate of pay increases (long term)*	3.65% per annum	3.65% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% 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 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

## **The McCloud Judgment**

The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £9 million and an increase in the Primary Contribution rate of 0.5% of Pensionable Pay per annum. Where the employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer (and also within the whole Fund average secondary rate shown above).

## **Impact of COVID-19**

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

## **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 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum
Rate of pay increases*	3.45% per annum	3.35% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

\* This is the long-term assumption. An allowance corresponding to that made at the latest formal Actuarial Valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 Actuarial Valuation. Full details of these assumptions are set out in the formal report on the Actuarial Valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £2,893 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£70 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£39 million (this includes any increase in liabilities arising as a result of early retirements/augmentations and the potential impact of GMP Indexation— see comments below). There was also a decrease in liabilities of £167 million due to “actuarial gains” (i.e the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 Actuarial Valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £2,835 million.

## **GMP Indexation**

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £9 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

**Paul Middleman**

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

**Mark Wilson**

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

**Mercer Limited**

**June 2020**

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### THE COUNCIL'S RESPONSIBILITIES

The Council 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 Council, 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 :**

**Cllr Ted Palmer**

**Chair of the Pension Committee**

**Date : 07/10/2020**

### THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

The Chief Finance Officer is responsible for the preparation of the Council'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").

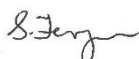
In preparing this statement of accounts, the Chief Finance Officer has :-

- 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 Council at 31<sup>st</sup> March 2020, and its income and expenditure for the year then ended.



**Signed :**

**Gary Ferguson CPFA**

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

**Date : 07/10/2020**



# Proposed 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 Clwyd Pension Fund for the year ended 31 March 2020 under the Public Audit (Wales) Act 2004.

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 2019-20 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 pension fund during the year ended 31 March 2020, 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 2019-20.

### 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.

### Emphasis of Matter – effects of COVID-19 on the Fund's Pooled Property investment valuations

I draw attention to Note 13A to the financial statements, which describes material valuation uncertainty clauses in the valuation report's on Pooled Property investments held by the Clwyd Pension Fund arising from circumstances caused by the COVID-19 pandemic. My opinion is not modified in respect of this matter.

### 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 12 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 the 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.



Adrian Crompton  
Auditor General for Wales  
Date: 13 October 2020

24 Cathedral Road  
Cardiff  
CF11 9LJ

## Section 11 - Financial Report

### Introduction

This report includes financial monitoring reports for the year 2019/20 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 2019/20

2019/20	Estimate £000	Actual £000	Variance £000
Opening In House Cash	(3,599)	(5,764)	
<b>Payments</b>			
Pensions	61,600	63,182	1,582
Lump Sums & Death Grants	15,000	15,486	486
Transfers Out	6,000	4,447	(1,553)
Expenses (Admin & Finance)	4,600	3,863	(737)
Tax	0	107	107
Support Services	140	161	21
<b>Total Payments</b>	<b>87,340</b>	<b>87,246</b>	<b>(94)</b>
<b>Income</b>			
Employer Contributions	(40,000)	(41,665)	(1,665)
Employee Contributions	(14,400)	(15,363)	(963)
Employer Deficit Payments	(19,800)	(19,244)	556
Transfers In	(4,000)	(5,976)	(1,976)
Pension Strain	(1,200)	(1,558)	(358)
Income	(48)	(92)	(44)
<b>Total Income</b>	<b>(79,448)</b>	<b>(83,898)</b>	<b>(4,450)</b>
<b>Total net of Investment Income</b>	<b>7,892</b>	<b>3,348</b>	<b>(4,544)</b>
<b>Investment Income</b>	<b>(6,000)</b>	<b>(9,464)</b>	<b>(3,464)</b>
<b>Investment Expenses</b>	<b>3,000</b>	<b>3,800</b>	<b>800</b>
<b>Total net of In House Investments</b>	<b>4,892</b>	<b>(2,316)</b>	<b>(7,208)</b>
<b>In House Drawdowns</b>	<b>85,163</b>	<b>115,114</b>	<b>29,951</b>
<b>In House Distributions</b>	<b>(76,729)</b>	<b>(55,270)</b>	<b>21,459</b>
<b>Net Drawdown/Distributions</b>	<b>8,434</b>	<b>59,844</b>	<b>51,410</b>
<b>Rebalancing Portfolio</b>	<b>(10,000)</b>	<b>(72,001)</b>	<b>(62,001)</b>
<b>Total Cash Flow</b>	<b>3,326</b>	<b>(14,473)</b>	<b>(17,799)</b>
<b>Closing Cash</b>	<b>(273)</b>	<b>(20,237)</b>	

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 Private Market portfolio for which the current allocation was 25% of the Fund (this has been increased to 27% at the recent strategy review). 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 2019/20. 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

	2020/21 £000	2021/22 £000	2022/23 £000
<b>Opening Cash</b>	(20,237)	(18,476)	(31,337)
<b>Payments</b>			
Pensions	67,800	69,000	70,400
Lump Sums & Death Grants	16,000	16,000	16,000
Transfers Out	6,000	6,000	6,000
Expenses (including In House)	5,200	5,400	5,400
Tax Paid	100	100	100
Support Services	170	170	170
<b>Total Payments</b>	95,270	96,670	98,070
<b>Income</b>			
Employer Contributions	(44,000)	(44,800)	(46,000)
Employee Contributions	(16,000)	(17,000)	(17,200)
Employer Deficit Payments	(14,000)	(14,000)	(14,000)
Transfers In	(6,000)	(6,000)	(6,000)
Pension Strain	(1,200)	(1,200)	(1,200)
Income	(40)	(40)	(40)
<b>Total Income</b>	(81,240)	(83,040)	(84,440)
<b>Cash Flow net of Investment Income</b>	14,030	13,630	13,630
<b>Investment Income</b>	(8,000)	(8,000)	(8,000)
<b>Investment Expenses</b>	4,000	4,000	4,000
<b>Total net of In House Investments</b>	10,030	9,630	9,630
<b>In House Drawdowns</b>	70,403	46,947	24,800
<b>In House Distributions</b>	(78,672)	(69,438)	(46,033)
<b>Net Drawdowns/Distributions</b>	(8,269)	(22,491)	(21,233)
<b>Total Cash Flow</b>	1,761	(12,861)	(11,603)
<b>Closing Cash</b>	(18,476)	(31,337)	(42,940)
<b>Estimated Asset Valuation</b>	2,075	2,191	2,314

The previous table shows the cash flow forecasts for the next three years to March 2023. 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 5.6% per annum.

### Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2019/20 compared to 2018/19. Management fees overall have reduced due to lower performance fees in Private Markets.

	2018/19 Actual £000	2019/20 Actual £000	Net change £000
<b>Governance &amp; Oversight Expenses</b>			
Employee Costs (Direct)	193	283	90
Support & Service Costs (Internal Recharges)	23	20	(3)
IT (Support & Services)	0	2	2
Other Supplies & Services	66	102	36
Audit Fees	39	38	(1)
Actuarial Fees	407	465	58
Consultant Fees	598	641	43
Pooling(Consultant & Host Authority)	85	79	(6)
Advisor Fees	434	220	(214)
Legal Fees	57	20	(37)
Performance Monitoring Fees	60	76	16
Pension Board	58	53	(5)
<b>Total Governance Expenses</b>	<b>2,020</b>	<b>1,999</b>	<b>(21)</b>
<b>Investment Management Expenses</b>			
Fund Manager Fees	14,181	15,300	1,119
Performance Related Fees	6,335	3,181	(3,154)
Transaction Costs	2,264	1,829	(435)
Custody Fees	31	43	12
<b>Total Investment Management Fees</b>	<b>22,811</b>	<b>20,353</b>	<b>(2,458)</b>
<b>Administration Expenses</b>			
Employee Costs (Direct)	982	1,157	175
Support & Service Costs (Internal Recharges)	113	151	38
Outsourcing	394	197	(197)
IT (Support & Services)	364	408	44
Other supplies & services	86	112	26
<b>Total Administrative Expenses</b>	<b>1,939</b>	<b>2,025</b>	<b>86</b>
<b>Total Costs</b>	<b>26,770</b>	<b>24,377</b>	<b>(2,393)</b>

The following table shows actual costs for 2019/20 compared to the budgeted costs along with the budget for 2020/21. There will generally be a difference in manager fees compared to budget as these are based on market valuations which are difficult to estimate. Outsourcing costs were also lower than anticipated during the financial year.

	2019/20 £000 Actual	2019/20 £000 Budget	2019/20 £000 Variance	2020/21 £000 Budget
<b><u>Governance &amp; Oversight Expenses</u></b>				
Employee Costs (Direct)	283	299	(16)	323
Support & Service Costs (Internal Recharges)	20	22	(2)	24
IT (Support & Services)	2	5	(3)	5
Other Supplies & Services	102	70	32	82
Audit Fees	38	40	(2)	41
Actuarial Fees	465	435	30	641
Consultant Fees	641	664	(23)	859
Advisor Fees	220	179	41	337
Legal Fees	20	40	(20)	41
Performance Monitoring Fees	76	66	10	93
Pension Board	53	69	(16)	73
Pooling (Consultants & Host Authority)	79	109	(30)	119
<b>Total Governance Expenses</b>	<b>1,999</b>	<b>1,998</b>	<b>1</b>	<b>2,638</b>
<b><u>Investment Management Expenses</u></b>				
Fund Manager Fees	20,030	21,000	(970)	24,458
Custody Fees	31	31	0	32
Pooling(Operator/Manager/Custodian)	292	186	106	190
<b>Total Investment Management Fees</b>	<b>20,353</b>	<b>21,217</b>	<b>(864)</b>	<b>24,680</b>
<b><u>Administration Expenses</u></b>				
Employee Costs (Direct)	935	893	42	1,247
Support & Service Costs (Internal Recharges)	151	66	85	140
Outsourcing	197	900	(703)	300
IT (Support & Services))	408	424	(16)	405
Other supplies & services	112	63	49	108
<b>Total Administrative Expenses</b>	<b>1,803</b>	<b>2,346</b>	<b>(543)</b>	<b>2.200</b>
<b><u>Employer Liaison Team</u></b>				
Employee costs (Direct)	222	213	9	223
<b>Total Costs</b>	<b>24,377</b>	<b>25,774</b>	<b>(1,397)</b>	<b>29,741</b>

## Participating Employers of the Fund at 31 March 2020

### Contributions

49 bodies contributed to the Fund during 2019/20, 31 scheduled and 18 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 2019/20 are shown below, as is the rate of contribution as a percentage of pensionable pay.

