



Clwyd Pension Fund

Annual Report 2014 - 15



LAPF Investments
2015 Awards
WINNER

CLWYD PENSION FUND – AWARDS

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

LAPF Investments 2015 Awards – September 2015

Won – Risk Management Project of the Year

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Introduction

I have pleasure in introducing the 2014/15 Annual Report, as the Chair of the Clwyd Pension Fund Committee. The Committee continues to manage the Fund through a period of change for the LGPS driven by the Public Service Pension Act 2013.

The focus for 2014/15 has been on the implementation of the new CARE scheme, improvements to our governance including the implementation of the new Local Pension Board and reviewing our investment strategy. 2015/16 is proving to be equally challenging as the Fund continues to grow in size and complexity. The Committee will be carefully monitoring progress with the Business Plan and discussing any national changes which might impact on the local management of the Fund, such as pooling of investments.

I would like to draw your attention to our policy statements, included in this Annual Report, which underpin the management of the Fund. The Governance Strategy Statement explains our decision making structure and delegations, the Statement of Investment Principles shows how we manage investment risks and our Funding Strategy illustrates how we will fund our pension liabilities over the long term. There are other governance policies which the Committee has approved this year for training, risk management and conflicts of interest which are available from our web-site, clwydpensionfund.org.uk.

It is vital that all those involved with the governance of the Fund have the knowledge and skills to understand the advice given and make informed decisions. Committee members, Senior Officers and now Local Board representatives are receiving training to satisfy the requirements of the CIPFA Knowledge and Skills and the new Pensions Regulator Code of Practice, as well as on-going 'hot topics' training.

Transparency for our stakeholders is a key aspect of our communication strategy. The Committee agenda papers, which can be found on the Flintshire County Council web-site, are in a standard format which includes reports on governance, administration and investments and funding. The reports include 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 Business Plan.

This Annual Report attempts to demonstrate to stakeholders how the Fund is addressing challenges and managing risks, including all the statutory documents and commentary on the outcomes and performance for 2014/15 including:

- An overview of the Fund by the Treasurer and Administrator
- Management of Pension Fund Risks
- An Annual Report from the Fund's Independent Adviser
- Details on Investment Strategy and Performance
- Audited Pension Fund Accounts 2014/15
- Pension Administration Update.

Further information can be found on the Fund's web-site clwydpensionfund.org.uk. Employers and employee representatives are invited to our Annual Joint Consultative Meeting on 21st October 2015.

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 2015

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. 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.

The Public Service Pensions Act 2013, which has been incorporated into the Local Government Pension Scheme (LGPS) regulations, included the establishment of Local Pension Boards. The report establishing the Local Pension Board for the Clwyd Pension Fund, pursuant to a recommendation from the Flintshire Constitution Committee was approved by Flintshire County Council on the 3rd March 2015. This established the Local Pension Board in time to meet the imposed 1st April 2015 deadline. Regulations also required that the first meeting took place before the 1st August 2015; this was achieved and the membership is detailed below.

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 Local Board (From July 2015)

Local Board Members		Voting Rights
Independent Chair	Karen McWilliam	X
Employer Representatives	Mark Owen	✓
	Steve Jackson	✓
Scheme Member Representatives	Gaynor Brooks	✓
	Jim Duffy	✓

Investment Managers

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
Man FRM	Riverbank House, 2 Swan Lane, 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

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

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).	

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

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

Organisation	Address
Squire Patton Boggs	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

Committee Training and Activity 2014/15

	Cllr A Diskin	Cllr H Bateman	Cllr R Hampson	Cllr B Dunn	Cllr M Wright	Cllr H. Jones	Cllr S Wilson	A Rutherford	S Hibbert
Committees									
July 2014	✓	✓		✓	✓	✓	✓	✓	✓
November 2014	✓	✓	✓		✓	✓	✓	✓	✓
February 2015	✓	✓	✓	✓	✓	✓	✓	✓	✓
March 2015 (Special)		✓		✓			✓		
Knowledge & Skills									
Governance	✓	✓	✓	✓	✓	✓	✓	✓	✓
Funding & Actuarial		✓	✓	✓	✓	✓	✓	✓	✓
Investments		✓	✓	✓	✓	✓	✓	✓	✓
Accounting		✓	✓		✓	✓	✓		✓
Additional									
Conflicts of Interest		✓		✓			✓		
Strategy Review		✓				✓	✓	✓	✓
Risk Management	✓	✓	✓	✓	✓	✓	✓	✓	✓
BlackRock Economic Review				✓		✓			
Alternative Delivery Models	✓	✓	✓	✓	✓	✓	✓	✓	✓
Annual Employer Meeting		✓	✓	✓	✓	✓	✓	✓	✓
Conferences									
LGC Investment Summit		✓		✓					
LGC Seminar	✓		✓				✓		✓
LAPFF Annual Conference						✓			

Clwyd Pension Fund Training Policy 2014/15

At a national level, there are expanding requirements for LGPS Pension Committee members, Pension Board members and officers to have an appropriate level knowledge and skills. These are being driven by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Pensions Regulator (tPR) and legislation.

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

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

The Funds Training Policy can be found at the Fund website (www.clwydpensionfund.org.uk).

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) 702812

Joint Report from the Administrator and Treasurer

Introduction

The financial year 2014/15 was in the main a year of implementing many changes to the governance, funding and investment strategy as well as the new LGPS scheme. We would like to set out these main issues which have been addressed during the year and give a progress update for 2015/16.

The new Clwyd Pension Fund Committee had its first meeting in July 2014 and has met quarterly thereafter. The agenda covers three main areas: Governance, Investment and Funding and Administration and Communication and our report follows these three main themes.

Governance

POOLING INVESTMENTS AND WELSH COLLABORATION

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 which were reported in last year's annual report. However, this was overtaken by the General Election and an announcement by Government on the LGPS in the recent budget. Section 2.19 of the 'Red Book' stated:

Local Government Pension Scheme pooled investments -

The Government will work with Local Government Pension Schemes administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious plans are required to pool.

The LGPS community is currently considering how to respond to this challenge set by Government. As one of the eight pension funds in Wales we are asking our committees to consider the option of a collective investment vehicle for all the Welsh funds. We will keep our Committee informed of the governance and investments risks and implications of this approach for the Clwyd Fund as we continue to participate in a collaborative approach across Wales. A further update will be provided to our stakeholders at the Annual meeting.

LOCAL PENSIONS BOARD

The Public Service Pensions Act 2013 included provision for each LGPS administering authority to establish a Local Pension Board by 1st April 2015. The role of the Board is to ensure the administering authority is governing and administering the Fund in line with legislation and in an effective and efficient manner. The new membership of Clwyd Pension Board is included in this Annual Report and the first meeting was held on the 27th July 2015. We look forward to working with the new Board. Their work and recommendations to the administering authority will be reported in future Annual Reports.

SCHEME ADVISORY BOARD (SAB)

This is a new national board again created through the Public Service Pensions Act 2013 whose role is to advise both the Secretary of State and administering authorities. The work plan of the Board is closely monitored by the Committee to ensure the Fund is best placed to meet any potential new requirements. The current work plan includes:

- Deficit management.
- Options for greater separation between the administering authority and pension fund.
- A review of the implementation of local pension boards.
- Revised ill health retirement process.
- Data cleansing, member friendly communications and training.

In addition, the SAB is creating KPIs for the LGPS on governance, funding, investments and administration which each fund can measure themselves against. We look forward to demonstrating where we perform well against our peers and learn more about where we may need to improve.

CLWYD PENSION FUND GOVERNANCE

Following the implementation of the new governance structure we have further enhanced our governance by publishing a 3 year business plan, training policy, risk management policy and register and conflict of interest policy. The implementation of these policies will be monitored at each Committee. It is particularly pleasing to note that in the view of our Independent Advisor we are now one of the 'top performing LGPS funds in this area'. Her report provides further details and includes 'a look into the future' which explains an increased level of oversight from The Pensions Regulator (TPR) and National Scheme Advisory Board.

The external auditors, Wales Audit Office, have not raised any major issues about the management of the Fund and their unqualified opinion in the 2014/15 accounts is included in the Annual Report. There are two recommendations agreed by management; documenting our accounting closedown procedure and improving the reconciliation procedures between the pension systems and the accounting ledger.

Routine annual internal audits were undertaken for both Pensions Administration and Pension Investment Management which were reported to the May 2015 Committee. An audit opinion is given on a scale of red to green with green being substantial assurance. Both audits were given a green audit opinion and the five minor recommendations were agreed with management.

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 2014/15 saw a continued growth in the assets of the Fund from £1.2bn to £1.4bn and a positive investment return of +14.0%.

However, the funding position which was 68% as at March 2013 Actuarial Valuation had fallen to 64% as at March 2015. This is despite the implementation of the Fund's 'flight-path' strategy from 1st April 2014. This strategy manages interest rate and inflation risks through liability matching investing and has protected from lower interest rates to the extent that the deficit would have been £90m higher as at the 31st March 2015 if this strategy had not been implemented.

The investment consultant reviewed the investment strategy during 2014/15 and the changes recommended to the November 2014 Committee are being implemented.

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

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. There has also been on-going work with our larger employers on data quality and correcting a backlog of historic records.

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. The main issues for 2014/15 and 2015/16 are new Government policies on 'Freedom and Choice', the end of 'Contracting Out' and changes to personal taxation allowances, all of which impact on the workload of the Fund's Administration Section.

An Administration and Communication Strategy has been drafted which will provide more transparency to all stakeholders on the performance of the administration service and employers. The consultation on the new Strategy will be launched at the Annual Meeting in October 2015 with a view to implement from 1st April 2016.

Conclusion

The first report by our new Independent Adviser follows which considers our achievements and challenges both during the year and looking into the future. The general theme of the report is pleasing to read but we also recognise the need for continual improvement. We would like to thank all those involved with management and administration of the Fund for their continuing hard work and dedication.

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 2015

Independent Adviser

Introduction

This is my first annual report in my role as Independent Adviser to the Clwyd Pension Fund (the Fund).

My role

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

This is my first annual report, and it sets out my views on the management and administration of the Fund and, in particular, how it has evolved during 2014/15 (April to March), but also touches on some developments that have taken place after March 2015. I also highlight some of the ongoing challenges Flintshire County Council will face in the future, in its role as Administering Authority to the Fund, both in the short term and in the longer term.

Overview

There have been a number of fundamental changes to the management and operations of the Fund since April 2014. Some of this has been driven by national changes to the LGPS (and public service schemes in general), which has meant that the last year has been an extremely unsettling period, particularly in relation to the administration of the scheme with the ongoing implementation of the new LGPS 2014. Other changes, particularly relating to governance and investment matters, related to planned improvements to and evolution of the management of the Fund, driven by Flintshire County Council. This shift in how the Fund is managed and operated has taken place over an extremely short period of time, which is of great credit to all involved.

Effective Governance

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

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

The approach I take in advising Flintshire County Council in its role as Administering Authority to the Fund is to consider its approach to governance against the Aon Hewitt governance framework. The Aon Hewitt governance framework incorporates our beliefs about what it takes to achieve good governance, and considers the following key areas:

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



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

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

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

Observations

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

Governance

Key achievements:

- New decision making Pension Fund Committee supported by Pension Fund Advisory Panel
- Developed, agreed and implemented Governance Policy, Training Policy, Conflicts of Interest Policy
- Developed, agreed and implemented Risk Management Policy including updated risk register
- Moved to three year business planning

I am delighted to highlight that, during 2014/15, Flintshire County Council radically overhauled the governance of the Clwyd Pension Fund, implementing significant improvements over a particularly short period of time, demonstrating the dedication and commitment by all those involved. This included:

- a detailed review of the structure of decision making, resulting in moving away from having a non-decision making Panel to the establishment of the **new Pension Fund Committee**, incorporating decision makers from all key stakeholders of the Fund, including scheme members. This was driven by the Council acknowledging the need to evolve in line with what is now considered best practice. The first meeting of the new Pension Fund Committee took place in July 2014
- as part of this, the Council also **reviewed its Fund advisory arrangements**, and moved from having a Fund Actuary/Benefits Consultant plus an Independent Investment Adviser, to having a

Fund Actuary/Benefits Consultant plus an Investment Consultant plus a separate Independent Adviser, thus providing a wider range of expertise and challenge

- establishing a **new Advisory Panel**, made up of those advisers plus senior officers of the Fund, to provide ongoing advice to the Pension Fund Committee and to undertake ongoing monitoring of the Fund's activities between Pension Fund Committee meetings
- creating a new **scheme of delegation for officers**, articulating what day to day responsibilities they have and, in particular, how decisions are made outside of the Pension Fund Committee
- agreeing the **establishment of the Local Pension Board**, driven by national changes, which was established ahead of the regulatory deadline of 31 March 2015 and which held its first meeting during July 2015.

One of the key objectives of these changes was to ensure that good decisions were being made at the right level and at the right time. The new structure ensures that the Pension Fund Committee's focus is on strategic matters with elements such as Fund Manager monitoring being delegated to officers, all of which is supported by high quality advice. This latter point is particularly important given that the new structure includes a number of individuals, particularly senior officers on the Advisory Panel, who had little knowledge of LGPS matters. These individuals, however, provide valuable fresh-thinking. It is still early days for this new governance structure and it will take a couple of years for it to fully bed in.

To support this new structure, it was pleasing to see a number of key policies being developed including the **governance policy**, **training policy** and **conflicts of interest**, all with clear objectives articulating how success will be measured, and these were all agreed by the Pension Fund Committee. As a result, the Pension Fund Committee members and key officers:

- have undertaken intensive training covering all areas of the CIPFA Framework in line with their individual requirements, and established an ongoing training plan which is integrated with business as usual
- have become more aware of their roles as 'quasi-trustees' to the Fund with a fiduciary responsibility to both scheme members and employers. This has been backed up by the Fund's Conflicts of Interest Policy, resulting in greater transparency around other interests including employer focussed roles which might have objectives that are not aligned to those of the Fund.

It should be noted that, in my view, this new structure and how it operates already meets good practice and, in particular, that it is now fully compliant with statutory guidance for decision making from the Secretary of State and with the Shadow Scheme Advisory Board local pension board guidance.

Beyond these structural changes, a further positive improvement is that the Pension Fund Committee has also agreed a revised **risk management strategy** incorporating a full review of the Fund's risk register. This review has been focussed on:

- embedding risk management as a key ongoing part of the management of the Fund
- ensuring that the Pension Fund Committee are clear about where responsibility lies and how risks are monitored and managed
- allowing the Pension Fund Committee to focus on the most important risks and any significant changes to risks that have occurred.

It was encouraging to see that, at the beginning of 2014/15, the Council also ensured there was a greater focus on business planning, including introducing a **formally agreed business plan** and ensuring that it is monitored on an ongoing basis by the Pension Fund Committee during the year. This provided the opportunity for the Pension Fund Committee to ensure that appropriate resource was focussed on the Fund's key strategies and policies. In March 2015, this focus was further enhanced with the introduction of three year business planning, which included the officers, advisors and Pension Fund Committee members taking part in workshops to consider the key challenges going forward, many of which are driven by external factors, and which are expanded on below. I am

pleased to see the business plan includes many improvement areas, which will be beneficial to the Fund and its stakeholders in the future, but which will no doubt prove demanding to implement due to the ongoing pressures of those external factors. The Pension Fund Committee continues to monitor progress against this business plan at each meeting, and I have no doubt this will be another area of success going forward.

Needless to say, with all this change there is bound to be some **cost** – both in relation to advisor's fees and staffing costs (albeit the team have, so far, absorbed the additional work within their current staffing structure). Much of this is transitional, one off costs, but there will be some ongoing costs from a number of areas, including the increase in advisers, the new Tactical Portfolio (considered below) and the new Pension Board. The benefits of this improved governance structure include much better risk management as well as more robust and timely decision making and, although it is almost impossible to measure these benefits in pounds and pence, they will include the avoidance of unnecessary costs or loss going forward, and being better able to benefit from opportunities as they arise.

So clearly since April 2014 some fundamental changes in the governance of the Fund have been implemented and, in my view and based on my knowledge of other LGPS funds, I believe it is now amongst the **top performing LGPS funds** in this area, easily within the top quartile in relation to quality of governance.

