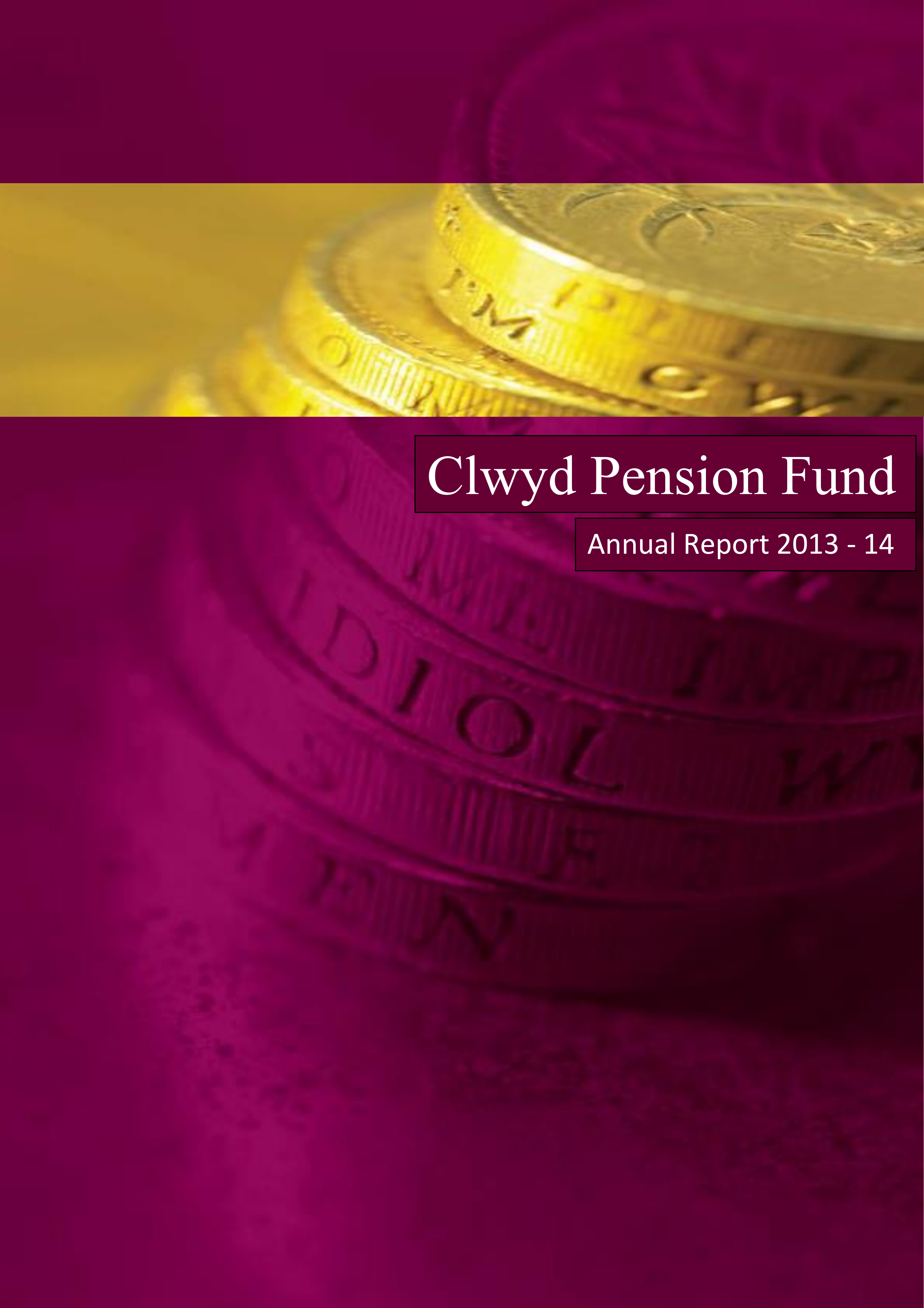


Clwyd Pension Fund

Annual Report 2013 - 14

CLWYD PENSION FUND – AWARDS

Professional Pensions Awards – September 2008

Won – Trustee Development (Private) & (Public)

IPE Awards November 2008

Won – Best Investment in Emerging Markets (Themed Awards – Europe-wide)
Won – Best Property Investment (Themed Awards – Europe-wide)
Won – Best Specialist Investment (Themed Awards – Europe-wide)

Runner-up – Commodities (Themed Awards – Europe-wide)

IPE Awards December 2010

Won – Best Investment in Commodities (Themed Awards – Europe-wide)
Won – Best Use of Alternatives (Bronze Awards – Europe-wide)
Won – Best Small Pension Fund (Silver Awards – Europe-wide) – Joint Winner

Runner-up – Best Investment in Emerging Markets (Themed Awards – Europe-wide)
Runner-up – Best Specialist Investment (Themed Awards – Europe-wide)

IPE Real Estate Awards – May 2011

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

Runner-up – Best European Real Estate Investor (Platinum Award – Europe-wide)

IPE Awards November 2011

Won – Best Use of Real Estate (Themed Awards – Europe-wide)

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

IPE Real Estate Awards – May 2012

Won – Best Portfolio Construction (Themed Awards – Europe-wide)
Won – Best Medium Real Estate Investor in Europe (Gold Awards – Europe-wide)

Runner-up – Best Pension Fund in UK/Ireland (Country Awards)
Runner-up – Best Indirect Investment Strategy (Themed Award – Europe-wide)
Runner-up – Best Opportunistic Investment (Themed Award – Europe-wide)

IPE Awards – November 2012

Won – Best Public Sector Fund in Europe
Won – Best use of Alternatives

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

IPE Real Estate Awards – May 2013

Won – Best Institutional Investor in UK/Ireland

Contents

Introduction

I have pleasure in introducing the 2013/14 Annual Report, as the Chair of the new Clwyd Pension Fund Committee.

Since last year's Annual Report there has been a lot of change in how the Fund is managed and advised. I would like to draw your attention to the Governance Strategy Statement within this Annual Report, which explains the new governance arrangements, and also thank the members and advisor of the previous Panel.

The new Clwyd Pension Fund Committee has decision making powers documented in the Council's constitution, wider employer representation and voting rights for all, including the member representative.

Senior Officers with delegated responsibility for the day to day management of the Fund have also changed. Kerry Feather, Head of Finance of Flintshire County Council and Treasurer and Administrator for the Fund retired. The role is now shared between Helen Stappleton, Chief Officer (People and Resources) as Administrator to the Fund and Gary Ferguson (Corporate Finance Manager and S151 Officer), as Treasurer to the Fund. A joint commentary on progress with the management of the Fund is included in this Annual Report.

It is vital that all those involved with the governance of the Fund have the necessary knowledge and skills to understand any advice given and to make informed decisions. Both Committee members and Senior Officers are receiving training to satisfy the requirements of the CIPFA Knowledge and Skills Code of Practice and the Fund is developing a plan for on-going training.

A key benefit of the new Committee is transparency for our stakeholders. The Committee agenda papers for the first Committee meeting on the 22nd July 2014 are on the Flintshire County Council web-site. There is a standard format which includes reports on governance, administration and investments and funding. The reports cover both updates relating to general LGPS issues, the economy and financial markets as well as reports on the investment, funding and administration performance of the Fund itself including progress with the Service Plan.

There are a number of key challenges for the Committee, officers and advisers to address through 2014/15:

- Managing the outcome of the Government's consultation on the opportunities for collaboration, cost savings and efficiencies.
- Implementing the requirements of the Public Sector Pension Act 2013 for a new Local Board, whose role is to secure compliance with legislation and ensure the effective and efficient governance and administration of the Fund.
- Reviewing current arrangements against the new Pensions' Regulator Public Sector Code of Practice.
- Reviewing and monitoring the Fund's investment and funding strategy.
- Ensuring that the Committee and officers continue to develop their knowledge and skills to enable the Administering Authority to successfully manage a complex Fund which is now over £1.2bn in value and has 35,000 members.

This Annual Report attempts to demonstrate to stakeholders how the Fund is addressing these challenges and managing risks and includes all the statutory documents which underpin the strategic management of the Fund together with commentary on the outcomes and performance for 2013/14 including:

- An overview of the Fund by the Treasurer and Administrator
- Management of Pension Fund Risks
- An independent Annual Report from the Fund's Independent Advisor/Consultant.
- Details on Investment strategy and performance
- Audited Pension Fund Accounts 2013/14
- Pension Administration Update.

Further information can be found on the Fund's web-site *clwydpensionfund.org.uk.* Additionally, employer and employee representatives are invited to an Annual Joint Consultative meeting each November.

My intention, as the Chair, is to seek continuous improvement in line with the Fund's Mission Statement. I hope you find the Annual Report informative and welcome any comments or questions on the content.

Cllr Alan Diskin
Chair of the Clwyd Pension Fund Committee
September 2014

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

Governance Structure of the Clwyd Pension Fund

Administering Authority: Flintshire County Council

In May 2014 the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pensions Advisory Panel.

These changes follow best practice, as well as the recommendations of an independent review undertaken by CIPFA in 2010, by transferring the management of the Fund from the Head of Finance, supported by the Clwyd Pension Fund Panel, to the Committee.

Additionally, the representation of stakeholders, with full voting rights, on the Committee was widened. The membership of both the new Committee and Advisory Panel are shown below along with that of the previous Panel.

Clwyd Pensions Fund Committee

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

Advisory Panel

Panel Members	
Chief Officer (People and Resources) (FCC)	Helen Stappleton
Corporate Finance Manager/ S151 Officer (FCC)	Gary Ferguson CPFA
Clwyd Pension Fund Manager (FCC)	Philip Latham
Investment Consultant (JLT Group)	John Finch ASIP FCII
Fund Actuary (Mercer)	Paul Middleman FIA
Independent Advisor (Aon Hewitt)	Karen McWilliam FCIPP

Clwyd Pension Fund Panel (To May 2014)

Clwyd Pension Fund Panel		Voting Rights
Flintshire County Council	Cllr Alan Diskin (Chair)	✓
	Cllr Haydn Bateman (Vice Chair)	✓
	Cllr Ron Hampson	✓
Denbighshire County Council	Cllr Huw Llewelyn Jones	✓
Wrexham County Borough Council	Cllr Steve Wilson	✓
Member Representative	Vacant	✗
Independent Advisor/ Consultant	Mr Bob Young (YCS UK Ltd)	✗

Investment Managers and AVC Providers

Investment Managers	Address
Aberdeen Asset Management Plc	Bow Bells House, 1 Bread Street, London
BlackRock Investment management (UK) Ltd	12 Throgmorton Avenue, London
BlueCrest Capital Management (UK) LLP	40 Grosvenor Place, London
Duet Group	27 Hill Street, Mayfair, London
Insight Investment	160 Queen Victoria Street, London
Investec Asset Management	2 Gresham Street, London
Liongate Capital Management	103 Mount Street, London
Pioneer Alternative Investments UK Ltd	Portland House, Bressenden Place, London
Pyrford International Ltd	95 Wigmore Street, London
SSARIS Advisors LLC	20 Churchill Place, London
Stone Harbor Investment Partners (UK) LLP	48 Dover Street, London
Wellington Management International Ltd	Cardinal Place, 80 Victoria Street, London

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

Other

Service	Address
Custodian: Bank of New York Mellon	160 Queen Victoria Street, London
Actuary: Mercer Ltd	Exchange Station, Tithebarn Street, Liverpool
Performance Measurement: WM Company	525 Ferry Road, Edinburgh
External Auditors: Wales Audit Office	Unit 4, Evolution, Lakeside Business Village, St. David's park, Ewloe
Bank: National Westminster Bank plc	48 High St., Mold
Legal Advisors: This varies depending on the issue and can include the Flintshire County Council in-house legal team as well as organisations listed on the Framework Agreement (see below).	

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

Organisation	Address
Squire Sanders	7 Devonshire Square, London
Aon Hewitt	40 Torpichen Street, Edinburgh
Mercer Human Resource Consulting	Tower Place West, London
JLT Benefit Solutions	7 Charlotte Street, Manchester
Allenbridge	60 Goswell Road, London
bFinance	26-27 Oxendon Street, London

Clwyd Pension Fund Panel Meetings Held During 2013/14

Panel Agenda Meetings	Councilor Attendees
20th May 2013	Cllr Haydn Bateman
	Cllr Ron Hampson
	Cllr Steve Wilson
	Cllr Huw Llewelyn Jones
	Cllr Ted Evans (deceased)
	Cllr Brian Dunn (non-voting)
13th August 2013	Cllr Alan Diskin
	Cllr Haydn Bateman
	Cllr Ron Hampson
	Cllr Steve Wilson
	Cllr Huw Llewelyn Jones
	Cllr Brian Dunn (non-voting)
27th November 2013	Cllr Haydn Bateman
	Cllr Ron Hampson
	Cllr Steve Wilson
	Cllr Huw Llewelyn Jones
	Cllr Ted Evans (deceased)
	Cllr Brian Dunn (non-voting)
26th February 2014	Cllr Haydn Bateman
	Cllr Ron Hampson
	Cllr Steve Wilson
17th September 2013 (Special Meeting)	Cllr Alan Diskin
	Cllr Haydn Bateman
	Cllr Ron Hampson
	Cllr Steve Wilson
	Cllr Brian Dunn
Investment Manager Meetings	**Councilor Attendees**
1st/2nd May 2013	Cllr Haydn Bateman
	Cllr Ron Hampson
7th November 2013	Cllr Alan Diskin
	Cllr Haydn Bateman
	Cllr Ron Hampson (non-voting)
	Cllr Steve Wilson (non-voting)
	Cllr Huw Llewelyn Jones (non-voting)
	Cllr Brian Dunn (non-voting)
5th February 2014	Cllr Alan Diskin

Clwyd Pension Fund Training Policy 2013/14

As an administering authority of the Local Government Pension Scheme, this council recognises the importance of ensuring that all staff and members charged with financial management and decision-making with regard to the pension scheme are fully equipped with the necessary knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and it will provide and or arrange training for staff and members of the Pension Fund Panel (now Committee) to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

In 2011/12, the Fund adopted the CIPFA Code of Practice on Knowledge and Skills on Pension Finance for Members and Officers. Training in 2013/14 continued to satisfy the requirements of this Code of Practice and progress will be reported in future Annual Reports. The Clwyd Pension Fund is committed to providing appropriate training to Members on the Committee through various presentations, seminars and collaboration with other Local Government Pension Funds.

Date	Training	Provider
May 2013	Sustainable Private Equity	Bridges
	Investment Issues	In House
	Collaborative Working	In House
	Funding Strategy and Flightpath	Mercers
June 2013	Introduction to LGPS	CIPFA
August 2013	Investment Issues	In House
	LGPS Consultations	In House
	Welsh Funds Working Together	In House
September 2013	Investment Summit	LGC
November 2013	Investment Issues	In House
	Audit	In House
	Funding	In House
	Private Equity	Capital Dynamics
	Infrastructure	Capital Dynamics
	Clean Technology	Capital Dynamics
December 2013	Annual Conference	LAPFF
February 2014	Investment Seminar	LGC

Each of the quarterly panels in Mold provided members with presentations and reports which covered the following topics:

- Current Investment Issues
- Governance and LAPFF Updates
- Economic Reviews
- Scheme Consultation
- Collaboration
- Risk Assessments
- Audit of Pension Fund Accounts
- Transition Management

Detail of all training received is presented annually to the Clwyd Pension Fund Panel, now Committee, identifying the number of hours of training completed by each member. For the year to March 2014 the following number of training hours was recorded:

- Chair of Panel 66 hours
- Vice Chair 46 hours
- Other Panel Members 58 hours
- Substitutes 53 hours

Clwyd Pension Fund Contact Details

Name	Post	Contact details
Philip Latham	Clwyd Pension Fund Manager	(01352) 702264
Helen Burnham	Pensions Administration Manager	(01352) 702872
Debbie Fielder	Pensions Finance Manager	(01352) 702259
Alwyn Hughes	Pensions Finance Manager	(01352) 701811
Pensions Administration Team	pensions@flintshire.gov.uk	(01352) 702761
Pensions Finance Team	pensionsinvestments@flintshire.gov.uk	(01352) 702275

Joint Report from the Administrator and Treasurer

Introduction

The financial year 2013/14 was, in the main, a year of preparing for change. The Fund participated in the national debate covering several changes to the LGPS, reviewed its governance structure, prepared to implement LGPS 2014 and a new 'flight-path' strategy to manage funding risks. We would like to set out these main issues which have been addressed during the year and give a progress update for 2014/15.

The Clwyd Pension Fund Panel met quarterly during 2013/14 but the Panel has now been replaced by the Clwyd Pension Fund Committee. The agenda covers three main areas: Governance, Investment and Funding and Administration and Communication and our report follows these three main themes.

Governance

THE FUTURE STRUCTURE OF THE LGPS

The Government has been considering options for structural reform to the management of the LGPS in England and Wales since Lord Hutton chaired the Independent Public Services Pensions Commission in 2010. The Department of Communities and Local Government (DCLG) issued a package of proposals for consultation on 1st May 2014. The package of proposals set out in the consultation is:

- Establishing a common investment vehicle for listed and alternative assets to reduce investment costs
- Reduce investment fees by investing in listed assets on a passive basis
- Keeping asset allocation decisions at a local level
- Not to pursue fund mergers at this time
- Not to consult on administration reform at this time.

In summary the response from the Fund was supportive of the package of proposals providing there is no compulsion and decisions are made locally on a 'comply or explain' basis. A response from the DCLG on the consultation outcome is expected in late September 2014.

LGPS 2014

The Government introduced LGPS 2014 from 1st April 2014. Although the Fund had done all it could to prepare to administer the new CARE scheme there have been some teething problems due to the late issuance of Regulations. Those stakeholders affected have been kept informed.

PUBLIC SERVICE PENSIONS ACT 2013 AND LOCAL PENSIONS BOARDS

The Fund has responded to a DCLG Consultation on draft Governance Regulations. This follows The Public Service Pensions Act 2013 which includes provisions for the following 'bodies' within the LGPS:

- Responsible Authority – Secretary of State
- Scheme Manager – Administering Authority
- Local Pension Board – New local scrutiny body
- Scheme Advisory Board – New national advisory board.

Each LGPS administering authority is required to establish a Local Pension Board by 1st April 2015. The role of the Board will be to ensure the administering authority is governing and administering the Fund in line with legislation and in an effective and efficient manner. The Board must have an equal number of employer and employee representatives. The Council will consider a Protocol for the Local Board in November 2014 and it will be discussed at the Fund's Annual Employer & Employee Meeting (AJCM).

WELSH COLLABORATION

In the event of the above potential changes proposed by the Government for England and Wales the work on welsh collaboration has been put on hold. However, subject to these outcomes it is intended to implement the finding of the report by the Society of Welsh Treasurers (Pensions Sub-Group) on 'Working Together'. This will include considering a full business case for managing investments on a collective basis.

CLWYD PENSION FUND GOVERNANCE

The introduction to this Annual Report by the Chair of the Committee outlined the changes to our governance structure which now complies with best practice. The creation of an Advisory Panel and the appointments of a new Independent Adviser and Investment Consultant should enhance the governance of the Fund. We are making good progress with most aspects of the 2014/15 Service Plan which was presented to the first Committee meeting 22 July 2014.

The external auditors, Wales Audit Office, have not raised any major issues about the management of the Fund and their unqualified opinion in the 2013/14 accounts is included in the Annual Report.

There was one internal audit relating to 2013/14 on Clwyd Pension Fund Administration and one on Pension Investments, the findings of which have been reported to the Committee. There was one 'high risk' recommendation which related to disaster recovery and one 'medium risk' recommendation relating to the absence of a documented risk register. Both of these of are included in the 2014/15 Service Plan. This Annual Report includes a summary of our main risks, along with what we have done, work in progress and the future work planned on mitigating these risks.

Investment and Funding Strategy

This Annual Report includes detailed comment and analysis on both investment and funding performance along with the Fund's Statement of Investment Principles and Funding Strategy Statement. In summary, 2013/14 saw a continued small growth in the assets of the Fund to £1.2bn and a positive investment return of +2.1%. The funding position improved from 68% as at March 2013 to 70% as at March 2014. In early September 2014 the funding position had fallen back to 69%.

The Fund's 'flight-path' strategy, which manages interest rate and inflation risks through liability matching investing, commenced on 1st April 2014. It is very early days for this strategy. Further information will be provided in future years Annual Reports.

In terms of investment strategy and fund managers there are parts which are not working as well as hoped, as explained in the Independent Adviser/Consultant report. The new investment consultant is reviewing the investment strategy and we will be making recommendations to the November 2014 Committee.

The Committee receive quarterly reports on the financial markets, the fund's investment and fund manager performance along with updates on the funding position and flight-path strategy. Unless we consider any part of these reports need to be withheld for commercially sensitive reasons they can be found on Flintshire County Council's web-site.

Administration & Communication

A Pensions Administration update is included in the Annual Report which provides details of regulation changes, communications with members, pensioners and employers, website updates and key performance statistics. This illustrates the variety, complexity and the quantity of work undertaken by the pension service during the year.

The Pensions Committee receive two standard reports each quarter, a 'LGPS Issues' report, which includes the impact on the Fund and/or employers, and an update on the Fund's administration and communication performance.

There will be on-going work with our larger employers on data quality and correcting a backlog of historic records during this year, in preparation for Pension Regulator's new Code of Practice.

The development of an Administration Strategy is on-going which will provide more transparency to all stakeholders on the performance of the administration service and employers.

Conclusion

We would like to thank all those involved with management and administration of the Fund for their hard work and dedication during the year.

Finally, we invite any stakeholder to contact us with any comments or suggestions for improvement on any aspect on the management of the Fund.

Helen Stappleton, Chief Officer (People & Resources)
Administrator to the Fund

Gary Ferguson, Corporate Finance Manager (Section 151 Officer)
Treasurer to the Fund

September 2014

Independent Adviser/ Consultant Annual Report 2013/14

1. The purpose of this commentary is to provide an independent annual appraisal of the administration, governance and performance of the Clwyd Pension Fund. As my appointment to the Independent/Adviser role commenced on 1 July 2008, this report covers my fifth and last full year in this dual capacity role. Overall, the year 2013/14 was one of review, reflection and reassessment both in terms of world markets and the Local Government Pension Scheme (LGPS) itself.

2. Over recent years, the LGPS environment has been characterised by an increasing flow of regulatory documents on funding, risk, policy and governance. More recently, there have been various initiatives under the broad banner of “working together”, ranging from potential fund amalgamations to simple increased collaboration between LGPS funds, which are all largely concerned with reducing costs, particularly the level of fees paid to investment managers. At the same time, there had been an ongoing review of the scheme to make it fair and affordable, which ultimately resulted in the new LGPS 2014.

3. As part of this environment of change and initiatives, the first half of 2013/14 saw LGPS funds inundated with documentation – a consultation paper on the detail of LGPS 2014, a discussion paper on new LGPS governance arrangements in England and Wales and a "Call for Evidence" on the future structure of the LGPS. Whilst the consultation paper on LGPS14 sought responses on a number of the detailed regulations proposed for implementing the new scheme and, in this sense, was a technical consultation with LGPS pension administration officers, the other two papers were more fundamental, with potentially far-reaching consequences for LGPS funds. However, all required detailed and careful responses, putting the in-house teams on both investments and pension’s administration under particular pressure.

4. On governance it was an accepted fact that practices amongst LGPS funds varied considerably and that the Public Service Pensions Act 2013 had provided a broad framework for a common approach. The discussion paper raised various questions and sought views around the implementation and operation of this framework within the LGPS. The Fund responded accordingly but broadly accepted the move to a formal Committee structure and this is currently being implemented.

5. However, many of the details around national oversight and additional scrutiny at a local level are still being fine-tuned. The results of these deliberations should become clear in later 2014, although it is already known that each LGPS authority will be required to establish a formal set of internal controls for administering and managing its scheme, in addition to all the information on risk currently being provided in each fund’s Statement of Investment Principles and its reporting requirements in the Annual Accounts under IFRS 7.

6. The key paper, however, was clearly the "Call for Evidence" on the future structure of the LGPS, which followed on from some peripheral comments in the Hutton report about the quality and consistency of LGPS data. These were picked up in early 2013 by the Local Government Minister Brandon Lewis, who talked about the need for "robust data" and not shying away from “a smaller number of funds” if this could be shown to improve efficiency and cost-effectiveness. This national initiative effectively put on hold the already long-running project aimed at examining possibilities for "Collaborative Working in Wales", which itself had been the subject of various data collection exercises and consultations.

7. The "Call for Evidence" paper itself was based around a set of objectives and a series of questions that respondents were asked to address. Whilst these objectives were designed primarily to generate discussion and debate, they did seem a slightly odd collection, ranging from the very general (dealing with deficits) to the very specific (providing greater investment in infrastructure). At the same time, it was not always clear how the questions set related to these objectives, although there was clearly some overlap. In addition, there was no reference to key funding and investment considerations such as liabilities and their control, and no mention whatsoever of risk.

8. Pension funds are extremely complex vehicles, where all the moving parts are inter-linked. Funding level, strategy, risk and return targets, performance and fees etc. are all inter-dependent and cannot be looked at in isolation. In fact, some of the objectives identified were potentially contradictory. In summary, there was concern that the context set by the objectives and questions failed to appreciate the complexity of pension funds, with little apparent consideration given to the wider fund picture, the relationships between various investment objectives and the impact of some of these objectives on others. The Fund response made these points whilst attempting to cover all the objectives and questions comprehensively and constructively.

9. The "Call for Evidence" was followed in later 2013 by the Government appointment of a consultant to evaluate various options for change, resulting in a current Government consultation exercise on the future of the LGPS. Whilst the outcomes from this have not been delivered yet, forced fund mergers no longer appear to be on the agenda, with the Government focus now more on the creation of Common Investment Vehicles and the use of more passive management. The Fund continues to participate in this ongoing debate and is monitoring potential outcomes very carefully.

10. Clearly the above events consumed a lot of resource in 2013/14 but, despite these distractions, the business of running the Fund on a day to day basis had to be maintained by the fund finance and administration teams. Agreed staffing structures are now in place but, as noted in last year's report, recruiting staff with the appropriate LGPS expertise continues to be a challenge. Consequently, there remained during the year a number of staff within the pension administration team covering permanent posts on temporary contracts, whilst they received in-depth training to ensure competency in these roles. It is pleasing to note that these positions were reviewed towards the end of 2013 and some permanent appointments were made. However, as a result of staffing and recruitment issues in prior years, backlog problems persist. A specific team to tackle this was established in May 2013 but again recruiting experienced staff proved a problem and progress in reducing the backlog has suffered.

11. It is important, however, to put all this into the context of the additional pressures faced by the pension administration team during the year and to acknowledge its achievements. In addition to the detailed consultation exercise noted earlier and, later in the year, preparations for implementing effectively the new LGPS 2014, 2013/14 was also a Fund valuation year. This involved the preparation and successful delivery of all the valuation data to the actuary during the summer. At the same time, a revised website was launched and the communications program maintained, continuing to receive critical acclaim from both scheme employers and scheme members.

12. For the fund finance team, the year was one of real progress despite the pressures. In mid-year the key part of the revised staff structure was completed, with the appointment to the vacant Pension Finance Manager post, whose additional initial training was supplemented by an intense period of meetings with many of the Fund's alternative asset managers. Clearly this team, and the Clwyd Pension Fund Manager in particular, was also heavily involved in the various Government responses required, in conjunction with the Fund's external advisers.

13. In addition, the team successfully completed the first questionnaire exercise aimed at testing investment managers' compliance with the Fund's Sustainability Policy. This policy, a key element of the Fund's investment philosophy, recognises the relationship between good environmental, social and governance practices and long-term business profitability. The questionnaire exercise, probably the first of its kind amongst LGPS funds, was very well received by managers and proved generally positive. The responses received, particularly the weaker ones, will be pursued as part of the normal pattern of officer meetings with managers during the coming year. This questionnaire exercise is likely to be a recurring one and the aim of the initial piece of work was to set a benchmark for each manager in order to measure improvement going forward.