7 new bodies have been admitted to the Fund during 2019/20 (4 scheduled and 3 admitted). No bonds or any other secured funding arrangements have been facilitated.

Admitted Bodies	Employer Contribution £	%	Employee Contribution £	Avg %
Newydd Catering & Cleaning Ltd	616,198	18.40	187,513	5.6
Aura Leisure & Libraries Ltd	600,214	18.10	205,487	6.2
Careers Wales	374,107	15.20	89,652	6.3
Civica UK	215,658	19.00	67,667	6.4
Wrexham Commercial Services	168,890	17.40	55,467	5.8
Home Farm Trust Ltd	146,964	20.70	41,381	5.8
Chartwells – Compass Group UK	141,526	21.10	40,031	5.6
Freedom Leisure	125,503	18.60	41,521	6.2
Holywell Leisure Ltd	42,857	16.20	15,936	6.0
Churchills	35,293	21.50	9,175	5.5
Cartref y Dyffryn Ceiriog	31,281	23.10	3,986	6.0
Aramark Ltd	29,923	21.80	7,862	6.2
Denbighshire Leisure	28,509	13.80	16,000	7.8
Glyndwr Students Union	15,054	8.00	11,951	6.4
Cartref NI	13,903	19.90	4,230	6.0
Denbigh Youth Group	5,604	23.00	6,310	6.5
Hafan Deg (KL Care)	3,222	23.90	769	5.7
Bodelwyddan Castle Trust	3,164	19.40	1,632	5.6



Scheduled Bodies	Employer Contribution £	%	Employee Contribution £	Avg %
Flintshire County Council	23,096,647	15.20	5,213,994	6.2
Denbighshire County Council	18,061,199	15.20	4,136,000	6.3
Wrexham County Borough Council	11,171,220	15.40	4,449,465	6.2
Glyndwr University	2,034,375	15.00	479,926	6.8
Coleg Cambria	1,944,400	14.80	826,845	6.3
North Wales Fire Service	761,751	14.70	338,400	6.7
North Wales Valuation Tribunal	57,554	16.80	10,439	8.0
Rhyl Town Council	42,879	15.50	8,607	7.4
Hawarden Community Council	39,812	20.20	9,370	6.4
Coedpoeth Community Council	30,364	24.40	5,437	5.9
Prestatyn Town Council	30,100	19.00	9,183	6.4
Caia Park Community Council	20,619	25.60	5,618	6.0
Mold Town Council	19,046	17.40	6,361	6.5
Buckley Town Council	18,536	23.60	4,968	6.3
Rhos Community Council	18,083	17.10	4,539	6.1
Shotton Town Council	7,429	27.70	1,790	6.5
Cefn Mawr Community Council	6,840	17.00	2,103	5.0
Holywell Town Council	6,108	18.00	1,879	5.5
Denbigh Town Council	6,047	16.60	2,276	6.3
Acton Community Council	5,457	19.60	1,742	6.3
Offa Community Council	4,459	23.00	2,104	6.2
Gresford Town Council	3,161	21.90	837	5.8
Argoed Community Council	3,061	29.30	598	5.5
Penyffordd Community Council	2,649	21.10	691	5.5
Connah's Quay Town Council	2,125	16.20	5,157	5.7
Gwernymynydd Community Council	1,745	30.50	317	5.5
Bagillt Community Council	1,200	13.30	496	5.5
Hope Community Council	1,167	12.40	518	5.5
Marchwiel Community Council	1,105	19.20	317	5.7
Northop Town Council	1,045	19.90	289	5.5
Flint Town Council	640	17.50	212	5.8

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 new 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.

These all related to new employers. 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 £3,425 (0.008% of the total employer contributions).

Employer	Late Occasions	Contributions (£)
A	4	2,164
B	1	500
C	2	413
D	3	348

## Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2020.

	UK £000	Non –UK £000	Global £000	Total £000
<b>Equities</b>	0	100,300	140,135	240,435
<b>Alternatives</b>	216,781	309,700	487,659	1,014,140
<b>Bonds &amp; LDI</b>	317,546	0	182,263	499,809
<b>Property (Direct)</b>	0	0	0	0
<b>Cash</b>	20,238	0	0	20,238
<b>Total</b>	554,565	410,000	810,057	1,774,622

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

Hedge Fund Managed Account, Diversified Growth Funds and Private Markets which includes, Property, Private Debt, 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 2020. The majority of the Fund assets are in pooled investments and any income is incorporated in the net asset value.

	UK £000	Non –UK £000	Global £000	Total £000
<b>Equities</b>	0	0	0	0
<b>Alternatives</b>	5,968	5,713	0	11,681
<b>Bonds &amp; LDI</b>	0	0	0	0
<b>Property (Direct)</b>	0	0	0	0
<b>Cash</b>	60	0	0	60
<b>Total</b>	6,028	5,713	0	11,741

## 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 Markets.

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>19/20 £000</b>	<b>Avg bps</b>	<b>18/19 £000</b>
<b>CORE (70% of Fund)</b>	<b>105</b>	<b>12,932</b>	<b>84</b>	<b>11,764</b>
<b>Total expenses including AMC</b>	45	5,574	37	5,141
<b>Underlying Fees (includes performance and transaction fees)</b>	51	6,243	35	4,917
<b>Performance Fees</b>	0	0	0	0
<b>Transaction Fees</b>	9	1,115	12	1,706
<b>NON CORE (30% of Fund)</b>	<b>296</b>	<b>16,142</b>	<b>438</b>	<b>20,022</b>
<b>Total expenses including AMC</b>	185	9,726	198	9,040
<b>Underlying Fees (includes performance and transaction fees)</b>	48	2,521	90	4,089
<b>Performance Fees</b>	60	3,181	132	6,335
<b>Transaction Fees</b>	14	714	12	558
<b>TOTAL</b>	<b>166</b>	<b>29,074</b>	<b>171</b>	<b>31,786</b>
<b>Total Fees Excluding Underlying</b>	116	20,310	123	22,780
<b>Net Assets (Core)</b>		1,227,904		1,399,935
<b>Net Assets (Non-Core)</b>		526,481		457,043
<b>Total Net Assets (excluding cash)</b>		1,754,384		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 70% (75% in 2018/19) of the Fund assets but only 44% (37% in 2018/19) of the total fees. Assets within the “Non-Core” disclosure include: Private Debt, Private Equity (Direct and Fund of Funds), Property (Open and Closed ended), Infrastructure, Timber and Agriculture. Whilst these account for 30% (25% in 2018/19) of the Fund assets the proportion of fees amounts to 56% (63% in 2018/19). These figures include the underlying fees. In comparison, excluding underlying fees, the proportion of fees for core assets is 33% (30% in 2018/19) and non-core, 67% (70% in 2018/19). Many of the Fund’s managers are now signed up to the Cost Transparency Initiative (CTI) and are providing fees through the CTI template.

## **Wales Pension Partnership (WPP)**

The WPP was established in 2017 and is a collaboration of the eight Welsh Local Government Pension Scheme (LGPS) funds of which the Clwyd Pension Fund is a Constituent Authority. The eight funds have a long, successful history of collaboration including a collaborative tender for a single passive equity provider for the Welsh funds which pre dated the Government's pooling initiative.

The WPP operating model is designed to be flexible and deliver value for money. WPP appointed an external fund Operator and makes use of external advisers to bring best of breed expertise to support the running of the Pool, including Hymans Robertson who have been appointed as the WPP's Oversight Advisor. The Operator is Link Fund Solutions and they have partnered with Russell Investments to deliver effective investment management solutions and provide strong net of fee performance for all the Constituent Authorities. The eight Constituent Authorities of the WPP are:

- Cardiff and Vale of Glamorgan
- Clwyd
- Dyfed
- Greater Gwent (Torfaen)
- Gwynedd
- Powys
- Rhondda Cynon Taf
- Swansea

## **Link Fund Solution Ltd (The Operator)**

The WPP has designed an operating model which is flexible and able to deliver value for money. The nature of the contract means the WPP is charged a certain level of basis points dependant on the level of Assets under Management (AUM) and therefore have not incurred any set up costs.

There is an Operator Agreement in place with Link Fund Solutions which sets out the contractual duties of the Operator and governs the relationship between the Operator and the WPP. The WPP, with the support of its Oversight Advisor, oversee the work that Link Fund Solutions carry out on behalf of the WPP. The WPP's Operator Engagement Protocols have also been put in place to ensure that there are sufficient levels of direct engagement between the Operator and the individual Constituent Authorities.

Link Fund Solutions carry out a broad range of services for the WPP, these include:

- Facilitating investment vehicles & sub-funds
- Performance reporting
- Transitions implementation
- Manager monitoring and fee negotiations
- Risk reporting

### Russell Investments (Management Solutions Advisor)

In collaboration with Link Fund Solutions, Russell Investments provide investment management solutions advice to the WPP. Alongside Link Fund Solutions, they work in consultation with WPP's eight Constituent Authorities to establish investment vehicles. Russell's remit includes advising Link Asset Services and WPP on efficiencies around portfolio construction which includes manager selection. Link Fund Solutions continues to work with Russell Investments, where applicable, to further reduce WPP's costs through multi-manager structures, currency management solutions, portfolio overlays, transition management and other execution services.