Looking to the future:

- I expect to see an increased level of oversight by The Pensions Regulator (TPR) and the national Scheme Advisory Board. Some of this will be focussed on the Pension Board, ensuring it is properly established and operating as intended. However, many aspects will place additional responsibilities on both administering authorities and employers, and work on demonstrating compliance with these requirements for Clwyd Pension Fund is already programmed for later in 2015/16.
- The next few months will see the Pension Board bedding in and it will be interesting to see where it will focus its attention.
- I will be taking a keen interest in checking ongoing adherence with the Fund's Training Policy and, generally, ongoing engagement with Fund business. This is an area where, following an initial burst of activity, complacency can kick in - it will therefore be important for all Pension Fund Committee and Pension Board members, and officers of the Fund (particularly the new senior officers on the Advisory Panel), to continue to attend all planned training and meetings, particularly given some of the complex decisions that will need to be made in the future as part of the business plan.

Funding and Investments

Key achievements:

- Implemented the Fund's flight-path strategy
- Review of investment strategy
- Expansion of expertise and challenge including appointment of investment consultant

The period from April 2014 has seen strong returns from the majority of asset classes – however, UK Government bonds produced the strongest return of almost all investment markets, which kept the pressure on the funding level of the Fund. Bond markets in particular were extremely volatile, responding to global political and economic events and, even more recently, the Greek debt crisis and events in the European Union.

The Fund's **flight-path strategy** commenced from 1st April 2014 with the intention of allowing the Fund to maintain its exposure to return seeking assets, while reducing the interest and inflation risks by:

- implementing a 'base level' of interest rate and inflation hedging (10% hedge ratio) at the outset.
- aiming for a target interest rate and inflation hedge of 40% by April 2019.
- achieving a target interest rate and inflation hedge ratio of 80% in the long term.

The implementation of the flight-path strategy has helped to mitigate the Fund's exposure to the risk of falling bond yields and will do so to an increasing extent moving forward as greater levels of hedging are achieved.

Both the Pension Fund Advisory Panel and the Pension Fund Committee receive updates on the progress against these objectives at each meeting and it was pleasing to note the following elements which were reported at the May 2015 Pension Fund Committee:

- although the funding position is behind expectations, the flight-path has protected it against recent changes in interest and inflation rates to the extent the deficit would have been approximately £90m higher if the flight-path hedges implemented via the triggers had not been in place and the Fund had instead continued to follow its original strategy.
- a health check of the flight-path strategy is being undertaken because the planned target level for inflation hedging at April 2019 has already been reached.

Following the appointment of JLT as the Fund's Investment Consultant, the Fund's **investment strategy** was reviewed with the intention of reducing risk without sacrificing potential return on assets. Excellent progress has been made in a short period of time to implement the agreed changes, including:

- a move towards Managed Futures to provide protection against market volatility in the Hedge Fund Portfolio
- an increase in the exposure and flexibility of the current Tactical Portfolio.

Again, decision making in this regard has been exemplary, with the Pension Fund Advisory Panel initially working through the recommendations from the Investment Consultant, and then the Pension Fund Committee being engaged in the recommendations as part of a workshop before being asked to formally approve the revised strategy. In particular, it was pleasing to see the introduction of a Tactical Asset Allocation Group (consisting of the Fund's key officers and specialists at the Investment Consultants) with a clearly defined terms of reference. This involved a rigorous cycle of recommendations, challenges and documented decision making, all occurring in line with the revised Scheme of Delegation for the Fund to allow appropriate medium term asset allocation decisions to be made when opportunities arise, with ongoing oversight from the Pension Fund Advisory Panel and Pension Fund Committee.

Given that the Fund's investment strategy is very diverse and complex, investment governance is particularly important, and places an additional emphasis on ongoing training, knowledge and understanding. However, I feel particularly comfortable that both investment and funding matters are given **appropriate challenge** through the combined knowledge of officers, the Pension Fund Advisory Panel (in particular the close working relationship between the Fund Actuary (Mercers) and the Investment Consultant (JLT)) and the Pension Fund Committee. This demonstrates the benefits of the new governance structure in ensuring the Fund's strategic decision-making in relation to the key areas of risk is robust and fit for purpose.

Looking to the future:

- at the time of writing, we are waiting to hear about the impact of the Summer Budget 2015 announcement relating to reducing costs by pooling investments. The Council has already been engaging with other administering authorities in Wales with a view to introducing a Collective Investment Vehicle for those funds to participate in
- the Welsh Audit Office also conducted research into the management of the Welsh LGPS funds recently, I understand again with a particular focus on investment matters. The results of this have not been made public, as yet, but we understand that this could result in pressure to merge Welsh Funds.

Although I am extremely supportive of collaboration between LGPS Funds to benefit from efficiencies, it should be noted that such national initiatives could have a negative impact on the Fund individually in the long run. The diversity and complexity of Fund investments mentioned above may make it more difficult to find similar investments with other LGPS funds that can be pooled to achieve cost savings through the aggregation of invested assets, and the harder it may be for the Fund to negotiate cost savings with its own investment managers due to the smaller invested amounts that such a diverse investment strategy necessarily requires. Equally it should be noted that time spent participating in consultations and the uncertainty of outcome can be a significant distraction to business as usual, albeit I do observe this being well-managed by all those involved in the management of the Fund.

Administration and Communications

Key achievements:

- Implemented new LGPS from 1 April 2014
- Created backlog steering group and plan for clearing backlog
- Initial work on developing administration strategy

The pension administration team have again faced significant external challenges this year. The introduction of the **new LGPS from 1 April 2014** presented a number of problems that affected the delivery of services during 2014/15, such as:

- final transitional regulations were only issued in March 2014 and the main scheme regulations had a wide range of inconsistencies and inaccuracies, with the first set of amending regulations not issued until March 2015 (with more expected)
- as a result of the above, there was a late delivery of workable pensions administration software systems, and there have therefore been ongoing issues with inaccuracies in the software.

All in all, this has meant the administration team, like all LGPS administration teams, have been faced with a period of uncertainty, for example in interpreting the intention around new provisions, and they also have at times been unable to deliver an efficient and timely service, often having to resort to carrying out manual calculations rather than using the nationally produced software.

The administration team already had a **historical backlog of member cases** which, as a result of the additional work created by the introduction of the new scheme, had to be put to one side and which has therefore continued to cause ongoing issues.

However, against this backdrop of ongoing challenges, I have observed extreme dedication from the administration team, and indeed the employers who play a key part in the delivery of the administration service. Already the administration team has:

- established a steering group involving the key employers in the Fund to lead a major new project with a view to clearing all backlogs
- trained and worked closely with external consultants who have been tasked with assisting in clearing the backlog

- identified and planned key improvements this year and in future years, which will bring benefits to employers and scheme members, as well as driving efficiencies within the pension administration team. These include:
 - the introduction of I-Connect, a new piece of administration software ,which provides more automation and accuracy in the transition of information from employers into the administration system
 - on-line and interactive scheme member and employer web systems
- begun the development of an administration strategy, which will be consulted on during the autumn and winter months of 2015, and which includes clear targets and performance measurements for the administration team as well as for the employers in the Fund.

Looking to the future:

So, going forward, I believe those in the administration team, and the employers participating in the Fund, can now feel more assured that there is a clear plan of action to help reduce and eventually eliminate the existing backlogs and introduce better ways of working over the next 24 months or so.

I would encourage those reading this report not to be overly critical and equally not to expect short-term solutions, as there is a significant amount of work still to be completed with limited internal resources (hence the decision to outsource much of this which I am extremely supportive of). Equally, I encourage those within the Fund to remain focussed on these matters as, inevitably, new challenges will come along with the potential to distract this work, not least:

- I am very much aware of the high likelihood that all LGPS Funds will need to carry out major data matching exercises with HMRC over the next 2 to 3 years due to the national reform of state pensions, and it has already been identified that this is the case for the Clwyd Pension Fund
- the Summer Budget 2015 announced yet more changes to the taxation of pension rights (e.g. changes to the annual allowance) which introduce more complex processes and procedures for the team and also which impact on communications to scheme members and employers.

Final Thoughts

I want to say a huge thank you to the Pension Fund Committee, officers and other stakeholders of the Fund for making me extremely welcome, helping me understand how they work and being so open and receptive to my many suggestions. In particular;

- the officers' hard work and dedication is inspiring, particularly in a period where there is so much uncertainty, and
- Pension Fund Committee members have dedicated many hours to Committee business and attending additional training events.

I look forward to continuing to work with them through the challenging times ahead.

**Karen McWilliam, Independent Adviser for the Clwyd Pension Fund
August 2015**

Management of Pension Fund Risks

Position Statement (September 2013 to September 2015)

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 recognised 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 was undertaken during 2014/15. This brought 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 formed an up to date risk register that is a live document used within the Fund. The Risk Policy and Register are reviewed quarterly by the Pension Fund Committee and are a fundamental part of the report to the Pension Fund Committee.

Taking account of this, 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	<p><u>What We Have Done</u></p> <ul style="list-style-type: none"> • 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 and monitoring of a 3 year Business Plan for the Fund. • Developed reports for the Pension Fund Committee. • Responded to a consultation by the Government on draft Governance Regulations. • Developed a Risk Policy and monitoring of the Fund's Risk Register. • Developed the Training Policy and implementing the Training Plan. • Creation and servicing of a new Local Pension Board, developed protocol, appointed employer and employee representatives and provided appropriate training. • Developed a Conflicts of Interest Policy.

	<p><u>Work in Progress</u></p> <ul style="list-style-type: none"> Consider collaboration with the other seven Welsh pension funds. <p><u>The Near Future</u></p> <ul style="list-style-type: none"> Consider and respond to Government consultations on pooling investments within the LGPS. Review current arrangements against the new Pensions' Regulator Public Sector Pensions Code of Practice. Develop a Breaches Policy as required by the Pensions Regulator. <p><u>Longer Term</u></p> <ul style="list-style-type: none"> Consider the impact of re-organisation of local government in Wales. Review framework agreement. Review/ tender investment consultant and independent advisor contracts. Review/ tender actuarial contract. Consider/ implement any changes of governance arrangements from the annual review undertaken by the Independent Advisor or Pension Board.
FUNDING RISKS	<p><u>What We Have Done</u></p> <ul style="list-style-type: none"> Implemented the new funding plan from 1st April 2014. Documented a Termination Policy for employers. Implemented and monitoring the Fund's 'flight-path' strategy to manage interest rate and inflation risks. <p><u>Work in Progress</u></p> <ul style="list-style-type: none"> 2015 Funding review. <p><u>The Near Future</u></p> <ul style="list-style-type: none"> Annual review of the Funding Strategy and Flight-path. Implement an employer risk monitoring framework. <p><u>Longer Term</u></p> <ul style="list-style-type: none"> Prepare for the next Actuarial Valuation as at 2016. Potential impact of the 2016 end of contracting out.
INVESTMENT RISKS	<p><u>What We Have Done</u></p> <ul style="list-style-type: none"> 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. Responded to the Government's consultation on collaboration, cost savings and efficiencies relating to collective investment vehicles and passive investment. A review of the Fund's investment strategy. Implementation of a new approach to tactical asset allocation. Updated the Statement of Investment Principles.

	<p><u>Work in Progress</u></p> <ul style="list-style-type: none"> • Implementation of the Fund's new investment strategy. • Publishing the voting records of our equity fund managers. <p><u>The Near Future</u></p> <ul style="list-style-type: none"> • Review AVC arrangements. <p><u>Longer Term</u></p> <ul style="list-style-type: none"> • Triennial Review of Investment Strategy.
ADMINISTRATION AND COMMUNICATION RISKS	<p><u>What We Have Done</u></p> <ul style="list-style-type: none"> • Implemented LGPS 2014. • Reviewed all pensioner records. • Reviewed pensioner payroll service. • Implemented Communication Plan. <p><u>Work in Progress</u></p> <ul style="list-style-type: none"> • Working with large employers on data quality. • Working with employers on updating historic records. • Review of Trivial Commutations. <p><u>The Near Future</u></p> <ul style="list-style-type: none"> • Developing Administration and Communication Strategies. • End of Contracting out including GMP issues. • Review of Fund's website. <p><u>Longer Term</u></p> <ul style="list-style-type: none"> • Implement member self-service.

Financial Performance

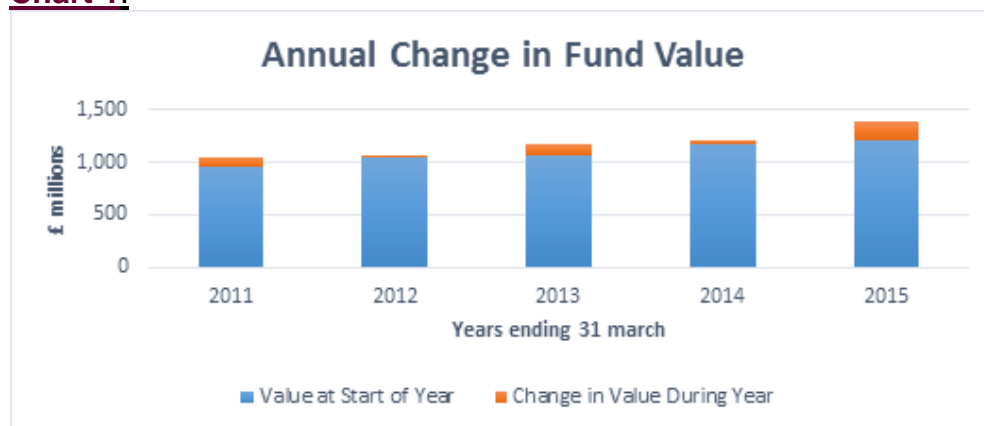
The following provides a brief overview of the key movements within the Fund over a five year period. More detail can be found in Investment and Funding, Pensions Administration Update, and Fund Accounts.

Table 1.

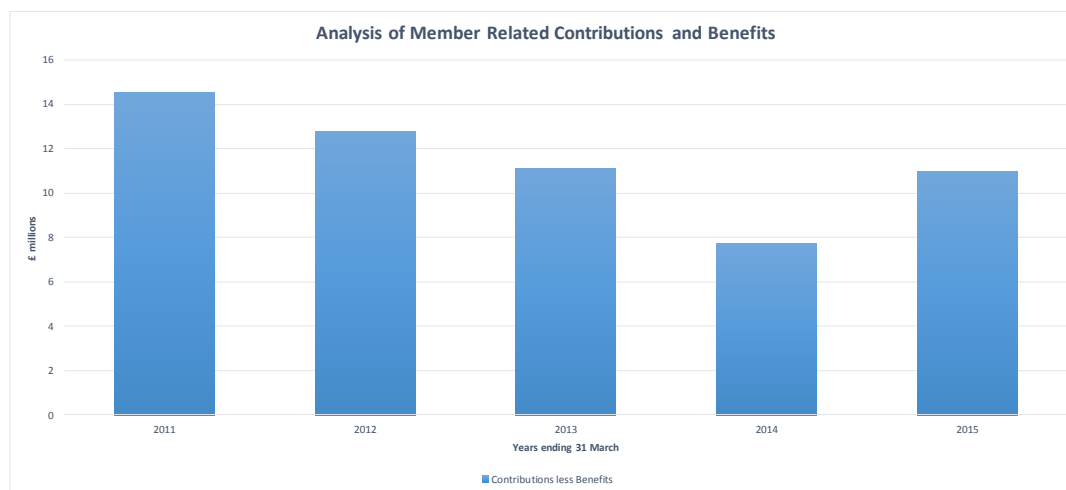
Fund Account <i>(All amounts £000's, year end 31 March)</i>	2010/11	2011/12	2012/13	2013/14	2014/15
Value of Fund at start of year	955,833	1,051,815	1,060,823	1,181,232	1,213,567
Increase in fund value during year	95,982	9,008	120,409	32,335	181,841
Value of fund at end of year	1,051,815	1,060,823	1,181,232	1,213,567	1,395,408
<i>The increase in fund value is made up of the following:</i>					
<i>Member and Employer related</i>					
• Contributions and pension strain	68,147	66,593	68,078	68,869	76,596
• Transfers in or (out)	4,898	(21,708)	3,139	563	249
• Benefits payable	(53,584)	(53,789)	(56,977)	(61,137)	(66,689)
	19,461	(8,904)	14,240	8,295	10,156
<i>Other Expenses</i>					
• Administrative and other expenses	(1,262)	(1,244)	(1,047)	(1,030)	(1,002)
• Oversight & Governance	n/a	n/a	n/a	(749)	(1,128)
• Investment Management Fees	n/a	n/a	n/a	(5,588)	(16,159)
<i>Investments (after income and fees #)</i>					
• Change +/-	77,783	19,156	107,216	31,407	189,974
	95,982	9,008	120,409	32,335	181,841

Table 1 illustrates the annual increase in the Fund value over the five years ending 31st March 2015, analysed between Member and Employer related benefits, other expenses and movements in investment values. These are detailed further, for years ending 31st March 2014 and 2015, 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 changes in the market value of investments.