14. However, the team's major project during the year was implementation of the Fund's flightpath project. Last year’s report noted that in recent years overall funding levels had been affected as much by fluctuations in liability levels as by asset performance, leading to a growing focus on liability-drivers such as inflation, interest rates and mortality. The Fund had already introduced broad diversification and risk diversity within the asset structure to minimise volatility. Flightpath's applies similar principles to liabilities, through a specialist provider on the long-term management of funding risk. After considerable in-house research into the concept, the exercise to appoint a specialist provider commenced in late 2012. This proved a lengthy, complex and challenging exercise, carried out in close association with the Fund's actuary and Independent Adviser/Consultant. However, after several separate stages and reviews, an appointment was made in late autumn 2013.

15. The implementation through Insight, the chosen provider, raised further complexities that required resolution, but the first phase was completed successfully by 1 April 2014, as planned. As noted previously, the flightpath project proved to be extremely challenging and the fund finance team was absolutely correct in taking it slowly and adopting a cautious, professional and thoroughly-researched approach, especially as the Fund was one of the first LGPS funds to implement this strategy in full.

16. In summary, 2013/14 certainly produced a challenging environment for both pension administration and fund finance staff as the preparations for LGPS 2014 and the wider changes gathered pace. All performed heroically in ensuring that day to day duties were maintained as far as possible within the staffing constraints and the additional pressures being faced. This bodes well for 2014/15 and implementation of the changes required in terms of governance and the scheme itself.

17. After the personnel changes post the 2012 elections, which produced a new Chairman and Vice-Chairman, the Pension Fund Panel continued to gel and develop during the year, with attendance and participation strong. It is pleasing to report that the Chairman, who had suffered an enforced period of absence through illness returned to lead the Panel in mid-year. Training remained a key focus. Most Panel meetings continued to include training elements and members also attended more formal seminars and conferences. The clear aim here is to ensure that members are kept up to date in an investment environment that is forever evolving both in terms of approaches and products. On approaches, the obvious example is flightpath, whilst on products, the Fund again maintained its ground-breaking reputation through new investments in social impact-based venture capital and sub-Saharan private equity.

18. As noted in the opening paragraph, 2013/14 was also a year of reflection and reassessment for world markets. The March quarter of 2013 and the year 2012/13 generally were typified by unusual exuberance, with all equity markets posting solid positive returns, the majority in double figures, but largely on the back of a liquidity-driven environment. In response, the new financial year saw markets pausing for thought and contemplating whether such enthusiasm was justified for all markets.

19. Whilst certainly there appeared to be gradually improving economic news, particularly from the US, and a return to GDP growth, albeit modest initially for most countries, this period of reflection brought back to the fore many of the concerns that had troubled markets for the majority of 2012. Whilst these remained centered on US debt, the slowdown in China, the sustainability of the restructuring ambitions in Japan and especially the resolution of issues in Europe, later developments in the Middle East, the Ukraine and Thailand added to these worries. In short, these competing factors made for another volatile year in world markets, with fears persisting about the strength of this recovery and whether this could be sustained, as well as the wider political issues

20. As a result, markets overall produced only modest progress, with global equities delivering around 6%. However, this overall position conceals a much more complex picture, with the more considered environment in 2013/14 leading to greater discrimination between markets and, in simple terms, producing a dichotomy in performance between developed and developing world equities. The US and UK posted returns of 9-10% whilst Europe led the field with a positive 18% gain. The exception to this in developed markets was Japan, where confidence in the ability of politicians to deliver the structural reforms promised appeared to stall and Japanese equities largely stood still in the year. In contrast, emerging market equities faltered after the significant gains made in prior years, losing around 10% in the year as liquidity was withdrawn. The exception here was frontier markets, the new emerging markets, which produced strong positive returns.

21. Away from equity markets, private equity and real assets such as property and infrastructure produced solid returns in the year, slightly above those for global equities. However, commodities returns were negative and bonds overall were about flat, with the negative returns from Government stock only partly offset by credit. In absolute terms, therefore, the overall Fund return in 2013/14 is likely to be disappointing, with performance positive but only marginally so.

22. In comparative terms too, 2013/14 is likely to be a weak year for the Fund within its peer group of local authorities. As noted in previous reports, the Fund is structured to provide protection when markets fall through broad diversification and a lower weighting to more volatile assets such as equities. This was exacerbated in 2013/14 by the Fund's long-term focus on developing markets and its deliberately low weighting to Europe in particular.

23. At manager level within equities, most met their targets and a number made up ground in terms of since-inception performance, with the weaker performance overall largely down to asset mix. Other asset categories performed largely as expected, although the hedge fund managers, whilst offering downside protection, do continue to disappoint in terms of the returns achieved.

24. The key disappointment elsewhere in the portfolio was the continuing weak performance of its tactical asset allocation managers, particularly Blackrock. These three managers comprise 12% of the Fund's assets and, within this, Blackrock is double-weighted at 6%. The aim of these managers is to move assets between asset categories tactically to take advantage of differing market environments and to produce a positive return from this. Whilst the two smaller-weighted managers were flat or marginally positive and producing returns not too far below expectations, Blackrock delivered a negative 10% in 2013/14, with the 3-year number showing a negative 4% per annum, despite stronger performance in some earlier years. Clearly this area of tactical asset allocation and the managers employed is one that will require reassessment as part of the forthcoming Fund Structure review.

25. As for next year, the economic environment is improving but many of the concerns remain. Globally, China needs careful management as its urbanisation programme and housing investment boom continue to moderate, reducing asset price and credit growth and thus producing a potentially deflationary outlook. Within Europe, the focus will probably be on Germany. European growth is certainly stronger and credit demand building, but on competiveness, Germany remains an outlier and the issue is whether it is willing to reflate wages to create some sort of economic convergence. On the UK, the economy is booming but spare labour capacity is reducing, potentially leading to rising wages and ultimately inflation. In summary, market volatility looks likely to continue, as many of the concerns, particularly the politic ones, persist and worsen, despite a generally improving economic environment.

26. On governance, there will also be changes in 2014/15, with the demise of the Pension Fund Panel and its replacement by a formal committee, probably with a larger membership, as well as some sort of scrutiny body. Whilst it is hoped that there will be a good degree of continuity through existing Panel members, clearly there are significant ongoing implications in terms of establishing revised governance arrangements and the training of committee members new to pension fund administration and investing.

27. Next year, therefore, is likely to be another challenging one for the in-house team and those elected members involved with the Fund. As well as implementation of the above governance changes and the introduction of the new LGPS 2014, towards the end of the year the Fund will be undertaking and implementing the results of its regular Fund Structure Review, a major and resource-intensive exercise impacting upon the Fund's advisers, officers and elected members alike.

28. As implied by the opening paragraph of this report, my planned retirement as the Fund's Independent Adviser/Consultant took place on 31 March 2014. This joint role has now been split and it is pleasing to note that appointments to these positions were made early in 2014/15. John Finch of JLT was made Fund Consultant and Karen McWilliam of Aon Hewitt appointed Independent Adviser, although this latter role has been modified slightly to place a far greater emphasis on governance, an understandable adjustment given the changes that are imminent. I wish them all well in their respective roles and have every confidence that the Fund is in good hands.

29. Despite such a challenging year on both administration and fund matters, it is pleasing to report further external recognition for the Fund. At the Europe-wide IP Real Estate Awards in May 2013, the Fund won the award for Best Real Estate Investor UK & Ireland and finished runner-up in the Best Medium-sized Real Estate Investor in Europe. Overall since 2007, the Fund has been honoured with 21 awards and has finished as runner-up in a further 18 categories. As noted previously, these awards are not given lightly and are highly prized throughout the UK and particularly wider Europe. Their award is a tremendous honour and a clear acknowledgement of the Clwyd Fund's pro-active and innovative approach. This in turn reflects the commitment of its Panel members and their willingness to move the Fund forward, as well as the continuity and strength of the in-house team.

30. As noted earlier, this report ends my formal connection with the Fund. This started in 1979, although my involvement on the investment side did not commence until 1982. At that time, the Fund was valued at just £100 million rather than its current £1.2 billion. The investment environment has certainly changed dramatically, growing more complex year by year and thereby increasing both the demands and workloads involved. However, from my own perspective the work has been both enjoyable and rewarding, and the last 30 years or so has been an amazing journey both for the Fund and for all those active in its management.

31. Finally, therefore, I would like to thank all the Chairs, Vice-Chairs and members that I have worked with over the years. They have always been willing to listen, learn and take a cutting-edge approach when necessary to further the Fund's progress. Politics has never been a factor. However, my greatest acknowledgement is reserved for those officers with whom I have worked over the years. My particular thanks go to Dave Bamber, with whom I shared more than 20 years on the Fund, and more recently Phil Latham and Debbie Fielder. The Fund has been very fortunate to have had such a dedicated, hard-working and professional team in place for so long and again I wish those remaining well for the future.

R T Young
Independent Adviser/Consultant
July 2014

Management of Pension Fund Risks
Position Statement (September 2013 to September 2014)

Risk Management is the process of identifying risks, evaluating their potential consequences and determining the most effective methods of controlling them or responding to them. The aim is to reduce the frequency of risk events occurring and minimise the severity of their consequences if they occur. Not all risk can be eliminated but it is vital that risks are recognized and recorded and that their potential to cause loss is fully understood.

Risk Management is an integral part of the Flintshire County Council's (the Administering Authority) Governance Framework and Internal Control and aids informed and transparent decisions by ensuring that risk management is embedded into the culture of the Council, with Members and managers at all levels recognising that risk management is integral to service and governance. Risk management is part of the Council's system of internal control assisting in the management and achievement of its business objectives and priorities

Whilst the Fund is under the umbrella of Flintshire's risk management framework an external review of the Fund's approach to managing those risks specific to itself is planned for 2014. This will bring together the various risks, and the ways that they can be mitigated, from separate documents including the Service Plan, Funding Strategy, Governance Policy, Statement of Investment Principles, and Communications Policy. Additionally, this will form an up to date risk register that will become a live document for use within the Fund. Subject to this review a summary of the key risks and the actions taken, or planned, to mitigate those risks, is included below:

Risk	Actions Undertaken or Planned
GOVERNANCE RISKS	**<u>What We Have Done</u>** • Created a new pension fund committee for the Fund with decision making powers, wider representation and voting rights. • Reviewed working practices and documented a Delegation of Functions to Officers from the Pension Fund Committee. • Appointed an independent adviser, investment consultant and actuary to an Advisory Panel to advise the new Committee. • Appointed a new Chief Officer responsible for the day to day management of the Fund. • Published a Service Plan for the Fund. • Developed reports for the Pension Fund Committee. • Responded to a consultation by the Government on draft Governance Regulations. **<u>Work in Progress</u>** • Training of both members of the Pension Committee and senior officers in line with CIPFA Knowledge & Skills Code of Practice. **<u>The Near Future</u>** • Develop a risk register. • Develop the training policy and training plan. • Create and service a new Local Board, develop a protocol, appoint employer and employee representatives and provide training. • Review current arrangements against the new Pensions' Regulator Public Sector Pensions Code of Practice. **<u>Longer Term</u>** • Consider collaboration with the other seven Welsh pension funds. • Consider the impact of reorganisation of local government in Wales.

FUNDING RISKS	**<u>What We Have Done</u>** • Implemented the new funding plan from 1st April 2014. • Documented a Termination Policy for employers. • Implemented a 'flight-path' strategy to manage interest rate and inflation risks. **<u>Work in Progress</u>** • Monitoring the 'flight-path' strategy. **<u>The Near Future</u>** • Annual review of the Funding Strategy and Flight-path. **<u>Longer Term</u>** • Prepare for the next Actuarial Valuation in 2016.
INVESTMENT RISKS	**<u>What We Have Done</u>** • Monitoring and reporting on the performance of the current investment strategy and fund managers. • Made new commitments within the alternative asset classes. • Assessed the performance of fund managers against the Fund's Sustainability Policy. • Annually request and review Fund Manager's Statements of Internal Controls and report any issues to the Clwyd Pension Fund Committee. • Responded to the Government's consultation on collaboration, cost savings and efficiencies relating to collective investment vehicles and passive investment. **<u>Work in Progress</u>** • A review of the Fund's investment strategy. • Publishing the voting records of our equity fund managers. **<u>The Near Future</u>** • Implementation of the new long term investment strategy. • Appointment and removing of fund managers. • Implementation of a new approach to tactical asset allocation. • Review AVC arrangements. **<u>Longer Term</u>** • Impact of the outcome of the Government's consultation for collaboration, cost savings and efficiencies relating to collective investment vehicles and passive investment. • Impact of collaboration with the other seven Welsh funds on collective investment vehicles.
ADMINISTRATION AND COMMUNICATION RISKS	**<u>What We Have Done</u>** • Implemented LGPS 2014. • Reviewed all pensioner records. • Reviewed pensioner payroll service. • Implemented Communication Plan. **<u>Work in Progress</u>** • Working with large employers on data quality. • Working with employers on updating historic records. **<u>The Near Future</u>** • Develop performance standards for the Fund and employers. • Review implementation of communication plan. **<u>Longer Term</u>** • Implement member self-service.

Financial Performance

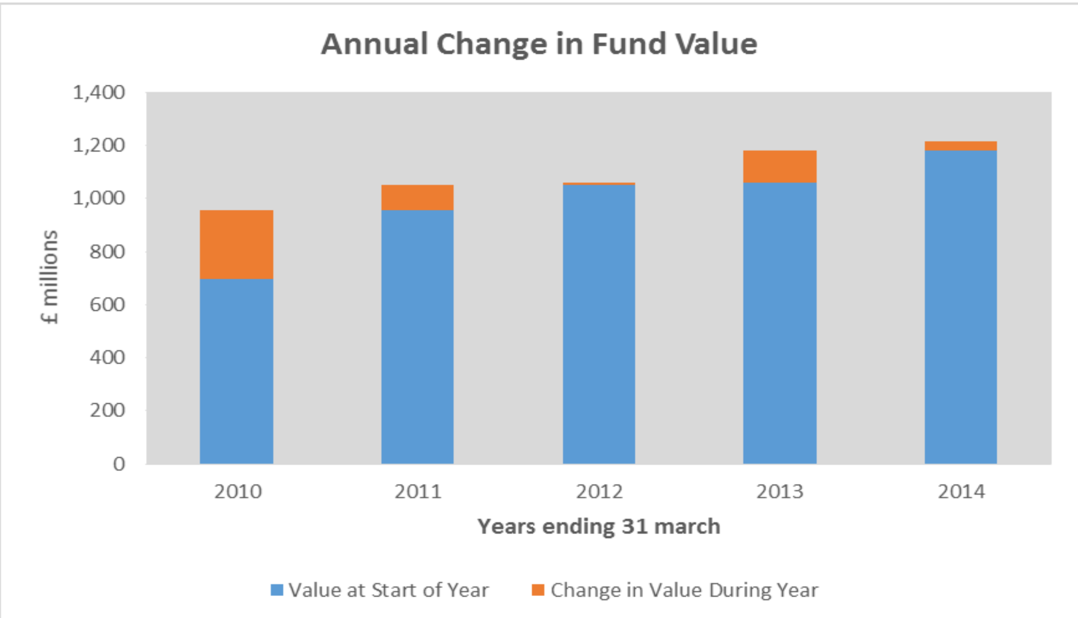
The following provides a brief overview of the key movements within the Fund over a five year period. More detail can be found in Investment and Funding, Pensions Administration Update, and Fund Accounts.

Table 1.

Fund Account (Amounts £000's, years end 31 March)	**2014**	**2013**	**2012**	**2011**	**2010**
Value of Fund at start of year	**1,181,232**	**1,060,823**	**1,051,815**	**955,833**	**697,412**
Increase in fund value during year	**32,335**	**120,409**	**9,008**	**95,982**	**258,421**
Value of fund at end of year	**1,213,567**	**1,181,232**	**1,060,823**	**1,051,815**	**955,833**
The increase in fund value is made up of the following:					
Member and Employer related					
▪ Contributions and pension strain	68,869	68,078	66,593	68,147	68,181
▪ Transfers in or (out)	563	3,139	(21,708)	4,898	1,726
▪ Benefits payable	(61,137)	(56,977)	(53,789)	(53,584)	(49,978)
	8,295	14,240	(8,904)	19,461	19,929
Investments (after income and fees)					
▪ Net change +/(-)	25,534	107,216	19,156	77,783	239,772
Other					
▪ Administrative and other expenses	(1,494)	(1,047)	(1,244)	(1,262)	(1,280)
	32,335	**120,409**	**9,008**	**95,982**	**258,421**

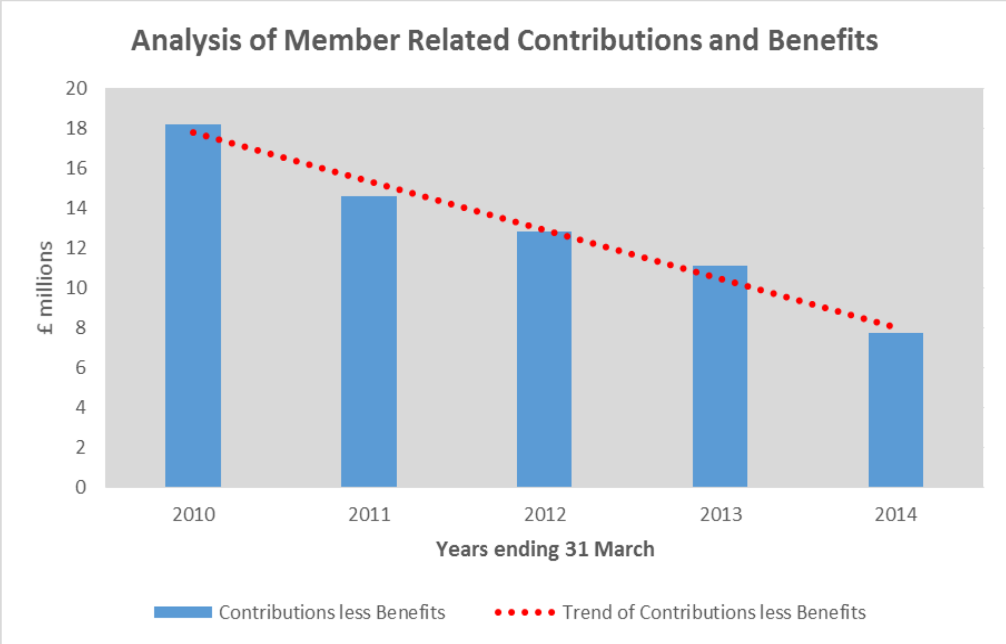
Table 1 illustrates the annual increase in the Fund value over the five years ending 31st March 2014. The change in the fund value is further analysed between member and employer related income (contributions and pension strain) or expenditure (benefits payable), net return or loss on investments (net of any income or management fees) and other expenditure. These are detailed further, for years ending 31st March 2013 and 2014, in the fund accounts. Transfers in or out of the fund can vary, as shown in Table 1, significantly between years and are outside the control of the Fund.

Chart 1.



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

Chart 2.



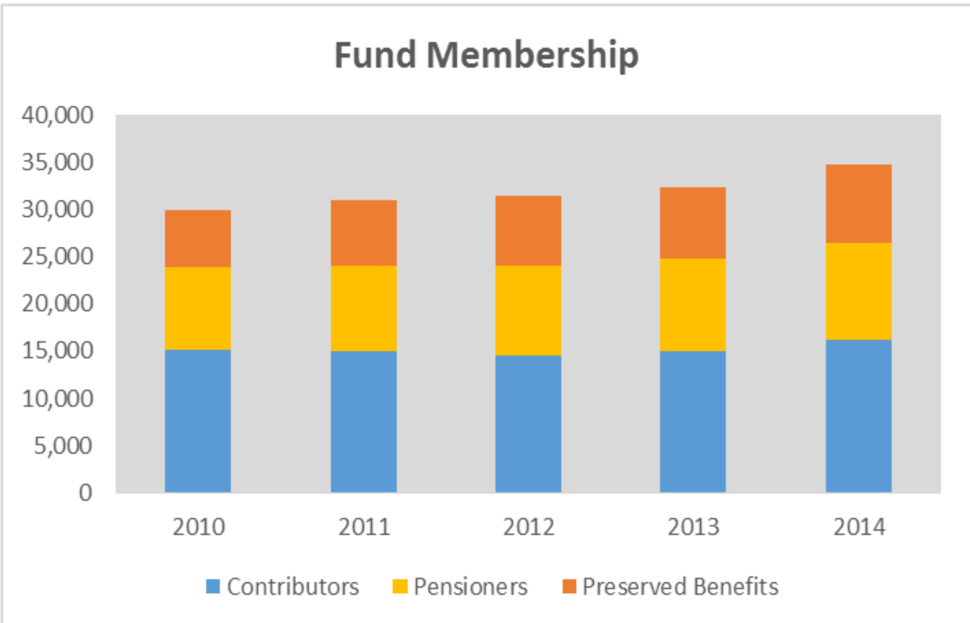
This compares the difference between contributions received and benefits paid (Table 1 above), but not taking account of transfers, over the same five year period. From Chart 2 it is clear that the excess in contributions over benefits paid is steadily reducing. This is not unexpected and reflects the growing maturity of the Fund. At this stage it is unclear what the outcome for 2015 will be as there are a number of significant variables, namely, an increase in employer contributions following the 2013 Fund actuarial valuation, workforce reductions across the large employers, and, auto enrolment is increasing the number of active members.

Table 2.

Membership	2010	2011	2012	2013	2014
Number of Contributors	15,073	14,960	14,519	14,920	16,133
Number of Pensioners	8,820	9,091	9,553	9,874	10,367
Number with Preserved Benefits	5,969	6,910	7,386	7,539	8,307
Total	**29,862**	**30,961**	**31,458**	**32,333**	**34,807**

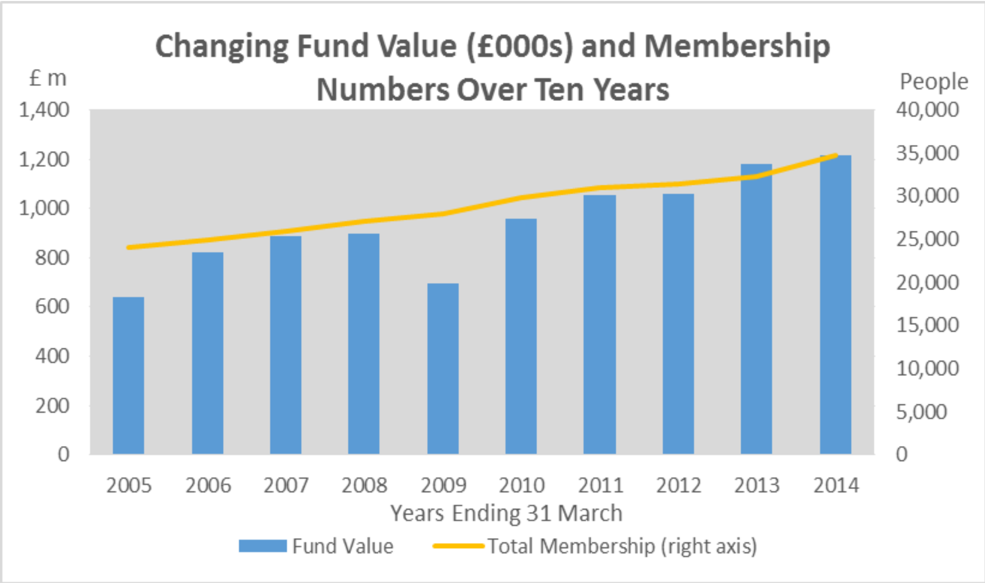
Table 2 details the membership of the Fund over the same five year period as Table 1. The membership is split between active contributors, those in receipt of a pension and those whose entitlement is preserved.

Chart 3.



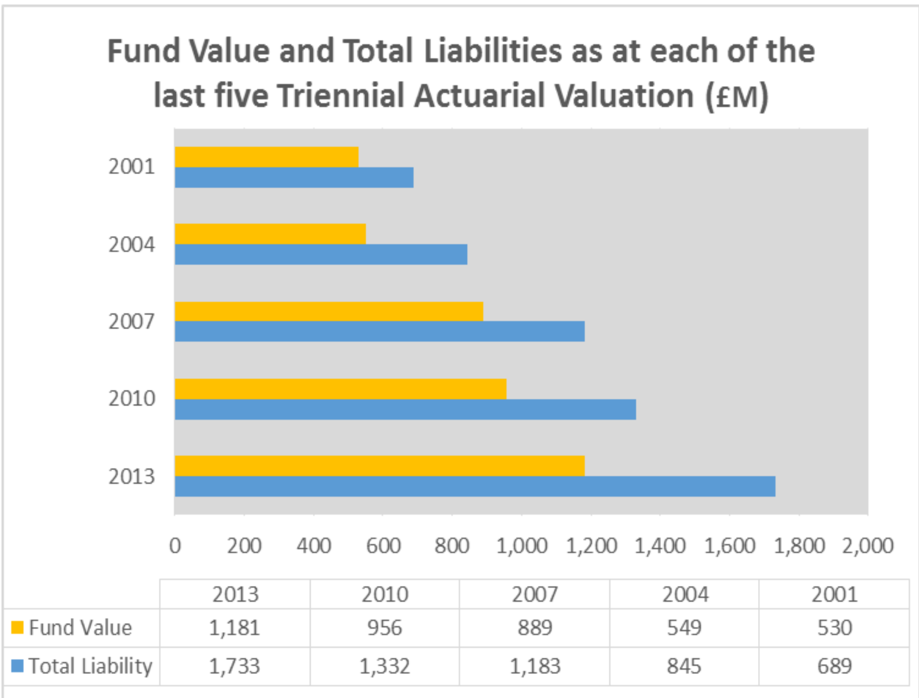
This shows the membership data in Table 2 graphically. Overall, the trend in total membership is upwards over the five years ending 31st March 2014. However, it should be noted that the overall impact of auto-enrolment, which will increase membership, and the contraction in most employers' budgets, which will reduce membership, cannot yet be quantified.

Chart 4.



This plots the Fund value over ten years to 31st March 2014. Over this period the Fund has approximately doubled in value. The yellow line shows total membership over the same period (using right axis) and illustrates the growth in membership from around 24,100 to 34,800; an increase of just over 44%. Most discussions around pension funds focus, understandably, on their value, however, the value is only one part of the picture with the other part being the pension funds' liabilities. The liabilities of the pension fund are calculated by the fund actuary and represent the future liabilities of the fund at a particular time. As shown above (Table 1 and Charts 1 and 4) the Fund has nearly doubled in value over the past ten years, however, its liabilities have also increased.

Chart 5.



This shows the Fund value (yellow bars) and liabilities (blue bars) at each of the last five triennial actuarial valuations. The difference between the values shown by the blue and yellow bars, represent the funding deficit of the Fund. The 2013 Triennial Valuations section gives further details.

Historically, all pension schemes focused primarily on their assets and placed a lower emphasis on the impact of changes in the value of liabilities. Many also assumed that the fund employers would be able to make increased contributions over time. In recent years, particularly after 2008, funding levels have been volatile as the performance of assets has not matched the increase in values of liabilities. The calculation of the liability take into account a number of elements including projections of future interest rates, inflation and longevity of members. This is shown in Chart 5 by increased funding deficit.

From the 1st April 2014 the Fund has introduced a Liability Driven Investment (LDI) approach, for a portion of its assets, the focus of which is to reduce funding level volatility by using investments that are linked to two of those factors (inflation and interest rates) that are drivers in the calculation of liabilities. These investments should track changes in these two factors whilst the remaining assets are invested for growth.