### Hymans Robertson (The Oversight Advisor)

Hymans Robertson have been appointed the Oversight Advisors for the WPP. Hymans Robertson's role spans oversight and advice on governance arrangements, operator services, strategic investment aspects and project management support.

### WPP Progress

The WPP aims to deliver investment solutions that allow the Constituent Authorities to implement their own investment strategies with material cost savings while continuing to deliver investment performance to their stakeholders. There has been, across Wales in total, significant progress towards delivering on this objective. The launching of the WPP's three active equity sub-funds, alongside the Constituent Authorities existing passive investments, has meant that that the WPP has now pooled 45% of assets.

The current AUM across the eight Constituent Authorities as at 31 March 2020 is circa £17.5bn. The AUM of the assets invested in WPP, including the passive equities effectively within the Pool but held by the respective WPP Authorities in the form of insurance policies is:

Asset Class	Managed by	AUM	Clwyd AUM
Passive Equity	BlackRock	£3.57bn	£0.065bn
Global-Growth Active Equities	Link Fund Solutions	£1.96bn	N/A
Global Opportunities Active Equities	Russell Investments	£1.88bn	£0.075bn
UK-Opportunities Active Equities	Russell Investments	£0.48bn	N/A
<b>Total</b>		£7.89bn	£0.14bn

During 2020/21, WPP will be transitioning a further £2.94bn to 5 Fixed Income Sub Funds:

Asset Class	Managed by	AUM	Clwyd AUM
Global Credit	Russell Investments	£0.79bn	N/A
Multi Asset Credit	Russell Investments	£0.63bn	£0.20bn
UK Credit	Fidelity International	£0.56bn	N/A
Global Government	Russell Investments	£0.53bn	N/A
Absolute Return Bonds	Russell Investments	£0.43bn	N/A
<b>Total</b>		<b>£2.94bn</b>	<b>£0.20bn</b>

### Ongoing Investment Management Costs

The table below discloses the investment management costs split between those held by the WPP (including the passive equities) and those held outside of the WPP. These can be further split by direct costs which are disclosed in the Fund accounts on page 94 of this Annual Report as directed by CIPFA and those indirect costs for underlying managers.

	Fees	Charged	£000's		
	Total Expenses including AMC	Performance Fees	Transaction Costs	Custody	Total
<b>Asset Pool</b>					
Direct	152	0	200	13	365
Indirect	201	0	0	0	201
<b>Total</b>	<b>353</b>	<b>0</b>	<b>200</b>	<b>13</b>	<b>566</b>
bps	25	0	14	1	40
<b>Non Asset Pool</b>					
Direct	15,148	3,181	1,629	31	19,989
Indirect	3,291	3,608	1,664	0	8,563
<b>Total</b>	<b>18,439</b>	<b>6,789</b>	<b>3,293</b>	<b>31</b>	<b>28,552</b>
bps	114	42	20	1	177
<b>Fund Total</b>	<b>18,792</b>	<b>6,789</b>	<b>3,493</b>	<b>44</b>	<b>29,118</b>
bps	107	39	20	1	167

## Host Authority

Carmarthenshire County Council has been appointed as the Host Authority for the Wales Pension Partnership. The Host Authority is responsible for providing administrative and secretarial support and liaising day to day with the Operator on behalf of all of the LGPS funds in Wales. The WPP agree a budget which is included in their business plan which includes the costs of the Host Authority and charges relating to the Oversight Advisor, any legal services provided and charges in relation to the WPP Engagement and Voting Provider, Robeco. All these running costs are recharged equally (unless specific projects have been agreed for individual Funds) between the eight Constituent Authorities. For the financial year to March 2020, the amount recharged to the Clwyd Fund was £70k.

## 1 Year Asset Allocation and Performance (2019/20)

Assets						
	Opening Value £000	%	Closing Value £000	%	Net Performance %	Local Target %
<b>Pool Assets</b>						
Equities Passive	71,050	3.8	65,205	3.7	-8.2	-8.5
Equities Active	78,672	4.2	74,931	4.2	-4.7	-4.8
Total Pool Assets	149,722	8.0	140,136	7.9		
<b>Non- Pool Assets</b>						
Bonds Active	203,790	10.9	182,263	10.3	-10.5	+1.7
Equities Active	118,828	6.4	100,300	5.7	-15.4	-11.8
Diversified Growth	365,757	19.6	346,996	19.6	-5.1	+4.5
Liability Driven Investment	422,854	22.7	317,546	17.9	-10.9	-10.9
Hedge Funds	138,985	7.5	140,663	7.9	+1.2	+4.3
Private Equity	211,584	11.4	226,849	12.8	+5.2	+5.9
Private Debt	32,744	1.8	40,911	2.3	+0.2	+6.7
Infrastructure	66,604	3.6	112,156	6.3	+0.1	+5.9



Property	122,836	6.6	126,651	7.1	+3.5	+0.1
Timber & Agriculture	23,274	1.2	19,913	1.1	-1.3	+5.9
Cash	5,765	0.3	20,238	1.1		
Total Non-Pool Assets	1,713,021	92.0	1,634,486	92.1		
Total Assets	1,862,743	100	1,774,622	100	-5.1	-0.7

## Section 12- Regulatory Documents

# CLWYD PENSION FUND ANNUAL REPORT 2019/20

## 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  
Clwyd 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.

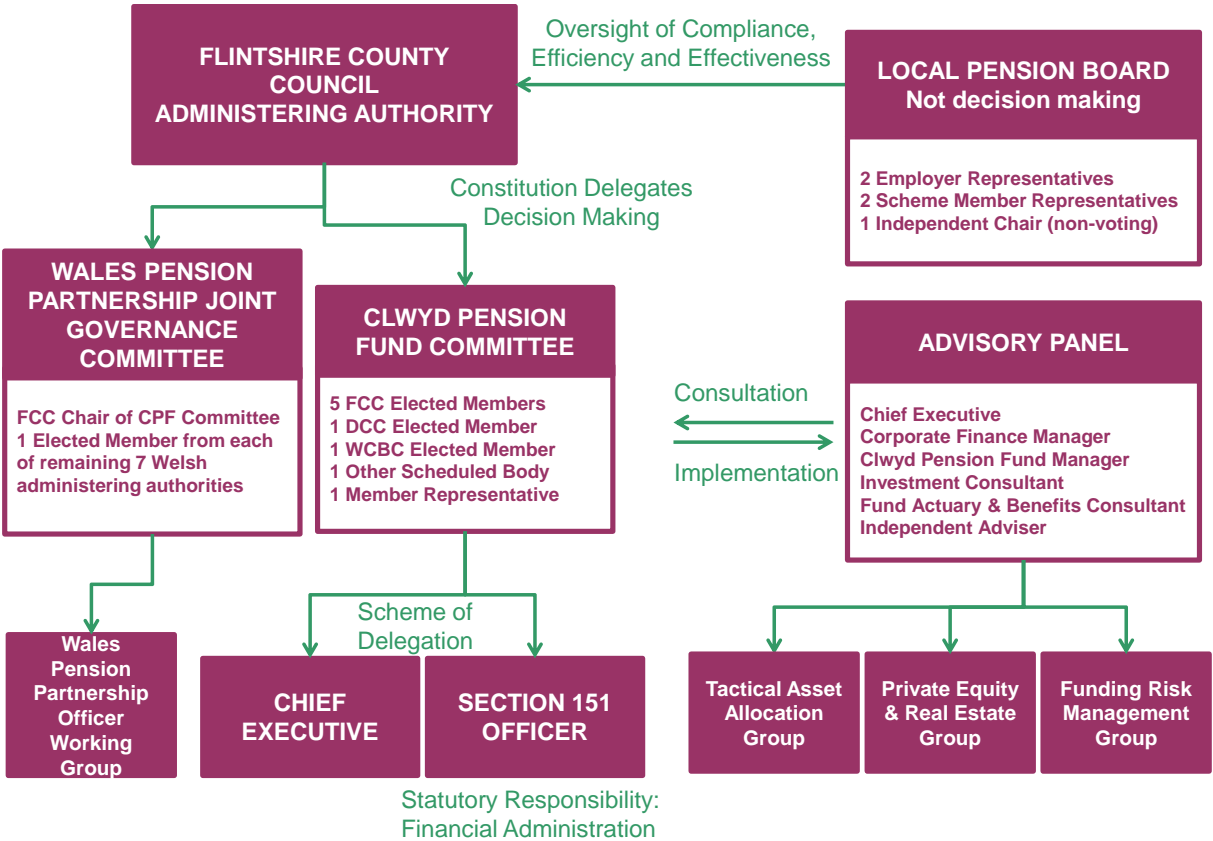
An independent review by CIPFA in 2010 found the governance of the Fund to be very good but recognised that this governance structure did not meet best practice, in particular they recommended:

- 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

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## 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>B. REPRESENTATION</b>		

Best Practice	Compliant or not?	Explanatory Note
<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>

Best Practice	Compliant or not?	Explanatory Note
<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>

Best Practice	Compliant or not?	Explanatory Note
<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>
<p><b>D. VOTING</b></p>		
<p><i>a.</i> 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.</p>	<p><b>COMPLIANT</b></p>	<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>

Best Practice	Compliant or not?	Explanatory Note
<b>E. TRAINING / FACILITY TIME / EXPENSES</b>		
<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>	<b>COMPLIANT</b>	<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>Best Practice</b>	<b>Compliant or not?</b>	<b>Explanatory Note</b>
<i>b.</i> 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.	<b>COMPLIANT</b>	
<i>c.</i> That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	<b>COMPLIANT</b>	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>		
<i>a.</i> That an administering authority's main committee or committees meet at least quarterly.	<b>COMPLIANT</b>	
<i>b.</i> 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.	<b>NOT APPLICABLE</b>	
<i>c.</i> 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	<b>NOT APPLICABLE</b>	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.