Chart 2.

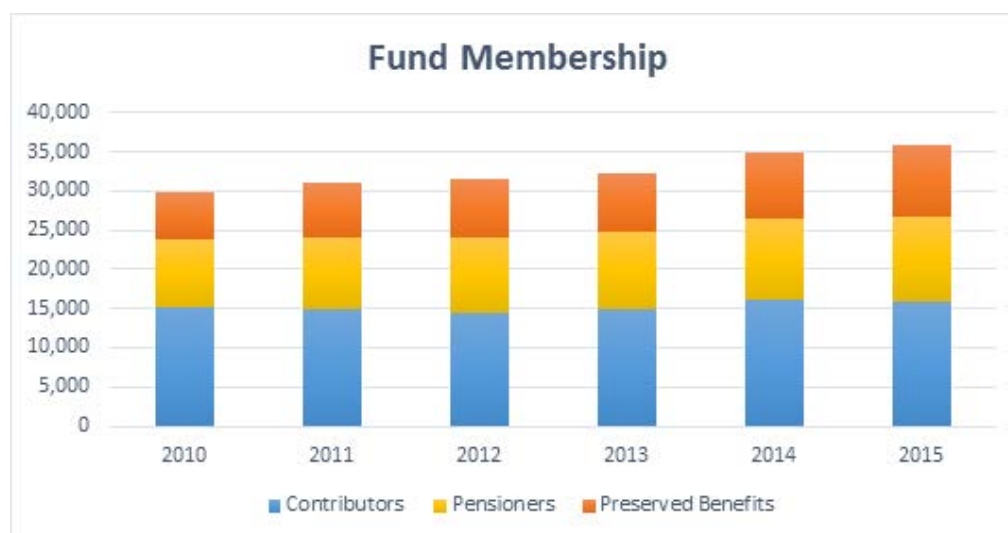
This compares the difference between contributions received and benefits paid (Table 1 above), not taking account of transfers, over the same five year period. From Chart 2 it is the trend of the excess in contributions over benefits paid was steadily reducing between 2010/11 and

2013/14 but with an increase in 2014/15. This is not unexpected and reflects the growing maturity of the Fund offset in 2014/15 by an increase in employer contributions, following the 2013 actuarial valuation, and the impact of auto enrolment on membership numbers and thus employee contributions. There remains, however, a number of significant variables for the future including the impact of workforce reductions across the large employers as well as the ongoing impact of auto enrolment.

Table 2.

Membership		2011	2012	2013	2014	2015
	Number of Contributors	14,960	14,519	14,920	16,133	15,941
	Number of Pensioners	9,091	9,553	9,874	10,367	10,863
	Number with Preserved Benefits	6,910	7,386	7,539	12,314	13,304
Total		30,961	31,458	32,333	38,814	40,108

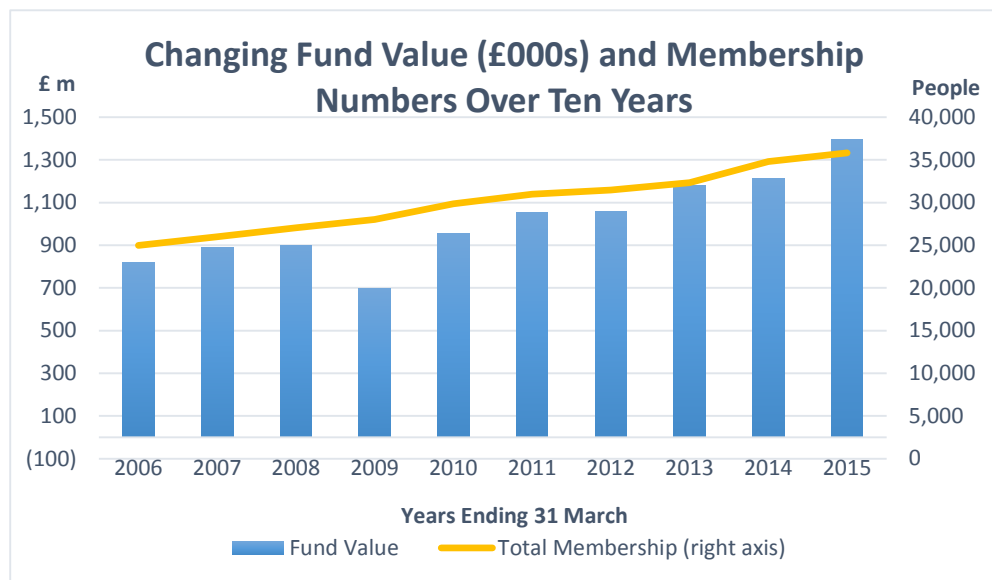
Table 2 above details the membership of the Fund over a five year period ending 31st March 2015. The membership is split between active contributors, those in receipt of a pension and those whose entitlement is preserved; these numbers do not include those who are undecided members.

Chart 3.

This shows the membership data in Table 2 graphically. Overall the trend in total in membership is upwards over the five years ending 31st March 2015. 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.

Other includes members with preserved benefits, undecided members and those with frozen refunds.

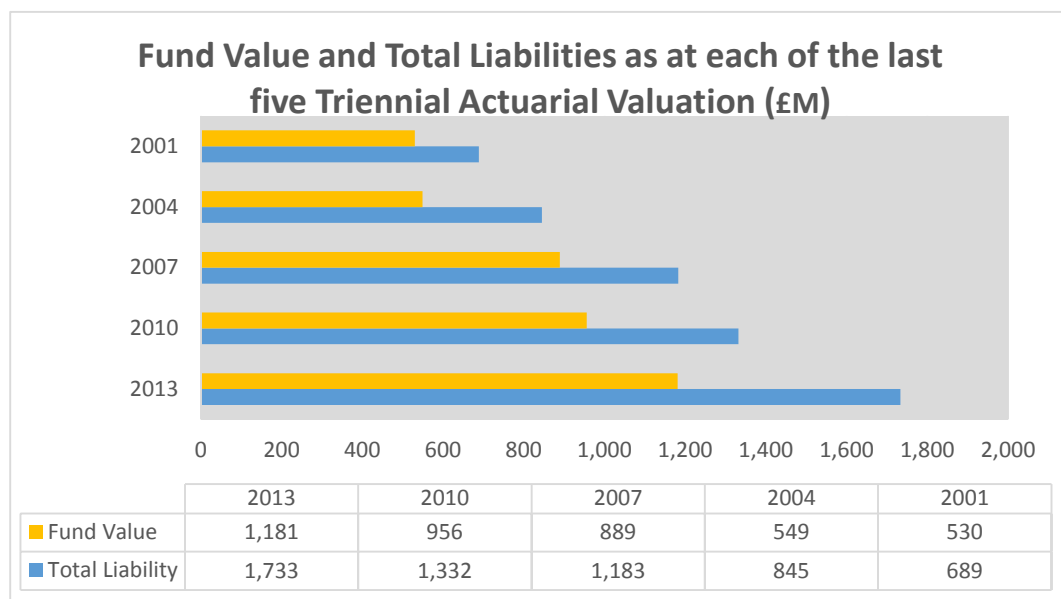
Chart 4.



This plots the Fund value over ten years to 31st March 2015. 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 35,800; an increase of just over 48%. 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 represents 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 to an estimated (at 31 March 2015) £2,157m.

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	<u>752</u>	<u>568</u>
Total Liabilities	<u>1,733</u>	<u>1,332</u>
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 2014/15. 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.

2014/15	Estimate £000	Actual £000	Variance £000
Opening In House Cash		(30,520)	
<u>Payments</u>			
Pensions	47,642	50,415	2,773
Lump Sums & Death Grants	14,000	17,317	3,317
Transfers Out	2,800	2,036	(764)
Expenses (including In House)	2,320	2,691	371
Support Services	240	219	(21)
Total Payments	67,002	72,678	5,676
<u>Income</u>			
Employer Contributions	(27,000)	(29,608)	(2,608)
Employee Contributions	(15,200)	(14,532)	668
Employer Deficit Payments	(28,550)	(28,079)	471
Transfers In	(4,000)	(2,347)	1,653
Pension Strain	(700)	(3,030)	(2,330)
Investment Income	(2,800)	(3,070)	(270)
Total Income	(78,250)	(80,666)	(2,416)
In House Investments			
Draw downs	54,459	40,212	(14,247)
Distributions	(69,463)	(59,824)	9,639
Net Expenditure /(Income)	(15,004)	(19,612)	(4,608)
Net Purchases /(Sales) **	(1,259)	14,385	15,644
Total Net Cash Flow	(27,511)	(13,215)	(14,296)
Closing In House Cash		(43,735)	

** £15m was transferred from the Clwyd Pension Fund cash account as an initial transition of Fund assets as a result of the 2014 Fund Review.

3 Year Cash Flow Forecast

The following table shows the cash flow forecasts for the next three years to March 2018. 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.

	2015/16 £000	2016/17 £000	2017/18 £000
Opening Cash	(43,735)	(27,260)	(19,718)
<u>Payments</u>			
Pensions	53,600	57,300	59,600
Lump Sums & Death Grants	18,000	20,000	20,000
Transfers Out	2,800	2,800	2,800
Expenses (including In House)	3,200	3,200	3,200
Support Services	250	250	250
Total Payments	77,850	83,550	85,850
<u>Income</u>			
Employer Contributions	(31,765)	(33,250)	(33,900)
Employee Contributions	(15,200)	(15,200)	(15,400)
Employer Deficit Payments	(27,230)	(28,500)	(33,200)
Transfers In	(4,000)	(4,000)	(4,000)
Pension Strain	(2,350)	(1,200)	(1,200)
Investment Income	(3,000)	(3,170)	(3,170)
Total Income	(83,545)	(85,320)	(90,870)
In House Investments			
Draw downs	44,376	60,955	38,490
Distributions	(61,606)	(71,043)	(71,792)
Net Expenditure /(Income)	(17,230)	(30,088)	(33,302)
Net Purchases/(Sales)	(600)	(600)	0
Rebalancing Portfolio	40,000	40,000	40,000
Total Net Cash Flow	16,475	7,542	(1,678)
Closing Cash	(27,260)	(19,718)	(18,040)
Estimated Asset Valuations	1,494,480	1,600,589	1,714,230

Analysis of Operating Expenses

The following table shows the actual operating expenses for the Fund for 2014/15 compared to 2013/14. Increases in Governance direct employee costs were as a result of recruitment to vacant positions within the service area. The difference in consultant and advisor costs were as a result of appointing a new Investment Consultant and Independent Advisor in March 2014. In line with CIPFA “best practice”, the Fund requested a breakdown of all fees from all of its Investment managers to include Annual Management Charges (AMC), underlying fees, performance fees and transaction costs for the 2014/15 Accounts. In order to give a true comparison of costs, the Fund also asked for the same information for 2013/14, hence the revision shown in the table below. Further breakdown of these costs is shown in Note 2 of the accounts shown in this Annual Report.

	2014/15 £000	2013/14 £000	2013/14 £000 Revised	Net change £000
<u>Governance & Oversight Expenses</u>				
Employee Costs (Direct)	218	182	182	36
Support & Service Costs (Internal Recharges)	13	23	23	(10)
Premises	8	19	19	(11)
IT (Support & Services)	12	10	10	2
Other Supplies & Services	49	47	47	2
Audit Fees	37	35	35	2
Actuarial Fees	205	148	148	57
Consultant Fees	403	229	229	174
Advisor Fees	142	0	0	142
Legal Fees	21	31	31	(10)
Performance Monitoring Fees	20	25	25	(5)
Total Governance Expenses	1,128	749	749	379
<u>Investment Management Expenses</u>				
Fund Manager Fees	16,127	5,571	15,359	768
Custody Fees	32	17	17	15
Total Investment Management Fees	16,159	5,588	15,376	783
<u>Administration Expenses</u>				
Employee Costs (Direct)	592	599	599	(7)
Support & Service Costs (Internal Recharges)	53	69	69	(16)
Outsourcing	32	0	0	32
Premises	33	78	78	(45)
IT (Support)	70	50	50	20
IT (Services)	148	173	173	(25)
Other supplies & services	75	63	63	12
Miscellaneous Income	(1)	(2)	(2)	1
Total Administrative Expenses	1,002	1,030	1,030	(28)
Total Fees	18,289	7,367	17,155	1,134

The following table shows actual costs for 2014/15 compared to the budgeted costs along with the budget for 2015/16. The original budget for Fund Manager Fees for 2014/15 only estimated for the

Annual Management Charge. This was revised to incorporate the additional costs as advised by CIPFA.

	2014/15 £000 Actual	2014/15 £000 Budget	2013/14 £000 Variance	2015/16 £000 Budget
<u>Governance & Oversight Expenses</u>				
Employee Costs (Direct)	218	223	(5)	226
Support & Service Costs (Internal Recharges)	13	23	(10)	19
Premises	8	17	(9)	17
IT (Support & Services)	12	10	2	10
Other Supplies & Services	49	51	(2)	56
Audit Fees	37	36	(1)	36
Actuarial Fees	205	64	141	192
Consultant Fees	403	253	150	351
Advisor Fees	142	63	79	156
Legal Fees	21	40	(19)	30
Performance Monitoring Fees	20	27	(7)	25
Total Governance Expenses	1,128	807	321	1,118
<u>Investment Management Expenses</u>				
Fund Manager Fees	16,127	16,276*	9,827	14,490
Custody Fees	32	17	15	34
Total Investment Management Fees	16,159	16,293*	9,842	14,524
<u>Administration Expenses</u>				
Employee Costs (Direct)	592	648	(56)	662
Support & Service Costs (Internal Recharges)	53	78	(25)	82
Outsourcing	32	0	32	800
Premises	33	75	(42)	75
IT (Support & Services)	218	227	(9)	250
Other supplies & services	75	62	13	70
Miscellaneous Income	(1)	0	(1)	0
Total Administrative Expenses	1,002	1,090	(88)	1,939
Total Fees*	18,289	18,190*	99	17,581

* The original budget for Fund Manager Annual Manager Charges was £6.3m. This was revised to take account of underlying fees, performance fees and transaction cost which had not been previously included in the budgets.

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 favourable investment performance can play a valuable role in achieving adequate funding over the long term.

Summary of 2014/15

The Financial Markets

The main driver of the investment performance of any pension fund is the direction of financial markets.

In 2014/15 equity markets performed very well with Japan posting the highest return at +27.1% and UK the lowest at +6.6%. On average global developed equities rose by +19.7%, emerging markets by +13.2% and frontier markets by +8.7%. These returns are well ahead of targets for most pension funds who are required to take this equity risk. However, we have seen some of these gains given back in early 2015/16 as volatility has increased.

UK Gilts also performed well with the market value of UK Gilts (>15yrs) increasing by +27%. This is a problem for many pension funds as this reflects lower gilt yields, upon which liabilities are measured. These gilt yields fell by -1.2% in the year and although volatile, overall have shown little increase in the first half of 2015/16.

Price inflation remains low with CPI showing no increase in the year and earnings inflation also low at +1.6%, both of which are positives for pension schemes with inflation linked liabilities, such as the LGPS.

In general most other growth asset classes, such as property, infrastructure, hedge funds and credit have all posted positive returns with commodities being the only significant negative for the year returning -33%, due to lower oil prices and slowing global demand. Commodities are continuing to fall in the first half of 2015/16.