2013 Triennial Valuation

Every three years the Fund is subject to a formal valuation by the Fund actuary which produces two key outputs. Firstly, it quantifies the Funding Level i.e. the level to which the Fund's pension liabilities for the accrued benefits of current employees, deferred pensions and pensions in payment are matched by the market value of the Fund's assets. A funding level of less/ more than 100% implies that there is a deficit/ surplus in the Fund at the valuation date. Secondly, it also sets the rate at which employers should contribute to the Fund for the following three years i.e. in this case it is effective from 1st April 2014. Chart 5 above illustrates the Fund value and liabilities as at each of the past five valuations.

The following table summarises the change in the financial position of the Fund from 31 March 2010 to 31 March 2013.

Summary Valuation results (£m)	31 March 2013	31 March 2010
Total assets	**1,181**	**956**
Liabilities:		
Active members	762	633
Deferred members	219	131
Pensioners	752	568
Total Liabilities	**1,733**	**1,332**
Past service surplus/ (shortfall)	(552)	(376)
Funding level	**68%**	**72%**

Funding level and deficit

Although the value of total assets increased by 23.5%, the pace of growth in liabilities is greater, with an increase between the years of 30%.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a funding level of 100% of liabilities (the Funding Target). As required in the FSS a deficit recovery plan has been put in place that requires additional contributions to correct the shortfall. The average deficit recovery period for the Fund has been set as 18 years. The normal contribution rate (for future service) has been set as 13.8% (11.7% 2010); the actual rate per employer will differ from this according to their own circumstances. To address the deficit a total annual contribution of £32.6m, increasing at 4.1% per annum, is required; again the actual rate per employer will differ. The implied average employer contribution is 27.8% compared to the previous average of 20.7% of pensionable pay over 20 years at the March 2010 valuation.

Further detailed information can be found in the Valuation Reports for each valuation on the Clwyd Pension Fund website (see Governance and Investments/ Valuation Reports).

Cash Flow

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

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

The following table shows a summarised final cash flow for 2013/14. 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.

2013/14	Estimate £000	Actual £000	Variance £000
Opening In House Cash		**(15,874)**	
Payments			
Pensions	46,200	46,858	658
Lump Suns & Death Grants	14,000	12,861	(1,139)
Transfers Out	2,000	3,260	1,260
Expenses (including In House)	2,120	2,436	316
Support Services	150	166	16
Total Payments	**64,470**	**65,581**	**1,111**
Income			
Employer Contributions	(27,000)	(27,451)	(451)
Employee Contributions	(14,000)	(14,629)	(629)
Employer Deficit Payments	(23,400)	(24,666)	(1,266)
Transfers In	(5,000)	(3,802)	1,198
Pension Strain	(200)	(1,104)	(904)
Investment Income	(2,400)	(2,901)	(501)
Total Income	**(72,000)**	**(74,553)**	**(2,553)**
In House Investments			
Draw downs	58,864	46,624	12,240
Distributions	(52,723)	(33,148)	(19,575)
Net Expenditure /(Income)	**6,141**	**13,476**	**7,335**
Net Purchases /(Sales) **	**(1,210)**	**(19,150)**	**(17,940)**
Total Net Cash Flow	**(2,599)**	**(14,646)**	**(12,047)**
Closing In House Cash		**(30,520)**	

** £17.96m was transferred to the Clwyd Pension Fund cash account as the residual redemption from SSgA developed equity portfolio and funding of Insight LDI mandate.

3 Year Cash Flow Forecast

The following table shows the cash flow forecasts for the next three years to March 2017. These are purely on a cash basis and do not take into account any movements in asset values or management investment fees which are included in the pooled vehicles and accounted for at the year end, nor any year end accruals. An estimate of the asset valuation has been included at the end of the table and has been based on a targeted investment strategy which looks to produce an overall return of 7.1% per annum. Estimates of Manager pooled investment fees are included in the budget report which follows the cash flow report.

	2014/15 £000	2015/16 £000	2016/17 £000
Opening Cash	(30,520)	(12,982)	(10,205)
Payments			
Pensions	47,642	50,384	53,263
Lump Suns & Death Grants	14,000	14,700	14,800
Transfers Out	2,800	2,800	2,800
Expenses (including In House)	2,320	2,360	2,480
Support Services	240	240	240
Total Payments	**67,002**	**70,484**	**73,583**
Income			
Employer Contributions	(27,000)	(27,019)	(27,038)
Employee Contributions	(15,200)	(15,200)	(15,200)
Employer Deficit Payments	(28,550)	(27,200)	(31,200)
Transfers In	(4,000)	(4,000)	(4,000)
Pension Strain	(700)	0	0
Investment Income	(2,800)	(3,000)	(3,200)
Total Income	**(78,250)**	**(76,419)**	**(80,638)**
In House Investments			
Draw downs	54,459	46,053	27,133
Distributions	(69,463)	(76,291)	(66,054)
Net Expenditure /(Income)	**(15,004)**	**(30,238)**	**(38,921)**
Net Purchases/(Sales)*	(1,210)	(1,050)	0
Rebalancing Portfolio	45,000	40,000	45,000
Total Net Cash Flow	**17,538**	**2,777**	**(976)**
Closing Cash	**(12,982)**	**(10,205)**	**(11,181)**
Estimated Asset Valuations	**1,264,724**	**1,354,519**	**1,450,690**

Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2013/14 compared to 2012/13. Increases in direct employee costs were as a result of recruitment to vacant positions within the service area. The difference in actuarial costs was in respect of the triennial valuation and within investment expenses, consultancy fees reflected the implementation of the Fund's new investment manager, Insight, who were appointed to manage the Long Term Management of Funding Risk mandate in September 2013.

	2013/14 £000	2012/13 £000	Net change £000
Administration Expenses			
Employee Costs (Direct)	781	630	151
Employee Cost (Internal Recharges)	92	82	10
Premises	97	37	60
IT (Support & Services)	233	85	148
Other Supplies & Services	110	113	(3)
Miscellaneous Income	(2)	(21)	19
Audit Fees	35	35	0
Actuarial Fees	148	86	62
Total Administrative Expenses	**1,494**	**1,047**	**447**
Investment Expenses			
Fund Manager Fees	5,571	5,187	384
Custody Fees	17	15	2
Performance Monitoring Fees	25	24	1
Consultancy Fees	260	68	192
Total Investment Fees	**5,873**	**5,294**	**579**
Total Fees	**7,367**	**6,341**	**1,026**

During 2013/14 the Fund produced an annual budget for 2014/15 to be included within the Pension Fund Service Plan.

This identified three areas for budget monitoring:

- Governance & Oversight
- Investment Management Costs
- Administration Costs

The Fund also appointed a new external consultant and an independent advisor. Increased governance costs, training for new committee members and the costs of a strategic investment review have all been incorporated into the budget for 2014/15.

Budget 2014/15	£000	£000
GOVERNANCE & OVERSIGHT		
Employee Costs (Direct)	223	
Internal Recharges	40	
Expenses	20	
Training & Conferences	7	
Independent Advisor	63	
Committee (Meetings & Training)	16	
Membership Fees	18	
Investment Consultancy Fees	253	
Audit Fees	36	
Actuarial Fees	64	
Legal Fees	40	**780**
INVESTMENT MANGEMENT COSTS		
Fund Manager Fees	6,300	
Performance Management Fees	27	
Custody Fees	17	**6,344**
ADMINISTRATION		
<u>Management</u>		
Employee Costs (Direct)	55	
Training & Conferences	16	
Internal Recharges	200	271
<u>Operations</u>		
Employee Costs (Direct)	415	
Expenses	7	422
<u>Payroll</u>		
Employee Costs (Direct)	26	26
<u>Communications</u>		
Employee Costs (Direct)	30	
Printing & Postage	34	
Other Expenses	2	66
<u>Technical</u>		
Employee Costs (Direct)	122	
Training	3	
System Costs	180	305
Total Administration		**1,090**
Total Costs		**8,214**

Investment & Funding

Long Term Strategy

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

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

The investment policy of the Fund is intended to strike the appropriate balance between the policy most suitable for long-term consistent performance and the funding objectives. A favorable investment performance can play a valuable role in achieving adequate funding over the long term.

Summary of 2013/14

During 2013/14 the Fund implemented a significant strategic change of direction with the appointment of Insight, following a lengthy and challenging process, to the Fund's Long Term Management of Risk mandate (Flight Path). Last year's report noted that, in recent years, overall funding levels had been affected as much by fluctuations in liability levels as by asset performance, leading to a growing focus on liability-drivers such as inflation, interest rates and mortality. The Fund had already introduced broad diversification and risk diversity within the asset structure to minimise volatility. The "Flight Path" mandate applies similar principles to liabilities on the long-term management of funding risk. The implementation of this strategy is a further differentiator between the Fund and the majority of LGPS funds.

The first phase of the implementation was completed by 1st April 2014, as planned, and early indications are that the mandate is performing as expected.

The investment arrangements of the Fund were carried out by twelve external managers covering fourteen mandates all of which are pooled vehicles. In addition the Fund manages its Real Asset and Alpha Seeking Alternative portfolios in house through thirty eight managers investing in excess of ninety funds. These are shown at the end of this section of the Annual Report. During 2013/14, the Fund committed £16.6 million to two new managers, Bridges (two funds) and Dyal, with an additional £63.2 million in 13 funds with existing managers.

During 2013/14 the market value of the Fund increased from approximately £1,181m to £1,214m. The Fund achieved a positive investment return of +2.1% which was 1.6% behind the Fund's strategic benchmark of +3.7%.The funding level decreased from an estimated 72% at March 2013 to 68% at March 2014 due to the increase in the value of liabilities, which are mainly driven by the low gilt yields, outpacing the gain in assets.

The majority of the Fund's assets (58%) are invested in traditional asset classes such as equities and bonds and these will be measured mainly against standard market benchmarks. The remaining 42% of the Fund is invested in "alternative" strategies which are measured against Fund specific benchmarks, generally absolute targeting returns in excess of 8%. In current market conditions it would be difficult for many of our managers to achieve those returns.

Traditional assets, in total, produced a positive return of +2.0%, 0.6% ahead of their +1.4% benchmark. Real assets and Alpha Seeking alternatives also produced positive returns in total, albeit behind their customised benchmarks, increasing the overall Fund performance (excluding GTAA) to +2.8% against a benchmark of +3.7%. The performance of the GTAA managers however, detracted from overall performance, returning -4.2%, 7.2% behind the +3.2% benchmark.

The Fund's Real Asset portfolio invests 15% across property, infrastructure, timber, agriculture and commodities. Whilst property produced a good return of +7.5%, this was behind the IPD UK benchmark of +11.9%. Infrastructure produced +9.3% against the absolute benchmark of +8.0% but Timber & Agriculture had a poor year returning -10.1%.

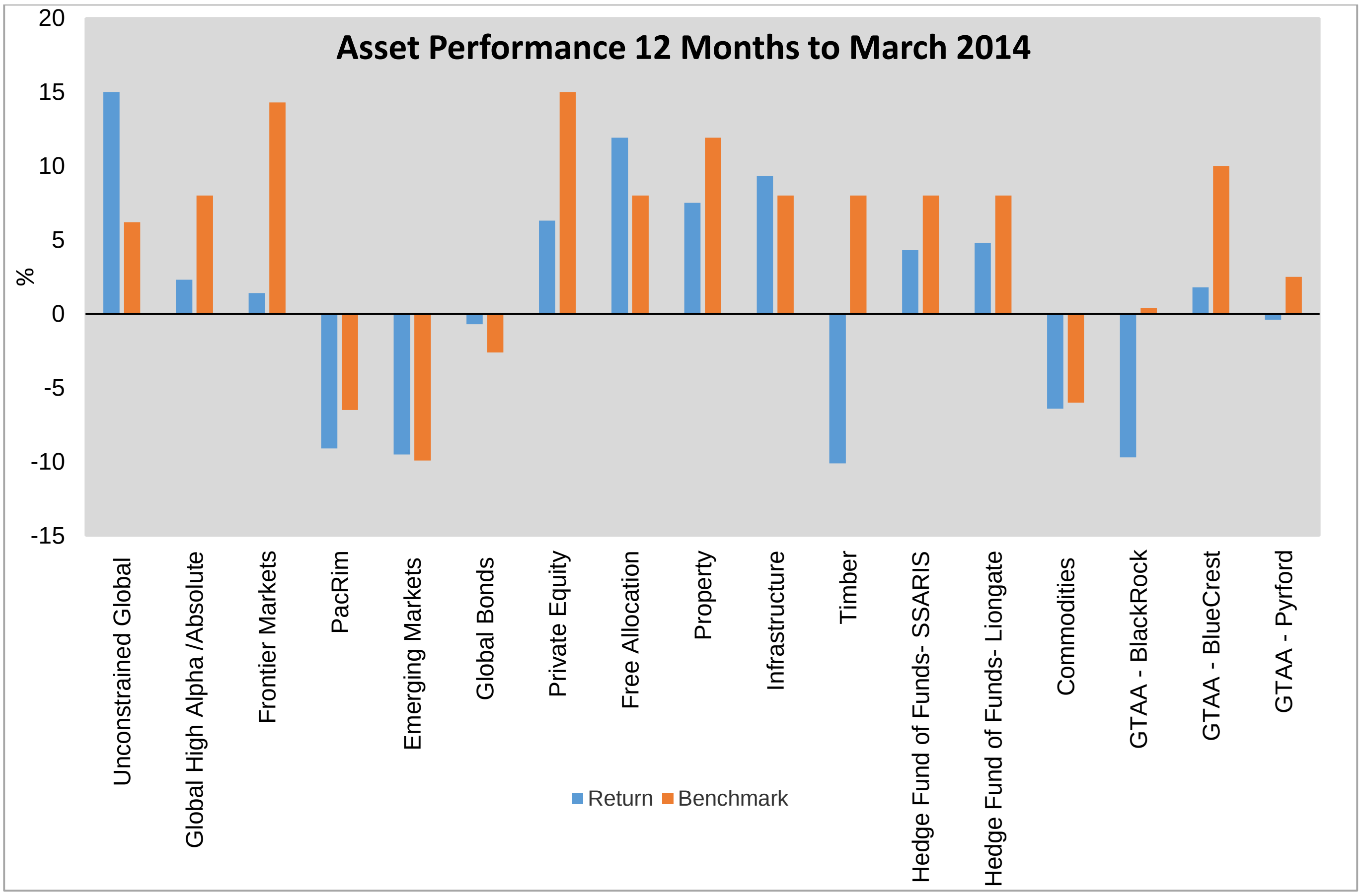
Commodity markets continued to underperform and the Fund returned -6.4%, marginally behind the -6.0% commodity index.

The Fund's Alpha Seeking Assets portfolio invests 15% across private equity (both direct and fund of funds), opportunistic funds and hedge funds of funds. All asset classes within this allocation produced positive returns producing a combined return of +6.3%, behind the strategic benchmark of +10.6%. The private equity portfolio returned +6.3% but the opportunistic funds returned +11.9%, in line with expectations at this early stage of the investment cycle. The hedge fund of funds managers produced average returns of +4.5% against their absolute +8.0% benchmark. As stated earlier, in a low interest rate environment, we would not expect these managers to achieve such a high benchmark.

The Fund allocates 12% to global tactical asset allocation (GTAA) across three managers. The three fund managers are all managing their assets very differently and have all produced varied returns to contribute to the overall GTAA portfolio return of -4.2% compared to a combined benchmark of +3.2%. This area continued to be disappointing.

In addition to the GTAA fund managers, Conditional Asset Allocation (CAA) allows officer discretion and flexibility to make substantial changes in asset allocation between equities and fixed income of up to +/-15%, if conditions require. There are quarterly meetings with the Fund's tactical asset allocation managers to discuss Fund positioning, as well as ad hoc telephone conversations when market events appear to be moving quickly. In order to instruct any changes there has to be a clear consensus from all the managers concerned that any event being witnessed, represent a fundamental market change and not a short term correction. This strategy has not been implemented to date, however, this flexibility remains an important part of the Fund's investment strategy.

The 12 month performance of the Fund's assets is shown below.



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

Period (Years)	Clwyd Pension Fund (%) pa	Clwyd Benchmark (%) pa	Average Local Authority (%) pa	Corporate Funds (%) pa
1	2.1	3.7	6.4	3.7
3	4.7	5.7	7.5	7.8
10	6.5	7.3	7.8	7.7
15	4.8	5.0	5.5	5.2
20	6.8	6.9	7.2	7.1

The table below shows the historic funding, deficit and employer contribution rates. As a result of the advice received by Clwyd County Council (pre Wales local government reorganisation in 1996), during the implementation of the Community Charge, the employers in the Fund received a 'contribution holiday' that allowed the Fund to reduce to a 75% funding position in the late 1980s.

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

Summary of the Longer Term

The market value of the Fund has increased from approximately £559m in 2004 to approximately £1,214m in 2014. This is detailed in the Management and Financial Performance section of this report.

The Fund's investment strategy is more diversified than most LGPS funds. The aim is to reduce 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. Although the Fund still has a strategic allocation of 43% to equities and the associated equity risk, this is lower than the average LGPS fund which allocate 63% to equities. Hence, in years where equities have performed so well the investment performance of the Clwyd Fund will lag most of its peers in the LGPS.

The following table documents the changes in investment strategy since 2001. As can be seen the asset allocation is very different from that of the average local government pension fund. The Fund has been particularly active and very early in its commitments to alternative assets through a broad range of specialist managers. The current investment strategy remains as 2011 below. The Fund will be carrying out another review of its investment strategy during 2014 with any changes to be implemented in 2015.

Investments	2001 %	2004 %	2007 %	2011 %	LGPS Average
Equities					
Global Unconstrained	-	-	5.0	5.0	
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	
Developed Passive	-	-	-	19.0	
	72.0	**66.0**	**55.0**	**43.0**	**63.0**
Fixed Interest					
Traditional Bonds	10.0	9.5	-	-	
High Yield/ Emerging	1.5	2.0	-	-	
Unconstrained	-	-	13.0	15.0	
Cash/ Other	2.5	0.5	-	-	
	14.0	**12.0**	**13.0**	**15.0**	**19.0**
Alternative Investments					
Property	5.0	7.0	6.5	7.0	
Infrastructure	0.5	5.0	1.5	2.0	
Timber/ Alternatives	-	-	1.5	2.0	
Commodities	-	-	2.0	4.0	
Private Equity	4.5	4.5	6.5	8.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	
Currency Fund	-	4.0	4.0	-	
Free Allocation	-	-	-	2.0	
Tactical Asset Allocation (TAA)	-	2.0	5.0	12.0	
	14.0	**22.0**	**32.0**	**42.0**	**18.0**

The 2013/14 fixed strategic benchmarks for each of the managers and the mandates within their remit are shown below along with their actual allocation at year end. As stated in the Statement of Investment Principles, having agreed the fixed benchmark there is a need to keep the position under review. Re-balancing of the Fund to keep it in line with the benchmark will incur costs and will, therefore, need to be considered in light of the benefits to be achieved and the costs associated with turnover. Re-balancing will only take place quarterly when an asset class has moved by more than the ranges indicated in the table below except in exceptional economic or stock market circumstances. Although there is no long term strategic allocation to cash there is a need to include a tactical range to accommodate these circumstances where it is not considered appropriate to re-balance the portfolio and where investment commitments have been made.

Manager	Mandate	Weight %	Allocation 31/03/14	Tactical Ranges
	Liability Driven Investment			
Insight	LDI	19	18.8	+/- 1%
	Equities Alpha Seeking			
Aberdeen Asset Management	Pac Rim – High Alpha	7	6.3	+/- 1%
Aberdeen Asset Management	Frontier Markets	1	0.7	
Wellington Management International Ltd	Emerging Markets Core	6	6.1	+/- 1%
Investec Asset Management	Global – High Alpha	5	5.9	+/- 1%
Duet Asset Management Ltd	Other Global – High Alpha	5	4.1	+/- 1%
	Fixed Interest			
Stone Harbour Investment Funds	Unconstrained	15	14.4	+/- 2%
	Cash	0	2.6	+/- 5%
	Real Assets	**15**	**15**	+/- 3%
Various	Property	7	8.0	
Various	Infrastructure	2	2.4	
Various	Timber/ Agriculture	2	1.9	
Wellington Management International Ltd	Commodities	4	2.7	
	Alpha Seeking Alternatives	**15**	**16.5**	+/- 3%
Various	Private Equity	8	11.5	
Liongate	Hedge Fund of Funds	2.5	1.9	
SSARIS	Hedge Fund of Funds	2.5	2.1	
Various	Opportunistic	2	1.0	
	Tactical Asset Allocation (TAA)			
Blackrock	Global TAA	6	4.2	+/- 1%
BlueCrest Capital Management	Macro Fund of Funds	3	2.7	+/- 1%
Pyrford International Ltd	Dynamic TAA	3	2.7	+/- 1%

Real Assets Portfolio

Property

Open Ended Holdings

- Schroders
- Hermes
- LAMIT
- Legal and General
- BlackRock

Closed Ended Holdings

- Aberdeen Property Select (Asia Pacific – 2 funds)
- BlackRock US Residential Opportunity Fund
- ***Bridges Property***
- Darwin Leisure Property Fund
- *InfraRed Active Property (2 funds)*
- Igloo Regeneration Fund
- *Morgan Stanley Global Real Estate (2 funds)*
- *Partners Group Global Real Estate (2 funds)*
- Franklin Templeton (2 funds –European and Asia Pacific)
- *Schroders – Columbus UK Real Estate (2 funds)*
- Threadneedle

Timber

- RMK Timberland (3 funds)
- Stafford International Timberland (3 funds)

Agriculture

- Insight Global Farmland
- GMO

Infrastructure

- Arcus European Infrastructure
- Henderson PFI
- InfraRed (4 funds including Environmental)
- Innisfree
- *Morgan Stanley – Global (2 funds)*
- Impax New Energy Fund

Alpha Seeking Alternatives Portfolio

Private Equity

Direct

Apax (5 funds)
Arle (3 funds)
Bridges Ventures
Carlyle (2 funds)
Charterhouse Capital (3 funds)
Crossroads (2 funds)
ECI Ventures (3 funds)
Environmental Technologies Fund (2 funds)
Ludgate Environmental Fund
Granville Baird (3 funds)
August Equity (2 funds)
Parallel Ventures (3 funds)
Partners Group Direct

Fund of Funds

Access Capital (4 funds)
Harbour Vest (7 funds including Cleantech Fund)
Hermes Environmental Innovation
Partners Group (10 funds)
Capital Dynamics (11 funds)

Opportunistic

Carlyle (1 fund)
Capital Dynamics (1 fund)
Marine Capital Eclipse Shipping (2 funds)
Dyal II

* *Italic* – new fund during 2013/14
* ***Bold italic*** – new manager and fund 2013/14

Sustainability Policy

Aim and Definition

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

The Clwyd Pension Fund Policy

The Clwyd Pension Fund has always included a section in the Statement of Investment Principles (SIP) on environmental, social and ethical considerations and corporate governance. However, in light of the publication of the United Nations Principles on Responsible Investment (UNPRI) and the Financial Reporting Council's new Stewardship Code, the Fund produced a Sustainability Policy and a Stewardship Code compliance statement as part of the SIP which can be found within the regulatory documents section of this Annual Report. The format of the Policy follows that of the UNPRI but as recognised in the Policy, given the pooled nature of the investments, it would be difficult to become a formal signatory of the UNPRI.

Compared with the previous sections in the SIP on this area, this Policy makes a clear commitment that the Fund will be an active supporter of UN principles. The Policy is specific in the actions the Fund will take in the 6 principle areas:

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

Members receive quarterly reports which update Members on the progress and application of the Fund's Sustainability Policy.

Implementation of the Policy

The Sustainability Policy included within the SIP identifies, in detail, the approach the Fund will adopt within each of the areas specified above and the Stewardship Code identifies areas where further work is required to ensure full compliance. The Fund sends all its fund managers copies of the Sustainability Policy, protocol, questionnaire and guidance notes and asks them to report on their compliance.

Responses from managers were analysed and results were positive for many of the managers within the Fund. As expected, the Fund's four main managers and smaller equity managers, who account for 61% of the Fund's assets all scored very highly whilst the Hedge Fund based managers did not provide enough information to achieve adequate scores. The managers concerned account for 14% of the Fund and individual issues raised are discussed with those managers during their update meetings

The Real Assets and Private Equity portfolio is currently 23% of the Fund and responses were mixed across the managers. The majority of real asset managers scored well across the categories as we expected. Responses were more mixed amongst the private equity managers with some providing much more detailed information resulting in higher scores than others. There were only a few low scoring managers and these are to be addressed at subsequent meetings.

The Fund is also a member of two bodies, the Local Authority Pension Fund Forum (LAPFF) and the National Association of Pension Funds (NAPF). The LAPFF has 60 LGPS members with combined assets of over £125bn. In line with the Fund's policy LAPFF believe that by actively encouraging companies to comply with best practice shareholder value is improved over the medium and long term. The LAPFF work programme is on-going on projects on overseas employment standards, company workforce practices, climate change and greenhouse gas emissions. Further details can be found on the LAPFF web site www.lapfforum.org.

The Fund is invested in pooled vehicles, therefore does not own individual shares. However, the Fund's investment managers report on how they voted the shares within the vehicle. In particular, if corporate governance concerns are raised by LAPFF or NAPF these are reported to the fund managers and an explanation is received from the managers on how they voted and the engagement undertaken with the managers of the company. Details of the voting activities of the managers have been reported to the Pension Fund Committee each quarter and a summary of the activity from April 2013 to March 2014 is shown in the following table.

Manager	AGM's	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted
Aberdeen	92	1,042	967	40	21	14
Investec	65	809	561	69	112	67
Pyrford	62	792	727	64		1
Wellington	456	4,370	3,627	431	97	215

As can be seen below, as part of the Fund's Property & Private Equity allocation, the Fund invests in environmental and sustainable projects, including Agriculture, Timber, Regeneration, and Environmental Technology Funds. During 2013/14 three new investments were made within this asset allocation. On-going, the Fund will continue to review the approach taken and welcomes any comments Member Bodies have on the policy, its implementation, and any ideas that might be adopted by LAPFF for future projects.

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

Pensions Administration Update 2013/14

Introduction

The Fund's day to day administration service is provided by the Pension Administration Section which consists of a total of 20 Full Time Equivalent (FTEs) members of staff including a Pension Administration Manager. It is split between an Operational Team and a Technical Team, and is separate from the Accounting and Investment Team.

The Operational Team of 13 FTEs delivers a pensions service for approximately 35,000 scheme members and 28 employing bodies. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team of 6 FTEs implements and maintains the pension software systems, reconciles employer records, provides a communication service for members and employers and a pensioner payroll service for 10,000 pensioners and dependents.

The LGPS

Following the review of the Public Sector Pension Schemes, on 1 April 2014 the Government introduced a new scheme for Local Government.

The Local Government Pension Scheme 2014 is a Career Average Revalued Earnings Pension Scheme. This means the pension accrued, is based on a proportion (1/49) of the pay earned each year. Before each year is added to the pot, the pot is adjusted by treasury orders (which follow inflation).

However, all active members who joined the scheme prior to 1 April 2014, have been given protection for their pre April 2014 membership. The protection means that all membership prior to 1 April 2014 will remain in the final salary scheme and the pension will be based on the pensionable pay earned in the last 365 days of service (under the 2008 scheme definitions).

This has led to Clwyd Pension Fund, having to administer benefits which often span across several sets of regulations. Membership is treated differently under each set of regulations. Benefits prior to 1 April 2008 are calculated under the 1997 scheme regulations. Benefits between 1 April 2008 and 31 March 2014 are calculated under the 2008 scheme regulations and the benefits accrued after 1 April 2014 are calculated under the 2014 scheme regulations.

Each set of regulations require some interpretation but attempts to guide each fund through the administration of benefits. Pension Officers/Managers meet regularly to discuss and confirm the implications of each change and to consider new procedural and literature requirements to ensure continuity.