Best Practice	Compliant or not?	Explanatory Note
<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>		
<p>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.</p>	<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

MARCH 2020

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.

The Clwyd Pension Fund has a number of key aims and objectives which are set out within the business plan. The key funding objectives are referred to throughout the FSS and are summarised below:

- Achieve and maintain assets equal to 100% of liabilities within the 13-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 the future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability.

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. Existing contribution plans will not be reduced even if the funding position has improved unless the employer covenant is sufficiently strong and if the Administering Authority agrees. The average recovery period for the Fund is 13 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 KEY 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 which would normally lead to volatility of contribution rates at future valuations if these margins were not included. The level of prudence has been quantified by the Actuary to show the level of contingency to provide protection against future adverse experience in the long term. This takes into account the risk controls implemented as part of the Flightpath Strategy. 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 91% 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, where a deficit exists and depending on the level of deficit, 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 13 years at this valuation which is 2 years shorter than the average recovery period of 15 years from the previous valuation. After taking into account affordability and other considerations, all individual employer recovery periods have reduced at this valuation.

Where there is a material increase in contributions required at this valuation, subject to affordability constraints, the employer may be able to 'phase in' contributions over a period of 3 years. Employers should be aware that if they elect to 'phase in' 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.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from

the McCloud judgment, in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation. The vast majority of employers have made provisions directly in their contributions.



## 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 should be 1.75% per annum and 2.25% per annum for determining the future service (“Primary Rate”) contribution rate.

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 maybe 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 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:

- Mandatory 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, in accordance with the Regulations and Fund policies.

## 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 6 months of completion 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, and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers.

Where there is a **guarantor** who would subsume the assets and liabilities of the outgoing employer the default policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No exit credit would be payable in these circumstances.

In line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Administering Authority will provide details of the information required to make their determination for each case when the need arises.

The Administering Authority can modify this approach on a case by case basis if circumstances warrant it and the parties make representation. For example if the parties make representation it may be appropriate to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and the outsourcing scheme employer.

#### **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**.

## CONTENTS

Executive Summary	168
Introduction	175
Purpose of FSS in policy terms	177
Aims and purpose of the Fund	178
Responsibilities of the key parties	179
Solvency funding target	181
Link to investment policy and the Investment strategy statement (ISS)	185
Identification of risks and counter-measures	187
Monitoring and review	190

## APPENDICES

A - ACTUARIAL METHOD AND ASSUMPTIONS

B - EMPLOYER DEFICIT RECOVERY PLANS

C - ADMISSION AND TERMINATION POLICY

D - COVENANT ASSESMENT AND MONITORING POLICY

E – INSURANCE ARRANGEMENTS

F - GLOSSARY OF TERMS

# 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 (Management and Investment of Funds) Regulations 2016 (all as amended) (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.

In line with the Regulations, the Administering Authority has the ability to review employer contributions or request a full interim valuation. If considered appropriate, the Fund will carry out an interim valuation or a review of contributions for a specific employer or employer(s) under the circumstances set out within Section 9.

## **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 and whether it admits new employees, 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
- maximise the returns from investments within reasonable risk parameters taking into account the above aims and the risk controls in place under the Flightpath Strategy.

### 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 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 (including via the Wales Pension Partnership asset pool), 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 2020 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 2019 actuarial valuation:

- The Fund does not believe it appropriate for 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 and any reduction will need clear justification on affordability grounds. Any employer whose covenant (as assessed by the Administering Authority) is not sufficiently strong in the long term will not normally be allowed to reduce contributions where the position has improved.
- 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 13 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) 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 2020/23 in respect of an employer's surplus or deficit (including phasing adjustments)

Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2020/21 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 unless agreed otherwise based on the overall contributions paid over the certificate period. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.

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 2020/23 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 2020 (e.g. 31 July 2020), 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 2020 if the year-end is 31 July 2020).
- Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will normally review their certified contribution in order to target a fully funded position at exit. Consideration will be given to any risk sharing arrangements when reviewing contribution rates.
- 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 as a default policy. The interested parties will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. In some instances an exit credit or debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make formal representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the cessation assessment by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this 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 depending on the circumstances.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations (as noted above). For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations, provided that the Fund is aware of the provisions of the risk sharing agreement in any representation made.

#### 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 6 months of completion of the cessation assessment by the Actuary).
- 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.

Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without recourse to that employer, the valuation of the termination payment will be calculated using a discount rate linked to Government bond yields and a more prudent life expectancy assumption. Further details are set out in the Termination Policy in Appendix C.

#### Allowing for the McCloud Judgment in termination valuations

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations and the impact will be considered at the next contribution rate review. However, if a representation is made to the Administering Authority in relation to an Exit Credit then a reasonable estimate for the potential cost of McCloud will need to be included. Where a surplus or deficit isn't being subsumed, McCloud will be allowed for as a matter of policy.

The allowance will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer using the termination assessment assumptions. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

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 and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers.

The termination policy is set out in Appendix C. This will be reviewed at least on an annual basis to take into account any emerging trends or changes in financial or demographic factors e.g. longevity trends and RPI reform which will affect the termination assessment for employers.

# 6

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

The results of the 2019 valuation show the liabilities to be 91% covered by the current assets, with the funding deficit of 9% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, a prudent 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.

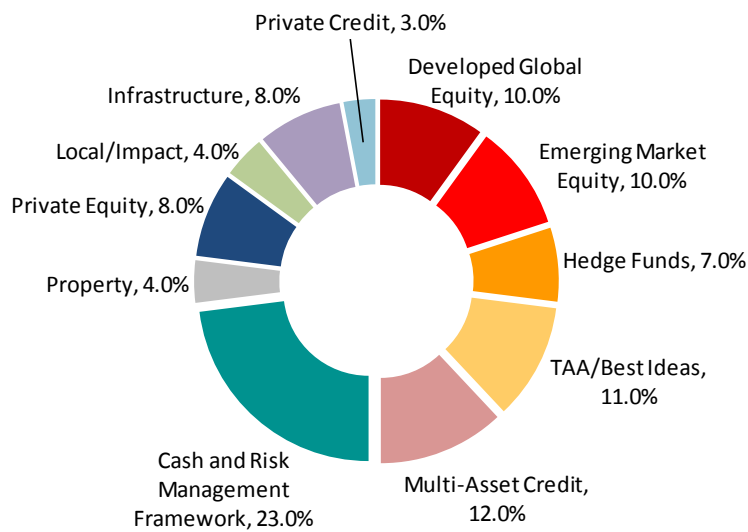
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and 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 negative 1% per annum at the valuation date and a more prudent longevity assumption. 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 54%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken

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 long term strategic allocation is:



Based on the investment strategy above and the assessment of the return expectations for each asset class leads to an overall best estimate average expected return of 2.8% 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.

A measure of overall prudence to protect against adverse experience in the future is to consider the funding level if it was assessed on a “best estimate” basis for all the principal assumptions (mainly the investment return and life expectancy). The actuary has assessed this funding level as 110%. This level of prudence is built in to allow the Fund to address adverse events whilst maintain stability (within reasonable parameters) in employer contributions where appropriate.

# 7

## 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
- Protection and risk management policies 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:-

- Future changes in life expectancy (longevity) that cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers
- 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**. Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the “average” implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk. The Fund’s ill health captive arrangement will also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members (see further information in Appendix E).

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. The level of this charge (taking into account any other exit payments from the employer) will be capped by the Exit Cap of £95,000 and the member’s benefits will be adjusted accordingly when the new Regulations are brought into effect.

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 4<sup>th</sup> September 2019 and finalised on 11<sup>th</sup> February 2020 after the Fund received consultation feedback from the employing bodies and the final document was ratified by the Committee.

As part of their governance arrangements, the Fund holds regular Advisory Panel meetings. 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.

# 8

## 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 every three years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. However, a review of part or all of the Statement will take place annually to ensure all the relevant parameters remain fit for purpose and will take account of the current economic conditions, change in demographic trends 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 in order to hedge part of the Fund's assets against changes in liabilities.

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.

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.

A dynamic Equity Protection strategy was put in place in 2018. This was after rigorous analysis and value for money considerations by the Fund's Funding and Risk Management Group. The strategy protects against falls of 10% or more of the average market position over the previous 12 months on c£350m of equity exposure in the Insight portfolio. The cost of this will be offset by the Fund's participation in losses beyond a fall of 30% from average market levels of the same 12 months. This arrangement 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.

As part of the Flightpath strategy the Fund has implemented a currency hedging policy to lock-in gains from the depreciation in sterling and reduce the risk of a materially strengthening pound. The overall currency hedge is 75% of the overall equity portfolio.

Further details of the updated funding level triggers, equity market protection and currency hedging are 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.

## COST MANAGEMENT AND THE MCCLOUD JUDGEMENT

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

The Government have confirmed that this judgment will result in a remedy being required for the LGPS. The Scheme Advisory Board issued guidance [here](http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf):

[http://www.lgpsboard.org/images/Other/Advice\\_from\\_the\\_SAB\\_on\\_McCloud\\_May\\_2019.pdf](http://www.lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf)

This sets out how the McCloud case should be allowed for within the 2019 valuation. As a consequence, cost management is expected to remain paused until the remedy is known and therefore no allowance has been made in this valuation. This will be reconsidered once the final outcomes are known. The potential impact of the judgement (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. In line with the Regulations, employer contributions can be reviewed once the outcome is known, if deemed appropriate for some or all of the employers depending on whether a provision was made directly in their agreed contributions rates from 1 April 2020 at this valuation. Updated employer rates will then be implemented from the following 1 April for practical purposes with backdating as appropriate.