Clwyd Pension Fund Investment Performance 2014/15

In light of the above market returns the CPF returned +14.0% in 2014/15 which is ahead of our long term annual benchmark of circa +7% and long term funding assumptions quoted in our SIP and FSS. However, this is only one year in isolation of a 20 year funding recovery plan.

The main driver of return was the Liability Driven Investment portfolio which consists of both regional global equity, gilt and inflation exposures. This portfolio returned +44.7% in 2014/15.

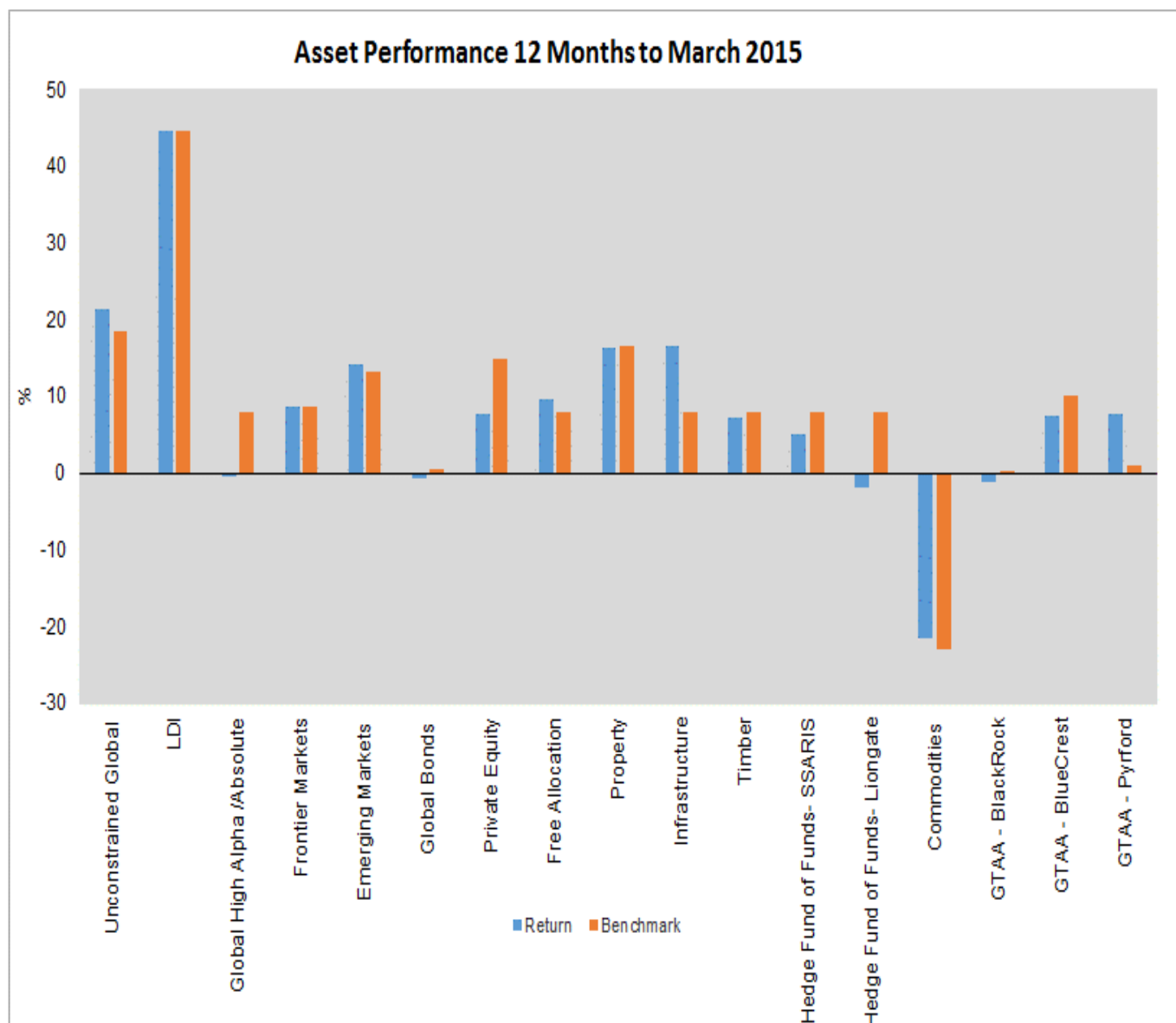
The equity assets portfolio of global, emerging and frontier equity exposures showed the next best return of +13.5%.

The allocation to real assets such as property (+14.4%), infrastructure (+11.1%) and timber and agriculture (+13.8) all showed excellent returns but the asset allocation as a whole returned +7.2% because of the exposure to commodities, which fell by -22.0%.

The return from alpha seeking assets was mixed with disappointing returns from the hedge fund managers but solid returns from private equity and opportunistic portfolios. Overall the return of +5.8% is marginally ahead of target for the year.

The bond assets (-0.9%) and tactical allocation portfolios (+4.0%) were a little disappointing with the latter driven by a return of -1.2% from the Blackrock GASL fund.

The chart below shows the 12 month performance against benchmark for each of the Fund's asset classes and managers.



Investment Strategy Review

The Fund's Investment Consultants (JLT) undertook a fundamental review of the investment strategy and the recommendations were accepted by the November 2014 Committee. As at 31st March 2015 only some of the recommendations had been implemented with full implementation expected by December 2015.

The conclusion was that no radical re-organisation of the current investment structure was required and that the portfolio was well diversified with the introduction of the de-risking framework and Flight-path which was well designed and its implementation ahead of the majority of other LGPS funds.

However, there were opportunities to reduce risk without sacrificing return at a lower implementation cost.

- The current Hedge Fund portfolio is being re-structured to incorporate exposure to a Managed Futures account to provide protection against market volatility (particularly on the downside). A

new manager has been appointed in 2015/16, Man FRM, who will be funded with redemptions from SSARIS, Liongate, Duet and Bluecrest who currently provide various hedge fund strategies.

- An increase in the exposure and flexibility of the current Tactical Portfolio and the cessation of the current GTAA portfolio with BlackRock. The Tactical portfolio will be constructed of two elements. A diversified portfolio of growth assets comprising the existing Pyrford portfolio and a second manager, Investec, who adds style/portfolio management diversification. In addition a flexible short term tactical allocation based on JLT's suggested 'best ideas' which will be implemented during 2015/16.
- The Asia Pacific equity mandate with Aberdeen was disinvested from in 2014/15 and the Commodities mandate with Wellington has been disinvested in 2015/16, both for strategic reasons.

The revised Strategic Asset Allocation and ranges are shown below followed by the actual allocations as at 31st March 2015.

Asset type	Current Allocation	New Allocation	Change	Rebalancing Ranges (%)
Global Equity	5.0%	8.0%	+ 3.0%	5.0 – 10.0
Asia Pacific Equity	6.5%	0.0%	- 6.5%	N/A
Emerging Market Equity	6.5%	6.5%	No Change	5.0 – 7.5
Frontier Market Equity	1.0%	2.5%	+1.5%	1.0 – 4.0
Multi Asset Credit	15.0%	15.0%	No Change	12.5 – 17.5
Tactical Allocation	9.0%	19.0%	+10.0%	15.0 – 25.0
Property	7.0%	7.0%	No Change	5.0 – 10.0
Infrastructure*	4.0%	4.0%	No Change	2.0 – 7.0
Commodities	4.0%	0.0%	- 4.0%	N/A
Private Equity	10.0%	10.0%	No Change	8.0 – 12.0
Managed Account	13.0%	9.0%	- 4.0%	7.0 – 11.0
<i>Hedge Funds</i>	<i>13.0%</i>	<i>3.0%</i>		
<i>Managed Futures</i>	<i>0.0%</i>	<i>6.0%</i>		
Liability Hedging	19.0%	19.0%	No Change	10.0 – 30.0
Cash	0.0%	0.0%	No Change	0.0 - 5.0

**Infrastructure includes exposure to Agriculture and Timber*

Manager	Mandate	Strategic Allocation 14/15 %	Strategic Allocation 15/16 %	Allocation 31/03/15
	Liability Driven Investment			
Insight	LDI	19	19	23.7
	Equities Alpha Seeking			
Aberdeen Asset Management	Pac Rim – High Alpha	7	0	0
Aberdeen Asset Management	Frontier Markets	0	2.5	0.7
Wellington Management International Ltd	Emerging Markets Core	7	6.5	6.1
Investec Asset Management	Global – High Alpha*	5	8	7.4
Duet Asset Management Ltd	Other Global – High Alpha	5	0	3.6
	Fixed Interest			
Stone Harbour Investment Funds	Unconstrained	15	15	12.4
	Cash	0	0	3.4
	Alternatives			
Various	Property	7	7	7.4
Various	Infrastructure	2	2	2.4
Various	Timber/ Agriculture	2	2	1.9
Wellington Management International Ltd	Commodities	4	0	0
Various	Private Equity	8	8	10.2
Liongate	Hedge Fund of Funds	2.5	0	1.7
SSARIS	Hedge Fund of Funds	2.5	0	1.8
Various	Opportunistic	2	2	0.7
Man FRM	Hedge Fund Managed Account Platform	0	9	0
	Tactical Allocation			
Blackrock	Global TAA	6	0	3.6
BlueCrest Capital Management	Macro Fund of Funds	3	0	2.5
Pyrford International Ltd	Diversified Growth	3	5	4.3
Investec Asset Management	Diversified Growth	0	5	4.3
Consultant	Best Ideas	0	9	1.9

Risk Management Strategy – Flight-path

During 2013/14 the Fund implemented a significant strategic change of direction with the appointment of Insight, to the Fund's Long Term Management of Risk mandate (Flight Path). 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 in 2014/15 is a further differentiator between the Fund and the majority of LGPS funds. Mercer provides advice to the Fund on liability hedging and flight-paths and Insight Investments manage the assets.

The flight-path strategy commenced from 1st April 2014 with the following aims:

- Achieve a 'base level' of interest rate and inflation hedging (10% hedge ratio) at the outset.
- Aim for a target interest rate and inflation hedge of 40% by April 2019.
- Achieve a target interest rate and inflation hedge ratio of 80% in the long term.

To this end, Insight will construct and manage a portfolio of assets that aims to hedge a proportion of the Fund's liability cash flows.

By replacing the Fund's passive equity exposure with an Equity Total Return Swap (synthetic equity exposure) the Fund freed up capital to be used as collateral for a liability hedging portfolio. This enables the Fund to maintain its exposure to return seeking assets, while reducing the interest and inflation risks.

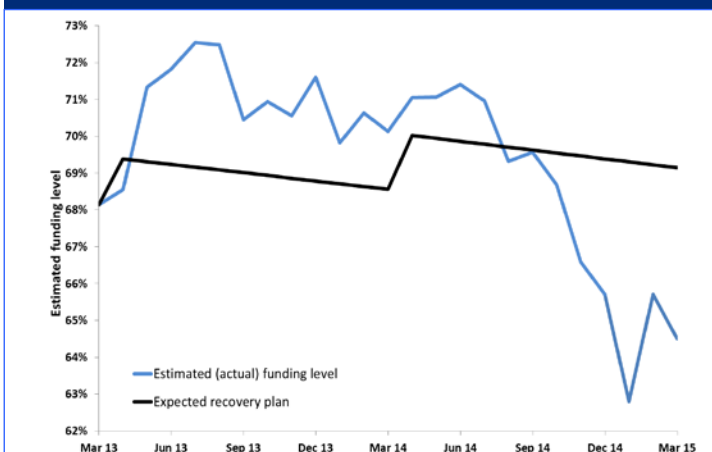
From the 'base level' further hedging will be achieved through an incremental build up over time overlaid with triggers according to prevailing market conditions. In addition there are funding level triggers which will result in the disinvestment of growth assets as the funding level improves. The triggers have been formulated on the understanding that the Fund's overall objective is to be fully funded within 10 to 12 years which is ahead of the average recovery plan based on deficit contributions of 18 years.

An extract from a monthly summary report from Mercer on the funding position and an overview liability hedging mandate is attached as at 31st March 2015. Since the commencement of the strategy a number of interest rate triggers have been met and the Fund had an interest rate hedge of approximately 20.0% and an inflation hedge of approximately 40.0%. No funding triggers have been reached. The estimated funding position as at 31st March 2015 is 64% with an estimated deficit of £762m, which is behind expectations. The hedges have protected the funding position against the recent changes in interest and inflation rates to the extent the deficit would have been approximately £90m higher if the hedges since inception had not been implemented via the triggers and the original strategy had remained in place.

As a result of the hedging noted above the planned target level for inflation hedging at April 2019 has already been reached. Mercer will produce a health check to consider options that exist to adapt the hedging mandate to reflect current market conditions and opportunities.

Clwyd Pension Fund Funding level monitoring to 31 March 2015

Estimated funding position since 31 March 2013



Comments

The **black line** shows a projection of the funding level from the 31 March 2013 based on the assumptions (and contributions) outlined in the actuarial valuation.

The **blue line** shows an estimate of the progression of actual funding level from 31 March 2013. This shows that the Fund was behind the funding plan at 31 March 2015 by around 5%.

At the 31 March 2015, we estimate that the funding level and deficit was as follows:

64% (£758m*)

Action: No action required. The funding level is below the first funding level trigger which is set at 80% (please see the table below).

	Funding level	Impact on strategic asset allocation	Change to the hedge ratio
31 March 2015	64%	No action	No action
Funding level Trigger 1	80%	Reduce the Insight equity exposure by 50%	Increase hedge ratio to 40%
Funding level Trigger 2	85%	Remove the Insight equity exposure	Increase hedge ratio to 50%
Funding level Trigger 3	90%	Increase Insight allocation from 19% of assets to 25%	Increase hedge ratio to 60%
Funding level Trigger 4	95%	Increase Insight allocation from 25% of assets to 30%	Increase hedge ratio to 70%
Funding level Trigger 5	100%	Increase Insight allocation from 30% of assets to 35%	Increase hedge ratio to 80%

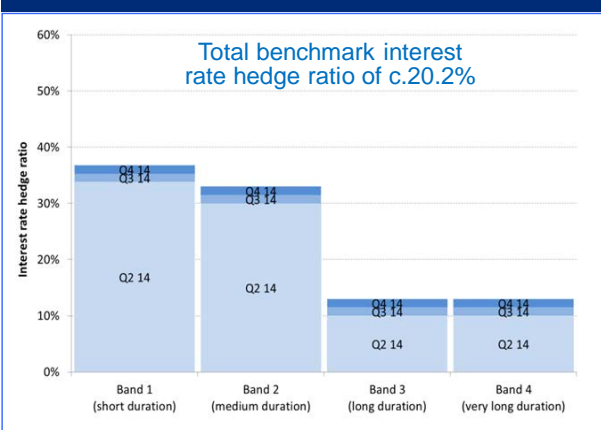
*Asset value of £1,377m at 31 March 2015 provided by JLT on 16 April 2015.

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Clwyd Pension Fund Update on liability hedging (Source: Insight Investment)

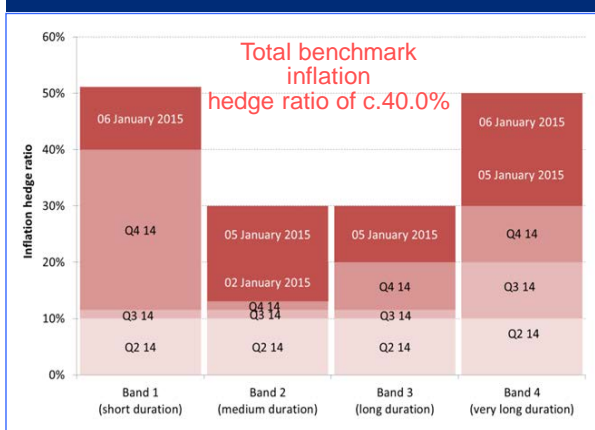
Interest rate hedging activity



Source: Insight (PV01) and Mercer (liability PV01 and calculation)

	Date	Band 1	Band 2	Band 3	Band 4
Start	31 December	36.8%	33.0%	13.0%	13.0%
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
End	31 March	36.8%	33.0%	13.0%	13.0%

Inflation hedging activity



	Date	Band 1	Band 2	Band 3	Band 4
Start	31 December	40.0%	13.0%	20.0%	30.0%
Trigger 10	2 January	-	+7.0%	-	-
Trigger 11	5 January	-	+10.0%	+10.0%	+10.0%
Trigger 12	6 January	+10.0%	-	-	+10.0%
Trigger 13	6 January	+1.1%	-	-	-
End	31 March	51.1%	30.0%	30.0%	50.0%

Since 31 December 2014 the overall inflation hedge ratio has increased to 40% and as a result Insight have stopped monitoring the inflation triggers as per the investment guidelines.