Auto Enrolment

In April 2013 the first of the Clwyd Pension Fund Employers reached their staging date. All eligible job holders have now been enrolled into the Scheme, with the exception of the category of workers who were eligible on the staging date and have previously opted out. These employees will be reviewed in October 2017. Individual letters have been issued to all employees confirming how auto enrolment affects them personally.

In line with the Auto Enrolment guidelines, the Clwyd Pension Fund now record the details of opt outs as informed by each employer.

The 2013/14 new starter figures confirm the initial impact of Auto Enrolment on the Clwyd Pension Fund. New starters have doubled from 1,000 to 2.000 from March 2013 to March 2014.

Communications

During the 2013/14 financial year, the Clwyd Pension Fund has published and distributed the following communications:-

- Distributed issue 10 of Clwyd Catch Up – a newsletter for our pensioner members which is issued along with their pensions increase notification.
- Circulated issue 18 of Penpal – a newsletter that is sent to our active members informing them of changes and updates to the Scheme.
- Distributed benefit statements to both active and deferred Local Government Pension Scheme members.
- Distributed an AVC/ARCs introduction letter for members aged from 45 to 59 during May 2013.
- Between April 2013 and March 2014 the following have taken place:
    - i. 28 days of drop-in surgeries for scheme members at their workplace
    - ii. 6 pre-retirement seminars

The welcome pack, which includes "The Employees Guide to the Local Government Pension Scheme", was sent out to new Fund members up to 31 March 2014. This booklet has now been replaced with 'a Short Scheme Guide' which includes information on the new scheme.

The literature entitled "Topping up your Benefits" has recently been reviewed and updated to take into account the recent regulation changes.

2013/14 Website updates:

- Link to the LGPS2014 website
- Employee pension contribution table
- Updated scheme literature

The Website has been invaluable in giving both member and Fund Employers access to pension forms, reducing paperwork and postage costs. This is also a useful tool to communicate LGPS matters to our members, pensioners, employers, and also anyone interested in our Governance and Investments. The website continues to be maintained and updated when required.

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

Developing the Service

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

- Reviewing its service level agreements with employers on an annual basis.
- Maintaining an effective business continuity plan
- Formulating an Administration Strategy
- Attending manager meetings to discuss LGPS administration and also current regulation issues
- Attending LGPS training courses to ensure staff skills and LGPS knowledge are up-to-date
- Introducing software, provided by a third party, to assist employers in addressing their Auto Enrolment obligations, in respect of record keeping and reporting on employee data. In addition it is a filter for the flow of information from a Scheme Employer to the Administering Authority.
- Scanning of all documents and post to maintain a paperless office
- Pensions Administration and Pensions Payroll working on the same merged computer package – Altair.

In 2013/14 progress continued to be made with the new operational model for the Fund. The staff dealing with the administration of the administration, are split into teams. Each team looks after set employers within the scheme, giving a direct point of contact and reinforcing the Fund/Employer relationship. There will be on-going work with our larger employers on data quality and correcting a backlog of historic records during the year in preparation for the Pension Regulator's new Code of Practice.

A main point of focus has been the major undertaking of staff training. This has involved both the progression of current staff and the introduction of new members of staff. When operating the new structure, expanding staff knowledge has proved vital. The section will also continue to benefit considerably from this in the future.

In addition, the Clwyd Pension Fund Pensioner Payroll, were pleased to proceed with an early 'Go Live' date for the H. M. Revenue & Customs' Real Time Information (RTI).

The challenges of 2013/14 were significant with the Fund Valuation, the early distribution of the Annual Benefit Statements and the issuing of Life Certificates to all Fund pensioners. The Clwyd Pension Fund Staff have pulled together to achieve goals simultaneously whilst continuing to improve key knowledge levels and development.

Performance monitoring will ensue, enabling transparent and meaningful statistics to all stakeholders on the performance of the administration service and employers.

Administrative Management Performance

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

Key administration benchmarks

Indicator	The Fund	Benchmark Average	Highest
Net cost per member	£25.23	£20.75	More than £40
Net cost per member including investment management expenses [#1]	£169.33	n/a	n/a
Net cost per member excluding temporary staff [#2]	£22.71	£20.75	More than £40
Active members	15,879 41%	29,480 37%	n/a
All other members	22,785 59%	50,880 63%	n/a

[#1] this is a new indicator that is not included in the CIPFA Benchmarking Club and thus comparators are not available. This may change in 2014/15 due to the Fund undertaking a review of its investment strategy together with the introduction of specific national guidance on the identification and recording of manager fees.
[#2] Temporary staff have been employed to address historic backlogs that has increased the gross cost per member as shown in the benchmarking club.

Cases completed 2013/14:

Case Type	Cases
New Starters	2,037
Address changes	1,989
Defers	1,583
Retirements (all types)	769
Estimates (all types)	464
Deaths (deferred, active and pensioners)	394
Transfers In	142
Transfers Out	53

Staff Turnover 2013/14

Description	Number
Total permanent Staff as at 31/03/2014	20
Permanent staff leaving up to 31/03/2014	0
Permanent staff joining up to 31/03/2014	0

Ratio of Pensions Staff to LGPS Members 2013/14:

Although there are 20 full time equivalent members of staff (not including temporary staff), only 13 full time equivalent staff deal with administration. The remaining 6 staff deal with I.T., pension payroll and communications.

As at 31/03/2014, there were 34,807 members of the Clwyd Pension Fund. This means that there are 2,677 members per Pension's staff member.

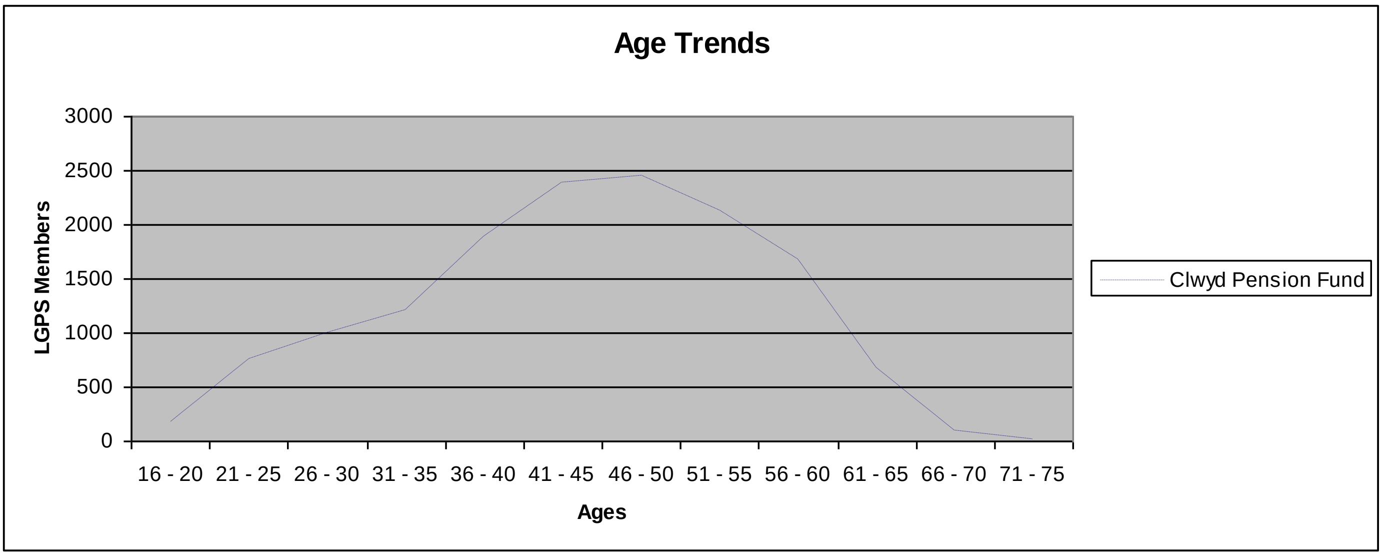
Member Trends: 5 Years

Period from – to	Contributors	Deferred Members	Pensioners	Dependant Pensioners
01/04/2009 – 31/03/2010	15,073	5,969	7,395	1,425
01/04/2010 – 31/03/2011	14,960	6,910	7,641	1,450
01/04/2011 – 31/03/2012	14,939	7,008	7,662	1,443
01/04/2012 – 31/03/2013	14,920	7,539	8,386	1,488
01/04/2013 – 31/03/2014	16,133	8,307	8,805	1,562

Pensioners who were awarded enhanced retirement benefits:

Period from – to	No. of Enhanced Benefits
01/04/2006 – 31/03/2007	85 Members
01/04/2007 – 31/03/2008	33 Members
01/04/2008 – 31/03/2009	23 Members
01/04/2009 – 31/03/2010	27 Members (tier 1 & 2 ill health only)
01/04/2010 – 31/03/2011	21 Members (tier 1 & 2 ill health only)
01/04/2011 – 31/03/2012	22 Members (tier 1 & 2 ill health only)
01/04/2012 – 31/03/2013	15 Members (tier 1 & 2 ill health only)
01/04/2013 – 31/03/2014	34 Members

Age profile of members 2013/14:



Internal Dispute Resolution Procedure 2013/14:

1st Stage Cases Submitted	Cases Won	Cases Lost
2	0	0
2nd Stage Cases Submitted	**Cases Won**	**Cases Lost**
0	0	0

The cases submitted during 2013/14 (as above) have since been finalised, with one case being upheld and one case being rejected.

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

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

Employer Decisions

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

Administering Authority Decisions

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

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

National Fraud Initiative (NFI)

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

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

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

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

Analysis of Pension Overpayments and Write Offs

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

	2013/14 £	2012/13 £	2011/12 £	2010/11 £	2009/10 £
Amounts under £100	5,975	3,443	4,954	3,320	3,062
Number of cases	129	97	99	75	76
Overpayments Recovered	19,518	39,625	24,214	26,836	31,807
Number of cases	57	51	34	46	50
Overpayments Written Off	402	0	6,146	200	1,676
Number of cases	2	0	5	4	5

Participating Employers of the Fund as at 31st March 2014

There have been no additional bodies admitted to the Fund during 2013/14 and therefore no bonds or any other secured funding arrangements have been entered into.

The results of the March 2013 Actuarial Valuation led to new employer contributions and funding plans, which were discussed and agreed with individual employers.

The Pensions Regulator allows the Fund the option to levy interest on overdue contributions during the financial year. During the year the Fund monitored timeliness of contributions and liaised with employers to overcome any problems they had encountered. The analysis below shows the number of late contributions made to the Fund, along with the amounts and days concerned. The Fund did not exercise its option to levy interest against any of the employers during the year as the amounts involved amounted to only 0.118% of total contributions received, £0.079m compared to £67m.

Employer	Late Occasions	Contributions (£)
A	8	11,374.54
B	8	18,925.49
C	1	1,726.07
D	1	5,804.85
E	1	36,253.25
F	3	3,547.62
G	1	1,363.93

The Fund had 27 bodies who contributed to the Fund during 2013/14, 20 scheduled and 7 admitted. Contributions are paid over to the Fund by the 19th of the following month to the month that the contributions relate to. An analysis of contributions received during 2013/14 is shown below.

Scheduled Bodies	Employer Contribution (£)	Employee Contribution (£)
Flintshire County Council	18,321,005.97	5,052,083.47
Wrexham County Borough Council	16,266,595.87	4,207,338.29
Denbighshire County Council	12,844,609.11	3,722,060.76
Coleg Cambria	1,787,604.32	691,719.23
Glyndwr Univesity	1,469,819.00	533,387.07
North Wales Fire Service	851,882.49	253,079.28
Rhyl Town Council	36,883.61	8,534.70
North Wales Valuation Tribunal	38,369.20	8,480.57
Hawarden Town Council	30,298.01	9,405.32
Connah's Quay Town Council	19,960.66	5,620.48
Prestatyn Town Council	18,570.80	8,762.03
Caia Park Town Council	14,594.74	4,854.49
Buckley Town Council	12,944.26	4,748.32
Coedpoeth Town Council	13,712.80	2,928.62
Mold Town Council	10,430.47	3,694.22
Rhos Town Council	9,373.99	2,889.38
Offa Town Council	3,874.42	1,297.06
Shotton Town Council	4,523.04	1,664.56
Argoed Town Council	3,125.22	1,216.41
Llanasa Town Council	221.00	0.00

Admitted Bodies	Employer Contribution (£)	Employee Contribution (£)
Careers Wales	337,464.11	115,158.42
Clwyd Leisure	94,627.15	27,675.99
Cartref y Dyffryn Ceiriog	50,116.65	3,585.52
Bodelwyddan Castle Trust	27,634.16	11,357.39
Compass Group UK	7,499.17	2,742.45
Denbighshire Voluntary Services	7,565.27	2,333.81
Grosvenor Facilities Management	5,564.44	1,739.28

Administrative Responsibilities:

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

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

Other Information

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

Analysis of Employers of the Fund

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

	Active	Ceased	Total
Scheduled body	20	8	28
Admitted body	7	4	11
Total	27	12	39

Analysis of Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2014.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	159,621	121,722	281,343
Alternatives	95,795	206,319	195,964	498,078
Bonds & LDI	227,459	0	174,002	401,461
Property (Direct)	0	0	0	0
Cash	31,928	0	0	31,928
Total	355,182	365,940	491,688	1,212,810

The alternatives portfolio comprises pooled investments in the following asset classes: GTAA, Hedge Fund of Funds, Commodities, Property, Private Equity & Opportunistic, Infrastructure and Timber.

Analysis of Investment Income

The table below provides an analysis of the Fund's investment income accrued as at 31 March 2014. The Fund invests in pooled vehicles for equities and bonds hence, investment income is reinvested within the vehicle and not paid out to the Fund.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	8	0	8
Alternatives	2,283	292	0	2,575
Bonds & LDI	0	0	0	0
Property (Direct)	0	0	0	0
Cash	138	0	0	138
Total	2,421	300	0	2,721

THE MANAGEMENT AND MEMBERSHIP OF THE CLWYD PENSION FUND

The Clwyd Pension Fund is administered by Flintshire County Council on a lead authority basis. The administration and investment strategy of the Fund is considered and agreed each quarter by the Clwyd Pension Fund Panel, consisting of five elected Members, the Head of Finance, the Clwyd Pension Fund Manager, a consultant to the Fund, and a scheme member observer. The Fund's investment management arrangements were implemented by twelve investment managers during 2013/14.

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

The Clwyd Pension Fund operates a defined benefit scheme whereby retirement benefits are funded by contributions and investment earnings. Contributions are made by active members in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31st March 2014. Employee contributions are added to employer contributions which are set based on triennial actuarial funding valuations. The benefits of the scheme are prescribed nationally by Regulations made under the Superannuation Act 1972. The last valuation was at 31st March 2013, the findings of which become effective on 1st April 2014. The valuation showed that the funding level decreased from the previous valuation on 31st March 2010 from 72% to 68%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over an 18 year period. This implies an average employer contribution rate of 13.8% and a total payment of £32.6m per annum for deficit contributions, increasing at 4.1% per annum.

Up to the 1st April 2014 the fund was governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

- The LGPS (Benefits , Membership and Contributions) Regulations 2007 (as amended)
- The LGPS (Administration) Regulations 2008 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2009 (as amended)

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

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

The membership of the Fund as at 31st March 2014 and 2013 is shown below:-

	2014 No.	2013 No.
Contributors	16,133	14,920
Pensioners :		
Ex employees	8,805	8,386
Widows/dependants	1,562	1,488
Preserved benefits	8,307	7,539
Total membership	34,807	32,333

The scheduled bodies which contributed to the Fund during 2013/14 are:-

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

The admitted bodies contributing to the Fund are:

Other: Careers Wales, Cartref y Dyffryn Ceiriog, Compass Group UK, Denbighshire Voluntary Services, Clwyd Leisure, Bodelwyddan Castle Trust, Grosvenor Facilities Management.

The increase in contributors from 1st April 2013 is mostly attributable to the impact of auto enrolment within the three unitary authorities.

The content of the accounts comply with accounting standards, but further information is available in the Clwyd Pension Fund Annual Report and Statement of Investment Principles which are presented to the Annual Joint Consultative Meeting for employers and member representatives that is held annually each November.

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position at year end as at 31st March 2014. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is, disclosed at Note 15 of these accounts.

In summary, accounting policies adopted are detailed as follows:

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

	Note	2014 £000	2014 £000	2014 £000	2013 £000	2013 £000	2013 £000
Contributions and Benefits							
Contributions receivable :							
From employers	**1**	52,289			52,294		
From employees or members	**1**	14,688			14,381		
			66,977			66,675	
Transfers in		3,801			4,735		
Other income		1,918			1,411		
			5,719			6,146	
				72,696			72,821
Benefits payable :							
Pensions	**1**	46,885			44,717		
Lump sums (retirement)	**1**	12,331			10,859		
Lump sums (death grants)	**1**	1,921			1,401		
			61,137			56,977	
Payments to and on account of leavers :							
Refunds of contributions		26			8		
Transfers out (individual)		2,919			1,544		
Transfers out (bulk)		242			0		
Other		77			52		
Administrative and other expenses bourne by the scheme	**2**	1,494			1,047		
			4,758			2,651	
				65,895			59,628
NET ADDITIONS (WITHDRAWALS)				6,801			13,193
Returns on Investments							
Investment income	**4**		2,721			2,397	
Change in market value of investments (Realised and Unrealised)	**4**		28,686			110,113	
Investment management expenses	**2**		(5,873)			(5,294)	
NET RETURNS ON INVESTMENT				25,534			107,216
NET (DECREASE)/INCREASE IN THE FUND				32,335			120,409
OPENING NET ASSETS OF THE SCHEME				1,181,232			1,060,823
CLOSING NET ASSETS OF THE SCHEME				1,213,567			1,181,232

	Note	2014 £000	2013 £000
Net Assets Statement			
Investment Assets :	**5**		
Managed fixed interest fund		174,002	175,148
Managed UK equity funds		0	122,222
Managed overseas equity funds		281,343	391,597
Managed multi strategy funds		115,487	120,380
Property funds		97,780	82,260
Infrastructure funds		29,636	23,907
Timberland / Agricultural funds		22,382	20,511
Commodity funds		32,084	34,588
Private equity funds		139,799	138,137
Hedge fund of funds		48,393	47,070
Liability Driven Investment		227,459	0
Opportunistic Funds		12,517	5,910
Other investment assets	**8**	0	874
Cash	**7**	31,928	17,331
Investment Liabilities:			
Other investment liabilities	**8**	0	0
Current Assets:			
Due within 1 year	**9**	4,745	3,845
Current liabilities	**9**	(3,988)	(2,548)
NET ASSETS AT 31st MARCH		1,213,567	1,181,232

1. ANALYSIS OF CONTRIBUTIONS RECEIVABLE/BENEFITS PAYABLE

Contributions represent those amounts receivable from various employing authorities in respect of their own contributions and those of eligible pensionable employees. The total contributions received during 2013/14 amounted to £52.289m (£52.294m in 2012/13) from employers and £14.688m (£14.381m in 2012/13) from employees.

The employers total comprised an amount of £27.393m (£26.717m in 2012/13) relating to the common contribution rate average of 11.7% paid by all employers and £24.896m (£25.577m in 2012/13) relating to the individual adjusted rates and additional contributions paid in respect of deficit funding for individual employers.

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

Analysis of contributions received and benefits payable is shown below:

	Benefits Payable	**Contributions Receivable**
Scheduled Bodies	**£000**	**£000**
Flintshire County Council	20,783	23,373
Wrexham County Borough Council	19,906	20,474
Denbighshire County Council	13,942	16,567
Fund apportionment with :		
Gwynedd and Powys County Councils	2,371	0
Educational Organisations	2,616	4,482
Town and Community Councils	128	234
Others - scheduled bodies	583	1,152
Others - admitted bodies	808	695
	61,137	66,977

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

2. ADMINISTRATION AND INVESTMENT MANAGEMENT EXPENSES

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

The cost of Pensions Administration and investment management is shown below:-

	2014	2013
	£000	£000
Administration Expenses		
Employee Costs	781	630
Support Services	242	161
Supplies and Services	288	135
Audit Fees	35	35
Actuarial Fees	148	86
	1,494	1,047
Investment Expenses		
Net Fund Management Fees	5,571	5,187
Custody Fees	17	15
Performance Monitoring Fees	25	24
Consultancy Fees	260	68
	5,873	5,294
Total Fees	7,367	6,341

Investment management fees are based on valuations of the investments. The Fund is invested in pooled vehicles of which the majority of fees are charged within the Funds. In order to be transparent, the Fund discloses these fees. The gross fees included in the Pooled Vehicles amounted to £5.6m during the year (£5.3m during 2012/13).

Under the Public Audit Wales Act 2013, the Wales Audit Office is no longer able to hold reserves. As a consequence, the Wales Audit Office advised in August 2014 that the Pension Fund would receive a distribution of accumulated reserves of £7,127 in respect of prior year audit fees. In preparing the accounts, the level of redistribution was estimated at £4,463. The difference in the level of redistribution is not reflected in the figures above.

The main increases in administration expenses are due to recruitment to vacant positions within the service area and increased actuarial fees in respect of the triennial valuation. Within investment expenses, consultancy fees reflect the implementation of the Fund's new investment manager, Insight, who were appointed to manage the Long Term Management of Funding Risk mandate in September 2013.

3. INVESTMENTS AND PERFORMANCE

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

The Council uses the investment performance services of the WM Company. Their report for the financial year 2013/14 showed that the Fund achieved an overall return of +2.1% from its investments (+10.0% in 2012/13). This compares with the Fund's benchmark return of +3.7% for the year.

4. ANALYSIS OF TRANSACTIONS AND RETURN ON

INVESTMENTS Overview

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

Transactions and Return on Investments

Details of the 2013/14 investment transactions and the net profit on sales of £107.501m (£8.854m in 2012/13) together with investment income of £2.721m (£2.397m in 2012/13) are set out below. The unrealised loss for 2013/14, because of the change in the market value of investments, amounted to £78.815m (£101.259m profit in 2012/13). Therefore, the increase in market value of investments (realised and unrealised) is £28.686m (£110.113m in 2012/13).

Purchases, sales and realised profit were increased significantly during 2013/14 due to the redemption from SSgA for developed equities. The proceeds were transferred to Insight who were appointed to the Funds Long Term Management of Risk mandate (Liability Driven Investment).

Direct transaction costs are included in the cost of purchases and sale proceeds. Transaction costs are incremental costs that are directly attributable to the acquisition and disposal of an investment. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. They are added to purchase costs or netted against sales proceeds, as appropriate. These costs cannot be directly identified as the Clwyd Pension Fund is almost wholly invested through pooled vehicles. Investment income from these is reinvested within the vehicles and not shown separately.

	Market Value 2012/13	**Purchases**	**Sales**	**Realised Gain (Loss)**	**Unrealised Gain (Loss)**	**Market Value 2013/14**	**Investment Income**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Fixed Interest Securities	175,148	174,002	(174,002)	43,451	(44,597)	174,002	0
Liability Driven Investment	0	230,000	0	0	(2,541)	227,459	0
UK Equities Passive	122,222	0	(136,167)	33,414	(19,469)	0	0
Overseas Equities Active	288,379	50,042	(49,281)	1,202	(8,999)	281,343	8
Overseas Equities Passive	103,218	0	(111,813)	22,576	(13,981)	0	0
Multi Strategy	120,380	130	0	0	(5,023)	115,487	0
Property	82,260	16,727	(8,050)	6	6,837	97,780	1,790
Infrastructure	23,907	3,847	(1,622)	631	2,873	29,636	203
Timber & Agriculture	20,511	3,068	(413)	0	(784)	22,382	0
Commodities	34,588	0	0	0	(2,504)	32,084	0
Private Equity	138,137	17,523	(22,991)	629	6,501	139,799	328
Opportunistic	5,910	5,679	(292)	0	1,220	12,517	254
Hedge Fund of Funds	47,070	0	(412)	83	1,652	48,393	0
	1,161,730	501,018	(505,043)	101,992	(78,815)	1,180,882	2,583
Cash	17,331	0	0	0	0	31,928	0
Fees within Pooled Vehicles	0	0	0	5,579	0	0	0
Interest	0	0	0	0	0	0	138
Currency	0	0	0	(70)	0	0	0
	17,331	0	0	5,509	0	31,928	138
Total 2013/14	1,179,061	501,018	(505,043)	107,501	(78,815)	1,212,810	2,721
2012/13	1,083,854	54,629	(45,161)	8,854	101,259	1,179,061	2,397

	Market Value 2011/12	Purchases	Sales	Realised Gain (Loss)	Unrealised Gain (Loss)	Market Value 2012/13	Investment Income
	£000	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	170,075	0	(10,000)	2,382	12,691	175,148	0
UK Equities Passive	104,624	0	0	0	17,598	122,222	0
Overseas Equities Active	245,992	12,537	(4,857)	1,980	32,727	288,379	11
Overseas Equities Passive	88,152	0	0	0	15,066	103,218	0
Multi Strategy	118,080	123	0	0	2,177	120,380	0
Property	75,307	6,704	(5,358)	(2,816)	8,423	82,260	1,837
Infrastructure	23,414	5,086	(7,979)	2,510	876	23,907	250
Timber & Agriculture	14,686	4,761	(170)	0	1,234	20,511	0
Commodities	36,879	0	0	0	(2,291)	34,588	0
Private Equity	122,318	19,636	(15,461)	1,221	10,423	138,137	164
Opportunistic	0	5,782	0	0	128	5,910	11
Hedge Fund of Funds	47,321	0	(1,283)	228	804	47,070	0
Leveraged Loans	530	0	(53)	(1,880)	1,403	0	0
	1,047,378	54,629	(45,161)	3,625	101,259	1,161,730	2,273
Cash	36,476	0	0	0	0	17,331	0
Fees within Pooled Vehicles	0	0	0	5,300	0	0	0
Interest	0	0	0	0	0	0	124
Currency	0	0	0	(71)	0	0	0
	36,476	0	0	5,229	0	17,331	124
Total 2012/13	1,083,854	54,629	(45,161)	8,854	101,259	1,179,061	2,397
2011/12	1,051,611	230,350	(152,119)	7,907	13,190	1,083,854	3,326

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

The book cost of the investments as at 31st March 2014 is £1,047.423m (£949.455m in 2012/13). The market value of investments as at 31st March 2014 is £1,180.882m (£1,161.730m in 2012/13); this can be analysed as follows:

By Continent

The UK holdings as at 31st March 2014 account for 27% of total investments at market value:

	2014 £000	2013 £000
UK	323,254	203,154
Europe	118,047	142,201
Asia Pacific	76,598	119,172
North America	88,272	116,680
Emerging/ Frontier markets	83,023	91,714
Global Investments	491,688	488,809
	1,180,882	1,161,730

By Fund Manager

	2014		2013	
	£000	%	£000	%
BlackRock	50,922	4	56,385	5
Wellington	106,314	9	117,468	10
Aberdeen	85,391	7	93,876	8
Insight	227,459	19	0	0
Pioneer	1,539	0	2,001	0
Liongate	22,377	2	21,358	2
SSARIS	24,477	2	23,711	2
Duet	49,954	4	48,826	4
BlueCrest	32,032	3	31,470	3
Investec	71,768	6	62,797	5
Stone Harbor	174,002	15	175,148	15
SSgA	0	0	225,440	19
Pyrford	32,533	3	32,525	3
Property	97,780	8	82,260	7
Infrastructure	29,636	3	23,907	2
Timber / Agriculture	22,382	2	20,511	2
Private Equity	139,799	12	138,137	12
Opportunistic	12,517	1	5,910	1
	1,180,882	100	1,161,730	100

By Listed /Managed

	2014			2013		
	Listed Managed	**Listed**	**Unlisted**	**Listed Managed**	**Listed**	**Unlisted**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Fixed Interest Securities	0	0	174,002	0	0	175,148
UK Equities	0	0	0	122,222	0	0
Overseas Equities	231,389	0	49,954	328,800	0	62,797
Multi Strategy	115,487	0	0	120,380	0	0
Property	31,738	0	66,042	29,107	0	53,153
Infrastructure	0	5,549	24,087	0	4,764	19,143
Timber / Agriculture	0	0	22,382	0	0	20,511
Commodities	0	0	32,084	0	0	34,588
Private Equity	0	2,809	136,990	0	3,446	134,691
Hedge Fund of Funds	22,377	0	26,016	21,358	0	25,712
Opportunistic	0	0	12,517	0	0	5,910
Liability Driven Investment	227,459	0	0	0	0	0
	628,450	8,358	544,074	621,867	8,210	531,653
			1,180,882			1,161,730

6. FAIR VALUE OF INVESTMENTS

Financial Instruments

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

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). It is effectively a trading activity to generate income rather than an investment. The Fund has no direct exposure to stock lending but the Fund's passive equity manager did use stock lending in its pooled vehicles to generate income as an offset to transaction costs.