## FURTHER INFORMATION

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

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# 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 based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence as a contingency against future adverse experience. 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 1.75% per annum above CPI inflation i.e. a real return of 1.75% per annum and a total discount rate of 4.15% 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 to arrive at the CPI inflation assumption at the valuation date is 1.0% per annum. The CPI inflation assumption at the valuation date is 2.40% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any reform of the RPI index as announced by the Chancellor in the March 2020 budget. For example at February 2020 the reduction had fallen from 1.0% per annum to 0.7% per annum. Any change will then be implemented for all relevant policies in this Funding Strategy Statement.

### 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. As a variation 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. Depending on the circumstances of the employer, the variants on short term pay that have been applied are either no adjustment or an allowance of 2% per annum for each year from the valuation date up to 31 March 2023.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. To the extent that experience differs from the assumption adopted, the effects will emerge at the next actuarial valuation.

### **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. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the accelerated trend in longevity seen in recent years (as evidenced in the 2018 CMI analysis) will continue in the longer term and as such, the assumptions build in a 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.

The mortality before retirement has also been reviewed 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 remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. 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 0.8% 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 2020 to 31 March 2023. 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. An allowance for reasonable expenses will also be included on the termination of an employer's participation in the Fund and will be taken into account as part of the termination 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 2.25% per annum above the long term average assumption for consumer price inflation of 2.40% per annum. This leads to a discount rate of 4.65% 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. Cashflows and investment returns are assumed to be paid/earned evenly over each year or relevant period.

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	3.40% p.a.
<b>Solvency Funding Target financial assumptions</b>	
Investment return/Discount Rate	4.15% p.a.
CPI price inflation	2.40% p.a.

Long Term Salary increases*	3.65% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.

### Future service accrual financial assumptions

Investment return/Discount Rate	4.65% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	3.65% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.

\*short term salary increases of a minimum of 2% per annum for each year from the valuation date up to 2023 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
Annuitant	Normal Health	100% S3PMA_CMI_2018 [1.75%] 92% S3PFA_M_CMI_2018 [1.75%]
	Dependant	132% S3PMA_CMI_2018 [1.75%] 92% S3DFA_CMI_2018 [1.75%]
	Ill Health	122% S3IMA_CMI_2018 [1.75%] 132% S3IFA_CMI_2018 [1.75%]
	Future Dependant	128% S3PMA_CMI_2018 [1.75%] 111% S3DFA_CMI_2018 [1.75%]
Active	Normal Health	106% S3PMA_CMI_2018 [1.75%] 93% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	122% S3IMA_CMI_2018 [1.75%] 142% S3IFA_CMI_2018 [1.75%]
Deferred	All	128% S3PMA_CMI_2018 [1.75%] 110% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	135% S3PMA_CMI_2018 [1.75%] 118% S3DFA_CMI_2018 [1.75%]

### Life expectancies at age 65:

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.4	24.8
Actives aged 45 now	24.0	26.8

<b>Deferreds aged 45 now</b>	22.6	25.6
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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	13 years	Determined by reducing the period from the preceding valuation by 3 years (where appropriate).
Other Tax-raising Scheduled and Designating Bodies	8 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)	10 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)	12 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 financial 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.

## 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 2020/2023. 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 (as set out below), 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 6 months of completion of the cessation assessment by the Actuary).
- 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.

Furthermore, if appropriate, a reasonable allowance for expenses will also be made in relation administration and other expenses. This will be allowed for in the final termination assessment.

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 and, for example, may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers.

### 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 subsume the assets and liabilities (and any surplus or deficit) of the employing body within the Fund under the default policy. (For Admission Bodies, this process is sometimes known as the “novation” of the admission agreement.) In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation as set out below.

The interested parties involved (i.e. the Fund, the exiting employer and the guarantor) will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. If there is a dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the cessation assessment by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this 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 depending on the circumstances.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

With regard to subsuming the residual assets and liabilities, 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.

## ALLOWING FOR THE MCCLOUD JUDGMENT IN TERMINATION VALUATIONS

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations and the impact will be considered at the next contribution rate review. However, if a representation is made to the Administering Authority in relation to an Exit Credit then a reasonable estimate for the potential cost of McCloud will need to be included. Where a surplus or deficit isn’t being subsumed, McCloud will be allowed for as a matter of policy.

The allowance will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer using the termination assessment assumptions. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been

settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

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.

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 based on the representations from the interested parties.

## 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 6 months of completion of the cessation assessment by the Actuary).

## MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) 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 2019
Discount Rate	1.4% p.a.
CPI price inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

The financial assumptions above are as at 31 March 2019. These assumptions will be reviewed on an ongoing basis to allow for changes in market conditions along with any other structural or legislative changes.

In particular, since the valuation date it has been announced that RPI inflation is likely to be reformed with the reform potentially meaning the index is closer to the CPIH inflation measure. This would need to be reflected when deriving an updated market estimate of CPI inflation.

For example, when assessing a termination position (at February 2020) we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting 0.7% per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position. This adjustment will be kept under review as more details emerge on the reform of RPI.

All demographic assumptions will be the same as those adopted for the 2019 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 will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

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 2.25% p.a. from the 1.75% p.a. used in the 2019 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

For certain employers in the Fund, following discussions with the Fund Actuary, a captive ill health insurance arrangement was established by the Administering Authority to cover ill health retirement costs by pooling these risks for eligible employers. The aim of the arrangement is 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, pay a premium to the Fund within their future service contribution rate. This has applied to all ill health retirements since 1 April 2017.

## INTERNAL CAPTIVE INSURANCE

The internal captive arrangement operates 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 premium for 2020/23 is 0.9% of pensionable pay per annum.
- 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.

## EMPLOYERS COVERED BY THE ARRANGEMENT

Those employers (both existing and new) that will generally be included in the captive are:

- Community related Admitted Bodies
- Town and Community Councils

These employers have been notified of their participation. New employers entering the Fund who fall into the categories above will also be included. At the discretion of the Administering Authority and where it is felt to be beneficial to the long term covenant and financial health of an employer, specific employers (outside of the categories listed above) may be included within the captive arrangement. In addition, the Administering Authority has the ability to exclude any employer in order to manage employer risk within the Fund.

The Fund and the Actuary will monitor the number of retirements that each captive employer is granting over time. If any employer has an unusually high incidence of ill health retirements, consideration will be given to the governance around the eligibility criteria applied by the employer and it is possible that some or all of the costs would fall on that employer if the governance was not deemed strong enough.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply. The Fund therefore continues to monitor ill-health retirement strain costs incurred in line with the allowance made in the actuarial assumptions. Once the allowance is exceeded, any excess costs would be recovered from the employer. This would normally be at the next valuation but could be 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.

**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.

**CPIH:** An alternative measure of CPI which includes owner occupiers’ housing costs and Council Tax (which are excluded from 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.

**EMPLOYER'S SECONDARY CONTRIBUTION RATE:** 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.

**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.

**MCCLOUD JUDGMENT:** This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

**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 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.

**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.

**SAB FUNDING BASIS OR SAB BASIS:** a set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the “Section 13 review” as carried out by the Government Actuary’s Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2019 was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculate the Fund’s solvency funding position and contribution outcomes for employers.

**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 2019 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.

Cronfa Bensiynau Clwyd  
Clwyd Pension Fund



**FLINTSHIRE COUNTY COUNCIL**

**Administering Authority for  
CLWYD PENSION FUND**

**INVESTMENT STRATEGY STATEMENT**

**February 2020**

# INVESTMENT STRATEGY STATEMENT

## 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.

Regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the LGPS Investment Regulations), which replace the 2009 Investment Regulations requires administering authorities to formulate an Investment Strategy Statement (ISS) which must be in accordance with guidance issued by the Secretary of State. This replaces the existing requirement to produce and maintain a Statement of Investment Principles.

The ISS must include:

- f) A requirement to invest money in a wide variety of investments
- g) The authority's assessment of the suitability of particular investments and types of investments
- h) The authority's approach to risk, including the ways in which risks are to be measured and managed
- i) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services
- j) 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
- k) 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 April 2017 and regularly reviewed at least every three years.

The original Clwyd Pension Fund ISS was designed to comply with the guidance given by the Secretary of State and was effective from 1 April 2017. It has been reviewed on a regular basis and was updated in 2018. This updated version was presented to the Committee in February 2020 for approval.

This 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 <https://mss.clwydpensionfund.org.uk/>.

## About the Fund

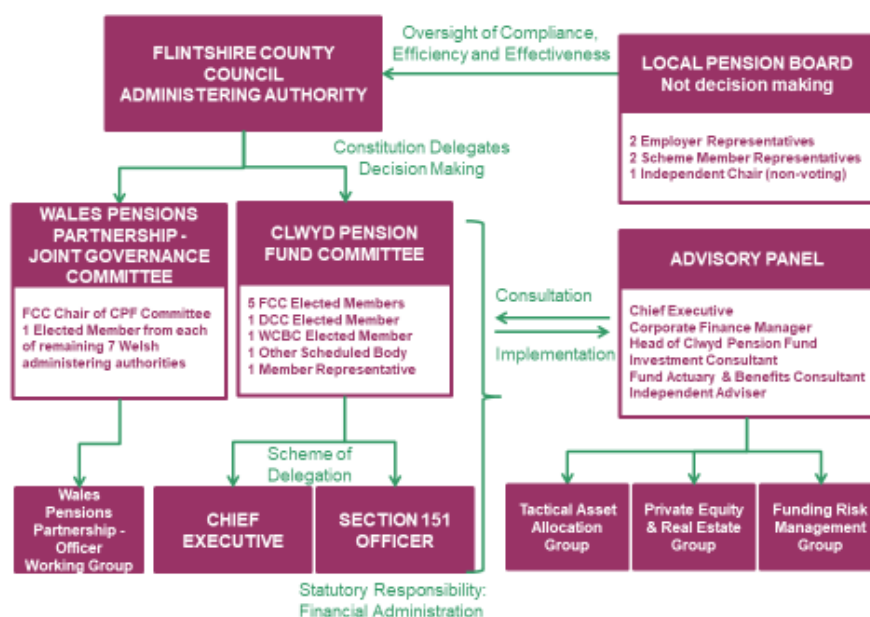
The Clwyd Pension Fund is a £2.0bn Local Government Pension Fund which provides death and retirement benefits for local government employees (other than teachers, police and fire-fighters) in North East Wales and employees of other qualifying bodies which provide similar services.