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Summary of the Longer Term

The market value of the Fund has increased from approximately £638m in 2005 to approximately £1,395m in 2015. 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. On average, LGPS Funds allocate 61% to equities which is higher than the Clwyd Pension Fund exposure. The Fund has a strategic allocation of 17% to global active equities and 19% exposure to passive developed equities (through a total return swap within the LDI mandate) and other varying exposures through the Tactical Portfolio. Hence, in years where equities perform well the investment performance of the Clwyd Fund may lag most of its peers in the LGPS.

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	14.0	13.9	13.2	16.4
3	8.5	8.8	11.0	10.8
5	7.1	7.4	8.7	9.5
10	6.8	7.7	7.9	8.2
20	7.5	7.5	7.8	7.9

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.

Actuarial Valuation	Funding (%)	Position	Recovery (years)	Period	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

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.

Investments	2001 %	2004 %	2007 %	2011 %	2015 %	LGPS Average
Equities						
Global Unconstrained	-	-	5.0	5.0	8.0	
Global High Alpha/ Absolute	-	-	-	5.0	-	
UK Active (traditional)	35.0	29.0	15.0	-	-	
UK Active (portable alpha)	10.0	10.0	12.0	-	-	
US Active	7.0	8.0	5.0	-	-	
Europe (ex UK) Active	11.0	9.0	6.0	-	-	
Japan Active	4.0	4.0	4.0	-	-	
Far East (ex UK) Active	2.5	3.0	4.0	7.0	-	
Emerging Markets Active	2.5	3.0	4.0	7.0	6.5	
Frontier Markets Active	-	-	-	-	2.5	
Developed Passive	-	-	-	19.0	-	
	72.0	66.0	55.0	43.0	17.0	61.0
Fixed Interest						
Traditional Bonds	10.0	9.5	-	-	-	
High Yield/ Emerging	1.5	2.0	-	-	-	
Unconstrained	-	-	13.0	15.0	15.0	
Cash/ Other	2.5	0.5	-	-	-	
	14.0	12.0	13.0	15.0	15.0	20.0
Liability Driven Investment	-	-	-	-	19.0	
Alternative Investments						
Property	5.0	7.0	6.5	7.0	7.0	
Infrastructure	0.5	5.0	1.5	2.0	2.0	
Timber/ Alternatives	-	-	1.5	2.0	2.0	
Commodities	-	-	2.0	4.0	-	
Private Equity & Opportunistic	4.5	4.5	6.5	10.0	10.0	
Hedge Fund of Funds	4.0	4.0	5.0	5.0	-	
Hedge Fund Managed Account Platform	-	-	-	-	9.0	
Currency Fund	-	4.0	4.0	-	-	
Tactical Asset Allocation (TAA)	-	2.0	5.0	12.0	-	
Tactical Allocation (Diversified Growth Funds)	-	-	-	-	10.0	
Tactical Allocation (Best Ideas)	-	-	-	-	9.0	
	14.0	22.0	32.0	42.0	49.0	19.0

In House 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

Private Equity

Direct	Access (1 fund)
	Apax (5 funds)
	Arle (3 funds)
	Bridges Ventures
	Capital Dynamics (2 fund)
	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 (3 funds)
	Harbour Vest (7 funds including Cleantech Fund)
	Hermes Environmental Innovation
	Partners Group (10 funds)
	Capital Dynamics (9 funds)
Opportunistic	Carlyle (1 fund)
	Capital Dynamics (1 fund)
	Marine Capital Eclipse Shipping (2 funds)
	Dyal II

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 business.

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; this 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. However, within the legal framework, constraints and considerations, the 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.

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 7 principle areas:

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

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 the Fund's compliance.

At the strategic level, a manager's approach to identifying and managing RI risks and opportunities is evaluated as part of the tender process for appointing new managers. It is also incorporated into the on-going process of monitoring the investment managers' performance.

The Fund is also a member of two bodies, the Local Authority Pension Fund Forum (LAPFF) and the National Association of Pension Funds (NAPF). The LAPFF has 65 LGPS members with combined assets of over £165bn. 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, and climate change and greenhouse gas emissions. Further details can be found on the LAPFF web site www.lapffforum.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. A summary of the voting activities of the managers for 2014/15 is shown in the following table.

Manager	Annual/ Special Meetings	Proposals	Votes For	Votes Against	Votes Abstained	Not Voted/ Refer/ Withheld
Aberdeen	107	982	919	40	23	0
Investec	76	1,066	860	62	56	88
Pyrford	63	887	809	60	2	16
Wellington	407	3,765	3,040	448	50	227

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.

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 2014/15

Introduction

The Fund's day to day administration service is provided by the Pension Administration Section which consists of a total of 22 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 Finance Team.

The Operational Team of 14.8 FTEs delivers a pensions service for approximately 40,000 scheme members and 27 employing bodies. This includes the calculation of various benefits, transfers in and out, refunds and maintenance of individual records. The Technical Team of 7.2 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.

Challenges

Following the introduction of the new scheme, the annual benefits statements must now include a detailed breakdown of the benefits accrued over the different LGPS Schemes. This was compounded by the requirement to distribute the statements even earlier than previous years. The Clwyd Pension Fund Staff have worked together with the Scheme Employers to produce statements for all active members, and are proud to be one of only 6 of the 89 LGPS funds to achieve this in 2015.

Freedom & Choice

The Budget announced that, from April 2015 onwards, all restrictions on accessing private DC savings would be removed, so that anyone, from age 55, can access their DC savings as a lump sum without facing any additional tax charge over their marginal rate.

Initial Impact

- A proactive newsletter was issued to all active, deferred and uncalculated leavers.
- Clwyd Pension Fund received a significant amount of phone calls from members considering taking all of their pension out as cash
- Staff training took place to enable staff to answer the queries effectively

Longer Term Impact

- Members may wish to transfer out to another provider to take advantage of the freedoms
- Advice required for transfers over £30,000
- Changing of internal processes to include checks on other pension providers
- Additional authorised documentation required from each member confirming advice received
- Staff training issues to deal with the new procedures
- Funding issues as transfers out may affect the funding level

Task Management review

In order to record more accurate and relevant workflow data the task management system has been reviewed and updated.

Backlog Management

- Pensions Admin attempted to clear backlogs in house, however it proved difficult without impacting on the current workload.
- Backlog cases reduced – 1600 more Deferred Benefits Statements issued in 2015 than 2013
- Remaining backlog now outsourced to Mercers (our actuaries)
- Clwyd Pension Fund are on hand to answer any of Mercer's queries

The End of Contracting Out

The ability of Defined Benefit (DB) schemes to contract-out of the State Second Pension will end from 6 April 2016, following the introduction of the single tier state pension. For employers with Defined Benefits schemes which remain open to future accrual, this will increase National Insurance (NI) costs for employers and members. However, this is not just a cost issue, communicating a reduction in take home pay to active scheme members will have a HR impact.

Employers will be required to communicate the reduction in take-home pay to active members. It's important that communications around this explain what is happening and the link with members' eventual State pension benefits.

Cost implications*

Employers should make sure they have a full understanding of these potential costs before deciding on their action plan.

Employers will pay additional NI costs of 3.4% on earnings between the Lower Earnings Limit (LEL) and the Upper Accrual Point (UAP). Based on 2014/15 tax bands, **this could be as much as £1,000 per employee, per year.**

Member gross salary	Increase in employer NI
£15,000 p.a.	£314 p.a.
£25,000 p.a.	£654 p.a.
£35,000 p.a.	£994 p.a.
£40,000 p.a. and above	£1,165 p.a.

Members will also see an increase in NI contributions of 1.4% of earnings between the (LEL) and the UAP.

Member gross salary	Increase in employee NI
£15,000 p.a.	£129 p.a.
£25,000 p.a.	£269 p.a.
£35,000 p.a.	£409 p.a.
£40,000 p.a. and above	£489 p.a.

* Source: PricewaterhouseCooper 'Pensions Focus' bulletin.

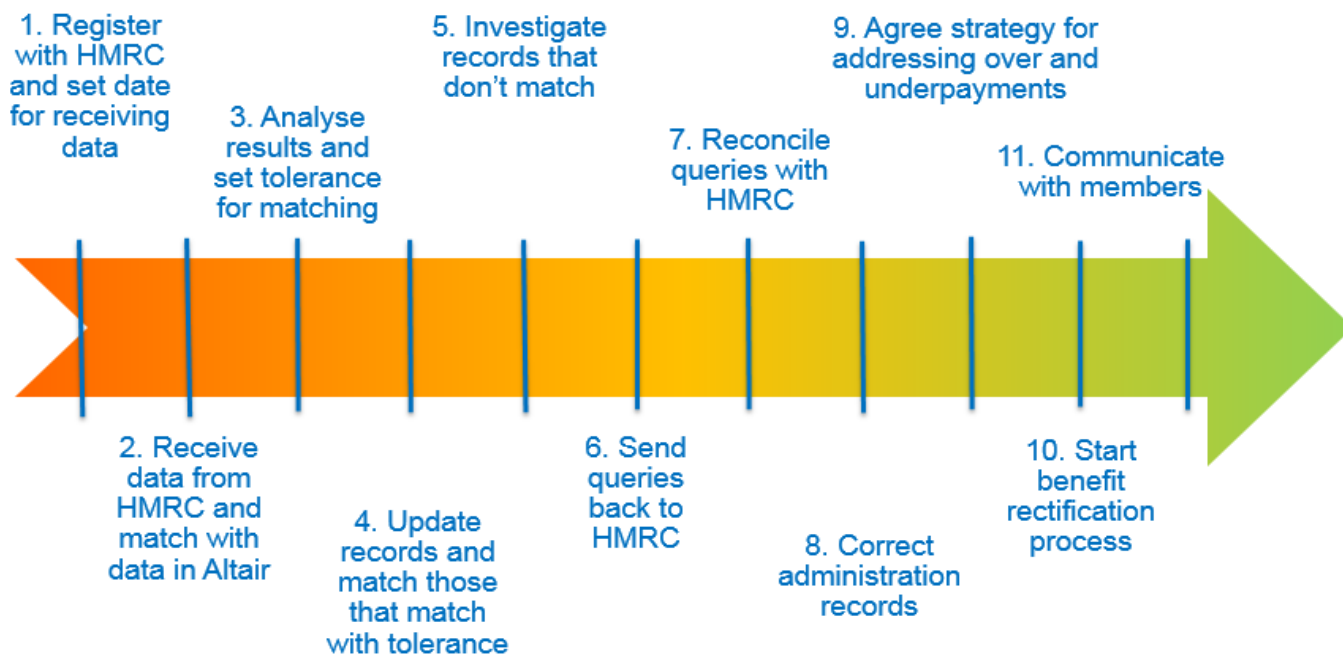
Other than cost a major impact will be Guaranteed Minimum Pension (GMP) reconciliation

GMP reconciliation

The ending of contracting-out brings a requirement to reconcile Guaranteed Minimum Pensions (GMPs) accrued between 1978 and 1997 with the National Insurance Contributions Office (NICO). This is a time-consuming process of comparing scheme GMP records with NICO's GMP records and resolving any discrepancies, a process which can take years and can lead to additional GMP liabilities if the scheme cannot prove that NICO's records are incorrect

What is a GMP? - The minimum pension the scheme must provide for those members who contracted out of the State Earnings Related Pension Scheme (SERPS) between 06/04/1978 and 05/04/1997. It is the amount at least equivalent to what they would have received from SERPS for the period they were contracted out.

Who is entitled to a GMP? - Those members who were contracted out between 06/04/1978 and 05/04/1997 between the ages of 16 and ending with the 5th April prior to their State Pension Age if before 06/04/1997.



Reconciliation deadlines

- HMRC will no longer respond to GMP queries from December 2018
- All queries must be resolved prior to this date or accept any liability
- Active membership details for active reconciliation released in 2017
- Deadline for Active membership reconciliation also December 2018

Initial results

Reconciliation records	33058
HMRC records	18268
100% match	5049

Day to day projects

- Run Pensions Increase x3 (test/provisional/actual)
- Run CARE revaluation
- Year-end returns uploaded on Altair
- Paying £4.5m every month to current pensioners
- Backlog of transfers and aggregation – and general bedding in of new LGPS
- Disaster recovery
- Reporting Lifetime Allowance (LTA) and Annual Allowance (AA) – many more now affected
- Pensions Increase Procedure Review (moving to a more efficient basis)
- Bilingual library
- Reducing manual calculations (errors on Heywood’s list that require manual intervention)
- Simplified way of notifying LTA%

Communications

During the 2014/15 financial year, the Clwyd Pension Fund has published and distributed the following communications:-

- Distributed issue 11 of Clwyd Catch Up – a newsletter for our pensioner members which is issued along with their pensions increase notification.
- Circulated issue 19 of Penpal – a newsletter that is sent to our active members informing them of changes to pension legislation.
- Distributed benefit statements to both active and deferred Local Government Pension Scheme members.
- Between April 2014 and March 2015 the following have taken place:
 - i. 20 days of drop-in surgeries for scheme members at their workplace with many more in April
 - ii. 7 pre-retirement seminars

The Website is 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, however a full review and update will be undertaken during the coming months.

For further information on Clwyd Pension Fund communications, please refer to our Communication Policy Statement included 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 2014/15 progress continued to be made with the new operational model for the Fund. The staff dealing with the administration are split into teams. Each Team Leader looks after set scheme employers, 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.

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.

Cases completed 2014/15:

Case Type	Cases
New Starters	2,108
Address changes	1,921
Defers	1,152
Retirements (all types)	826
Estimates (all types)	543
Deaths (deferred, active and pensioners)	376
Transfers In	161
Transfers Out	86

Staff Turnover 2014/15

Description	Number
Total Staff as at 31/03/2015	22
Staff leaving up to 31/03/2015	4
Staff joining up to 31/03/2015	6

Ratio of Pensions Staff to LGPS Members 2014/15:

Although there are 22 full time equivalent members of staff, only 14.8 full time equivalent staff deal with administration. The remaining 7.2 staff deal with I.T., pension payroll and communications.

As at 31/03/2015, there were 40,108 members of the Clwyd Pension Fund. This means that there are 1,823 members per Pension's staff member.