Fair Value – Valuation Bases

Investments are shown in the accounts at fair value as at 31st March 2014 on the following bases.

- UK and overseas listed securities are valued within the respective pooled vehicles using the official bid prices quoted on the relevant stock exchange. Overseas holdings are converted to sterling at an exchange rate quoted at close of business on 31st March 2014.
- Unit trusts are valued at the bid market price.
- Other pooled vehicles are valued at the bid point of the latest process quoted by their respective managers or fund administrators at 31st March 2014. Where a bid price is not available the assets are priced at the net asset value provided.

- Property funds are valued at the bid market price, which is based upon regular independent valuation of the pooled vehicles' underlying property holdings.
- Private equity holdings are interests in limited partnerships. It is important to recognise the highly subjective nature of determining the fair value of these investments. They are inherently based on forward looking estimates and judgments involving many factors. These holdings are valued based upon the Fund's share of the net assets of the partnership according to the latest financial statements published by the respective managers. Where these valuations are not at the Fund's balance sheet date, the valuations are adjusted having due regard to the latest dealings, asset values and other financial information available at the time of preparing these statements in order to reflect the Fund's balance sheet date. The managers' valuation statements are prepared in accordance with the European Private Equity and Venture Capital Association (EVCA) Guidelines, net of carried interest. These incorporate the US-based FAS157 protocol on valuation approaches –
    - Market – uses prices and other relevant data generated by market transactions involving identical or comparable assets/liabilities (e.g. money multiples)
    - Income – uses valuation techniques to convert expected future amounts to a single present amount (discounted cash flows or earnings)
    - Cost – based upon the amount that currently would be required to replace the service capacity of an asset (adjusted for obsolescence)

  Managers are required "to use the method that is appropriate in the circumstances and for which sufficient data is used and to apply the approach consistently until no longer appropriate." It is also possible to use multiple or combinations of approaches. Most private equity managers use a combination of the "market" and "income" approaches.
- Infrastructure investments are generally carried at the lower of cost and fair value, except where there are specific upward or downward valuations. In estimating fair value, managers use their judgment, having regard to the EVCA guidelines noted above for valuing unquoted investments. Upward valuations are considered only where there is validation of the investment objectives and such progress can be demonstrated. Downward valuations are enacted regardless of the investment stage where the manager considers that there is impairment to the underlying investment.
- Timberland investments are carried at net asset value as determined by the General Partner. In most cases fair value is derived from the audited financial statements provided by underlying managers or vehicles. In circumstances where audited financial statements are not available to 31st March, the valuations are derived from unaudited quarterly reports from the underlying managers or vehicles. Where the timber investments are direct rather than through underlying managers, valuations are based upon regular independent valuation of these holdings.

Commodity exposure is actively managed through the use of exchange traded and OTC derivative instruments (Futures, Options and Swaps) and some securities. Exchange traded derivatives are priced using a vendor file sent daily from Bloomberg with IDC as a second source. These prices are sourced directly from the derivative exchanges. Options receive the last trade price on the primary exchange. If an option does not trade, the bid price is utilized to value the option. Valuations for OTC options are sourced from brokers/dealers that are usually the counterparty to the deal. If the necessary inputs are available from vendors on a schedule that permits same day pricing, OTC options may be valued using a vendor- supplied option calculator, with the dealer price used to validate the model results. Residual cash is primarily invested in short-dated investment-grade, US dollar- denominated debt obligations.

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

Fair Value – Hierarchy

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

Level 1

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

Level 2

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

Level 3

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

The following tables show the position of the Fund's assets at 31st March 2014 and 31st March 2013 based upon this hierarchy.

	Market Value 2013/14	Level 1	Level 2	Level 3
	£000	£000	£000	£000
Fixed Interest Securities	174,002	17	173,985	0
Liability Driven Investment	227,459	227,459	0	0
Overseas Equities Active	281,343	280,147	1,196	0
Multi Strategy	115,487	47,377	68,110	0
Property (1)	97,780	0	31,738	66,042
Infrastructure (1)	29,636	5,549	0	24,087
Timber & Agriculture (1)	22,382	0	0	22,382
Commodities	32,084	15,432	16,652	0
Private Equity (2)	139,799	2,809	0	136,990
Hedge Fund of Funds	48,393	0	45,809	2,584
Opportunistic Funds (2)	12,517	0	0	12,517
	1,180,882	578,790	337,490	264,602
Cash	31,928	31,928	0	0
Total 2013/14	1,212,810	610,718	337,490	264,602

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

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

Within the investments shown above as (1) or (2), whilst a small proportion are listed, the majority of the holdings are in unquoted investments; (£293.756m) compared to £262.515m in 2012/13. These are valued at a fair value by the fund managers, using an appropriate basis of valuation. The valuations are reliant upon a significant degree of judgment, and due to the subjectivity and variability of these valuations there is an increased likelihood that the valuations included in the financial statements would not be realised in the event of a sale. The difference could be materially lower or higher.

	Market Value 2012/13	Level 1	Level 2	Level 3
	£000	£000	£000	£000
Fixed Interest Securities	175,148	70	175,078	0
UK Equities Passive	122,222	121,366	856	0
Overseas Equities Active	288,379	281,460	420	6,499
Overseas Equities Passive	103,218	102,495	723	0
Multi Strategy	120,380	64,504	55,876	0
Property (1)	82,260	0	0	82,260
Infrastructure (1)	23,907	4,764	0	19,143
Timber Agriculture (1)	20,511	0	0	20,511
Commodities	34,588	14,496	20,092	0
Private Equity (2)	138,137	3,446	0	134,691
Hedge Fund of Funds	47,070	0	43,997	3,073
Opportunistic Funds (2)	5,910	0	0	5,910
	1,161,730	592,601	297,042	272,087
Cash	17,331	17,331	0	0
Total 2012/13	1,179,061	609,932	297,042	272,087

7. INVESTMENT RISKS

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

Procedures for Managing Risk

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

The Fund carries out a formal review of its structure at least every 4 years, usually every 3 years. The last review was carried out in 2010 and implemented in April 2011. The next review is expected to be undertaken during 2014. The Fund's optimisation model, used to help determine the Fund's strategic benchmark, suggests that the asset mix so determined coupled with the requirements for certain fund managers to outperform their market indices should produce long-term returns of just over 9% with a volatility of around 10%. A key element in this review process is the consideration of risk and for many years now the Fund has pursued a policy of lowering risk by diversifying investments across asset classes, investment regions and fund managers. Furthermore, alternative assets are subject to their own diversification requirements and some examples are given below.

- private equity – by stage, geography and vintage where funds of funds are not used
- property – by type, risk profile, geography and vintage (on closed-ended funds)
- infrastructure – by type (primary/secondary), geography and vintage
- hedge funds – multi-strategy or funds of funds

In September 2013, the Fund appointed Insight to manage a Long Term Management of Risk mandate. The mandate was funded by disinvesting the Fund's developed passive equity holding managed by SSgA. The cash raised from the redemption is used, in part, as collateral to replicate the Fund's developed passive equity allocation using Equity Total Return Swaps (TRS), the remainder to provide the ability to implement a liability hedging mandate.

Once complete, the strategy will provide a framework to enable the Fund to effectively reduce risk when market conditions become more favourable (i.e. bonds become cheaper). The framework will include both market yield based triggers and funding level triggers. In particular, the manager will make use of Liability Driven Investment (LDI) techniques to increase the level of hedging within the Fund. This can be achieved through the physical purchase of gilts along with repurchase agreements (repo). These allow the fund to gain "unfunded" exposure to gilts.

Roll risk

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

Manager Risk

The Fund is also well diversified by manager with no single manager managing more than 19% of Fund assets. On appointment, fund managers are delegated the power through an investment management agreement to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. An update, at least quarterly, is required from each manager and regular meetings are held with managers to discuss their mandates and their performance on them. There are slightly different arrangements for some of the alternative assets. On private equity, property, infrastructure and timber/agriculture, investment is fund rather than manager-specific, with specific funds selected by the in-house team after careful due diligence. These commitments tend to be smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

Credit Risk

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

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council's minimum credit criteria.

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

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

The Fund believes it has managed its exposure to credit risk and has no experience of default or uncollectible deposits in the last three financial years. The Fund's cash holdings as at 31st March 2014 were £31.928m (£17.331m at 31st March 2013). This was held as follows:

	Rating	2014 £000	2013 £000
Money Market Funds			
Blackrock	AAA	480	478
Bank of New York Mellon	AAA	928	979
Bank Deposit Accounts			
National Westminster Bank PLC	AA	30,500	15,850
Bank Current Accounts			
National Westminster Bank PLC	AA	20	24
		31,928	17,331

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

- The Fund's bond portfolio is managed on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2014, the Fund's exposure to non-investment grade paper was £66.2 million or 38.0% of the fixed interest portfolio (29.5% at 31st March 2013).
- On private equity and infrastructure the Fund's investments are almost entirely in the equity of the companies concerned.
- The Fund also has residual "side pocketed" holdings with one manager, which are currently illiquid. Details of this holding is set out as follows :

	Book Cost £000	Market Value £000
Hedge Fund of Funds - Pioneer	1,218	1,539
	1,218	1,539

Liquidity Risk

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

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities (including synthetic equity exposure) and bonds now comprise 56% of the Fund's total value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at worst – often weekly or fortnightly.

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

The table below analyses the value of the Fund's investments at 31st March 2014 by liquidity profile.

	Market Value 2013/14	1 Month	2 - 3 Months	3 - 6 Months	6 - 12 Months	Closed - ended	Locked
	£000	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	174,002	174,002	0	0	0	0	0
Liability Driven Investment	227,459	227,459	0	0	0	0	0
Overseas Equities Active	281,343	276,431	4,912	0	0	0	0
Multi Strategy	115,487	115,487	0	0	0	0	0
Property	97,780	0	0	0	31,738	66,042	0
Infrastructure	29,636	5,549	0	0	0	24,087	0
Timber & Agriculture	22,382	0	0	0	0	22,382	0
Commodities	32,084	32,084	0	0	0	0	0
Private Equity	139,799	2,809	0	0	0	136,990	0
Hedge Fund of Funds	48,393	0	0	46,854	0	0	1,539
Opportunistic Funds	12,517	0	0	0	0	12,517	0
	1,180,882	833,821	4,912	46,854	31,738	262,018	1,539

It should be noted that different quoted investments are subject to different settlement rules but all payments/receipts are usually due within 7 days of the transaction (buy/sell) date. Because the Fund uses pooled vehicles for quoted investments these are often subject to daily, weekly, 2-weekly or monthly trading dates. All such investments have been designated "within 1 month" for the purposes of liquidity analysis. Open-ended property funds are subject to redemption rules set by their management boards. Many have quarterly redemptions but these can be held back in difficult markets so as not to force sales and disadvantage continuing investors. For liquidity analysis purposes, a conservative approach was applied and all such investments have been designated "within 6- 12 months".

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

In terms of cash flow, therefore, the net cash flow for such a vehicle usually only reaches a maximum of about 60-70% of the amount committed and cumulative distributions usually exceed cumulative draw downs, well before the end of the specified period, as these vehicles regularly return 1½ to 2½ times the money invested. At the same time, it has been the Fund's practice to invest monies on a regular annual basis so the vintage year of active vehicles ranges from 1997 to 2013. This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual "10-year life", many are closer to maturity than implied by this broad designation.

As can be seen from the table, even using the conservative basis outlined above, around 71% of the portfolio is realisable within 1 month.

Market Risk

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

Market risk is comprised of two elements –

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

The following table sets out an analysis of the Fund's market risk positions at 31st March 2014 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark, the target set for managers against this benchmark and managers' maximum target volatility (or risk) against index in achieving this.

This target volatility is a measure of the maximum degree of dispersion of likely results compared with the selected benchmark.

	Manager	Market Value 2013/14 £000	Benchmark	Target (Gross)	Risk(<) %
Fixed Interest Securities	Stone Harbor	174,002	FT All Stocks	+1.5%	4.0
Liability Driven Investment	Insight	227,459	Liability / FTSE	Match	
Foreign equities–active	Investec	71,768	MSCI AC World NDR	+3.5%	10.0
	Aberdeen	76,598	MSCI AC Asia/P ex Japan	+3.0%	12.0
	Aberdeen	8,793	MSCI Frontier Markets	+3.0%	12.0
	Wellington	74,230	MSCI EM Free	+2.5%	8.0
	Duet	49,954	Absolute	+8-10%	3.0
Multistrategy funds	BlackRock	50,922	7 day LIBID	+15.0%	20.0
	BlueCrest	32,032	Absolute	+10-15%	6.0
	Pyrford	32,533	RPI	+5.0%	8.0
Hedge fund of funds	Liongate	22,377	Absolute	+8-10%	6.0
	SSARIS	24,477	Absolute	+8-10%	5.0
	Pioneer	1,539	Absolute	+8-10%	4.0
Commodity fund	Wellington	32,084	GCSI Equally Weighted	+1.5%	4.0
Property funds	Various	97,780	IPD Balanced PUTs	Exceed	
Infrastructure funds	Various	29,636	Absolute	+15.0%	
Timber /Agricultural funds	Various	22,382	Absolute	+15.0%	
Private equity funds	Various	139,799	Absolute	+15.0%	
Opportunistic funds	Various	12,517	Absolute	+15.0%	
		1,180,882			

The risks associated with volatility in market values are mainly managed through a policy of broad asset diversification. The Fund sets restrictions on the type of investment it can hold through investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). The Fund also adopts a specific strategic benchmark (details are in the Fund's SIP) and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. Under normal conditions, there is quarterly rebalancing to this strategic benchmark within fixed tolerances. This allocation, determined through the Fund's asset allocation model, is designed to diversify and minimise risk for a specific level of performance through a broad spread of investments across both the main and alternative asset classes and geographic regions within each asset class. The current strategic benchmark is targeted to produce long-term returns of just over 9% with a volatility of around 10%.

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

	Market Value 2014 £000	Managers No.	Funds No.	Properties/Companies Estimated No.
Real Assets	149,797	21	36	>280
Private Equity/Opportunistic	152,316	19	61	>4,000

Other Price Risk

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

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's performance measurer, WM Company, the fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset Type	**Potential Market Movements (+ / -)**
Global Equity inc UK	7.97%
UK Equity	12.25%
Oveseas Equity	12.30%
Global Fixed Income	5.34%
Alternatives	2.93%
Property	3.71%
Cash	0.02%

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

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

Asset Type	**Market Value**	**Percentage Change**	**Value on Increase**	**Value on Decrease**
	2013/14	**%**	**£000**	**£000**
Cash and cash equivalents	31,928	0.02	31,934	31,922
Investment portfolio assets:-				
Global Equity inc UK	121,722	7.97	131,423	112,021
UK Equity	0	12.25	0	0
Overseas Equity	159,621	12.30	179,254	139,988
Global Fixed Income	174,002	5.34	183,294	164,710
Alternatives	627,757	2.93	646,150	609,364
Property	97,780	3.71	101,408	94,152
	1,212,810		1,273,463	1,152,157

Asset Type	Market Value	Percentage Change	Value on Increase	Value on Decrease
	2012/13	%	£000	£000
Cash and cash equivalents	17,331	0.0	17,331	17,331
Investment portfolio assets:-				
Global Equity inc UK	111,623	11.8	124,795	98,451
UK Equity	122,222	14.2	139,578	104,866
Overseas Equity	279,974	12.7	315,531	244,217
Global Fixed Income	175,148	4.9	183,730	166,566
Alternatives	390,503	3.3	403,390	377,616
Property	82,260	3.7	85,304	79,216
	1,179,061		1,269,659	1,088,263

Interest Rate Risk

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

The Fund recognises that interest rates can vary and affect both the income to the fund and the net assets available to pay benefits. The Fund's Fixed Income manager has advised that they have revised their expectation from a small change of 50 basis points (bps) to 75 bps from one year to the next. As the fund does not use Fixed Income securities to provide income, the following sensitivity analysis only refers to cash and cash balances.

Asset Type	Carrying Value	Change in year in net assets available to pay benefits	
	2013/14	+75BPS	-75BPS
	£000	£000	£000
Cash and cash equivalents	1,408	11	(11)
Cash balances	30,520	229	(229)
	31,928	240	(240)

Asset Type	Carrying Value	Change in year in net assets available to pay benefits	
	2012/13	+50BPS	-50BPS
	£000	£000	£000
Cash and cash equivalents	1,457	7	(7)
Cash balances	15,874	79	(79)
	17,331	86	(86)

Currency Risk

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

The following table summarises the Fund's currency exposure as at 31st March 2014 and as at the previous year end:

Currency Exposure - Asset Type	Market Value 2013/14 £000	Market Value 2012/13 £000
Global Fixed Income	174,002	175,148
Overseas Equities Active	281,343	288,379
Overseas Equities Passive	0	103,218
Multi Strategy	115,487	120,380
Commodities	32,084	34,588
Hedge Funds	48,393	47,070
Property	38,374	39,755
Infrastructure	15,600	11,521
Timber / Agriculture	22,382	20,511
Opportunistic	12,517	5,910
Private Equity	117,446	112,096
	857,628	958,576

Following analysis of the historical data in consultation with the fund's Performance Measurers, WM Company, and analysis of the exposures to foreign currency for the year to 31st March 2014, it was considered that the likely volatility associated with foreign exchange rate movements to be 5.06%. For the period to 31st March 2013, this was calculated to be 5.1%.

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

Currency Exposure - Asset Type	Market Value 2013/14	Percentage Change %	Value on Increase £000	Value on Decrease £000
Global Fixed Income	174,002	5.06	182,801	165,203
Overseas Equity – Active	281,343	5.06	295,571	267,115
Overseas Equity - Passive	0	5.06	0	0
Multi-strategy	115,487	5.06	121,327	109,647
Hedge Funds of Funds	48,393	5.06	50,840	45,946
Commodities	32,084	5.06	33,707	30,461
Timber & Agriculture	22,382	5.06	23,514	21,250
Infrastructure	15,600	5.06	16,389	14,811
Property	38,374	5.06	40,315	36,433
Opportunistic	12,517	5.06	13,150	11,884
Private Equity	117,446	5.06	123,385	111,507
	857,628		900,999	814,257

Currency Exposure - Asset Type	Market Value	Percentage Change	Value on Increase	Value on Decrease
	2012/13	%	£000	£000
Global Fixed Income	175,148	5.1	184,073	166,223
Overseas Equity – Active	288,379	5.1	303,074	273,684
Overseas Equity - Passive	103,218	5.1	108,478	97,958
Multi-strategy	120,380	5.1	126,514	114,246
Hedge Funds of Funds	47,070	5.1	49,469	44,671
Commodities	34,588	5.1	36,351	32,825
Timber & Agriculture	20,511	5.1	21,556	19,466
Infrastructure	11,521	5.1	12,108	10,934
Property	39,755	5.1	41,781	37,729
Opportunistic	5,910	5.1	6,211	5,609
Private Equity	112,096	5.1	117,808	106,384
	958,576		1,007,423	909,729

8. OTHER INVESTMENTS

	2014		2013	
	£000	£000	£000	£000
Other Investment Assets :				
Sale of Investments / Income accrual	0		874	
		0		874
Other Investment Liabilities :				
Purchases of investments	0		0	
		0		0
Other Investment Balances		0		874

9. DEBTORS/CREDITORS

	2014		2013	
	£000	£000	£000	£000
Current Assets :				
Contributions due - Employees	1,160		1,099	
Contributions due - Employers	2,276		2,105	
Added years	26		52	
H.M. Revenue and Customs	41		54	
Pension strain	1,063		251	
Administering authority	2		210	
Miscellaneous	177		74	
		4,745		3,845
Less Current Liabilities :				
Lump sums	(2,782)		(1,774)	
Death grants	(531)		(131)	
Administering authority	(236)		(303)	
Added years	(81)		(55)	
Miscellaneous	(358)		(285)	
		(3,988)		(2,548)
Net Current Assets		757		1,297

Analysis of debtors

	2014	2013
	£000	£000
Central Government Bodies	41	54
Other Local Authorities	4,174	3,468
Other Entities and Individuals	530	323
	4,745	3,845

Analysis of creditors

	2014	2013
	£000	£000
Other Local Authorities	(298)	(331)
Other Entities and Individuals	(3,690)	(2,217)
	(3,988)	(2,548)

10. POST BALANCE SHEET EVENT

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2014. Since this date, the performance of the global equity markets may affect the financial value of pension fund investments. This movement does not affect the ability of the Fund to pay its pensioners.

Changes have been agreed to the Local Government Pension Scheme which will take effect from 1st April 2014. These changes will not impact the Statement of Accounts for 2013/14. A Clwyd Pension Fund Committee has now replaced the Clwyd Pension Fund Panel.

11. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

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

Contributions paid	£	885,208
Units purchased	No.	158,984
Units sold	No.	63,801
Market value as at 31st March 2014	£	4,766,107
Market value as at 31st March 2013	£	4,404,457

12. RELATED PARTY TRANSACTIONS

Governance

Under legislation, introduced in 2004, Councillors are entitled to join the Pension Scheme. As at 31st March 2014, two Members of the Pension Panel have taken this option. The Members of the Pension Fund Panel do not receive any fees in relation to their specific responsibilities as members of the Panel.

Key Management Personnel

No senior officers responsible for the administration of the Fund have entered into any contract, other than their contract of employment with the Council, for the supply of goods or services to the Fund. Kerry Feather, the Head of Finance (Treasurer and Administrator to the Clwyd Pension Fund) has been identified as holding a key position in the financial management of the fund.

Flintshire County Council

In the course of fulfilling its role as administering authority to the Fund, Flintshire County Council provided services to the Fund for which it charged £1,023k (£791k in 2012/13).

These costs are in respect of those staff employed in ensuring the pension service is delivered, and other costs such as payroll and information technology. The costs are included in the accounts within administration expenses (see note 2). At the year end, a net balance of £234k was owing to Flintshire in relation to creditors payments made on behalf of the fund and support service costs which were not available as at 31st March 2014 (£93k in 2012/13).

10. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31st March 2014, the Fund has contractual commitments of £542.0m (£458.4m in 2012/13) in private equity and property funds, of which £371.8m (£323.4m in 2012/13) has been invested, leaving an outstanding commitment of £170.2m (£135.0m in 2012/13).

11. TRANSACTION COSTS

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. They include fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. They can be added to purchase costs or netted against sales proceeds, as appropriate. These costs cannot be directly identified as the Clwyd Pension Fund is wholly invested in pooled vehicles.

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

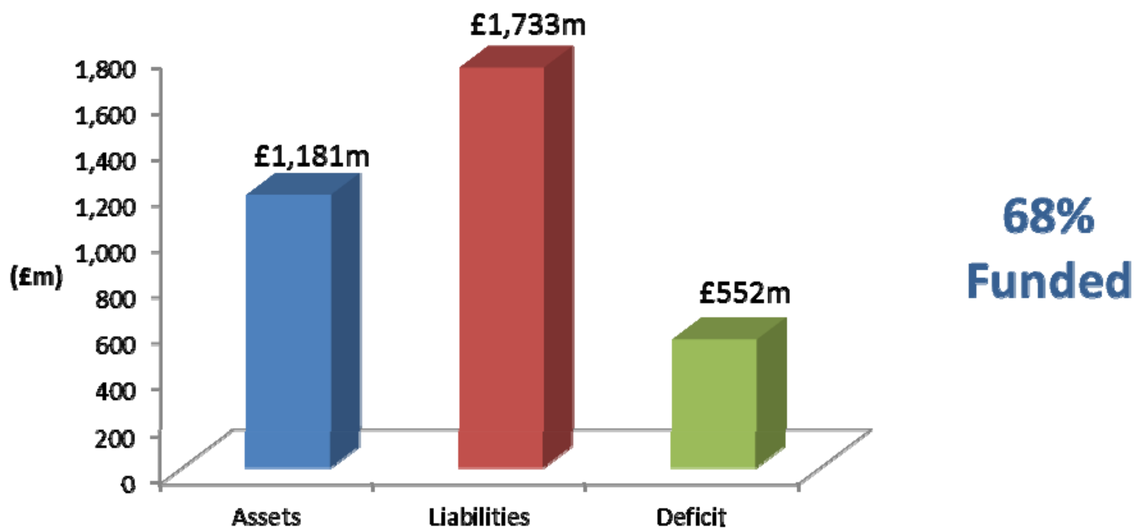
CLWYD PENSION FUND

Accounts for the year ended 31 March 2014 - 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 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

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



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

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

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

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

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

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

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

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

The assets were assessed at market value.

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

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 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum
* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.		

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

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £1,901 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£101 million. Adding interest over the year increases the liabilities by c£80 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£10 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£88 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £1,802 million.

Paul Middleman

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

June 2014

Governance Policy and Compliance Statement

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 regulations.

Flexibility is provided for each Administering Authority to determine their own governance arrangements. However the Local Government Pension Scheme 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 Local Government Pension Scheme Regulations. The compliance statement required by point (d) is included as Appendix A. This statement of policy and compliance will be updated in relation to the requirements of (e) by April 2015, which is the date the local pension board must be established by and the Pensions Regulator becomes responsible for oversight of some LGPS governance matters.

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 33,000 current and former members of the Fund, and their dependents
- around 25 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

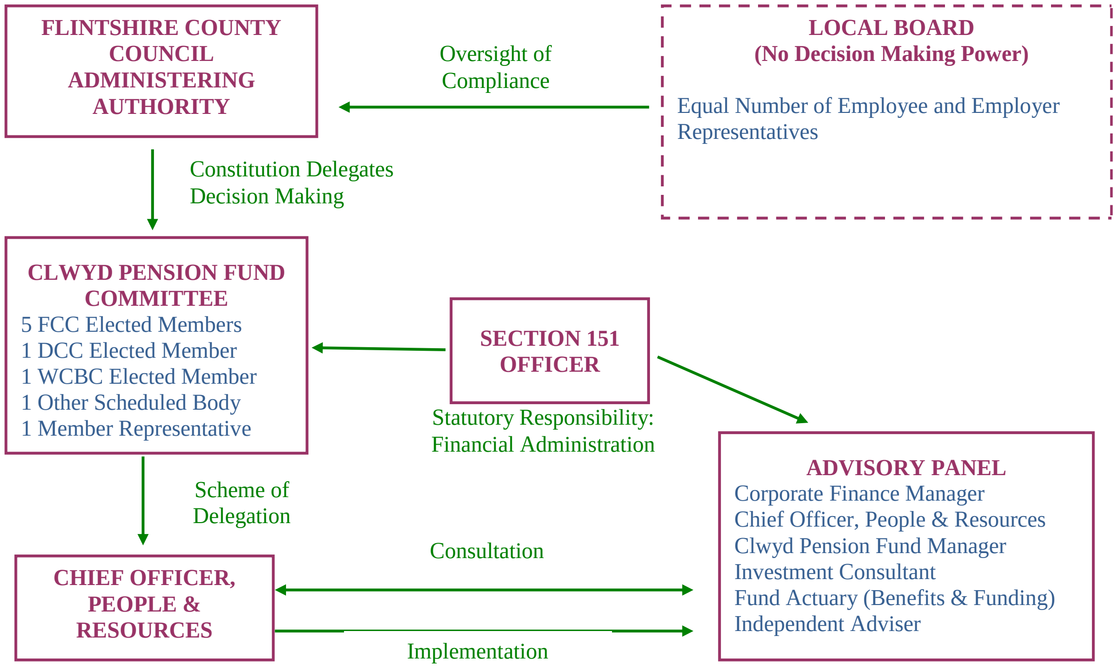
Background to Governance Arrangements

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 has a statutory responsibility for the proper financial affairs of Flintshire County Council which including Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Officer – People and Resources. It is expected that this governance structure will be expanded later in 2014 or 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. Taking this into account, 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 Local Government Pension Scheme legislation.