Total Fund membership is about 46,900 with about 16,800 active contributors from 47 contributing employers and about 30,100 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 (the Committee), supported by a Pensions Advisory Panel (AP). Before making strategic investment decisions the Fund takes advice from a regulated investment consultant; Mercer, who also provide Risk Management advice. The 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

Our Fund's Mission Statement is:

- to be known as forward thinking, responsive, proactive and professional, providing excellent customer focused, reputable and credible service to all 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.

This applies to the approach to investing the Fund's monies as well as managing the overall Fund. The Mission Statement has been developed to guide the management of all aspects of the Fund.

The specific objectives relating to the funding and investment management of the Fund are summarised below.

- Achieve and maintain assets equal to 100% of liabilities within the 13-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
- Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

The key actions and areas of focus that have been identified to achieve these objectives are included in the Fund's business plan, to align with the key aims and objectives of this strategy.

## Investment Strategy of the Clwyd Pension Fund

The following sections detail the Fund's investment strategy, which takes into account LGPS Investment Regulations 7(2)(a) and 7(2)(b) as summarised below:

- 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 does not prescribe the specific asset classes over which Fund monies must be invested.
- 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. The investment and funding objectives 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 2020 includes a number of investment return assumptions:

- An investment return (discount rate) for the funding target of CPI inflation plus 1.75% p.a. (assumed 4.15% p.a.).
- An investment return (discount rate) for the future service contribution rate of CPI inflation plus 2.25% p.a. (assumed 4.65% p.a.).

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 1 April 2020. The next actuarial valuation will be as at 31 March 2022 with implementation of revised contribution rates from 1 April 2023.

A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013. The FSS outlines the strategy for recovering the funding deficit over 13 years. A copy of the FSS can be obtained from the Fund's web site at <https://mss.clwydpensionfund.org.uk/> . The funding strategy will be monitored during 2020/23.

In managing the Fund, the key funding objectives are:

- to aim for a funding level of 100% and
- to aim for long term stability in employers' contribution rates, whilst recognising the constraints on affordability for employers.

A full list of the funding aims and objectives of the Fund are set out within the executive summary of the FSS.

The Clwyd Pension Fund was funded at 91% of liabilities (at the 2019 actuarial valuation) and employers' contribution rates are currently structured to achieve a gradual return to 100% funding by 2032.

Whilst stability of costs from the employers' contribution 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 achieving superior investment returns relative to the growth of liabilities. This implies that the Fund will continue to take active risk in how it invests its assets 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 delivering the strategy most suitable for long-term consistent performance and achieving 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 investment 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 2019 and changes as a result of this will be implemented in 2020. Details of the investment strategy are included in the following sections.

# Investment Strategy

## Setting the Strategy

The Fund's investment strategy has been determined to meet the objectives outlined earlier in this Statement. This includes consideration for the Fund's liability profile and the 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 Fund considers the mix of asset classes in forming an overall portfolio and considers the correlation in volatility and return of each.

The Fund recognises 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, investment managers have been appointed to select and manage the allocations across asset classes, in particular where it would not be practical (or appropriate) for the Fund's Committee and officers to commit the resources necessary to make these decisions themselves.

In assessing the suitability of investments required to form the overall portfolio a number of characteristics of each asset class, and sub asset class, are considered. 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 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.

## 2019 Review

The 2019 review showed, using Mercer market forecasts for Quarter 2 2019, that the expected market returns over the coming ten-year period would mean that the Fund could be expected to generate a return of 5.6% p.a. (CPI inflation plus 3.4% p.a.). Investigations showed that the portfolio was, in the main, well diversified and did not need significant change. However, there were opportunities to reduce risk without sacrificing return.

These opportunities led to six main areas of change:

- Dis-invest from Diversified Growth Funds due to overall diversification of the Fund leading to less compelling case to hold
- Increase physical listed equity allocations in developed and Emerging Markets
- New Sustainable equity allocation to support Responsible Investment Policy
- Restructure existing Hedge Funds allocation
- Create new explicit Local/Impact portfolio in Private Markets portfolio
- Establishment of the Cash and Risk Management Framework.

These changes meant that the expected return could be increased by 0.2%, with minimal change to the projected Deficit Risk.

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

## Investment Decisions

The Fund 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.

Strategic investment decisions are made by the Committee. 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 Head of the Clwyd Pension Fund 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 Fund the LGPS Investment Regulations require the Fund 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 Fund is not constrained to certain types of investments; the requirement is for the Fund to set its own limits. In reviewing the strategy, the Fund considers the existing and a range of alternative asset classes.

### Balance between different types of investments

The LGPS Investment 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 2019/20 investment strategy review is detailed in the table below:

Asset Class	Strategic Weight
Developed Global Equity*	10.0%
Emerging Market Equity	10.0%
Hedge Funds	7.0%
TAA/Best Ideas **	11.0%
Multi-Asset Credit	12.0%
Cash and Risk Management Framework	23.0%
Private Markets***	
Property	4.0%
Private Equity	8.0%
Local/Impact	4.0%
Infrastructure	8.0%
Private Credit	3.0%
<b>Total</b>	<b>100.0%</b>

### Notes:

\*The Global Equity Portfolio includes a 5% Strategic Weight to a specific Low Carbon ESG focused fund.

\*\*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 Target allocation of the underlying asset classes in Private Markets will take some time to achieve due to the illiquidity of the asset classes involved.

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 strategic asset allocation for the Fund 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 (referred to as the Strategic Allocation). In addition, there are ranges for each asset category that allow limited deviation within the framework (referred to as the 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 (the 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 2019/20 strategic review.

Asset Class	Strategic Allocation (%)	Strategic Range (%)	Conditional Range* (%)	Expected return above inflation(CPI)* ** p.a.
Developed Global Equity	10.0	5.0 - 15.0	0 – 30	4.5%
Emerging Market Equity	10.0	5.0 – 15.0	0 – 30	6.4%
Hedge Funds***	7.0	5.0 – 9.0	0 – 15	1.3%
TAA/Best Ideas****	11.0	9.0 – 13.0	0 – 20	2.5%
Multi-Asset Credit	12.0	10.0 – 14.0	0 – 20	2.4%
Cash and Risk Management Framework*****	23.0	10.0 – 35.0	0 – 40	2.8%
<b>Private Markets</b>				
Property	4.0	2.0 – 6.0	0 – 8	2.0%
Private Equity	8.0	6.0 – 10.0	0 – 15	6.0%
Local/Impact	4.0	0.0 – 6.0	0 – 8	3.1%
Infrastructure	8.0	6.0 – 10.0	0 – 15	3.1%
Private Credit	3.0	1.0 – 5.0	0 - 6	1.5%
<b>Total</b>	<b>100.0</b>			

#### Notes:

\* The Conditional ranges are at a total Fund level.

\*\* 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 Mercer Market Forecast as at the date of the 2019/20 strategic review. CPI Inflation is used as the basis for expected returns as it is a proxy for valuing the liabilities.

\*\*\* The Hedge Fund allocation is being restructured as a result of the 2019/20 review

\*\*\*\* The Best Ideas allocation is a short term (12-month horizon) tactical allocation based on the JLT/Mercer's (the Fund's Investment consultant) "best ideas". The portfolio should be liquid and cost efficient.

\*\*\*\*\* The Cash and Risk Management Framework, a combination of Liability Driven Investment (LDI) and synthetic equity instruments, will be managed as part of a risk management 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 23%.

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 2019. This is explained in more detail in the risk section below.

### Cash and Risk Management Framework

In March 2014, the Fund set up a Risk Management Framework (now referred to as Cash and Risk Management Framework). This has evolved since its initial implementation, and now includes the following hedging strategies that seek to manage a variety of financial risks. These strategies are implemented by Insight Investment Management (Insight).



### *Liability hedging programme, controlling the Fund's interest rate and inflation risk*

In March 2014, the Fund established a liability hedging programme covering both interest rate and inflation risks. A 'flightpath' for increasing the level of protection was agreed based on market yield triggers to ensure that risk was reduced at favourable times. Since the adoption of the flightpath, a number of market triggers have been implemented.

As part of the 31 March 2019 actuarial valuation and investment strategy review cycle, the officers and Fund consultants (Mercer and JLT) have reviewed the flightpath and no change has been made to the interest rate and inflation triggers at this stage.

Further, as part of the flightpath, whilst there are no formal funding level triggers in place, it has been agreed that when the funding level reaches 100% or higher, consideration will be given as to whether to further control the Fund's interest rate and inflation risk. The Funding and Risk Management Group monitors the funding level on a monthly basis.

### *Synthetic equity portfolio, gaining exposure to equities whilst hedging the downside risk*

The Fund implemented a synthetic equity strategy in order to increase its expected return potential in a capital efficient manner. In order to manage the downside risks associated with the synthetic equity strategy, a static equity protection strategy was put in place, protecting against equity market falls on the equity exposure. This was in place from April 2017 until May 2018.

In May 2018, a new dynamic protection strategy was put in place. This provides improved flexibility and on-going governance versus the previous static approach as it allows the structure to more easily adapt to changing market conditions.

### *Currency hedging strategy*

In August 2019, the Fund implemented a currency hedging strategy to reduce the risk of a strengthening pound devaluing the value of the Fund's physical overseas equity holdings. This was in light of the continued weakening of sterling. As holders of overseas assets, the Fund had benefitted significantly from the fall in sterling following the EU referendum and wished to reduce currency risk by locking in a portion of the gains made.