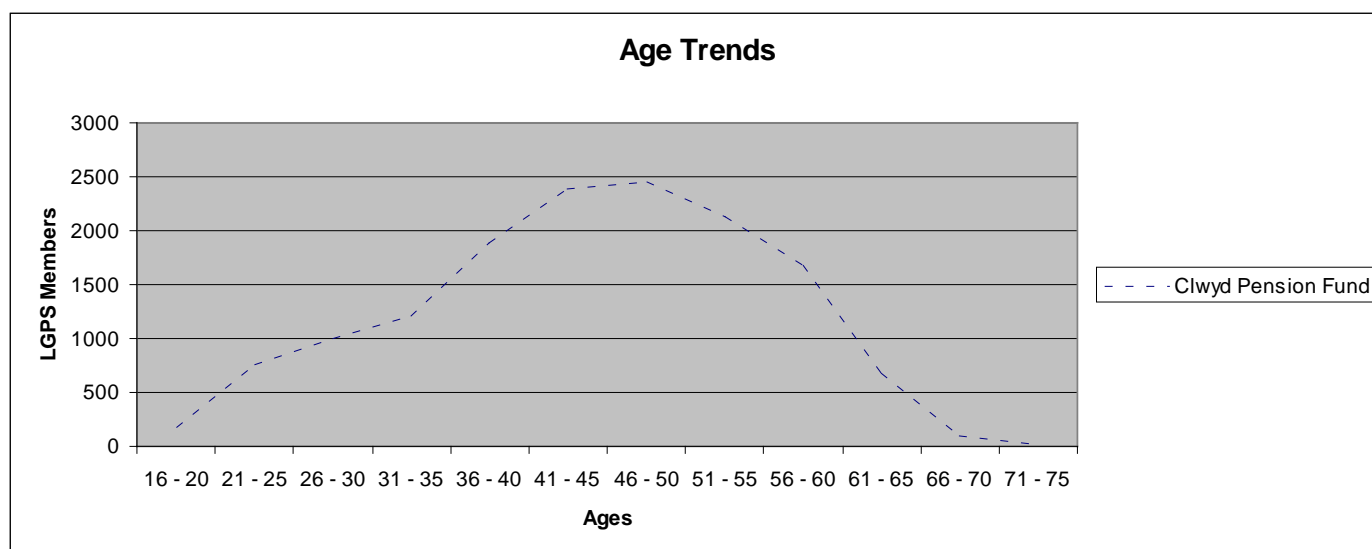
Member Trends: 5 Years

Period from – to	Contributors	Deferred Members	Pensioners	Dependant Pensioners
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
01/04/2014 – 31/03/2015	15,941	9,026	9,272	1,591

Pensioners who were awarded enhanced retirement benefits:

Period from – to	No. of Enhanced Benefits
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	26 Members (tier 1 & 2 ill health only)
01/04/2014 – 31/03/2015	11 Members (tier 1 only)

Age profile of members 2014/15:



Internal Dispute Resolution Procedure 2014/15:

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.

1 st Stage Cases Submitted	Fund Cases Won	Fund Cases Lost	Employer Cases Won	Employer Cases Lost
4	1	0	1	2
2 nd Stage Cases Submitted	Fund Cases Won	Fund Cases Lost	Employer Cases Won	Employer Cases Lost
2	1	0	0	0

An outstanding employer stage 2 appeal has not yet been finalised.

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 Chief Officer (People and Resources).

	2014/15 £	2013/14 £	2012/13 £	2011/12 £	2010/11 £
Amounts under £100	4,228	5,975	3,443	4,954	3,320
Number of cases	108	129	97	99	75
Overpayments Recovered	21,612	19,518	39,625	24,214	26,836
Number of cases	40	57	51	34	46
Overpayments Written Off	5,647	402	0	6,146	200
Number of cases	10	2	0	5	4

Participating Employers of the Fund as at 31st March 2015

The Fund had 27 bodies who contributed to the Fund during 2014/15, 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 2014/15 is shown below.

Scheduled Bodies	Employer Contribution (£)	Employee Contribution (£)
Flintshire County Council	19,468,538.33	5,179,691.59
Wrexham County Borough Council	17,586,011.91	4,202,741.62
Denbighshire County Council	13,774,528.24	3,774,074.57
Coleg Cambria	3,841,937.36	717,742.75
Glyndwr University	1,612,512.21	565,202.35
North Wales Fire Service	1,024,025.43	283,783.74
North Wales Valuation Tribunal	41,975.64	9,355.05
Rhyl Town Council	35,352.98	8,939.50
Hawarden Town Council	32,398.51	10,022.14
Prestatyn Town Council	22,760.27	10,086.21
Coedpoeth Town Council	21,840.00	3,360.00
Caia Park Town Council	17,997.65	4,984.45
Connah's Quay Town Council	16,755.55	5,644.12
Buckley Town Council	15,067.60	4,531.47
Mold Town Council	11,425.57	3,945.43
Rhos Town Council	10,621.72	3,097.34
Shotton Town Council	5,306.24	1,678.44
Argoed Town Council	3,810.30	1,207.32
Offa Town Council	3,465.12	1,169.62
Llanasa Town Council	221.00	0.00

Admitted Bodies	Employer Contribution (£)	Employee Contribution (£)
Careers Wales	349,942.06	106,602.20
Cartref y Dyffryn Ceiriog	52,264.74	3,027.56
Bodelwyddan Castle Trust	32,718.06	12,423.74
Wrexham Commercial Services	21,041.14	9,445.02
Denbighshire Voluntary Services	8,524.79	2,232.21
Compass Group UK	6,923.67	2,305.88
Grosvenor Facilities Management	6,229.16	1,824.81

There has been one additional body admitted to the Fund during 2014/15, Wrexham Commercial Service. No bonds or any other secured funding arrangements have been facilitated.

The results of the March 2013 Actuarial Valuation led to new employer contributions and funding plans which were discussed and agreed with individual employers. These contributions came into effect on 1st April 2014.

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 may be encountering. 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. The largest late payment was 4 days late and notified in advance. The remaining payments totalled £13,225.08.

Employer	Late Occasions	Contributions (£)
A	1	1,218,428.93
B	3	1,256.69
C	2	5,018.82
D	2	3,150.00
E	1	3,799.57

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	5	12
Total	27	13	40

Analysis of Fund Assets

The table below provides an analysis of the Fund's assets as at 31 March 2015.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	153,636	93,653	247,289
Alternatives	101,909	214,754	278,972	595,635
Bonds & LDI	329,101	0	172,749	501,850
Property (Direct)	0	0	0	0
Cash	47,591	0	0	47,591
Total	355,182	365,940	491,688	1,392,365

The alternatives portfolio comprises pooled in 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 2015.

	UK £000	Non –UK £000	Global £000	Total £000
Equities	0	0		0
Alternatives	2,035	3,156	0	5,191
Bonds & LDI	0	0	0	0
Property (Direct)	0	0	0	0
Cash	154	0	0	154
Total	2,189	3,156	0	5,345

CLWYD PENSION FUND ACCOUNTS

for the year ended 31st March 2015

The Clwyd Pension Fund is administered by Flintshire County Council on a lead authority basis. The administration and investment strategy of the Fund is set annually by the Clwyd Pension Fund Committee, consisting of eight elected Members and one employee representative, each with equal voting rights, access to training and to information. The Fund's investment management arrangements were implemented by eleven investment managers during 2014/15.

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

The Clwyd Pension Fund operates a defined benefit scheme whereby retirement benefits are funded by contributions and investment earnings. Contributions are made by active members in accordance with the LGPS Regulations 2013, as amended, and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2015. Employee contributions are added to employer contributions which are set based on triennial actuarial funding valuations. The benefits of the scheme are also prescribed nationally by the 2013 Regulations (as amended). The last valuation was at 31st March 2013, the findings of which became effective on 1st April 2014. The valuation showed that the funding level decreased from the previous valuation (31st March 2010) from 72% to 68%. The employers' contribution rates are structured to achieve a gradual return to 100% funding level over an 18 year period. This implies an average employer contribution rate of 13.8% and a total payment of £32.6m per annum for deficit contributions, increasing at 4.1% per annum. The LGPS (Management and Investment of Funds) Regulations 2009 (as amended) contains rules governing the management of the Fund, Investment Managers, Investments and use of Fund money and restrictions on investments.

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

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

The membership of the Fund as at 31st March 2015 and 2014 is shown below:

	2015 No.	2014 No.
Active Members	15,941	16,133
Pensioners & Survivors		
Ex employees	9,272	8,805
Survivors	1,591	1,562
Other		
Preserved benefits/ Undecided	12,433	11,480
Frozen Refund	871	834
	<u>40,108</u>	<u>38,814</u>

CLWYD PENSION FUND ACCOUNTS

The scheduled bodies which contributed to the Fund during 2014/15 are:

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

The admitted bodies contributing to the Fund are:-

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

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

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Statement of Accounts summarises the Fund's transactions for the 2014/15 financial year and its position at year end as at 31st March 2015. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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 14 of these accounts.

In summary, accounting policies adopted are detailed as follows:

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

CLWYD PENSION FUND ACCOUNTS

			2015		2014	
	Note	£000	£000	£000	£000	£000
Contributions and Benefits						
Contributions receivable :						
From employers (Normal)	1	(29,434)		(27,393)		
From employers (Deficit)	1	(28,590)		(24,896)		
From employees or members	1	(14,929)		(14,688)		
			(72,953)		(66,977)	
Transfers in		(2,202)		(3,801)		
Other income		(3,726)		(1,918)		
			(5,928)		(5,719)	
				(78,881)		(72,696)
Benefits payable :						
Pensions	1	50,338		46,885		
Lump sums (retirement)	1	14,544		12,331		
Lump sums (death grants)	1	1,807		1,921		
			66,689		61,137	
Payments to and on account of leavers :						
Refunds of contributions		83		26		
Transfers out (individual)		1,788		2,919		
Transfers out (bulk)		0		242		
Other		165		77		
Administrative and other expenses borne by the scheme	2	18,289		7,367		
			20,325		10,631	
				87,014		71,768
NET ADDITIONS (WITHDRAWALS)				8,133		(928)
Returns on Investments						
Investment income	4	(5,345)		(2,721)		
Change in market value of investments (Realised and Unrealised)	4	(184,629)		(28,686)		
NET RETURNS ON INVESTMENT				(189,974)		(31,407)
NET (DECREASE)/INCREASE IN THE FUND				(181,841)		(32,335)
OPENING NET ASSETS OF THE SCHEME				1,213,567		1,181,232
CLOSING NET ASSETS OF THE SCHEME				1,395,408		1,213,567

CLWYD PENSION FUND ACCOUNTS

	Note	2015 £000	2014 £000
Net Assets Statement			
Investment Assets :	5		
Managed fixed interest fund		172,749	174,002
Managed overseas equity funds		247,289	281,343
Managed multi strategy funds		205,260	115,487
Property funds		103,522	97,780
Infrastructure funds		34,128	29,636
Timberland / Agricultural funds		26,207	22,382
Commodity funds		24,962	32,084
Private equity funds		142,808	139,799
Hedge fund of funds		48,750	48,393
Liability Driven Investment		329,101	227,459
Opportunistic Funds		<u>9,998</u>	<u>12,517</u>
		1,344,774	1,180,882
Cash	7	<u>47,591</u>	<u>31,928</u>
		47,591	31,928
Current Assets :			
Due within 1 year	8	<u>6,236</u>	<u>4,745</u>
		6,236	4,745
Current liabilities			
Due within 1 year	8	<u>(3,193)</u>	<u>(3,988)</u>
		(3,193)	(3,988)
NET ASSETS AT 31st MARCH		<u>1,395,408</u>	<u>1,213,567</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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 2014/15 amounted to £58.024m (£52.289m in 2013/14) from employers and £14.929m (£14.688m in 2013/14) from employees.

The employers total comprised an amount of £29.434m (£27.393m in 2013/14) relating to the common contribution rate average of 13.8% paid by all employers and £28.590m (£24.896m in 2013/14) 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:-

Scheduled Bodies	2015		2014	
	Benefits Payable	Contributions Receivable	Benefits Payable	Contributions Receivable
	£000	£000	£000	£000
Flintshire County Council	24,610	24,648	20,783	23,373
Wrexham County Borough Council	20,241	21,789	19,906	20,474
Denbighshire County Council	14,895	17,549	13,942	16,567
Fund apportionment with:				
Gwynedd and Powys County Councils	2,353	0	2,371	0
Educational Organisations	2,982	6,737	2,616	4,482
Town and Community Councils	131	286	128	234
Others - scheduled bodies	605	1,359	583	1,152
Others - admitted bodies	872	585	808	695
	<u>66,689</u>	<u>72,953</u>	<u>61,137</u>	<u>66,977</u>

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

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	2015 £000	2014 £000	
Oversight & Governance			
Employee Costs	218	182	
Support Services	33	52	
Supplies and Services	49	47	
Consultancy & Actuarial	750	377	
Performance	20	25	
Audit	37	35	
Legal	21	31	
	<u>1,128</u>	<u>749</u>	
Investment Management Fees			
Net Fund Management Fees	16,127	5,571	(see below)
Custody Fees	32	17	
	<u>16,159</u>	<u>5,588</u>	
Administration Costs			
Employee Costs	592	599	
Support Services	156	197	
Outsourcing	32	0	
Supplies & Services	222	234	
	<u>1,002</u>	<u>1,030</u>	
Total Fees	<u>18,289</u>	<u>7,367</u>	

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. For 2014/15, Funds are now required to identify all costs in addition to the Annual Management Charge from managers. The table below shows the breakdown of the £16.127m net fund management fees and also the equivalent for 2013/14 which, if restated, would total £15.359m.

	2015 £000	2014 £000
Fund Management Fees		
Core		
Annual Management Charge	6,152	5,571
Underlying Fees	833	773
Performance Fees	720	1,206
Transaction Fees	1,096	344
Non-Core		
Annual Management Charge	4,078	3,937
Underlying Fees	1,058	1,510
Performance Fees	1,759	1,404
Transaction Fees	431	614
	<u>16,127</u>	<u>15,359</u>

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

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

The above fees are defined as:

- **Annual Management Charge (AMC):** Fund managers apply an AMC to cover ongoing management costs such as portfolio managers and research managers. It does not usually include such costs as accounting and legal services.
- **Performance Fees:** these are any fee paid to a manager that is directly linked to achieving a specified outcome such as a benchmark such as the FTSE, a high watermark where the manager has to make up for any past underperformance or a hurdle rate which is a rate that has to be exceeded before a performance fee is paid. .
- **Underlying Fees:** certain types of investments (e.g. hedge funds and private equity) are commonly accessed through a fund of funds structure. Thus investments would be made by a manager who invests in other funds and it is the costs of these underlying funds that are included here.
- **Transaction Fees:** those 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.

As mentioned above, Investment management fees are based on valuations of the investments and thus will increase as the value of the investments increase. Total fees as a percentage of the net asset value of the fund was 1.16% for 2014/15 (1.27% 2013/14). A full review was undertaken during 2014/15 (Note 9 details) and whilst some of this will not be in place until 2015/16 it is estimated that, on a full year basis and current valuations, a reduction of approximately £1.47m will be realised.

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 2014/15 showed that the Fund achieved an overall return of +14.0% from its investments (+2.1% in 2013/14). This compares with the Fund's benchmark return of +13.9% 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 2014/15 investment transactions and the net profit on sales of £57.213m (£107.501m in 2013/14) together with investment income of £5.345m (£2.721m in 2013/14) are set out below. The unrealised profit for 2014/15, because of the change in the market value of investments, amounted to £127.416m (£78.815m loss in 2013/14). Therefore, the increase in market value of investments (realised and unrealised) is £184.629m (£28.686m in 2013/14).

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Market Value 2012/13 £000	Purchases £000	Sales £000	Realised Gain (Loss) £000	Unrealised Gain (Loss) £000	Market Value 2013/14 £000	Investment Income £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
	<u>1,161,730</u>	<u>501,018</u>	<u>(505,043)</u>	<u>101,992</u>	<u>(78,815)</u>	<u>1,180,882</u>	<u>2,583</u>
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
	<u>17,331</u>	<u>0</u>	<u>0</u>	<u>5,509</u>	<u>0</u>	<u>31,928</u>	<u>138</u>
2013/14	<u>1,179,061</u>	<u>501,018</u>	<u>(505,043)</u>	<u>107,501</u>	<u>(78,815)</u>	<u>1,212,810</u>	<u>2,721</u>
2012/13	<u>1,083,854</u>	<u>54,629</u>	<u>(45,161)</u>	<u>8,854</u>	<u>101,259</u>	<u>1,179,061</u>	<u>2,397</u>

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

The book cost of the investments as at 31st March 2015 is £1,083.899m (£1,047.423m in 2013/14). The market value of investments as at 31st March 2015 is £1,344.774m (£1,180.882m in 2013/14); this can be analysed as follows:

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

By Continent

The UK holdings as at 31st March 2015 account for 32% of total investments at market value:

	2015 £000	2014 £000
UK	431,010	323,254
Europe	114,087	118,047
Asia Pacific	0	76,598
North America	100,667	88,272
Emerging/ Frontier markets	93,653	83,023
Global Investments	<u>605,357</u>	<u>491,688</u>
	<u>1,344,774</u>	<u>1,180,882</u>

By Fund Manager

	2015 £000	%	2014 £000	%
BlackRock	50,330	4	50,922	4
Wellington	109,235	8	106,314	9
Aberdeen	9,380	1	85,391	7
Insight	329,101	24	227,459	19
Pioneer	1,324	0	1,539	0
Liongate	21,977	2	22,377	2
SSARIS	25,449	2	24,477	2
Duet	50,299	4	49,954	4
BlueCrest	34,409	3	32,032	3
Investec	163,885	12	71,768	6
Stone Harbor	172,749	13	174,002	15
Pyrford	59,973	4	32,533	3
Property	103,522	8	97,780	8
Infrastructure	34,128	2	29,636	3
Timber / Agriculture	26,207	2	22,382	2
Private Equity	142,808	10	139,799	12
Opportunistic	9,998	1	12,517	1
	<u>1,344,774</u>	<u>100</u>	<u>1,180,882</u>	<u>100</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

By Listed /Managed

	2015			2014		
	Listed Managed £000	Listed £000	Unlisted £000	Listed Managed £000	Listed £000	Unlisted £000
Fixed Interest Securities	0	0	172,749	0	0	174,002
Overseas Equities	196,990	0	50,299	231,389	0	49,954
Multi Strategy	205,260	0	0	115,487	0	0
Property	36,018	0	67,504	31,738	0	66,042
Infrastructure	0	6,712	27,416	0	5,549	24,087
Timber / Agriculture	0	0	26,207	0	0	22,382
Commodities	0	0	24,962	0	0	32,084
Private Equity	0	1,969	140,839	0	2,809	136,990
Hedge Fund of Funds	21,977	0	26,773	22,377	0	26,016
Opportunistic	0	0	9,998	0	0	12,517
Liability Driven Investment	329,101	0	0	227,459	0	0
	<u>789,346</u>	<u>8,681</u>	<u>546,747</u>	<u>628,450</u>	<u>8,358</u>	<u>544,074</u>
			<u>1,344,774</u>			<u>1,180,882</u>

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.