The members on the Clwyd Pension Fund Panel 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 Head of Finance 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 Head of Finance 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 Officer, People and Resources

Under the Council's Constitution, the Chief Officer, People and Resources 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 Pensions Fund Committee.
- Establish and Chair a Clwyd Pension Fund Advisory Panel consisting of officers of the Council and advisers 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 Officer, People and Resources 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 Corporate Finance Manager of Flintshire County Council
- The Chief Officer, People and Resources
- The Clwyd Pension Fund Manager
- Investment Consultant
- Fund Actuary
- Independent Adviser

Training

Flintshire County Council recognises that effective financial 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 financial 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.

We will be developing the Fund's Training Policy later in 2014, albeit it already has an intensive Training Plan in place.

We will report on an annual basis how well these policies have 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 Officer, People and Resources, who will act in accordance with the Fund's policy statement once it has been developed.

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.	• 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. • In line with the Regulations this document will be filed with the DCLG.
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	• A Training Policy in place together with annual monitoring of all training by Pension Committee members and key officers.
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	• 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. • The Pension Fund Committee includes representatives from scheme members and most employers in the Fund.
Understand and monitor risk	• A Risk Policy and register in place. • Ongoing consideration of key risks at Pension Fund Committee meetings.
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	• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee. • The Fund has an Independent Adviser and their annual report includes reference to compliance with key requirements.
Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success	• All strategies and policies include reference to how objectives will be monitored. • Ongoing monitoring against key objectives at Pension Fund Committee meetings. • Ongoing monitoring of business plan targets at Pension Fund Committee meetings.

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 and/or key officers resulting in loss of continuity and potentially diminishing knowledge and understanding
- 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
- Poor attendance and/or a lack of engagement at training and/or formal meetings by 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 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 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.

This Governance Policy and Statement was approved at the Clwyd Pension Fund Committee on 22 July 2014. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

Further Information

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

Philip Latham, Clwyd Pension Fund Manager, Flintshire County Council
E-mail - Philip.latham@flintshire.gov.uk
Telephone - 01352 702264

Appendix A - Clwyd Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
A. STRUCTURE		
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.	**COMPLIANT**	The administration of benefits and strategic management of fund assets is delegated by the Council to Pension Fund Committee.
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.	**COMPLIANT**	Representatives covering most employers and scheme members are Co-opted Members of the Pension Fund Committee.
c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	**NOT APPLICABLE**	
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.	**NOT APPLICABLE**	
B. REPRESENTATION		
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	**PARTIALLY COMPLIANT**	The Pension Fund Committee includes the following Co-opted Members: • 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) • a scheme member representative covering all categories of scheme member. 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.
b. 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.	**COMPLIANT**	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.
C. SELECTION AND ROLE OF LAY MEMBERS		

Best Practice	Compliant or not?	Explanatory Note
a. 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.	COMPLIANT	This is highlighted via regular training and also when presenting the Governance Strategy Statement for approval.
b. 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.	COMPLIANT	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.
D. VOTING		
a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	COMPLIANT	The Council's Constitution and the Fund's Governance Strategy Statement make it clear that all Pension Fund Committee members have equal voting rights.
E. TRAINING / FACILITY TIME / EXPENSES		
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.	COMPLIANT	Training is delivered through several avenues including: • An initial induction for new Pension Fund Committee Members • Ongoing training through written reports or presentations at Committee meetings • Conferences and seminars. 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 receive payments for attendance at meetings (including training events) as detailed within the Flintshire County Council Members' Remuneration Scheme.
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	COMPLIANT	
c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	COMPLIANT	A log of individual Member training is maintained. In addition, the Fund has adopted the CIPFA Knowledge and Skills Framework and is developing a Fund specific Training Policy.
F. MEETINGS (FREQUENCY/QUORUM)		

Best Practice	Compliant or not?	Explanatory Note
a. That an administering authority's main committee or committees meet at least quarterly.	COMPLIANT	
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	NOT APPLICABLE	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	NOT APPLICABLE	Even though we do have lay members on our Pension Committee, we also have an Annual Joint Consultative Meeting (AJCM) for employing bodies and scheme members.
G. ACCESS		
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.	COMPLIANT	All Members of the Pension Fund Committee have equal access to papers.
H. SCOPE		
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	COMPLIANT	The remit of the Pension Fund Committee covers all Fund matters, including administration, communications, funding, investments and governance.
I. PUBLICITY		
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.	COMPLIANT	The Fund publishes a detailed Annual Report, newsletters for active and pensioner members, road shows, drop in sessions and an Annual Meeting for 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).

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 Officer, People and Resources 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) Considering the Fund's financial statements prior to approval by the Council and agreeing the Fund's annual report.

g) Selection, appointment and dismissal of the Fund’s advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.

h) 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.

i) Agreeing the terms and payment of bulk transfers into and out of the Fund.

j) Agreeing Pension Fund business plans and monitoring progress against them.

k) 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.

l) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.

m) Receiving ongoing reports from the Chief Officer, People and Resources and Pensions Advisory Panel in relation to delegated functions.

Clwyd Pension Fund (CPF)
2013 Funding Strategy Statement (FSS)

This Statement has been prepared by Flintshire County Council (the Administering Authority) to set out the funding strategy for the Clwyd Pension Fund (the CPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Administration Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the 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 Statement of Investment Principles (SIP) for the CPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the CPF are guaranteed by statute and thereby the pensions promise is secure. 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 Scheme 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 the introduction of a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the CPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations") and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") governs the CPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the Administration Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the CPF should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. PURPOSE OF THE 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 purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the CPF 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 CPF

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

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, costs, charges and expenses as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the CPF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and

- monitor all aspects of the CPF's performance and funding and amend FSS/SIP.

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
- exercise discretions 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
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Administration Regulations 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. In the long term, the employer rate would ultimately revert to the Future Service Rate.

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme 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 us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
- whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

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.

As part of each valuation separate employer contribution rates are assessed by the 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 Scheme. In attributing the overall investment performance obtained on the assets of the Scheme 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.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- In the current circumstances, as a general rule, the Fund does not believe it appropriate for deficit contribution reductions to apply compared to the 2010 funding plan where substantial deficits remain.

- In addition, a maximum deficit recovery period of 20 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (ie run-off) over a 20 year period (if surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount). The current level of contributions will be phased down as appropriate.

- The employer contributions will be expressed and certified as two separate elements:
  - a percentage of pensionable payroll in respect of the future accrual of benefit
  - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation.

- Where increases in employer contributions are required from 1 April 2014, following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2013/14 may be implemented in steps, over a maximum period of [3] years.

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. The full termination policy is set out in Appendix 3.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

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

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the 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.
- length of expected period of participation in the Fund.

In certain instances, and in particular for Fund employers which are considered by the Administering Authority to provide a high level of financial covenant, an allowance may be made as part of the Recovery Plan for investment performance at a higher level than that assumed for assessment of the funding target. It is envisaged that this option will only be afforded to eligible employers where an increase in contributions is required (compared to the 2013/14 level of contribution) when adopting the maximum 20 year recovery period. This higher level of return assumed will, in particular reflect the actual investment strategy of the Fund, on the basis that this is to be maintained over the entire recovery period. The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

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, after specific agreement has been obtained by Fund Officers from the Clwyd Pension Fund Panel, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

The Normal Cost of the Scheme (Future Service Contribution Rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the “normal cost”). The method and assumptions for assessing these contributions are also set out in Appendix 1.

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES (See Appendix 2)

The results of the 2013 valuation show the liabilities at 31 March 2013 to be [66]% covered by the current assets, with the funding deficit of [34]% being covered by future deficit contributions.

In assessing the value of the CPF’s liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the CPF, as set out in the SIP.

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 closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the CPF’s assets in line with the least risk portfolio would minimise fluctuations in the CPF’s ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

Asset Class (Summary)		%
	Equities	43.0
	Fixed Interest	15.0
	Alternative Investments	42.0
	TOTAL	**100.0**

Asset Class (Detailed)		%
Equities		
	Developed Passive	19.0
	Global	10.0
	PacRim equities	7.0
	Emerging market equities	7.0
		43.0
Fixed Interest		
	Unconstrained	15.0
		15.0
Alternative Investments		
	Commodities	4.0
	Asset Allocation	12.0
	Private Equity	8.0
	Property	7.0
	Hedge Fund of Funds	5.0
	Infrastructure	2.0
	Timber/Agriculture	2.0
	Free Allocation	2.0
		42.0
	TOTAL	**100.0**

The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance of 1.4% per annum.

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the CPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and 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 CPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out performance assumed in the long term.

What are the Risks?

Financial

- Investment markets fail to perform in line with expectations
- Market yields move 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
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

In the context of managing various aspects of the Fund's risks, the Administering Authority has embarked on a "Flightpath" risk management investment strategy. A Liability Driven Investments (LDI) mandate of up to 15% of the Fund's assets has recently been awarded.

The principle 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). The overall funding flightpath strategy is to consider and structure the investment strategy to determine a balance between return-seeking and risk-hedging assets. This approach will continue to be developed over the coming months and further details will be included in the Fund's Statement of Investment Principles (SIP).

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

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.

Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Panel membership.

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

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding 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

Kerry Feather
Head of Finance (Administrator & Treasurer to the Fund)
Flintshire County Council as lead authority for the Clwyd Pension Fund

APPENDIX 1

ACTUARIAL VALUATION AS AT 31 MARCH 2013

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the 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 (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.4% per annum.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

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 the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, The overall reduction to RPI inflation at the valuation date is [1.0]% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for major employers as budgeted in their financial plan. This results in a total salary increase of 1% per annum for 3 years.

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 RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

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 CPF specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary.

Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

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

Commutation

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

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, allowing for take-up of the 50:50 option will be made up to a maximum of 5% of current and future members for certain employers (who have sufficient size of current contributing members). 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 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

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

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a. (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the

2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	94% / 93%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	156% / 106%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	106% / 98%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	87% / 82%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	114% / 102%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	99% / 93%	CMI_2012	1.5%

Other demographic assumptions are noted below:

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.
50:50 Option	Up to 5% take-up for certain employers

APPENDIX 2

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to 2013/14 levels) when adopting the maximum recovery period of 20 years, an allowance may be made as part of the recovery plan for investment performance at a higher level than that assumed for assessment of the funding target. Therefore the required contributions are adjusted to allow for the following variation in assumptions during the period of the recovery plan:

Investment return on existing assets and future contributions

A maximum overall return effective as at the valuation date of 6.0% p.a. (i.e. a return of 2.8% p.a. in excess of gilts) reflecting the underlying investment strategy of the scheme and, in particular, including the assets of the scheme that underlie the pensioner as well as the non-pensioner liabilities.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of investment returns, based on the current investment strategy, over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the additional return over and above that built into the funding target assumptions will be limited so that the total employer contributions emerging from the valuation will be no less that the current level of contributions payable by the employer or the Future Service Contribution Rate.

Appendix 3

Clwyd Pension Fund

Policy on Termination Funding for Employers (“Termination Policy”)

1. Introduction

1.1. 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).

1.2. *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.

1.3. *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.

1.4. 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.

1.5. Please see the glossary for an explanation of the terms used (in italics) throughout this Appendix.

2. Principles

Termination of an employer’s participation

2.1. 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.

2.2. 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*.

2.3. 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.

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

2.5. If, instead, the *employing body* has a guarantor within the Fund or a successor body exists to take over the *employing body’s* liabilities, the CPF’s policy is that the *valuation funding basis* will be used for the termination assessment unless the guarantor informs the CPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the *employing body* within the Fund. (For *Admission Bodies*, this process is sometimes known as the “novation” of the admission agreement.) 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.

2.6. 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. Therefore, a separate assessment of the assets to be transferred will be required.

Funding basis

2.7. An *employing body* may choose to pre-fund for termination i.e. to amend their funding approach to a least 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 least risk basis.

2.8. For any *employing bodies* funding on such a *least risk* strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the *employing body's* notional asset share of the Fund will be credited with an investment return in line with the *least 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.

Administering Authority options relating to Admission Bodies

2.9. Prior to admission to the Fund, an *Admission 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 *admission body* must pre-fund for termination with contribution requirements assessed using the least risk methodology and assumptions.

2.10. Some aspects that the *Administering Authority* may consider when deciding whether to apply a least risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the *admission body* relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the *admission 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.

2.11. 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.

3. Implementation

New admissions (admitted after 1 April 2014)

3.1. With effect from 1 April 2014 the CPF will apply the above principles to the admission of new bodies into the Fund and to the methodology for assessment of a termination payment on the cessation of such an *admission body's* participation in the CPF.

Transferee admission bodies (TABs)

3.2. *Transferee admission bodies* are a category of *admission body* that generally will have a guarantor in the Fund. This is due to the Regulations requiring that, in the event of any unfunded liabilities on the termination of the admission, the contribution rate for the relevant *Scheme Employer* should be revised. Accordingly, in general, the least risk approach to funding and termination will not apply for TABs.

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

3.4. On termination of a TAB admission, any *orphan liabilities* in the Fund will be subsumed by the relevant *Scheme Employer*.

3.5. The *Admission 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.

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

3.7. 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* in accordance with paragraph 2.9.

Community admission bodies (CABs)

3.8. Historically, there was no requirement to carry out an assessment of the level of risk on termination of the admission agreement for a CAB until changes were made to the Regulations via the Miscellaneous Regulations 2012. For bodies admitted under previous legislation, despite no requirement to do so the *Administering Authority* may nevertheless have decided to carry out such a risk assessment where appropriate. As noted in 3.5, all *Admission Bodies* are now required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the *Administering Authority*.

3.9. The CPF's policy is to consider applications on a case-by-case basis, in line with the principles set out above. In general, if any risk assessment or determination of a bond amount is not to the satisfaction of the *Administering Authority*, or if a guarantor (of sufficient standing acceptable to the *Administering Authority*) is not forthcoming, the *admission body* will be required to pre-fund for termination with contribution requirements assessed using a least risk methodology and assumptions as set out in 2.9. 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.

3.10. Deficit recovery periods will be determined consistent with the policy set out in the FSS. Alternatively, the *Administering Authority* may determine an employer specific deficit recovery period will apply.

Future Terminations

3.11. 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.

Least Risk Termination basis

3.12. The least risk financial assumptions that applied at the actuarial valuation date (31 March 2013) 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.

Least risk assumptions	31 March 2013
Discount Rate	3.2% p.a.
CPI price inflation	2.9% p.a.
Pension increases/indexation of CARE benefits	2.9% p.a.

All demographic assumptions will be the same as those adopted for the 2013 actuarial valuation, unless modified otherwise.

Glossary

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.

Community admission bodies: A subset of, and the traditional type of *admission bodies* – bodies who operate in and/or are connected to local government. They also include *admission bodies* that are not associated to local government, as follows:

- Bodies which provide a public service in the UK otherwise than for the purposes of gain and which have sufficient links with a *Scheme Employer* to be regarded as having a community of interest.

- Bodies which provide a public service in the UK otherwise than for the purposes of gain and which are approved by the Secretary of State to be admitted to the LGPS. Approval may be subject to such conditions as the Secretary of State thinks fit and he may withdraw approval at any time if such conditions are not met.

- Bodies to which any *Scheme Employer* provides funding. Where at the date that the admission agreement is made with such a body the total contribution from any one or more *Scheme Employers* to its contribution income equals 50% or less of the funding contributed by third parties it must be a term of the admission agreement that the *Scheme Employer* who provides funding (and, if more than one, all of them) guarantees the liability of the *admission body* to pay all amounts due from it under the LGPS Regulations.

Employing bodies: any organisation that participates in the LGPS, including *admission bodies* and *scheme employers*.

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.

Least risk funding basis: more cautious funding basis than the existing valuation basis. The relevant discount rate used for valuing the present value of liabilities is consistent with that used under the most recent valuation but removing the allowance for asset out-performance.

Orphan liabilities: liabilities in the CPF for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Part 2 Scheme Employers: employers that have the statutory right to participate in the LGPS, although these bodies (set out in Part 2 of Schedule 2 of the Administration Regulations) would need to designate an employee, or a class of employees to which he/she belonged, as being eligible for membership of the LGPS.

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 Administration Regulations) would not need to designate eligibility, unlike the Part 2 *Scheme Employers*.

Administering Authority: Flintshire County Council, as the lead authority of the CPF, responsible for all aspects of its management and operation.

Transferee admission bodies: A subset of *admission bodies* and participates in the Fund for employees involved with delivery of a specific function or service for a *Scheme Employer*. An example is where a local authority outsources a specific service (e.g. waste management) to a private sector employer. In these cases the relevant *Scheme Employer* would be a party to the admission agreement, as well as the *admission body* itself and the *administering authority*.

STATEMENT OF INVESTMENT PRINCIPLES

EXECUTIVE SUMMARY

1. The Clwyd Pension Fund adopted as best practice from April 1997 the production, publication and regular review of a Statement of Investment Principles (SIP). The Fund continued this practice in response to the Local Government Pension Scheme (Management and Investment)(Amendment) Regulations 1999, which required the formal publication of a SIP. This SIP now complies with Local Government Pension Scheme (Management and Investment)(Amendment) Regulations 2009, including a statement on compliance with the Myner's Principles, the Stewardship Code and a Sustainability Policy.

2. 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.

3. 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 Pension Fund Advisory Panel. The Corporate Finance Manager is the Section 151 Officer has a statutory responsibility for the proper financial affairs of Flintshire County Council which including Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Officer (People and Resources). It is expected that this governance structure will be expanded later in 2014 or 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. 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 Officer (People and Resources) 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 Officer (People and Resources) 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.

4. The Fund's investment policy and management of the Fund will be directed at achieving and maintaining a fully funded scheme and, where practical, a stable employers' contribution rate.

5. Since 1 April 1996, the Clwyd Pension Fund has published a set of Corporate Governance Policy Guidelines, supported by other statements on social, environmental, ethical and governance-related investment issues. The Clwyd Pension Fund has incorporated all these areas into a Sustainability Policy.

6. In determining its detailed fund management arrangements and operations, the Pension Fund Committee adopt a positive engagement approach on sustainability. There will therefore be no direct investment restrictions applied and managers will have full freedom to invest. However, under the Fund's Sustainability policy, managers will be encouraged to take account of sustainability issues in their investment decisions and to use their influence with companies on behalf of the Fund to effect improvements. Their performance in these respects will be monitored and reported in accordance with the terms of the Sustainability Policy.

7. The Fund will pursue a policy of controlling risk through diversification of both investments and fund managers (see table below) and the Liability Hedging Portfolio. Fund managers will be given clear investment mandates, incorporating appropriate benchmarks and agreed targets, and will be employed on a fully discretionary basis within these mandates, subject to compliance with any legislative requirements and the Fund's stated policies.

8. Investment management arrangements will be reviewed periodically and as required. A full in-depth review will be carried out at least every four years. However, a conditional medium term asset allocation (CAA) has been introduced to manage major risks to the long term strategic asset allocation which may emerge between Fund Reviews.

9. The security of the Fund's assets will be closely monitored through its Global Custodian or the custodians of pooled vehicles.

10. The Fund's investment managers and custodians will be made aware of this Statement of Investment Principles.

Strategic Asset Allocation (SAA) and Implementation

SAA (%)	Scenario	Rebalancing Range	CAA Range
	Equity - Alpha Seeking		
6.5	PacRim – High Alpha	+/- 1	
6.5	Emerging Markets – Core	+/- 1	
1.0	Frontier Markets		
5.0	Global – High Alpha	+/- 1	
5.0	Other – High Alpha	+/- 1	
24.0		+/- 2	+/- 10
24.0	**TOTAL EQUITY**	+/- 3	+/- 15
	Fixed Interest		
15.0	Unconstrained	+/- 2	
0.0	Government Bonds		
0.0	Cash/Other	+/- 5	
15.0		+/- 2	+/- 15
15.0	**TOTAL FIXED INTEREST**	+/- 2	+/- 15
	Alpha-Seeking Alternatives		
8.0	Private Equity		
5.0	Hedge Fund of Funds		
2.0	Free		
15.0		+/- 3	
	Real Assets		
7.0	Property		
2.0	Infrastructure		
2.0	Timber/Agriculture		
4.0	Commodities		
15.0		+/- 3	
30.0	**TOTAL OTHER ASSETS**	+/- 5	+/- 5
	Tactical Asset Allocation		
6.0	GTAA	+/- 1	
3.0	DTAA	+/- 1	
3.0	Macro FOF	+/- 1	
12.0		+/- 2	
	TOTAL TAA	+/- 2	+/- 5
	Liability Hedging portfolio		
	Interest rate hedge		
	Inflation rate hedge		
	Collateral portfolio – Bonds/Cash		
	Collateral portfolio – Equity		
19.0	**TOTAL HEDGING PORTFOLIO**	0-35%	+20%

Manager	Asset Category	Benchmark	Target (Gross)
Stone Harbor	Unconstrained Fixed Interest	1 month Libor	+1.50%
Aberdeen	Asia Pacific (ex Japan) Equities	MSCI AC AP (ex Japan)	+3.50%
Wellington	Emerging Markets Equity	MSCI EM Free	+2.50%
Aberdeen	Frontier Markets Equity	MSCI Frontier Markets	+3.00%
Investec	Global Equity	MSCI AC World NDR	+3.00%
Duet	Global Equity	Absolute Return	+8-10%
Wellington	Commodities	GSCI Sectors	+2.00%
Blackrock	Global Tactical Asset Allocation	7 day LIBID	+15.00%
Bluecrest	Global Tactical Asset Allocation	Absolute Return	+10-15%
Pyrford	Global Tactical Asset Allocation	RPI	+5.00%
Liongate	Fund of Hedge Fund	Absolute Return	+8-10%
SSARIS	Fund of Hedge Fund	Absolute Return	+8-10%
Various	Property	IPD Balanced PUTS Weighted Average	
Various	Private Equity	Absolute Return	+15.00%
Insight	Liability Hedging portfolio	Scheme liabilities	Match

A REFERENCE GUIDE TO THE FUND'S STATEMENT OF INVESTMENT PRINCIPLES

1. INTRODUCTION

1.1 The Pensions Act 1995 requires Trustees of private sector pension schemes to prepare and keep up to date a written statement recording the investment policy of the Pension Fund, through a Statement of Investment Principles (SIP).

1.2 The Local Government Pension Scheme (LGPS), which is subject to Regulations made under the Superannuation Act 1972 and the Public Service Pensions Act 2013, and which regulates some of the same issues, was initially exempt from this requirement of the 1995 Act. Nevertheless, the creation, consideration and periodic review of a Statement of Principles on Investment and Fund Management was considered best practice for all funds and one with which the Clwyd Pension Fund voluntarily complied with from 1 April 1997.

1.3 With effect from 1 July 2000, LGPS Funds were required by the Local Government Pension Scheme (Management and Investment) (Amendment) Regulations 1999, to publish a SIP. These regulations have been replaced by, the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009. The Regulations state the SIP must include the following:

- the types of investments held
- the balance between different types of investments
- risk, including ways risks are measured and managed
- the expected return on investments
- the realisation of investments
- the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- the exercise of the rights (including voting rights), if any, attaching to investments
- stock lending

1.4 The SIP is designed to comply with guidance given by the Secretary of State. It incorporates a newly formulated Sustainability Policy, covering social, environmental, ethical and governance-related investment issues and, as required, details the Fund’s degree of compliance with the Myners 6 principles.

1.5 The SIP is effective from 1 July 2014 and will be reviewed every six months with any material changes published.

1.6 The SIP should be read in conjunction with the following statutory documents:

- Funding Strategy Statement implemented from 1st April 2014
- Governance Policy and Compliance Statement
- Communications Policy Statement
- Clwyd Pension Fund Annual Report and Accounts
- Clwyd Pension Fund Actuarial Valuation as at 31st March 2013

All the above statements and documents can be found on the Fund’s web site at www.clwydpensionfund.org.uk

2. STATUTORY FRAMEWORK & GOVERNANCE BACKGROUND

2.1 Flintshire is designated as Lead Authority for the Clwyd Pension Fund by Regulations made under the Local Government (Wales) Act 1995, which dealt with the reorganisation of Local Government in Wales, effective from 1 April 1996.

2.2 The administration of the Clwyd Pension Fund is a statutory duty laid upon the authority by Regulations made under the Superannuation Act 1972 and the Public Service Pensions Act 2013. The Fund is simply a Fund of the Council, albeit closely regulated by statutory instruments, and has no separate legal identity from the Council.

2.3 It follows, therefore, that Elected Members are not Trustees of the Fund, even though convenient usage sometimes results in that term being applied to them. Elected Members do, however, have a duty of care to the beneficiaries, employers and the local taxpayers, which is analogous to the responsibilities of Trustees in the private sector. They could therefore be more accurately described as "Quasi-Trustees". The term Quasi-Trustee will be used throughout this document in order to distinguish those responsible for the Fund from contributor, pensioner and deferred members of the Fund who will, collectively, be termed beneficiaries.

2.4 The Clwyd Pension Fund, as a statutory LGPS Fund, is set up to provide death and retirement benefits for Local Government employees in North East Wales, other than teachers, police and fire fighters. In addition, employees of certain other qualifying bodies which provide services similar to that of Local Authorities have been admitted to membership of the LGPS and hence the Fund. The latest Regulations made under the Public Service Pensions Act are the LGPS Regulations 2014, which came into effect from 1 April 2014. These are amended from time to time to take account of scheme changes.

2.5 In the discharge of this function, in May 2014, the Fund's governance arrangements were reviewed and the Council established a formal Pension Fund Committee, supported by a Pension Fund 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 including Clwyd Pension Fund matters. In addition, the Council has delegated specific responsibilities to the Chief Officer – People and Resources. It is expected that this governance structure will be expanded later in 2014 or 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. Further details of the Fund’s governance arrangements can be found in Fund’s separate Governance Policy & Compliance Statement.

2.6 As noted above, in administering the investments of the Fund, the Chief Officer (People and Resources) and Quasi-Trustees have a duty of care. That duty has been expressed as seeking, ".....to maximise the return on the invested funds so far as it can do so without incurring unacceptable risks" (McFadyen QC 5/90).

2.7 The investment responsibilities of the Clwyd Pension Fund Committee and other third parties involved with the investment management and funding of the Fund are set out as follows:

The constitution of the administering authority delegates the following investment responsibilities to the Clwyd Pension Fund Committee:

- Approving the Statement of Investment Principles which includes investment strategy, Sustainability Policy, Myners Compliance Statement, setting of investments targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.

- Monitor the implementation of these policies and strategies on an on-going basis

- Selection, appointment and dismissal of the Fund's, investment consultants, global custodian, fund managers, and lawyers

As allowed for in the Constitution the Clwyd Committee Fund Committee delegates certain functions relating to the above responsibilities to officers who in turn must take advice where required from the Investment Consultant and/or Pension Advisory Panel. The outcomes from these delegated functions are reported to the Committee

They are listed below:

- Rebalancing and cash management
- Implementation of strategic allocation including use of ranges
- Implementation of flight-path triggers
- New mandates and emerging opportunities
- Ongoing monitoring of Fund Managers
- Selection, appointment and dismissal of Fund Managers
- Other urgent (or non- urgent) matters as they arise

The Investment Consultant is responsible for:

- Providing the Clwyd Pension Fund Committee with advice regarding the strategic asset allocation for the Fund.
- Providing the Clwyd Pension Fund Committee with advice regarding the investment structure of the Fund required to meet the investment objectives agreed.
- Monitoring the performance of the strategy and advising the Clwyd Pension Fund Committee on changes to the strategy or asset allocation that may be required.
- Monitoring the performance of the underlying fund managers and advising the Pension Advisory Panel on changes to the managers that may be required.
- Maintaining and updating the Statement of Investment Principles.