### *Collateral management strategy*

The above strategies make use of derivatives and therefore require collateral to be set aside in order to support the positions and protect the Fund (and counterparties) from the risk of default. There is a balance between holding enough collateral to support the strategies against a material and sudden move in markets, versus holding too much that it becomes a drag on the Fund's returns.

In order to manage this balance, the Fund implemented a collateral management strategy. This ensures that the Fund holds the required amount of collateral to support the strategies, with any excess collateral held in higher yielding funds that can be sold quickly if more collateral is required. This helps generate additional return and reduces the governance burden on the Fund, leading to improved efficiency.

## Realisation of investments

The Fund's investment policy is structured so that the majority of its investments (in equities 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 1 April 2011 the 2009 Investment Regulations required the 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 the LGPS 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 instant access.
- The Insight Liquidity Fund for unexpected liquidity requirements or higher rates of return.

As part of the 2019/20 review the Fund is developing its Cash Management Strategy and when this has been agreed this document will be updated to reflect this.

The Deputy Head of the Clwyd Pension Fund will arrange for the 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. It has been agreed that investments made through the Wales Pension Partnership will be covered by the pool's stock lending policy.

## **Approach to risk, including the ways in which risks are to be measured and managed**

LGPS Investment 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 is continually updated and key risks are considered on a regular basis at the Committee and AP meetings.

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 Cash and Risk Management Framework 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 Responsible Investment Policy which is explained later in this document.

In considering the Fund's investment strategy, it is necessary to have regard to the balance between risk and return. In practice, the investment strategy objective will be to achieve the highest possible return whilst minimising the 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.

In the future the Wales Pension Partnership will engage and exercise voting rights on behalf of the Fund. The Fund's Responsible Investment Policy explains the approach in detail and it is explained 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 Asset Allocation/ Best Ideas portfolio (TAA) which aims to take advantage of market risk, by making shorter term tactical allocations which suit the specific characteristics of the Fund. 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 TAA and has also addressed this in the Cash and Risk Management Framework from a strategic perspective.

### **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 Risk Management/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

When reviewing the Investment Strategy in 2019/20, as well as addressing the potential for investment return, the Fund also considered the risk of the proposed strategy when compared to the previous one. Risk is assessed by using a Value at Risk (VaR) approach. This approach measures the risk of loss for investments and estimates how much an investment strategy might lose (with a given possibility) given normal market conditions, in a set time period such as a day or a year.

The Fund needs to take risk within its Investment Strategy in order to achieve an adequate level of return above the Actuary's future service discount rate of Inflation (CPI) +2.25% per annum.

At a total Fund level, the total expected return of the previous strategy was 5.4% per annum with a VaR of £437.9m. The revised strategy as described earlier in the document increases the potential return to 5.6% per annum, with a VaR of £444.6m. The potential for increased return is reflected in the marginal increase in risk.

## Proper advice

In assessing the Fund's strategy, including an assessment of the implicit risks, and setting the maximum limits the Fund has taken proper advice from Officers, JLT Benefits Solutions (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.

## Approach to pooling

LGPS Investment 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 Pension Partnership (WPP). The proposed structure and basis on which the WPP will operate was set out in the July 2016 submission to the Government.

The WPP 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 WPP 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.

The Clwyd Pension Fund will aim to use the WPP as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

## Structure and governance of the WPP

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 carry out a number of responsibilities relating to WPP including overseeing the operator. The JGC 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 although administering authorities may choose to nominate alternative members if appropriate. This arrangement provides accountability for management of the WPP and the operator back to individual administering authorities.

The JGC is setup formally as a Joint Committee between the participating administering authorities. It operates on the basis of "One Fund, One Vote", though in practice any



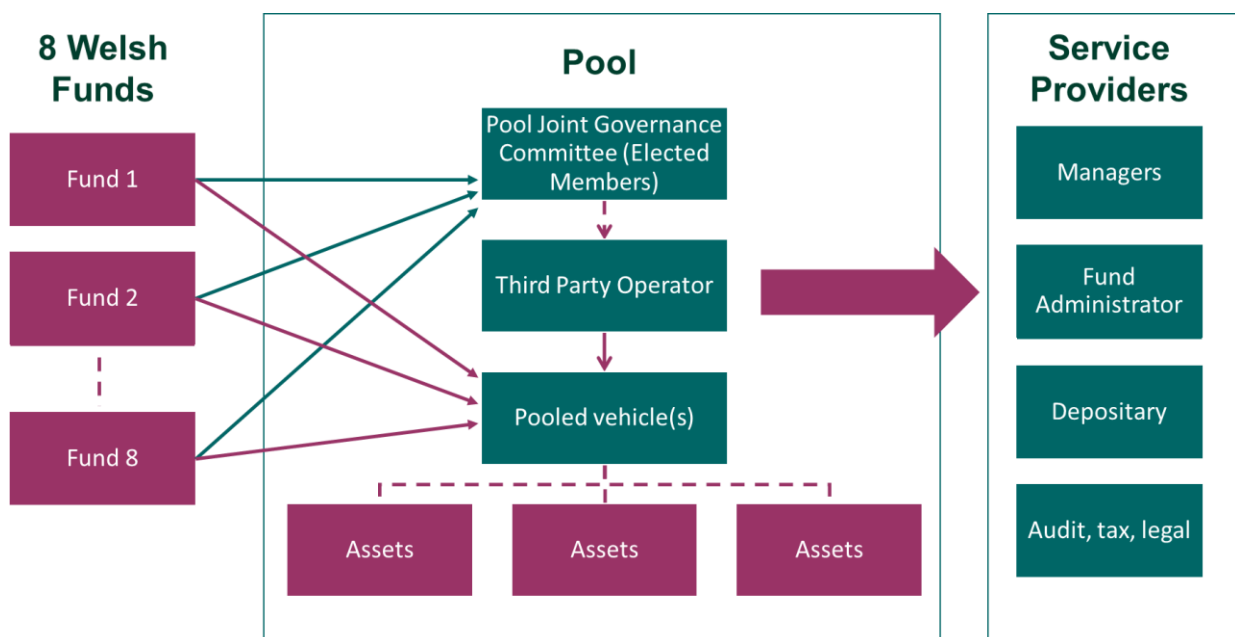
decisions are reached on a consensus wherever possible. A formal Terms of Reference for the Committee has been agreed.

Each authority has committed to the pool by agreeing and signing an Inter Authority agreement. The agreement sets out the principles behind the WPP.

The WPP Officer Working Group has been established as part of the Inter Authority Agreement to support and advise the JGC on such matters as the JGC 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.

### *Governance Structure of the WPP*



Link Fund Solutions Ltd 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.



The process and benefits of doing so will be discussed with the operator. Given the 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.

## **Approach to Environmental, Social and Governance issues and policy on exercising voting rights**

### **Regulatory Background**

In preparing, developing and implementing this Policy, the Fund has paid due regard to the regulatory background. The LGPS Investment Regulations require 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.

The LGPS Investment Regulations also require 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.

In addition to considering the LGPS Investment Regulations in developing the Responsible Investment Policy the Fund has taken professional advice. It has also had regard to the Well-being of Future Generations (Wales) Act 2015, guidance from the Scheme Advisory Board, the Ministry for Housing, Communities and Local Government and the Welsh Government. The Fund commits to keeping the policy reviewed in line with any future changes or updates in regulation or guidance.

The Fund has also considered, researched and reviewed a number of other areas of best practice when preparing this Policy such as the United Nations Principles for Responsible Investment, the Sustainable Development Goals and the Task Force for Climate-related Financial Disclosures (TCFD).

### **Responsible Investment Policy**

In 2019 the Fund undertook a review of its Responsible Investment Policy in conjunction with the overall review of the Strategic Asset Allocation. The target for this review was to re-affirm the Fund's existing beliefs, supplement these with additional views if appropriate and consider ways in which these views could be implemented.

As a result of this review the Fund's long standing Responsible Investment (RI) Policy was updated to reflect current attitudes and thinking. In addition to help formally frame the policies, the Fund has set a number of high level beliefs that will sit over the more detailed policies, and will convey the Fund's overarching attitude to being a Responsible Investor.

## *Background*

This revised Policy will support the Fund's specific RI aims with the funding and investments specific objectives:

- 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 Pooling*

As part of the Government's investment reform, the Fund has participated in the development of the WPP to pool the investments of the 8 Welsh LGPS funds. Whilst all strategic asset allocation and policy decisions remain with the Fund, implementation responsibilities in the future will be the responsibility of WPP.

The Fund is committed to pooling its investments with WPP, and acknowledge that this presents challenges, and also significant opportunities to enhance the Fund's approach to RI. The Fund has proactively engaged with WPP in setting WPP's RI policy and objectives, and is confident that they will enable it to implement its own policies.

The Fund will work with the WPP to develop their policies in the future to ensure they remain relevant and appropriate for the Clwyd Pension Fund.

## *Stewardship and Engagement*

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 given by the Secretary of State 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>.

In practice the Fund has applied the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF). In the future as a member of the WPP, the Committee expects both WPP and the underlying fund managers to comply with the Stewardship Code.

In October 2019 the FRC issued an updated and increasingly demanding version of the Stewardship Code, and the Fund commits to reviewing its compliance against the updated Code with the aim of remaining a signatory.

### *Reporting and Disclosure*

The Fund is committed to transparency of its actions, in particular with respect to RI. The Annual Report contains copies of a number of documents including policy statements, and the ISS (in full). The annual report is circulated widely and is published on the Fund's website. It is accepted that approaches to RI and sustainability will evolve and develop over time, and it is therefore essential to keep policies and practices under regular review to ensure their effectiveness. In addition, the Fund recognises the importance of transparency and reporting in respect to RI and environmental, social and governance (ESG) issues, and therefore plans to enhance its analysis, disclosure and reporting. This will include manager ESG ratings, voting and engagement and carbon emissions analysis, and impact where relevant.