Fair Value – Valuation Bases

Investments are shown in the accounts at fair value as at 31st March 2015 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 2015.
- 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 2015. 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.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

- 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.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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 2015 and 31st March 2014 based upon this hierarchy.

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

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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

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

Within the investments shown above as (1) or (2), whilst a small proportion are listed, the majority of the holdings are in unquoted investments; (£305.926m) compared to £293.756m in 2013/14. 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 2013/14 £000	Level 1 £000	Level 2 £000	Level 3 £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
	<u>1,180,882</u>	<u>578,790</u>	<u>337,490</u>	<u>264,602</u>
Cash	31,928	31,928	0	0
Total 2013/14	<u>1,212,810</u>	<u>610,718</u>	<u>337,490</u>	<u>264,602</u>

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 2014. The Fund is currently transitioning assets, details of which are shown in Note 10. The Fund's Consultants, JLT Group determined that the resulting asset mix coupled with the requirements for certain fund managers to outperform their market indices should produce long-term returns of 7.2% with a volatility of around 11%. A key element in this review process was the consideration of risk and for many years now the Fund has pursued a policy of lowering risk by diversifying investments across asset classes, investment regions and fund managers. Furthermore, alternative assets are subject to their own diversification requirements and some examples are given below.

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

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

Roll risk

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

Manager Risk

The Fund is also well diversified by manager with no single manager managing more than 24% 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.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Credit Risk

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

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

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

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

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

The Fund believes it has managed its exposure to credit risk and has no experience of default or uncollectible deposits in the last three financial years. The Fund's cash holdings as at 31st March 2015 were £47.591m (£31.928m at 31st March 2014). This was held as follows:

		2015	2014
	Rating	£000	£000
Money Market Funds			
BlackRock	AAA	482	480
Bank of New York Mellon	AAA	3,374	928
Bank Deposit Accounts			
National Westminster Bank PLC	BBB+	43,715	30,500
Bank Current Accounts			
National Westminster Bank PLC	BBB+	20	20
		<u>47,591</u>	<u>31,928</u>

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 2015, the Fund's exposure to non-investment grade paper was £63.571million or 37% of the fixed interest portfolio (38.0% at 31st March 2014).
- 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	Market Value
	£000	£000
Hedge Fund of Funds - Pioneer	795	1,324
	<u>795</u>	<u>1,324</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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 54% 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 2015 by liquidity profile.

	Market Value 2014/15 £000	1 Month £000	2 - 3 Months £000	3 - 6 Months £000	6 - 12 Months £000	Closed - ended £000	Locked £000
Fixed Interest Securities	172,749	172,749	0	0	0	0	0
Liability Driven Investment	329,101	329,101	0	0	0	0	0
Overseas Equities Active	247,289	239,744	0	7,545	0	0	0
Multi Strategy	205,260	205,260	0	0	0	0	0
Property	103,522	0	36,018	0	0	67,504	0
Infrastructure	34,128	6,712	0	0	0	27,416	0
Timber & Agriculture	26,207	0	0	0	0	26,207	0
Commodities	24,962	24,962	0	0	0	0	0
Private Equity	142,808	1,969	0	0	0	140,839	0
Hedge Fund of Funds	48,750	5,055	4,907	35,660	1,804	0	1,324
Opportunistic Funds	9,998	0	0	0	0	9,998	0
	<u>1,344,774</u>	<u>985,552</u>	<u>40,925</u>	<u>43,205</u>	<u>1,804</u>	<u>271,964</u>	<u>1,324</u>

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

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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 2014. 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 73% 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 2015 by showing the amount invested in each asset class and through each manager within each main asset class, the index used as a benchmark, the target set for managers against this benchmark and managers' maximum target volatility (or risk) against index in achieving this. This expected risk is based on 10 year historic returns and volatility.

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

	Manager	Market Value 2014/15 £000	Benchmark	Target (Net)	Risk (<) %
Fixed Interest Securities	Stone Harbor	172,749	1 Month LIBOR	+1.0%	6.0
Liability Driven Investment	Insight	329,101	Liability / FTSE	Match	21.0
Foreign equities-active	Investec	103,337	MSCI AC World NDR	+2.5%	14.0
	Aberdeen	9,380	MSCI Frontier Markets	+1.5%	20.0
	Wellington	84,273	MSCI EM Free	+1.5%	21.0
	Duet	50,299	3 Month LIBOR	+4.5%	3.0
	BlackRock	50,330	3 Month LIBOR	+4.5%	20.0
Multistrategy funds	Investec	60,548	UK CPI	+4.6%	9.0
	BlueCrest	34,409	3 Month LIBOR	+4.0%	6.0
	Pyrford	59,973	RPI	+4.5%	9.0
	Liongate	21,977	3 Month LIBOR	+5.0%	6.0
Hedge fund of funds	SSARIS	25,449	3 Month LIBOR	+3.0%	6.0
	Pioneer	1,324	3 Month LIBOR	+3.0%	6.0
Commodity fund	Wellington	24,962	GCSI Equally Weighted	+1.0%	15.0
Property funds	Various	103,522	IPD Balanced PUTs	Exceed	5.0
Infrastructure funds	Various	34,128	3 Month LIBOR	+5.0%	10.0
Timber /Agricultural funds	Various	26,207	3 Month LIBOR	+5.0%	10.0
Private equity funds	Various	142,808	3 Month LIBOR	+5.0%	28.0
Opportunistic funds	Various	9,998	3 Month LIBOR	+5.0%	28.0
		<u>1,344,774</u>			

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

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

	Market Value 2015 £000	Managers No.	Funds No.	Properties / Companies Estimated No.
Real Assets	163,857	22	38	>280
Private Equity / Opportunistic	152,806	21	63	>4,000

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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 2014/15 reporting period:

Asset Type	Potential Market Movements (+ / -)
Global Equity inc UK	6.00%
Oveseas Equity	9.82%
Global Fixed Income	4.24%
Liability Driven Investing	12.82%
Alternatives	2.90%
Property	3.31%
Cash	0.01%

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

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Asset Type	Market Value 2013/14	Percentage Change %	Value on Increase £000	Value on Decrease £000
Cash and cash equivalents	31,928	0.02	31,934	31,922
Investment portfolio assets:-				
Global Equityinc 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
	<u>1,212,810</u>		<u>1,273,463</u>	<u>1,152,157</u>

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 rates may rise by 75 basis points (bps) over the next year. As the fund does not use Fixed Income securities to provide income, the following sensitivity analysis only refers to cash and cash balances.

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

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

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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 2014/15 £000	Market Value 2013/14 £000
Global Fixed Income	172,749	174,002
Overseas Equities Active	247,289	281,343
Multi Strategy	205,260	115,487
Commodities	24,962	32,084
Hedge Funds	48,750	48,393
Property	37,867	38,374
Infrastructure	19,449	15,600
Timber / Agriculture	26,207	22,382
Opportunistic	9,998	12,517
Private Equity	121,233	117,446
	<u>913,764</u>	<u>857,628</u>

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 2015, it was considered that the likely volatility associated with foreign exchange rate movements to be 5.44%. For the period to 31st March 2014, this was calculated to be 5.06%.

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

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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
Multistrategy	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
	<u>857,628</u>		<u>900,999</u>	<u>814,257</u>

8. DEBTORS/CREDITORS

	2015		2014	
	£000	£000	£000	£000
Current Assets :				
Contributions due - Employees	1,171		1,160	
Contributions due - Employers	3,005		2,276	
Added years	41		26	
H.M. Revenue and Customs	25		41	
Pension strain	1,762		1,063	
Administering authority	0		2	
Miscellaneous	<u>232</u>		<u>177</u>	
		6,236		4,745
Less Current Liabilities :				
Contributions	(7)		0	
Lump sums	(2,246)		(2,782)	
Death grants	(144)		(531)	
Administering authority	(265)		(236)	
Added years	(41)		(81)	
H.M. Revenue and Customs	(9)		0	
Miscellaneous	<u>(481)</u>		<u>(358)</u>	
		(3,193)		(3,988)
Net Current Assets		<u>3,043</u>		<u>757</u>

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

Analysis of debtors	2015	2014
	£000	£000
Central Government Bodies	25	41
Other Local Authorities	4,931	4,174
Other Entities and Individuals	1,280	530
	<u>6,236</u>	<u>4,745</u>
Analysis of creditors	2015	2014
	£000	£000
Central Government Bodies	(9)	0
Other Local Authorities	(271)	(298)
Other Entities and Individuals	(2,913)	(3,690)
	<u>(3,193)</u>	<u>(3,988)</u>

9. MATERIAL TRANSACTIONS

The Fund undertakes a review of fund management arrangements every three or four years. A full review was undertaken during 2014/15 and the following details the changes which were approved. Some of the changes were actioned by March 2015, the remainder are due to be completed during 2015/16.

2014/15 Manager	Mandate	Allocation
Redemptions		
Aberdeen	Asia Pacific (ex Japan) Equities	7%
Subscriptions		
Investec	Global Equities	Increased from 5% to 8%
Pyrford	Diversified Growth Fund	Increased from 3% to 5%
Investec	Diversified Growth Fund	5%
2015/16 Manager	Mandate	Allocation
Redemptions		
BlackRock	Global Tactical Asset Allocation	6%
Bluecrest	Global Tactical Asset Allocation	3%
Wellington	Commodities	4%
SSARIS	Hedge Fund of Funds	2.5%
Liongate	Hedge Fund of Funds	2.5%
Duet	Global High Alpha Equities	5%
Subscriptions		
Aberdeen	Frontier Market Equities	Increased from 0.5% to 2.5%
MAN FRM	Hedge Fund Managed Account Platform	9%
JLT Group (Consultant)	"Best Ideas" Portfolio	9%

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

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

10. POST BALANCE SHEET EVENT

The accounts outlined within the statement represent the financial position of the Clwyd Pension Fund as at 31st March 2015. 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.

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	£	922,872
Units purchased	No.	174,666
Units sold	No.	225,138
Market value as at 31st March 2015	£	4,718,878
Market value as at 31st March 2014	£	4,766,107

12. RELATED PARTY TRANSACTIONS

Governance

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

Key Management Personnel

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

Flintshire County Council

In the course of fulfilling its role as administering authority to the Fund, Flintshire County Council provided services to the Fund for which it charged £1.270m (£1.023m in 2013/14). These costs are in respect of those staff employed in ensuring the pension service is delivered, and other costs such as payroll and information technology. The costs are included in the accounts within oversight and governance, and administration expenses (see note 2). At the year end, a net balance of £0.265m was owing to Flintshire in relation to creditors payments made on behalf of the fund and support service costs which were not available as at 31st March 2015 (£0.234m in 2013/14).

13. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

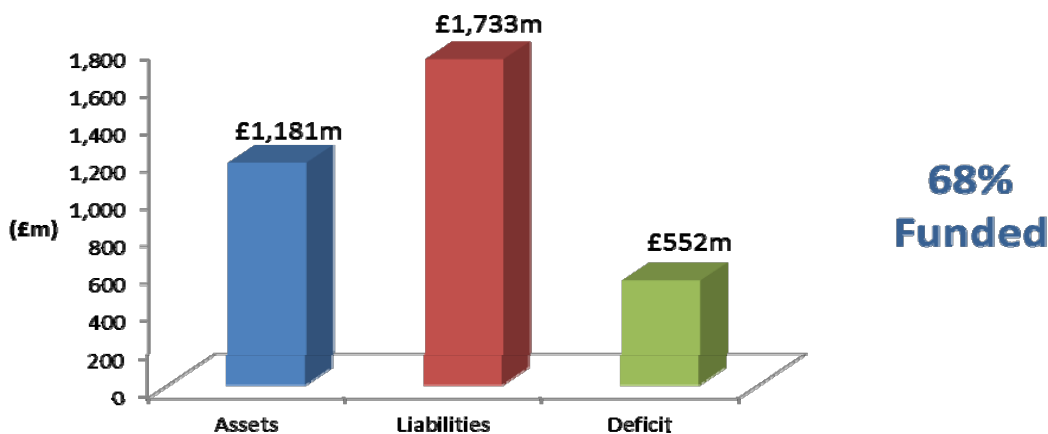
As at 31st March 2015, the Fund has contractual commitments of £574.0m (£542.0m in 2013/14) in private equity and property funds, of which £439.6m (£371.8m in 2013/14) has been invested, leaving an outstanding commitment of £134.5m (£170.2m in 2013/14).

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

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

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

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



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

NOTES TO THE CLWYD PENSION FUND ACCOUNTS

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 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum*	3.5% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

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

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

During the year, corporate bond yields fell significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). The expected long-term rate of CPI inflation also fell during the year, resulting in a lower assumption for pension increases at the year end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £1,802 million. The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c£297 million. Adding interest over the year increases the liabilities by a further c£81 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another c£1 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £2,181 million.

Paul Middleman - Fellow of the Institute and Faculty of Actuaries
Mercer Limited - June 2015

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 (LGPS) Regulations.