The Fund Managers are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation, and each Manager's detailed Investment Management Agreement or Investment Memorandum.
- Where allowed, tactical asset allocation around the benchmarks, as set out in the Investment Management Agreements or Investment Memorandum.
- Stock selection within asset classes (purchases and realisations).
- Preparation of a quarterly review of investment performance.
- Attending review meetings with the Fund's officers, advisors and quasi-trustees.

- Providing details, as required, to the Fund's custodian and independent performance measurer.
- Reporting on compliance with this SIP, including the Sustainability Policy.

The Global Custodian is responsible for:

- Where the Fund holds segregated assets, the safekeeping of assets, the collection of income, the voting of shares and the execution of transactions in accordance with the Custody Agreement and the Fund's corporate governance guidelines within the Sustainability Policy.
- Its own compliance with prevailing legislation.
- Providing the Fund with quarterly valuations of the Scheme's assets, details of all transactions during the quarter, bank statements and all other relevant documentation.

The Actuary is responsible for:

- Providing the Clwyd Pension Fund Committee with advice as part of the establishment of strategic asset allocation benchmarks.
- Providing the Clwyd Pension Fund Committee with advice as to the maturity of the Fund, its funding level and flight-path implementation.
- Working with the Fund at each actuarial valuation to produce a Funding Strategy Statement (FSS).
- Performing the triennial valuations.

The Independent Adviser is responsible for:

- Reporting on the investment governance arrangements for the Fund including the performance of the Committee and Advisory Panel
- Monitoring the management of investment risks
- Assist the Chief Officer (People and Resources) with the implementation of the Fund's Knowledge and Skills Policy.

3. FUNDING LIABILITIES AND INVESTMENT POLICY

3.1 The LGPS is a public sector statutory defined benefit Pension Scheme that provides benefits related to the final salary of members. Each member's pension is specified in terms of a formula, based on salary and service, and is unaffected by the investment return achieved on the Fund's assets. Full details of Scheme benefits are set out in the LGPS Regulations.

3.2 All active members of the Scheme are required to make banded pension contributions dependent on salary.

3.3 The employing bodies are responsible for meeting the balance of costs necessary to finance the benefits payable under the Scheme and their contribution rates are determined on a triennial basis (Actuarial Valuation). These contribution rates take account of both assets and estimated liabilities, both of which are subject to volatility.

3.4 Beneficiaries have an interest in the extent to which the Fund's assets are sufficient to meet accrued benefits, albeit that their benefits are guaranteed by the Regulations. The employers, however, have a direct financial interest in the investment return achieved on the Fund's assets and movements in liabilities, since both can have a direct bearing on their own costs.

3.5 The existence of surpluses or deficits from previous valuation periods can reduce or increase the contributions made by employers. Given constraints on employer spending, volatility in the employers' contribution rate is undesirable.

3.6 In managing the Fund, therefore, the overall investment objective should be:

- to aim for a funding level of 100%;
- to aim for long term stability in employers' contribution rates.

3.7 The Clwyd Pension Fund was funded at 68% of liabilities (2013 Actuarial Valuation) and employers' rates are currently structured to achieve a gradual return to 100% funding by 2031.

3.8 Whilst stability of costs from the employers' rates has the higher priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice;
- employers will adopt appropriate and economic policies in those areas where they have discretion and where the costs of their actions fall on the Fund;
- the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will continue to take an active risk relative to its liability profile.

3.9 The investment policy of the Fund is intended to strike the appropriate balance between the policy most suitable for long-term consistent performance and the funding objectives. A favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

3.10 At a more detailed level, the Fund's membership comprises approximately 44% contributors and 56% pensioners (including deferred and frozen pensions). The best asset match for index-linked pensions would be index linked gilts, with perhaps some conventional bonds. This would be a “least risk” investment strategy but would also result in an increase in employer contributions. A departure from this “least risk” strategy, particularly the inclusion of equity-type investments, increases risk but also adds the potential for higher returns, which should over time reduce the contribution requirements. The Fund is a long-term investor and can favour the latter.

3.11 The Fund’s current profile also shows that the extent of contributions will exceed the cost of benefits in payment and administration expenses, producing a positive cash flow of over £10 million per annum. This means that there will be no immediate necessity to draw down money from investments to pay pensions in the near future.

3.12 This positive cash flow means there is no pressure to switch to fixed interest stocks to ensure an income stream for benefit payment purposes and a longer-term investment view can be maintained. However the Clwyd Pension Fund is continuing to mature gradually in terms of its scheme member mix and there is therefore a limited window of opportunity to seek higher returns in order to get back to 100% funding from the 68% level noted above.

3.13 The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2013 includes a number of investment return assumptions:

- An investment return (discount rate) for the funding target of gilts + 1.4% (assumed 4.6%)*
- An investment return for the future service contribution rate of 5.6% (Inflation + 3.0%)

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 were implemented from 1st April 2014. The next Actuarial Valuation will be as at 31 March 2016,

3.14 A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 35 of the Local Government Pension Scheme Regulations 2008. The Statement outlines the strategy for recovering the funding deficit over 18 years. A copy of the FSS can be obtained from the Fund's web site at www.clwydpensionfund.org.uk. The funding strategy will be monitored during 2014/17.

4. INVESTMENT STRATEGY & RISK

4.1 On the basis of the above consideration, the following would appear to be the key factors to be taken into account when determining an appropriate investment strategy for the Fund:

- The Fund is a long-term investor.
- Capital gain is more important than income generation and liquidity.
- The Fund needs to take investment risk.
- The level of out-performance would need to be in excess of gilt returns by more than 1.4% to contribute to the Fund's deficit. For future service liabilities, an investment return of 5.6% per annum is required, so a return in excess of this is needed to contribute to the Fund's deficit.
- Risk or volatility should be constrained as far as possible, consistent with the achievement of the returns required.

4.2 Risk, though defined in many ways, generally refers to the volatility of returns or their tracking error in the context of investments. Investment theory suggests that different asset classes, such as equities and bonds, behave in different ways and that diversifying the asset mix within a Fund can reduce overall risk at total fund level.

4.3 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.

4.4 It is Fund policy to carry out a fundamental review of the Fund's structure and management arrangements at least every four years. The review includes research on market views for the longer-term risk, return and correlation profiles for different asset classes and a more tactical view on the global economic and market environment over the next three to five years. This research is used to determine an optimum future balance between the various assets classes and hence the Fund's fixed strategic benchmark.

4.5 The last fundamental Fund Review was in 2010, implemented, in the main, from 1st April 2011 and monitored each quarter. A mandate with Insight to provide protection against the volatility of interest rate and inflation rate changes was implemented in March 2014. In addition a funding and risk management "Flight-path" was implement embedding longer term objectives relating to the control of the volatility of funding outcomes. The optimisation model used in 2010 to determine the strategic benchmark suggests that the asset mix and the requirement for fund managers to deliver out-performance against market indices should produce a long-term return in the region of gilts + 5% with volatility of around 10%. This equates to an information ratio (the return per unit of risk) just below 1 or 100%.

4.6 The latest Fund Review exercise commenced in early 2009, but with economic, fiscal and market indicators extremely unclear so soon after 2008 and the credit crunch, the exercise was postponed. The Fund Review was recommenced in early 2010/11 and implemented from 1 April 2011. The new strategic asset allocation with both rebalancing ranges and Conditional Asset Allocation ranges follows. The next review will commence in September 2014.

4.7 Although there is no long-term strategic allocation to cash/other assets, a tactical range has been included to accommodate exceptional economic/stock market circumstances, where it is not considered appropriate to re-balance the portfolio or where cash is held temporarily to meet investment commitments in alpha seeking alternatives and real assets.

4.8 Once the asset allocation is agreed, there is a need to keep the Fund's actual position under review. Re-balancing of the Fund to keep it in line with the benchmark will incur costs and such changes need therefore to be considered in light of the relevant costs and benefits. As a result, re-balancing will only take place quarterly when an asset class has moved outside the re-balancing ranges shown in the table above, except in circumstances outlined above.

4.9 In addition, the 2010 Fund Review introduced a medium term asset allocation (Conditional Asset Allocation). The purpose is to manage major risks to the long term strategic asset allocation which may emerge between Fund Reviews. The Pension Fund Committee has delegated authority to implement these changes to the Clwyd Pension Fund Manager after taking advice from the Investment Consultant.

4.10 The 2010 Fund Review also concentrated on risk diversity in place of asset diversification, especially for inflation risk. Hence, new asset class groups have been created for real assets and alpha seeking alternatives.

Strategic Asset Allocation

SAA (%)	Scenario	Rebalancing Range	CAA Range
	Equity - Alpha Seeking		
6.5	PacRim – High Alpha	+/- 1	
6.5	Emerging Markets – Core	+/- 1	
1.0	Frontier Markets		
5.0	Global – High Alpha	+/- 1	
5.0	Other – High Alpha	+/- 1	
24.0		+/- 2	+/- 10
24.0	**TOTAL EQUITY**	+/- 3	+/- 15
	Fixed Interest		
15.0	Unconstrained	+/- 2	
0.0	Government Bonds		
0.0	Cash/Other	+/- 5	
15.0		+/- 2	+/- 15
15.0	**TOTAL FIXED INTEREST**	+/- 2	+/- 15
	Alpha-Seeking Alternatives		
8.0	Private Equity		
5.0	Hedge Fund of Funds		
2.0	Free		
15.0		+/- 3	
	Real Assets		
7.0	Property		
2.0	Infrastructure		
2.0	Timber/Agriculture		
4.0	Commodities		
15.0		+/- 3	
30.0	**TOTAL OTHER ASSETS**	+/- 5	+/- 5
	Tactical Asset Allocation		
6.0	GTAA	+/- 1	
3.0	DTAA	+/- 1	
3.0	Macro FOF	+/- 1	
12.0		+/- 2	
	TOTAL TAA	+/- 2	+/- 5
	Liability Hedging portfolio		
	Interest rate hedge		
	Inflation rate hedge		
	Collateral portfolio – Bonds/Cash		
	Collateral portfolio – Equity		
19.0	**TOTAL HEDGING PORTFOLIO**	0-35%	+20%

5. IMPLEMENTATION OF INVESTMENT STRATEGY AND RISK

5.1 When implementing investment strategy, the Fund must comply with the Investment Regulations laid before Parliament, which include:

- The definition of an investment manager
- Manager appointments and terms
- Diversification of fund managers
- The review of fund manager performance
- Restrictions and limits on investments
- Use of fund money by an Administering Authority

5.2 The policy of the Fund is to out-source the implementation of the investment strategy of the Fund to professional fund managers. These fund managers are appointed by following EU procurement legislation. In selecting managers, the Fund gives weight to their past performance, risk and compliance, investment and administration processes, key people, fees and degree of compliance with the Fund's Sustainability Policy.

5.3 On appointment, fund managers are delegated the power under the appropriate client agreement (Investment Management Agreement, Investment Memorandum) to make such purchases and sales as they deem appropriate within their mandate. Each fund manager mandate has either a benchmark or target to outperform or achieve over three-year rolling periods. A quarterly update is received from each of these funds managers and regular meetings are arranged, as outlined in the Fund's Governance and Compliance Statement.

5.4 There are exceptions to the above arrangements. Funds selected within the allocations to alpha seeking alternatives and real assets are treated as specific investment decisions and therefore outside the scope of EU Procurement Regulations. Here, investment funds are selected for recommendation to the Pension Advisory Panel after appropriate due diligence by the Fund's officers and Investment Consultant, with criteria similar to those noted for fund manager appointments. These investments are usually the subject of detailed Limited Partnership agreements or Investment memoranda that set out the arrangements for their operation. As a minimum, an annual review on these investments is undertaken but valuations are provided quarterly for the most part. Although, a size limit for individual investments is not noted within the Fund's policy statements, the commitments made are usually in the region of £5m-£8m.

5.5 In terms of historic background, the Fund has for many years now pursued a policy of lowering risk by diversifying both investments and fund managers. As a result of a fundamental fund management review carried out in 1992, a specialist approach was adopted and three fund managers were appointed with effect from 1 April 1993 to manage specific portfolios, with prescribed benchmarks and out-performance targets. This structure was reviewed again during 1997 and a number of changes were introduced, including the appointment of a fourth manager, aimed primarily at marginally reducing risk and increasing diversification. A further exercise was carried out in 1999 to review detailed asset allocation processes and manager performance on a couple of specific portfolios. No manager changes were proposed as a result of the review but a further exercise in 2000 resulted in the Japanese portfolio being awarded to Fidelity from 1 April 2001. The 2003 Fund Structure Review resulted in an increased allocation to alternative investments.

5.6 The 2006 Fund Review exercise was implemented, in the main, from 1st April 2007. The Fund made no fundamental structural adjustments but there were changes in the method of delivery, aimed at further diversification from, and less constraint on, traditional asset classes. New investment approaches, tools and products were also utilised to improve returns further and reduce volatility. All the investments were in pooled vehicles rather than segregated accounts.

5.7 The only change before the 2010 review was in fund manager arrangements relating to the hedge fund of fund mandates. Pioneer and BlackRock were replaced by Liongate and SSARIS during 2009, although for liquidity reasons some assets still remain with the original managers at this time. BlackRock acquired BGI mandates via a business merger of the companies.

Manager	Asset Category	Benchmark	Target (Gross)
Stone Harbor	Unconstrained Fixed Interest	1 Month LIBOR	+1.50%
Aberdeen	Asia Pacific (ex Japan)	MSCI AC AP (ex Japan)	+3.50%
Wellington	Emerging Markets Equity	MSCI EM Free	+2.50%
Aberdeen	Frontier Market Equity	MSCI Frontier Markets	+3.00%
Investec	Global Equity	MSCI AC World NDR	+3.00%
Duet	Global Equity	Absolute Return	+8-10%
Wellington	Commodities	GSCI Sectors	+2.00%
BlackRock	Global Tactical Asset Allocation	7 day LIBID	+15.00%
Bluecrest	Global Tactical Asset Allocation	Absolute Return	+10-15%
Pyrford	Global Tactical Asset Allocation	RPI	+5.00%
Liongate	Fund of Hedge Fund	Absolute Return	+8-10%
SSARIS	Fund of Hedge Fund	Absolute Return	+8-10%
Various	Property	IPD Balanced PUTS Weighted Average	
Various	Private Equity	Absolute Return	+15.00%
Insight	Liability Hedging portfolio	Scheme liabilities	Match

5.8 The current investment strategy is framed by the 2010 Fund Review exercise and implemented from the 1st April 2011. The following are the main changes made:

- Equity exposure was reduced but tactical asset allocation, which will include some equity exposure, was increased.
- Equity exposure to Pacific Rim and Emerging Markets has increased.
- Global active equity was increased but otherwise active regional equity managers in developed markets have been replaced by one passive manager.
- Continued exposure to alpha seeking alternative managers.

5.9 As a result the Fund redeemed from 6 fund managers and appointed 4 new managers:

- SSgA – Passive Equity, UK, Europe, US and Europe
- Duet Group – Global Equity – High Alpha
- Bluecrest – Tactical Asset Allocation
- Pyrford – Tactical Asset Allocation

5.10 In April 2012, the Fund tendered for a £7 million Frontier Equity manager and appointed Aberdeen in May 2012.

5.11 In March 2014, the Fund established a Liability Hedging programme covering both nominal and inflation linked interest rates. A Flightpath for increasing the level of protection of the hedges was agreed along with other funding level triggers. Insight Investment Management were appointed to manage this hedging portfolio in relation to market yield triggers and the Pension Fund Advisory Panel monitors the funding level triggers relating to the overall funding and investment risk management.

5.12 As part of the above changes the passive equity exposure with SSGA was sold and the cash transferred to a unit trust managed by Insight Investments. This cash was used as collateral to replicate the equity exposure through total return swaps and to buy exposure or assets to match the Fund's liabilities. Also, the benchmark for the unconstrained fixed income mandate was changed from a gilt benchmark to an absolute return benchmark from April 2014.

6. CASH STRATEGY

6.1 From 1st April 2011 Investment Regulations require the Pension Fund to have a separate bank account from the Local Authority. Therefore a new policy is required on the management of the Pension Fund's cash which was previously deposited together with Council monies following the Council's Treasury Management Policy.

6.2 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 alpha seeking alternative asset managers.

However in extreme market conditions cash could be used as part of the Conditional Asset Allocation.

6.3 The aim is to avoid requiring to borrow for liquidity purposes, although Investment Regulations allow Pensions Funds to borrow for a maximum of 90 days.

6.4 The cash could be deposited in one of the following, subject to cash flow requirements:

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

6.5 The Clwyd Pension Fund Manager will arrange for the daily implementation of the cash strategy.

7. SUSTAINABILITY

7.1 The issue of social, environmental, ethical investment and corporate governance has been considered on a regular basis since 1996. On 1 April 1996, the Clwyd Pension Fund published a set of Corporate Governance Policy Guidelines incorporating requirements on social, ethical and environmental awareness. Further updating has been carried out on a regular basis since then and further supporting statements have been issued. From 1st July 2010 the Clwyd Pension Fund has incorporated all these areas and others into its new Sustainability Policy.

7.2 Committee members are firm supporters of the need for social, environmental and ethical improvements by companies and, subject to its primary fiduciary duties, have a clear view that the investment process should be used as a means of encouraging and achieving this. The key issue, considered at length by the Chief Officer (People and Resources) and the Committee, is how these aims could be best met and the outcome is the new all-embracing Sustainability Policy.

7.3 At its simplest sustainability is about focusing attention on longer-term issues. More specifically for Pension Fund investors, it concerns delivering the long-term returns required to fund long-term liabilities by ensuring that the long-term risks inherent in investments are recognised and, where possible, addressed. These risks are many and varied but include environmental, social, ethical and governance issues.

7.4 In framing an approach to sustainability, the key focus has to be on the application to the Fund's operation of the United Nations Principles on Responsible Investment (UNPRI) and specifically principles 1 and 2, as these underlie most investment and governance processes.

7.5 The aims of the Fund's Sustainability Policy, therefore, will be both to ensure that the Fund's future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability and to promote acceptance of sustainability principles, working together with others to enhance the Fund's effectiveness in implementing these.

7.6 In order to achieve its stated objective, the Clwyd Pension Fund will apply a series of guidelines covering most aspects of pension fund investment, structured in accordance with UNPRI principles 1-6 and covering –

- Investment strategy (UNPRI 1)
- Company engagement & voting (UNPRI 2)
- Investment management & performance monitoring (UNPRI 3)
- Investment manager selection & contracts (UNPRI 4)
- Collaboration (UNPRI 5)
- Reporting & disclosure (UNPRI 6)

7.7 As part of the Policy, the Clwyd Pension Fund continues to believe in an active engagement approach to the pursuit of its sustainability objectives and thus will not adopt a negative approach to sustainability, which involves screening and excluding investment opportunities nor will it invest in pooled vehicles constructed using this same approach. It will encourage its managers to adopt a long-term approach that involves working with companies to encourage improvement in all sustainability areas, will monitor the performance of managers in pursuing such objectives and will invest directly in specific vehicles and investment areas that clearly match its sustainability objectives.

8. COMPLIANCE WITH GUIDANCE

8.1 The Investment Regulations require the Fund to explain the extent to which it complies with guidance given by the Secretary of State. The most significant guidance published in 2009 is CIPFA's "Investment Decision Making and Disclosure", a guide to the application of the revised Myner's Principles. The six Myner's Principles are:

- Effective Decision Making
- Clear Objectives
- Risk and Liabilities
- Performance Assessment
- Responsible Ownership
- Transparency and Reporting

8.2 The Fund's compliance statement on these Myners Principles is attached, explaining the extent of compliance with each Principle and the reasons for this. In summary the statement demonstrates near full compliance with all six Principles. In areas where compliance is only partial, the statement also identifies areas for review and improvement. The information in the SIP itself provides more details on the application of the Principles.

8.3 The Financial Reporting Council (FRC) has published a Stewardship Code. The aim is to set out best practice principles in respect of shareholder engagement with companies and disclosure of such activity. It is intended that shareholders adhere to these principles using a 'comply or explain' approach. The extent of the Fund's compliance with each of the seven principles is attached. In summary the statement demonstrates full compliance with five of the principles and identifies areas for possible improvement for two of the principles.

8.4 The Investment Regulations require an administering authority to make a statement about its policy on stock lending. The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. However, there may be, subject to the governing document for the pooled vehicle, an option to stock lend within that pooled fund.

8.5 The Secretary of State has indicated that there may be further consultation on changes to the Investment Regulations or further points of guidance issued. The SIP will be updated on a six monthly basis to reflect these and any other changes.

8.6 The Fund's Annual Report and Accounts sets out current details relating to the following areas, as determined by the LGPS Regulations 2008:

- A report on the management and financial performance of the Fund
- A report explaining the investment policy and performance
- A report on the administration arrangements
- An actuarial statement including the funding level
- Funding Strategy Statement
- Statement of Investment Principles (SIP)
- Governance Compliance statement
- Pension Fund Accounts
- Pension Fund Administration strategy
- Communication Policy statement

SUSTAINABILITY POLICY

Definition

At its simplest sustainability is about focusing attention on longer-term issues. More specifically for pension fund investors, it concerns delivering the long-term returns required to fund long-term liabilities by ensuring that the long-term risks inherent in investments are recognised and, where possible, addressed. These risks are many and varied but include environmental, social, ethical and governance issues.

Legal Framework, Constraints & Considerations

In framing a Sustainability Policy, the following are pertinent –

- There already exists a regulatory requirement to include in the Fund's Statement of Investment Principles (SIP) details of its policy on social, ethical and environmental issues. This Sustainability Policy encompasses such issues and will be updated as required to take account of relevant new regulatory requirements.
- The Fund is required to fulfil its overriding fiduciary duty to focus as a primary consideration on financial performance and the maximisation of Fund returns, after taking full account of all existing and future financial risks. Such risks increasingly include sustainability issues.
- As the Fund uses third part providers for the most part and invests largely through pooled vehicles, its level of active engagement with underlying investment companies and its control over governance issues is limited to some extent.
- The investment industry tends to focus on short term factors in terms of company interaction, shares prices and performance, and fund managers incentives tend to reflect this rather than being aligned with the longer-term objectives of pension fund investors.

Objective

Objective

Within the above legal framework, constraints and considerations, the Clwyd Pension Fund's objective aim will be to –

- ***Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability;***
- ***Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.***

United Nations Principles for Responsible Investing (UNPRI)

Details of the UNPRI are attached as an Appendix A to this Sustainability policy document. Given the constraints outlined above and particularly the pooled nature of many of the Fund's investments, it would be difficult for the Fund to become a formal signatory to the UNPRI.

United Nations Principles for Responsible Investing (UNPRI)

The Clwyd Pension Fund –

- ***Is committed to the principles underlying the United Nations Principles for Responsible Investing (UNPRI) and will be an active supporter of these;***
- ***Will encourage its external managers to become signatories to the UNPRI.***

Application of Sustainability Principles

In order to achieve its stated objective, the Clwyd Pension Fund will apply a series of guidelines covering most aspects of pension fund investment under the following headings –

- Sustainability approach
- Investment strategy (UNPRI 1)
- Company engagement & voting (UNPRI 2)
- Investment management & performance monitoring (UNPRI 3)
- Investment manager selection & contracts (UNPRI 4)
- Collaboration (UNPRI 5)
- Reporting & disclosure (UNPRI 6)
- Review

The paragraphs below set out the Fund's thought processes in establishing such guidelines and detail the guidelines adopted as part of this Sustainability Policy document.

Sustainability Approach

In framing an approach to sustainability, the key focus has to be on the UNPRI principles 1 and 2 as these underlie most investment and governance processes. Sustainability-related issues have been considered on a regular basis for many years, with broad corporate governance policy guidelines in place from 1996. More recently these form part of the Fund's SIP and are reviewed annually.

The Clwyd Pension Fund approach has always been and continues to be based upon "active engagement". This involves the Fund's managers researching and forming a view on the sustainability credentials of companies, taking this into account in investment decisions and, where there are sustainability concerns, on environmental, social, ethical or governance grounds, engaging with companies to seek and achieve positive change.

Sustainability Approach

The Clwyd Pension Fund believes in an active engagement approach to the pursuit of its sustainability objectives and, on this broad basis, it –

- ***Will not adopt a negative approach to sustainability which involves screening and excluding investment opportunities;***
- ***Will not invest in pooled vehicles constructed using this same approach;***
- ***Will encourage its managers to adopt a long-term approach that involves working with companies to encourage improvement in all sustainability areas;***
- ***Will monitor the performance of managers in pursuing such objectives;***
- ***Will invest directly in specific vehicles and investment areas that clearly match its sustainability objectives.***

Investment Strategy

The Clwyd Pension Fund recognises that there is a relationship between good environmental, social, ethical and governance practices and long-term sustainable business profitability and in its investment strategy aims to place a strong focus on this. It is recognised that, whilst there are links, the three main sustainability areas, environmental, social and ethical, each raise their own issues, although the approaches and guidelines appropriate to each are similar.

Environmental

The impact of poor environmental practices on profit sustainability is very clear. There are direct costs in terms of fines for pollution etc. and increasingly now for carbon-charging and waste disposal that can have major impacts on business models. In addition there are potential indirect costs from bad publicity and reputational risk. On the positive side, however, there are opportunities to promote sustainability through investment in new technologies aimed at cleaner solutions.

Social

This concerns areas such as employee relations, community relations and health & safety and again can lead to direct financial costs from health and safety breaches and strike action etc, as well as more subtle risks to company operations, reputation and long-term profitability.

Ethical

This is a difficult area as ethical views can vary considerably but there are some areas that are widely accepted for inclusion. These include supply chain issues that reflect potential breaches of human rights and especially the employment of children, bribery and corruption and operations in certain world areas such as Zimbabwe.

Investment Strategy

On forming and implementing its investment strategy, the Clwyd Pension Fund –

- ***Will encourage its managers to use their own resources or specifically-focused research agencies to identify at company level actual or potential financial risks attributable to sustainability issues – environmental, social or ethical;***
- ***Will seek, through its managers, to engage with companies that have questionable environmental, social or ethical practices in order to seek improvements;***
- ***Will seek, through its managers, to engage with companies that have a carbon-intensive or water-intensive focus in order to promote alternative approaches and longer-term reductions;***
- ***Will encourage the adoption of the best environmental standards amongst its property and infrastructure managers;***
- ***Will, subject to fiduciary duties, make selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry etc.***

Company Engagement & Voting

Getting the Board right with the right behaviours and structures means that better decisions are more likely and this adds value over the longer term. The Fund's former broad corporate governance policy guidelines, whilst touching upon environmental, social and ethical issues, were largely designed to address these Board factors and related voting issues. Myner's Principle 5 is also relevant here. This requires that trustees adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. The Institutional Limited Partners Association (ILPA) has authored the ILPA Private Equity Principles, a document that contains best practice concepts and hat speaks to issues relating to the alignment of interest between general partners and limited partners, fund governance, transparency and reporting.