### *Responsible Investment Beliefs*

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 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 and recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees, other stakeholders and also wider society.

The Fund defines a **Responsible Investment** (RI) as:

*Incorporating sustainability considerations within the investment process, including environmental, social and governance (ESG) factors for a broader perspective on risk and return opportunities.*

In developing its approach to RI, the Fund seeks to understand and manage the ESG and reputational risks to which it is exposed. This policy sets out the Fund's approach to this.

The foundations of the Fund's approach to RI are its Principles which are set out below:

### *Responsible Investment Principles*

- The Fund's fiduciary duty is to act in the best interests of its members and employers. The Fund recognises that ESG issues create risk and opportunity to its financial performance, and will contribute to the risk and return characteristics. The Fund believes, therefore that these factors should be taken into account in

its Funding and Investment Strategies and throughout the decision making process.

- The Fund is a long-term investor, with pension promises for many years, and because of this, it seeks to deliver long-term sustainable returns.
- The Fund integrates ESG issues at all stages of the Fund's investment decision making process.
- The Fund seeks to apply an evidence based approach to the implementation of Responsible Investment.
- The Fund recognises that transparency and accountability are important aspects of being a Responsible Investor and will demonstrate this by publishing its RI policy and activity for the Fund.
- The Fund has a duty to exercise its stewardship responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage corporate responsibility.
- The Fund recognises the significant financial risk of **not** being a Responsible Investor and it seeks to ensure that this risk is mitigated through its Investment Policy and implementation.
- The Fund recognises the importance of Social/Impact investments which can make a positive social and environmental impact whilst meeting its financial objectives, and it will make selective investments to support this aim.

### *Climate Change*

The Fund recognises the importance in addressing the financial risks associated with climate change through its investment strategy, and believes that:

- Climate change presents a systemic risk to the overall stability of every economy and country, with the potential to impact on the members, employers and all of the holdings in the Fund's investment portfolio.
- Considering the impacts of climate change is not only the legal or fiduciary duty of the Fund, but is also consistent with the long term nature of the Fund. The Fund's investments need to be sustainable to be in the best interests of all key stakeholders.
- Engagement is the best approach to enabling the change required to address the Climate Emergency, however selective risk-based disinvestment is appropriate to facilitate the move to a low carbon economy.
- As well creating risk, it also presents opportunities to make selective investments that achieve the required returns, whilst at the same time make a positive social and environmental impact, such as environmental infrastructure and clean energy.

### *Strategic RI Priorities*

The Fund recognises that as a Responsible Investor there are a multitude of potential areas on which to focus, however it is not possible to concentrate on everything together. Therefore, to enable the approach to be focused, the Fund has considered

its strategic priorities for the next 3 years (2020-2023), which will support the overall aim of being a Responsible Investor.

These strategic priorities will be reviewed annually, and may be added to, but to maintain the desired focus the following have been identified from an RI perspective:

- Evaluate and manage carbon exposure
  - The Fund has identified climate change as a financial risk, and intends to measure and understand its carbon exposure within its investment portfolio.
  - Once this initial assessment has been made the Fund will look to set agreed Carbon reduction targets within 12 months to be delivered over the following five years.
- Identify sustainable investments opportunities
  - The Fund has for a number of years looked to make Social/Impact investments; whereby in addition to making the requisite financial return the investment has a positive social or environmental impact. The 2019 Investment Strategy Review has further supported this with the creation of a separately identified Local/Impact portfolio.
  - This portfolio has a strategic target weight of 4% of the Fund's assets and will be seeded from existing investments that meet pre-agreed criteria based on the [United Nations Sustainable Development Goals](#). Additional opportunities will be added with a view to achieving the target weight in three years (i.e. by 2023).
- Improve public disclosure and reporting
  - The Fund recognises the importance of transparency and reporting with respect to ESG issues. The Fund intends to enhance its analysis, disclosure and reporting on its RI activities, including manager ESG ratings, voting and engagement and carbon emissions analysis.
- Active Engagement on ESG risks
  - As a member of the LAPFF, the Fund has active engagement with its underlying investments. In the future, due to the pooling of investments, this engagement will be supplemented by the work of the WPP. The Fund is committed to working proactively with WPP and its providers to improve the levels of engagement.
- FRC Stewardship Code
  - The Fund has been a Tier One signatory to the Stewardship Code since March 2018. The new, more demanding version of the Code was launched in October 2019, and the Fund is committed to reviewing the requirements of the new Code, and aiming to remain a Tier One signatory if practical. If this is not achievable the Fund will encourage the WPP to do so.

## *Commitment*

The Fund has always sought to act with conscience when it comes to its investments and recognises that its approach to RI will need to evolve continually, given the speed of change with regard to the impact and understanding of ESG issues, and the ever changing world in which we live. Due to the increased focus on RI within the investment industry there is continuous development of thinking and best practice, and the Fund is committed to ensuring its approach remains relevant and appropriate. This RI Policy will be formally reviewed at least every three years as part of any strategic review of the Fund's asset allocation, or as required due to changing regulatory requirements or to address specific issues that may arise.

## **Approval, review and further information**

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

This version of the Investment Strategy Statement was approved at the Clwyd Pension Fund Committee on 11 February 2020. It will be formally reviewed and updated at least every three years or sooner based on when it is considered appropriate to review the Fund's approach to investing the Fund's assets, including responsible investing.

### **Further Information**

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

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Telephone - 01352 702259

Further information about the Fund can be found on its website - <https://mss.clwydpensionfund.org.uk/>.

Further information about the Wales Pension Partnership can be found on its website - <https://www.walespensionpartnership.org/>.

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*

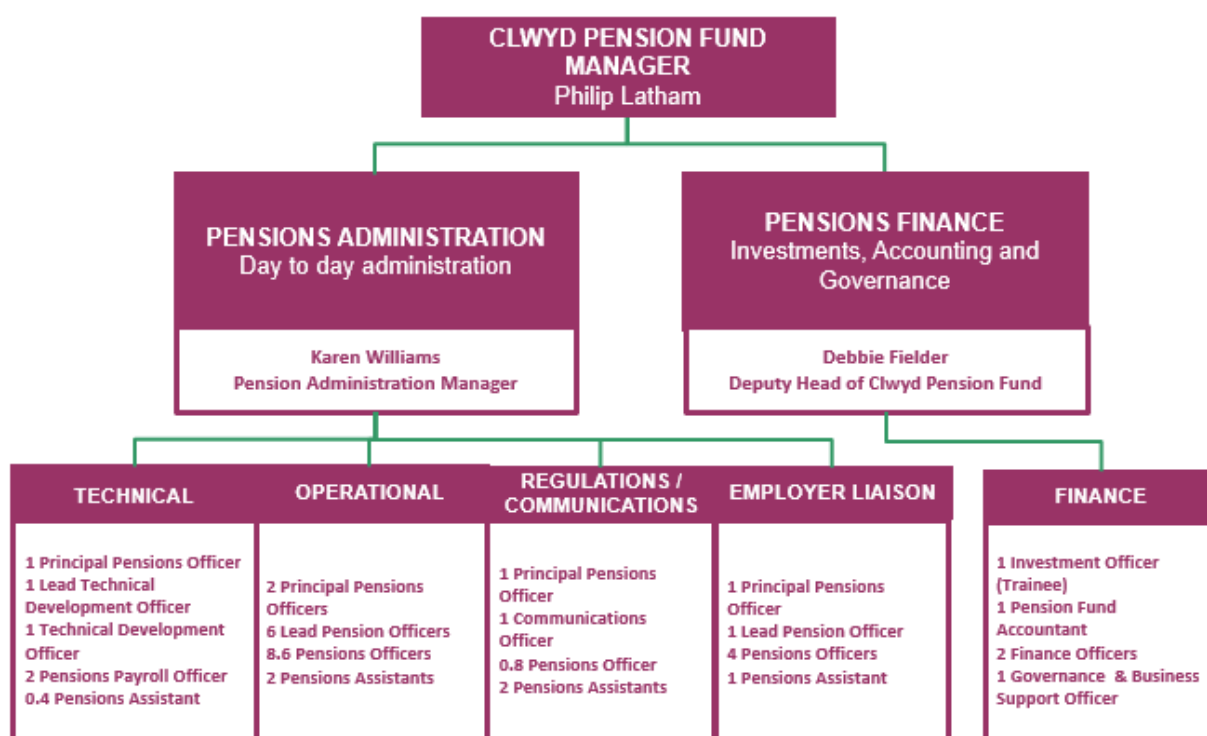
This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, as follows;

- 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><u><a href="#">Clwyd Pension Fund's website has to adhere to national standards regarding accessibility to the website and how the content is structured.</a></u></p>
<i>Member Self Service (MSS)</i>	<p><u><a href="#">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.</a></u></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>	<p>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.</p>

<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>	<p>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.</p>
<i>Annual Report</i>	<p>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.</p>



## 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://cyfarfodyddpwyllgor.sirymfflint.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>	The Clwyd Pension Fund Manager, Deputy Head of Fund and Finance team have regular meetings with; <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> </ul>

	<ul style="list-style-type: none"> <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>	The Fund sometimes needs to liaise with Welsh Government on matters that might impact the delivery of the LGPS, such as local government reorganisation.
<i>Wales Pension Partnership (WPP)</i>	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.
<i>Pension Fund Custodian</i>	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.
<i>Pensions and Lifetime Savings Association (PLSA)</i>	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.
<i>Class User Group</i>	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 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.

Objectives	Measurement
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.	<p>Annual satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas.</p> <p>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.</p>
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.	<p>Satisfaction survey is undertaken annually (as a minimum).</p> <p>Results from satisfaction survey are thoroughly analysed and investigated, and trends monitored from previous years.</p> <p>Detailed analysis of survey results is used to identify areas to improve communications in future.</p>

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:

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