Company Engagement & Voting

The Clwyd Fund –

- ***Will aim to comply with the Myner's Principle 5 on shareholder activism and become more engaged as an active investor, especially with companies where sustainability factors are a matter of concern;***
- ***Will adopt, ensure that its managers adopt or ascertain their level of compliance with the ISC Statement of Principles on the responsibilities of shareholders/agents;***
- ***Will adopt, ensure that its managers adopt or ascertain their level of compliance with the ILPA private equity principles;***
- ***Will, wherever practical, exercise voting rights through its managers based upon the following broad criteria –***
    - ***The prime consideration must be financial and the protection of the Fund's assets in the long term;***
    - ***There should be a properly structured Board including an appropriate number of contributing independent non-executive directors;***
    - ***Unless there are strong arguments to the contrary and adequate safeguards guidelines, no director should hold the posts of Chairman and Chief Executive at the same time or be in a position of unaccountability by virtue of having absolute control;***
    - ***All Directors should be subject to at least three-yearly re-election;***
    - ***In view of their stewardship role, non-executive directors should normally be independent in terms of other links to the company and other directorships;***
    - ***The issue of shares with reduced or non-existent voting rights often disadvantages the majority of shareholders and should not normally be supported;***
    - ***Existing shareholders in a company should have a right to subscribe for new equity capital raised by a company, normally in proportion to their existing share of the company's equity capital;***
    - ***Unless financial criteria dictate otherwise, the general policy on take-over bids should be to support incumbent management in good standing;***
    - ***Directors' remuneration packages in different companies should reflect relative performance taking business size and complexity into account;***
    - ***A properly constituted Remuneration Committee is the best judge of what is necessary to recruit, train and motivate;***
    - ***If not already in place, companies should be working towards one year fixed term contracts for executives;***
    - ***There should be a properly constituted Audit Committee;***
    - ***No return that is rightfully the Fund's should be diverted to political donations;***
    - ***Charitable donations are acceptable if they are reasonable and have public relations values.***
- ***Will periodically review these criteria and inform investment managers of changes, should there be any.***

Investment Management & Monitoring of Performance

Investment managers need to be made aware of the Fund's Sustainability Policy and related guidelines in order that these can be taken account of in their investment management decision-making processes. In order to monitor the performance of external managers in terms of their degree of compliance with the guidelines and the performance of underlying investments with the Fund's sustainability objectives, there needs to be regular reporting and disclosure on sustainability issues, particularly areas of concern, as well as actions taken to address these. A similar approach needs to be adopted on in-house managed investments.

Investment Management & Monitoring of Performance

The Clwyd Pension Fund –

- ***Will endeavour to ascertain the extent to which its fund managers are formal signatories to, support and comply with the UNPRI;***
- ***Will encourage its fund managers to produce policy statements on sustainability issues and report formally on these.***
- ***Will seek, through its managers, to ensure the full disclosure of environmental, social and ethical policies and practices by companies in which the Fund is invested;***
- ***Will ask investment managers for statements on their degree of compliance with the ISC Statement of Principles on the responsibilities of shareholders and agents;***
- ***Will request policy statements and practical evidence of the adoption of the best environmental standards amongst its property and infrastructure managers;***
- ***Will ask private equity managers for statements on their degree of compliance with the ILPA private equity principles;***
- ***Will ensure that investment managers regularly report records of voting on the Fund's investment and periodically produce statements on compliance or otherwise with the broad corporate governance elements of the Fund's Sustainability Policy;***
- ***Will assess the performance of managers both in terms of financial returns and on sustainability issues over a time frame that adequately reflects the Fund's sustainability objectives.***

Investment Manager Selection & Contracts

The Fund's standard selection process for managers has always incorporated broad questions on sustainability issues but the main focus has been on investment philosophy, process, personnel and performance. Within process, there has been some limited focus on sustainability inputs to investment decision-making but risk has tended to be quite narrowly defined and linked to shorter-term financial rather than longer-term sustainability considerations. As a result, sustainability has never been a main factor in the comparative assessment of managers prior to appointment or in the formal appointment process itself. This approach has now been reviewed with a view to incorporating into the selection and contracting process a far greater focus on sustainability issues.

Investment Manager Selection & Contracts

As an active part of this process, the Clwyd Pension Fund –

- ***Will require from potential managers formal statements of their objectives, policies and practices on sustainability and related factors;***
- ***Will ascertain from potential managers the degree to which sustainability factors are taken into account in the investment decision-making process;***
- ***Will seek from potential managers details and the level of in-house tools, agency inputs and other resources on sustainability factors used in their investment processes;***
- ***Will review with potential managers the quality, integration and impact of such research on their investment processes and performance;***
- ***Will consider the record of potential managers on active engagement with companies, voting and governance issues generally;***
- ***Will, in the assessment of potential managers, give appropriate weight to all these sustainability and related factors;***
- ***Will, where relevant and appropriate, build elements of the Fund's Sustainability Policy and detailed guidelines into investment management agreements.***

Collaboration

The Clwyd Pension Fund is already a committed member of the Local Authority Pension Fund Forum (LAPFF), a body that seeks improvements in corporate governance, promotes socially responsible investing (SRI) and, with the Fund's active encouragement, is devoting considerable resources to environmental issues and climate change in particular. LAPFF is already a signatory to the UNPRI. The Fund has also had contact with other relevant bodies on sustainability issues both directly and through its managers.

Collaboration

The Clwyd Pension Fund –

- ***Will join and/or collaborate with organisations that are relevant to pursuit of the Fund's sustainability objectives;***
- ***Will, subject to regulatory and operational constraints, seek relevant information from and share relevant information with such organisations in order to further the effective delivery of its Sustainability Policy.***

Reporting & Disclosure

The Clwyd Pension Fund Annual Report already includes copies of various regulatory documents, including various policy statements and the Fund's SIP. The latter includes details of the Fund's current policy statements on social, environmental and ethical considerations and corporate governance issues. The Annual Report is circulated widely and all these documents are also published on the Fund's website. It is already accepted that approaches on sustainability and other policy areas tend to evolve and develop over time. It is essential therefore to keep policies and practices under continual review so as to improve their efficacy.

Reporting & Disclosure

The Clwyd Pension Fund –

- ***Will, through its quarterly meeting procedure, report regularly and as appropriate on relevant sustainability issues;***
- ***Will, once a year, report formally on managers' level of compliance with the its Sustainability Policy, progress made in the year and areas where further progress needs to be made;***
- ***Will, once a year, review its Sustainability Policy in the light of best practice and agree any proposed changes through its governance procedure;***
- ***Will circulate this revised document to relevant bodies and particularly its managers;***
- ***Will incorporate this revised document into its SIP and publish its contents both in the Annual Report and on its website.***

MYNERS PRINCIPLES – 2014 / 2015 COMPLIANCE

Principle 1

Administering authorities should ensure that:

- Decisions are taken by persons or organizations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation, and
- Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Key Areas and Guidance	Comment & Actions	Compliance
It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.	The administering authority delegates investment decisions to the Clwyd Pension Fund Committee. The Committee delegates functions to Officers who take investment advice as required from a Pension Advisory Panel who provide appropriate focus and skills on investment decision making. Representatives and roles are defined in the SIP. *This new governance structure was implemented from May 2014.*	Full
The board should have appropriate skills for effective decision-making.	Training is given priority status through compliance with CIPFA Knowledge and Skills Code of Practice for elected members and ongoing sessions provided regularly through managers, collaboration and seminars. *A needs assessment process is to be introduced for members of the new Committee.*	Partial Compliance
There should be sufficient internal resources and access to external resources for trustees and boards to make effective decisions.	The Committee has access to experienced and trained officers and an Advisory Panel of professionals qualified to provide proper advice. *.*	Full
There should be an investment business plan with progress regularly evaluated.	The investment business plan is included in the Fund's Annual Service Plan which is approved by the Committee who then receive updates on progress each Committee.	Full
The remuneration of trustees should be considered.	Remuneration and expenses are reviewed, considered and set by Council.	Full
Particular attention should be paid to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).	The investment consultant, actuary and independent adviser all have contracts which are regularly reviewed. Performance of the investment consultant and actuary will be monitored by the independent adviser. *The investment consultant and independent adviser contracts have been tendered in 2013/14 and new provider contracts commenced in April 2014*	Full

Principle 2

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Key Areas and Guidance	Comment & Actions	Compliance
Benchmarks and objectives should be in place for the funding and investment of the scheme.	The Fund's SIP sets out its investment and funding objectives as well as its overall strategic customized benchmark, asset class targets and Conditional Asset Allocation.	Full
Fund managers should have clear written mandates covering scheme expectations, which include clear time horizons for performance measurement and evaluation.	Fund managers operate to detailed written mandates based in the main on 3-year rolling performance targets, some market-based with others more absolute return in nature. These are stated in the SIP.	Full
Trustees consider as appropriate, given the size of fund, a range of asset classes, active or passive management styles and the impact of investment management costs when formulating objectives and mandates.	The Fund has always looked very widely at available asset classes and its extremely diversified structure reflects this. Whilst competitive deals are always sought with managers, fee levels have been less of a consideration on the grounds that, in optimizing structures, returns have always been considered on a net basis and that such costs are anyway offset by minimal additional performance. Other fund costs are very carefully considered and monitored.	Full
Trustees should consider the strength of the sponsor covenant.	The Fund is effectively Government-backed but the Fund impact on stakeholders receives appropriate attention.	Full

Principle 3

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Key Areas and Guidance	Comment & Actions	Compliance
Trustees should have a clear policy on willingness to accept underperformance due to market conditions.	Most managers have market-related benchmarks. There is clear acceptance of the fact that markets can be volatile in the short term. The setting of the Fund's strategic benchmarks is based upon the probable long-run performance of specific asset classes. Similarly, whilst the Fund's aim is that managers will outperform their benchmarks at all times, periods of under-performance are accepted as long as longer-term performance remains intact. *As noted above, in terms of changing managers, performance should not be the sole criterion. The cost and timing of change possibly need to be recognized more as key factors.*	Full
Trustees should analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities.	At each Fund Review exercise, optimization techniques are used that take account of probable performance and risk factors as well as asset class correlations and the Fund's actuarial position. The implementation of the flight-path strategy now requires regular monitoring of the funding position *Such issues will be looked at again as part of the next Fund Structure review.*	Full
Trustees should take into account the risks associated with their liabilities' valuation and management.	These risks are considered as part of the Fund's flight-path strategy for managing funding risks such as interest rates and inflation. Each Fund Review exercise is aimed at achieving an overall long-term rate of return adequate to cover liability growth (pay/price inflation, interest rate changes and mortality) and to return, in time, to full funding status. .	Full
Trustees have a legal requirement to establish and operate internal controls.	Committee members receive regular independent reports from Internal Audit and External Audit on internal controls. Any actions recommended by these bodies are actioned promptly.	Full
Trustees should consider whether the investment strategy is consistent with the scheme sponsor's objectives and ability to pay.	The Fund's investment strategy is considered as part of the regular actuarial process used to review and set employers' rates of contribution and consistency between the two is an important factor.	Full

Principle 4

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Key Areas and Guidance	Comment & Actions	Compliance
There is a formal policy and process for assessing individual performance of trustees and managers.	The performance of the Committee is assessed by the Independent Adviser and published in the Annual Report. In line with the SIP, the performance of the Fund and its fund managers is formally monitored by the Investment Consultant and Officers. .	Full
Trustees should demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).	Records of attendance at Committee and training events are maintained and reported in the Annual Report. Participation is recorded in the Committee minutes.	Full
The chairman should address the results of the performance evaluation.	All current performance evaluation documents (Training records, Independent Adviser, risk, Audit) are brought to Committee. The Chairmen has a key role in this and appropriate actions are agreed. .	Full
There should be a statement of how performance evaluations have been conducted.	These are partly covered in the SIP and through specific reports to Committee but there is no statement that brings all these together. *The independent adviser will address this as part of the annual review of performance.*	Partial
When selecting external advisers, relevant factors including past performance and price should be taken into account.	Advisers are selected competitively, based on performance, price and other factors. .	Full

Principle 5

Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities**.**

Key Areas and Guidance	Comment & Actions	Compliance
Policies regarding responsible ownership should be disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.	The Fund's Sustainability Policy is included as part of the SIP. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which considers responsible investment on a collaborative basis.	Full
Trustees should consider the potential for engagement to add value when formulating investment strategy and selecting investment managers.	In formulating investment strategy, the Fund is always mindful of sustainability issues and these are an increasing focus for the Fund across all asset classes. Similarly, when appointing managers, questions are asked about engagement and sustainability although this is probably not given sufficient weight in the evaluation of managers for selection. To ensure best practice, the Fund has produced its own Sustainability Policy which will need to be regularly monitored and managed. In the future greater weight needs to be given to such matters in the manager appointment process.	Full
Trustees should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.	A questionnaire has been issued to all fund managers on their sustainability policy and their replies explain their approach.	Full
Trustees ensure that investment consultants adopt the ISC's Statement	The investment consultant adopts the ICS's statement.	Full

Principle 6

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

Key Areas and Guidance	Comment & Actions	Compliance
Reporting ensures that the scheme operates transparently and enhances accountability to scheme members and best practice provides a basis for the continuing improvement of governance standards.	Details of the Fund's Communication Policy Statement and all other key reports – SIP, Annual Report, Corporate Governance Policy Guidelines, Funding Strategy Statement, Governance Compliance Statement and Myner's Principles Compliance Statement are all published on the Fund's website. The Annual Report, which incorporates many of these documents, is also available in hard copy. A newsletter is also published periodically. The other two main sponsors (Denbighshire and Wrexham) have representation on the Committee along with an employee representative and other employer representative to ensure transparency.	Full

FRC STEWARDSHIP CODE 2014 / 15 COMPLIANCE

Principles	Comment & Actions	Compliance
Principle 1		
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	The Clwyd Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too. In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and other agents and through membership of collaborative groups. The Fund makes this explicit in Section 7 of its Statement of Investment Principles (SIP) and through its recently introduced Sustainability Policy document. The Fund's investment strategy seeks long-term returns from investing in a highly diversified portfolio of assets and appoints asset managers who best reflect this long-term sustainability approach in their investment philosophy and process.	Full
Principle 2		
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed. .	Through its Sustainability Policy, the Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest when it comes to matters of stewardship. The Fund requires all those who are directly involved in its management and governance to disclose any interest in any company, or other entity, in which the Fund has an ownership interest.	Full
Principle 3		
Institutional investors should monitor their investee companies.	Day-to-day responsibility for managing our equity holdings is delegated to the Fund's appointed asset managers. The Fund expects them to monitor companies, and intervene where necessary, and to report back regularly on activity undertaken. Quarterly review meetings with the Fund's asset managers provide an opportunity for particular company issues and, under the Fund's Sustainability Policy, managers will be required annually to report any areas of concern.	Full

Principles	Comment & Actions	Compliance
Principle 4		
Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	Whilst there is broad guidance in the Fund's SIP and Sustainability Policy, as noted earlier, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.	Full
Principle 5		
Institutional investors should be willing to act collectively with other investors where appropriate.	The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which engages with companies on environmental, social and governance issues on behalf of its member authorities. The LAPFF is signatory to the United Nations Principles for Responsible Investing.	Full
Principle 6		
Institutional investors should have a clear policy on voting and disclosure of voting activity.	Whilst all the Fund's holding are through pooled voting, it takes its voting responsibilities seriously and its voting policy is detailed as part of its SIP and in its Sustainability Policy document. Within this constraint, the Fund seeks to exercise the voting rights attaching to all its UK equity holdings and, where practical, its overseas stocks. Voting records are reported quarterly to the Pension Fund Panel. *There is currently no disclosure on voting in the Funds Annual Report and Accounts or on the Fund's web site.*	Full, but further improvement is possible
Principle 7		
Institutional investors should report periodically on their stewardship and voting activities.	The Fund reviews its SIP and Sustainability Policy document on an annual basis and publishes these both in the Annual Report and Accounts and on the Fund's web site. In addition, the activity undertaken by the LAPFF is reported quarterly to the Pension Fund Panel as are summary voting records from managers. *However, there is currently no external publication of the Fund's voting record nor is there any retrospective review of stewardship generally.*	Partial

Communication Policy Statement

The Clwyd Pension Fund has had a Communications Policy Statement since April 2006. This statement is reviewed and updated each year to ensure that there is a continual improvement in the provision of information.

This statement outlines Clwyd Pension Fund's policies concerning communications with the following people and organisations:

- Scheme Members
- Prospective Members
- Employing Authorities
- Fund Staff
- Other Bodies

Mission Statement

The Fund's communication policy statement follows the principles of the Clwyd Pension Fund Mission Statement which is identified as:

- 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

Diversity of Communication

All of the Fund's communication material is bi-lingual and members are able to receive all personal communications in Welsh should that be their preferred language.

The Clwyd Pension Fund's correspondence is also available in alternative formats for example, Braille, large print, BSL Video/DVD, audio tape and other languages on request.

The Clwyd Pension Fund's aim is to use the most appropriate communication medium for the audience receiving the information. This may involve using more than one method of communication.

Communications with Scheme Members

Local Government Pension Scheme (LGPS) members include contributing members, deferred members and pensioners. Each type of member receives different forms of communication according to their individual needs.

Annual Benefit Statements – These statements are distributed annually to both contributing and deferred members' home addresses as per regulation requirements. The Clwyd Pension Fund continues to use the format of pension figures and guidance notes combined in one user-friendly booklet. In addition, the statement included a projection of State pension benefits at State pension age for all LGPS members who elected to receive the information.

The format of the statements has been reviewed by the All Wales Group in line with the LGPS regulations. The Annual Allowance (AA) information has been provided to members since 2012.

Newsletters – The Clwyd Pension Fund has a newsletter for contributing members entitled Penpal. The purpose of this newsletter is to keep members up-to-date with any changes to the pension scheme regulations.

The Fund also sends a newsletter to its pensioners entitled Clwyd Catch Up. This is sent out with the annual pensions increase notification and explains how their new annual rate of pension has been calculated. It also includes topical information regarding the budget, State benefits etc.

Both newsletters are distributed to home addresses once a year.

Pensions Extra is an additional newsletter that the Clwyd Pension Fund uses to notify members of urgent issues concerning LGPS. It is only published on an ad-hoc basis as and when required.

Presentations/Road-shows/Drop-in Sessions – The Clwyd Pension Fund offer LGPS road shows, presentations, and drop-in sessions throughout the year.

The amount of visits to employers is likely to rise, due to a combination of departmental reviews and the introduction of the 2014 Scheme.

2013/14 financial year saw the Clwyd Pension Fund carry out 24 days of drop-in sessions. These sessions were used, not only to discuss individual member issues and also how the new pension scheme works.

In conjunction with these drop in sessions, in preparation for the introduction of the LGPS2014 scheme, additional presentations were offered to all employers for their staff members. 10 presentations were given to a range of the Clwyd Pension Fund Employer's staff members.

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, is always available at these events.

Pre-Retirement Courses – Fund Officers attend pre-retirement courses to inform members who are approaching retirement age, about Local Government retirement procedures. Historically four courses have been held per annum but, due to high demand, this has increased to six courses per annum. The courses are still run in partnership with Gwynedd County Council. All course material is reviewed in advance to ensure the information is up-to-date according to regulation changes.

In circumstances where there is a higher demand, courses are organised by Clwyd Pension Fund Employers in addition to the ones held in collaboration with Gwynedd. A Fund officer also attends these courses to give a presentation on LGPS and retirement procedures.

Website – All members have access to the Fund's website which can be found at www.clwydpensionfund.org.uk. The website was set up to provide comprehensive information regarding the Local Government Pension Scheme and the Clwyd Pension Fund. It enables members to download scheme literature and forms.

The website also has links to other useful websites, for example, the LGPS2014 official scheme website, Prudential – our AVC provider, and the Department for Work and Pensions (D.W.P.)

Literature – Current pensions literature, available to scheme members include:

- Short Scheme Guide to the Local Government Pension Scheme, which is sent to all members upon joining the Clwyd Pension Fund. This booklet is amended as and when required.
- Topping Up Your Benefits, which explains how members can pay extra contributions to increase their benefits on retirement. This booklet is currently being reviewed and updated where necessary.
- Retirement pack sent to all members about to retire from the Clwyd Pension Fund.

Pensions Fact-sheets – Several fact-sheets are available and are updated as and when pension regulation changes make it necessary. They are produced on an All Wales basis. Most of the

Welsh Pension Funds use the fact-sheets for general distribution to their LGPS members. The fact-sheets are regarding:

- Authorised Unpaid Leave
- Changing Working Arrangements
- Commutation
- Pensions on Divorce or Dissolution of Civil Partnerships
- Flexible Retirement
- Ill Health Retirement
- Maternity Leave
- The Rule of 85
- Pension Transfers

Pensions Taxation Correspondence – Correspondence was distributed in August 2014, to all employers to feed to their employees who are high earners. It made clear their option to apply for Fixed Protection on the Life Time Allowance from 18 August 2014, so that they can use £1.5m LTA instead of reduced £1.25m

The Clwyd Pension Fund will continue to issue correspondence, so that our members are aware of taxation rules including Annual Allowance. They can then take any action required to ensure they do not have pension savings in excess of the Annual Allowance and have to pay a tax charge.

Facts & Figures – An extract of the Fund's facts & figures for each financial year is included in the Penpal newsletter so that contributing members have easy access to the Fund's current financial position.

Annual Report – 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, and governance.

Contacting the Clwyd Pension Fund – All members have the opportunity to telephone, fax, email or visit the Clwyd Pension Fund for information in addition to the other lines of communication open to them.

Communications with Prospective Members

Literature – Various literature is available to prospective members that promotes the Local Government Pension Scheme and explains the scheme benefits. Booklets include:

- Your Pension at Retirement, which is distributed to all new employees alongside their contract of employment. This leaflet is updated each year and has recently been re-written.
- Opted Out? Missing Out! Is sent to employees who request to opt out of the scheme. It informs them of the benefits they may miss out on.

Induction Days – Flintshire County Council Corporate Training Unit organise induction days for new employees. As part of these induction days, Clwyd Pension Fund is invited to give presentations to prospective scheme members in order to promote the benefits of joining the Local Government Pension Scheme. This service has also been offered to our other scheme employers.

Website – The Clwyd Pension Fund website address is advertised in all available literature and is also mentioned in induction presentations so that prospective members can visit our website for more information if they wish to do so.

Communications with Employing Authorities

AJCM – The Annual Joint Consultative Meeting is held every November and an invitation is extended to employers and Union representatives. The Annual Joint Consultative Meeting offers employers the opportunity to discuss the latest pension issues and to keep up-to-date with Local

Government Pension Scheme regulations. The Annual Joint Consultative Meeting also includes a presentation summarising the Fund's annual report and accounts.

Individual Employer Meetings - Employers have the opportunity to meet with members of staff from the Clwyd Pension Fund to discuss any issues with regard to the Local Government Pension Scheme. These meetings take place as and when they are required.

Training Sessions – Training sessions are offered to both Payroll and Personnel departments within each employer. The sessions include training on the Local Government Pension Scheme regulations and administration procedures.

Service Level Agreements (SLAs) – Service Level Agreements were introduced in April 2007 in order to improve best practice and also to comply with audit requirements.

The Service Level Agreement sets out, in detail, the obligations and responsibilities of both the Employing and Administering Authorities concerning all aspects of Local Government Pension Scheme administration. These Agreements are reviewed and updated annually.

Website – The Clwyd Pension Fund website is a vast log of information available 24 hours a day, 365 days of the year. All of the information on it is up-to-date and takes into account current LGPS regulations.

The employing authorities also have their own website section that they can visit to find out how to implement LGPS regulations. They are able to download password protected pensions forms which must be completed by the employer in order for pension benefits to be calculated. The website's Employer section also has a 'News Alerts' feed. This allows the Clwyd Pension Fund employers to stay up to date on urgent LGPS issues via the website.

Email Updates – Clwyd Pension Fund has an email distribution list of all employers. Regular emails are sent to the group with updates on the LGPS. This email distribution list is also used to remind employers of facilities available to them and their staff, i.e. pension presentations and drop-in sessions.
The email distribution list is used to inform them when a news alert is added to the website.

Employer Bulletins – These are emailed to employers annually, normally in September. The bulletin was created with a view to informing employers of important LGPS issues. It is also used to summarise all of the LGPS changes for the past 12 months – to ensure that employers have not missed any of these updates. The Clwyd Pension Fund retains the option to email additional Employer Bulletins throughout the year if urgent information needs to be sent to our employers.

Communications with Pension Fund Staff

Clwyd Pension Fund Manager – The Clwyd Pension Fund Manager maintains an open-door policy and attempts to make himself available to staff both within and outside the Pensions office.

Management Meetings – These are to assist the management team in planning ahead and focusing on the next 12 months issues, for example staffing, workloads, and accommodation.

Team Leader Meetings - Weekly meetings for the Pensions Manager and the Team Leaders take place to discuss day to day issues from all perspectives including priorities and procedures.

Communications Meetings – Monthly meetings for the Pensions Manager and the Communications Officer. These are to discuss the current communication projects.

Technical Meetings – The Pensions Manager meets with both Technical Team Leaders. The purpose is to discuss the current technical projects.

Section Meetings – Office and/or Team Meetings are held on a monthly basis to discuss operational issues. The purpose is to update the team on issues covered in the meeting mentioned above.

Any items arising from any of the above meetings are escalated to the Clwyd Pension Fund Manager and raised at Senior Management Team meetings when necessary.

Staff Training – The Clwyd Pension Fund ensures that all pension staff receive both in-house and external training, with regard to pension matters, so that they are able to administer the scheme effectively, answer member queries and offer a good customer service.

The Pensions Section staff attend various one day courses run by the Local Government Association (LGA) regarding the LGPS as and when these courses are made available.

To develop a deeper knowledge, many pensions staff have completed a 2 year Local Government Pension Scheme Diploma with the Chartered Institute of Pension and Payroll Professionals (CIPP). A further member of staff is also currently undertaking a foundation degree.

Fund staff are encouraged to attend other training courses that will assist in their personal development.

Communications with Other Bodies

Regional Forums – The Shrewsbury Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Managers and other Pension Officers from administering authorities in the region to share information and ensure uniform interpretation of the Local Government Pension Scheme, and other prevailing regulations.

Partnership Meetings with the 8 Pension Funds in Wales – The Pensions Manager regularly meets representatives from the other 7 Pension Funds in Wales to discuss best practice and to ensure that all the Welsh Funds have a consistent approach to their administration procedures.

In addition, all of the Communications Officers from the 8 Welsh Pension Funds meet on a regular basis to share ideas about forms of communication. Some of the scheme literature that is produced is on an “All Wales” basis.

Independent Auditor's Statement to the Members of the Administering Authority of Clwyd Local Government Pension Fund

I have examined the pension fund accounts and related notes contained in the 2013/14 Annual Report of Clwyd Pension Fund to establish whether they are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Flintshire County Council for the year ended 31 March 2014 which were authorised for issue on 24 September 2014. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

<u>Respective responsibilities of the Administering Authority and the Independent Auditor</u>

The Administering Authority, Flintshire County Council, is responsible for preparing the Annual Report. My responsibility is to report my opinion on the consistency of the pension fund accounts and related notes contained in the Annual Report with the pension fund accounts and related notes included in the Statement of Accounts of the Administering Authority. I also read the other information contained in the Annual Report and consider the implications for my report if I become aware of any misstatements or material inconsistencies with the pension fund accounts.

I conducted my work based on the requirements of Bulletin 2008/3 issued by the Auditing Practices Board. My report on the pension fund accounts and related notes included in the Statement of Accounts produced by Flintshire County Council describes the basis of my opinion on those accounts.

<u>Opinion</u>

In my opinion the pension fund accounts and related notes included in the Annual Report of Clwyd Pension Fund are consistent with the pension fund accounts and related notes included in the Statement of Accounts produced by Flintshire County Council for the year ended 31 March 2014 which were authorised for issue on 24 September on which I issued an unqualified opinion.

I have not considered the effects of any events between the date on which I issued my opinion on the pension fund accounts included in the authority's Statement of Accounts, 30 September and the date of this statement.

Anthony Barrett

Appointed Auditor Wales

Audit Office 24 Cathedral

Road Cardiff

CF11 9LJ

5 November 2014