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

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

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

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

Aims and Objectives

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

- around 40,000 current and former members of the Fund, and their dependants
- around 29 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

Our Fund's **Mission Statement** is:

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

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

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

Background to Governance Arrangements

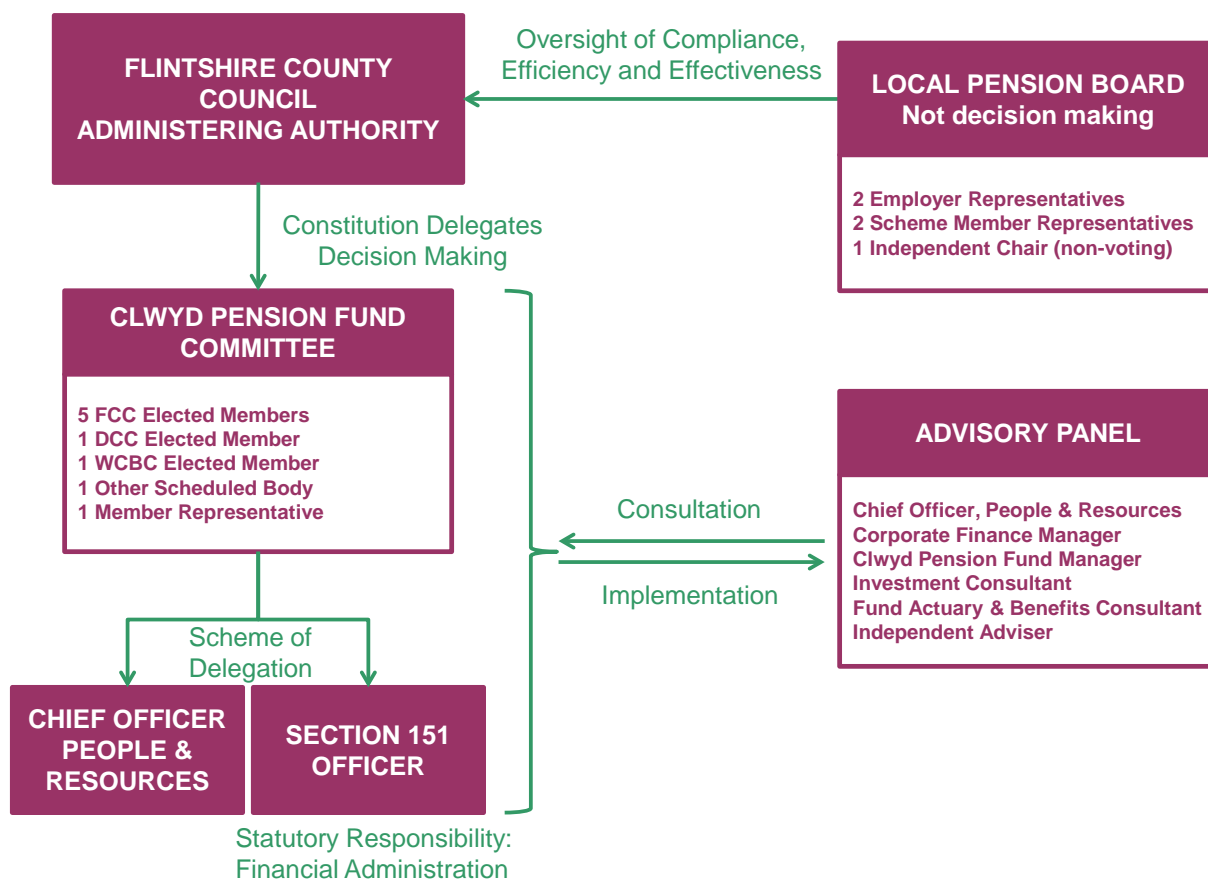
Flintshire County Council reviewed its Governance arrangements for the Clwyd Pension Fund in 2014. Prior to this date, the responsibility for the Clwyd Pension Fund rested with the Head of Finance who reported to the Clwyd Pension Fund Panel made up of elected members from Flintshire County Council,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

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

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

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

This governance structure was expanded in early 2015 as a result of the requirement by the Public Service Pensions Act 2013 to introduce a local pension board to assist in compliance of pension fund matters. The Council's governance structure for pension fund matters is as shown below:



Clwyd Pension Fund Committee

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

The members on the Clwyd Pension Fund 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 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.

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

Pension Board

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

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

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

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

The Pension Board consists of 5 members as follows:

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

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

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

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

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

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.

The Clwyd Pension Fund's Training Policy can be found on the Fund's website – www.clwydpensionfund.org.uk.

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.

Conflicts of Interest

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

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

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

The Policy can be found on the Fund's website – www.clwydpensionfund.org.uk.

Monitoring Governance of the Clwyd Pension Fund

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

Objective	Monitoring Arrangements
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	<ul style="list-style-type: none"> • 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. • The Pension Board prepares and publishes an annual report. • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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. • The Pension Board includes representatives from scheme members and employers in the Fund. • The Pension Board prepares and publishes an annual report which may include comment on decision making.
Understand and monitor risk	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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. • The Pension Board prepares and publishes an annual report which may include comment on compliance matters.
Clearly articulate our objectives and how we intend to achieve those objectives through business planning, and continually measure and monitor success	<ul style="list-style-type: none"> • 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, Pension Board 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, Board members, Advisory Panel members and/or other key officers resulting in a poor standard of decision making and/or monitoring
- Conflicts of interest not being appropriately managed by Committee members, Board members 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 21 May 2015. 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:

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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: <ul style="list-style-type: none"> • 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.

Best Practice	Compliant or not	Explanatory Note
C. SELECTION AND ROLE OF LAY MEMBERS		
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. The Fund has a Conflicts of Interest Policy outlining the process for identifying and managing actual and potential conflicts of interest.
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	<p>Training is delivered through several avenues including:</p> <ul style="list-style-type: none"> • An initial induction for new Pension Fund Committee Members • Ongoing training through written reports or presentations at Committee meetings • Conferences and seminars. <p>The actual costs and expenses relating to approved training are met directly or can be reimbursed from the Clwyd Pension Fund. The Co-opted Members of the Pension Fund Committee receive payments for attendance at meetings (including training events) as detailed within the Flintshire County Council Members' Remuneration Scheme and the Pension Board Protocol.</p>
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	

Best Practice	Compliant or not	Explanatory Note
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)		
a. That an administering authority's main committee or committees meet at least quarterly.	COMPLIANT	
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	NOT APPLICABLE	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	NOT APPLICABLE	Even though we do have lay members on our Pension Committee, we also have an Annual Joint Consultative Meeting (AJCM) for employing bodies and scheme members. The Pension Board also provides a forum for stakeholders to be represented.
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. The Pension Board provides further opportunity for these matters to be considered.
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 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.

2015 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 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

Introduction

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the 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 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 contained in the 2013 Regulations and the 2014 Transitional Regulations. 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 2013 Regulations which require that an actuarial valuation is completed every three years by the actuary, including the provision of 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 common rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

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.

Aims and purpose of the CPF

The aims of the Fund are to:

- Achieve and maintain assets equal to 100% of liabilities within an 18 year average timeframe, within reasonable risk parameters
- Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination.

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 2013 Regulations, the 2014 Transitional Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

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

- with effect from 1 April 2015, establish, support and monitor a Local Pension Board (“LPB”) in accordance with the requirements set down in the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator’s relevant Code of Practice.

The Individual Employer should:

- deduct contributions from employees’ pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- 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
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding, and
- have regard to the Regulator’s focus on data quality and comply with any requirement set by the Administering Authority in this context.

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.

Solvency issues and target funding levels

Funding Objective

To meet the requirements of the 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 where appropriate. 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 the 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 taking into account any changes in funding after the valuation date up to the finalisation of the valuation.

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). This has resulted in an average recovery period of 18 years being adopted across all employers.
- For any employers assessed to be in surplus, their individual contribution requirements will be adjusted to such an extent that any surplus is used (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 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; and
- changes in the funding position after the valuation date which is deemed reasonable.

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 Committee, 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.

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 68% covered by the current assets, with the funding deficit of 32% 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:

<i>Asset Class</i>	<i>Initial Strategic allocation (%)</i>	<i>Strategic range (%)</i>	<i>Conditional range (%) **</i>	<i>Expected return above Government Bonds p.a. ***</i>
Developed Global Equity	8.0	5.0 – 10.0	0 – 30	+4.0%
Emerging Market Equity	6.5	5.0 – 7.5	0 – 15	+5.0%
Frontier Market Equity	2.5	1.0 – 4.0	0 – 5	+6.0%
Multi-Asset Credit	15.0	12.5 – 17.5		+2.0%
Government Bonds			0 – 30	+0.0%
Corporate Bonds			0 – 30	+1.0%
Overseas Government Bonds			0 – 30	+1.0%
Emerging Market Debt			0 – 30	+2.1%
High Yield Debt			0 – 30	+2.1%
Property	7.0	5.0 – 10.0	5 – 15	+3.0%
Infrastructure	4.0	2.0 – 7.0	2 – 10	+3.1%
Private Equity	10.0	8.0 – 12.0	8 – 12	+5.1%
Tactical Allocation Portfolio *	19.0	15.0 – 25.0	10 – 30	+2.0%
Commodities			0 – 10	+2.2%
Managed Account	9.0	7.0 – 11.0		
Managed Futures			0 – 15	+4.0%
Hedge Funds			0 – 10	+3.0%
Cash	-	0.0 – 5.0	0 – 30	+0.0%
Liability Hedging****	19.0	10.0 - 30.0	10 - 30	+4.0%

* The Tactical Portfolio can be invested in any asset class permitted by the regulations. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

** The Conditional ranges are at a total fund level, including the Tactical Allocation Portfolio but excluding the Liability Hedging mandate.

*** Expected return is expressed as an excess long-term return over UK government bonds of an appropriate duration or the “premium over gilts” to reflect the extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2014 strategic review. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.

**** The Liability Hedging Portfolio is a combination of Liability Driven Investment (LDI) and an equity overlay which will be managed as part of a de-risking approach. As the funding level improves, the equity exposure will be reduced and the LDI hedge ratio increased in a pre-determined way. Given the nature of this mandate i.e. protection against liability

changes it is not intended to rebalance the allocation which can lead to a movement away from the initial strategic benchmark allocation of 19% at inception of the mandate.

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

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 Key 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

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 Committee membership.

The Fund has restructured their governance arrangements with the implementation of the Advisory Panel. The Advisory Panel is made up of Fund officers, an investment advisor, an independent advisor and the Fund Actuary.

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

Monitoring

Flightpath - De-risking strategy

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

The principal aim of this risk management strategy is to effectively control and limit interest and inflation risks being run by the Fund (as these factors can lead to significant changes to liability values). At the outset, its aim was to achieve a 'base level' of interest rate and inflation hedging of 10%. The intention is that the hedging ratio will be at 40% by no later than April 2019 and will achieve a hedge ratio of 80% in the long term. The overall funding flightpath strategy is to consider and structure the investment strategy to determine a balance between return-seeking and risk-hedging assets. More detail is included in the Fund's Statement of Investment Principles (SIP).

Flightpath – Monitoring/trigger review

A summary report is provided to the Fund (on a monthly and quarterly basis) which includes a "traffic light" analysis of the key components of the Flightpath and hedging mandate. The "traffic light" indicates whether the Flightpath and hedging mandate are operating in line with expectations or if any actions are required.

There are funding level triggers in place which will result in the disinvestment of growth assets as the funding level improves over time. This is summarised in the table below:

	Funding level	Impact on strategic asset allocation	Change to the hedge ratio
Funding level Trigger 1	80%	Reduce the Insight equity exposure by 50%	Increase hedge ratio to 40%
Funding level Trigger 2	85%	Remove the Insight equity exposure	Increase hedge ratio to 50%
Funding level Trigger 3	90%	Increase Insight allocation from 19% of assets to 25%	Increase hedge ratio to 60%
Funding level Trigger 4	95%	Increase Insight allocation from 25% of assets to 30%	Increase hedge ratio to 70%
Funding level Trigger 5	100%	Increase Insight allocation from 30% of assets to 35%	Increase hedge ratio to 80%

In addition, a separate fund-wide mechanism has been introduced, such that if the funding level falls more than 5% below the "expected" funding level (based on valuation assumptions), then discussions will follow at the Advisory Panel level as to the continued appropriateness of the funding strategy.

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

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

Approval, Review and Consultation

The funding strategy of the Clwyd Pension Fund was reviewed to coincide with the actuarial valuation as at 31 March 2013. The Administering Authority has taken advice from the actuary in reviewing the strategy, and has also consulted with employing organisations.

This Funding Strategy Statement was approved at the Clwyd Pension Fund Committee on 21 May 2015. 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.

Further Information

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

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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
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

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

Salary increases

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 some 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 “Primary 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	S1Px _A	94% / 93%	CMI_2012	1.5%
	Ill health	S1Px _A	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	S1Px _A	87% / 82%	CMI_2012	1.5%
	Actives ill health	S1Px _A	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1Px _A	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

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 than the current level of contributions payable by the employer or the Future Service Contribution Rate.

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 the 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. 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.
- 3.12. The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

Least Risk Termination basis

- 3.13. 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 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 2013 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 2013 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 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

1. Introduction

Background

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

The 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).

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.

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 (if at all) 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) attaching to investments, if the Authority has any such policy
- stock lending.

The SIP is designed to comply with guidance given by the Secretary of State. It incorporates a 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. The SIP also details the Fund's responsibilities in respect of the FRC UK stewardship Code.

The SIP is effective from June 2015 and will be reviewed every six months with any material changes published.

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

- Funding Strategy Statement
- Governance Policy and Compliance Statement
- Communications Policy Statement
- Clwyd Pension Fund Annual Report and Accounts
- Clwyd Pension Fund Actuarial Valuation.

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

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 40,000 current and former members of the Fund, and their dependants

- around 29 employers within the Flintshire, Denbighshire and Wrexham Council areas
- the local taxpayers within those areas.

The Fund's Mission Statement is:

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

2. Objectives

Primary Funding and Investment Objectives

The primary funding and investment objectives of the Clwyd Pension Fund can be summarised as the following:

- Achieve and maintain assets equal to 100% of liabilities within an 18 year average timeframe, within reasonable risk parameters
- Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- Ensure net cash outgoings can be met as/when required
- Minimise unrecoverable debt on employer termination.

In order that these primary objectives can be achieved, the following funding and investment principles have been agreed.

Funding Principles

The Clwyd Pension Fund Funding Strategy implemented for three years from 1st April 2014 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 31st March 2016.

A Funding Strategy Statement (FSS) was prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013. The Statement outlines the strategy for recovering the funding deficit over 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.

In managing the Fund, the key funding objectives are:

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

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.

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

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

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

Investment Principles

The key investment objectives for the Fund are to aim for sufficient excess investment returns relative to the growth of liabilities to meet the funding objectives set out above on an ongoing basis, whilst striking the appropriate balance between long-term consistent investment performance and the funding objectives.

The Fund's overall strategic risk and return profile is currently determined through its strategic asset allocation. In establishing the Fund's long-term strategic asset allocation, or strategic benchmark, the key factors are the overall level of return being sought, the minimum level of risk consistent with this and the impact of diversification in reducing this risk further. At asset class or mandate level, asset class weightings, appropriate benchmarks and out-performance targets are the key building blocks in framing this overall Fund strategy.

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

The latest Fund review was undertaken in 2014 and changes as a result of this are in the process of being implemented. Details of the revised investment strategy are included in following sections.

3. Investment Roles & Responsibilities

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 below.

Clwyd Pension Fund Committee's Roles & Responsibilities

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
- Investment 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

Investment Consultants Roles & Responsibilities

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.
- Assisting the Clwyd Pension Fund Committee in relation to the Tactical Allocation Portfolio.
- 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.

Investment Managers Roles & Responsibilities

The Investment 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 and consultants.
- Providing details, as required, to the Fund's custodian and independent performance measurer.

Custodians Roles & Responsibilities

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 monthly valuations of the Scheme's assets, details of all transactions during the month, bank statements and all other relevant documentation.

Actuaries Roles & Responsibilities

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.

Independent Adviser Roles & Responsibilities

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.

4. Investment Strategy

Setting Investment Strategy

The Committee have determined their investment strategy to meet the objectives outlined in Section 2 of this Statement. This includes consideration for the Fund's liability profile and the Committees' attitude to risk.

The strategic benchmark highlighted later in this section takes account of the risk and return characteristics of each asset class and provides a reasonable long-term balance appropriate to the liabilities of the Fund.

The 2014 Review

The 2014 review showed, using JLT Market Forecast Group output for Quarter 2 2014, that the expected market returns over the coming ten year period would mean that the Fund could be expected to generate a return of 7.2% p.a..

Investigations showed that no radical re-organisation of the current investment structure was required and the portfolio was well diversified and the introduction of the de-risking framework and Flightpath was well designed and its implementation ahead of the majority of other LGPS funds.

However, there were opportunities to reduce risk without sacrificing return.

These opportunities led to four main areas of change.

- The current Hedge Fund portfolio be re-structured to incorporate exposure to a Managed Futures account to provide protection against market volatility (particularly on the downside). Also, the overall level of exposure to this area should be reduced;
- An increase in the exposure and flexibility of the current Tactical Portfolio and the cessation of the current GTAA portfolio;
- Remove Commodities and Asia Pacific ex Japan Equities as long terms strategic allocations;
- Exposure to major economic regions should be managed through the Global Equity exposure.

These changes, based on the recommended allocation for the Tactical Allocation Portfolio, meant that expected return could be maintained, with the deficit risk being reduced by c. 4%.

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

Investment Decisions

The Committee distinguish between three types of investment decision: strategic, tactical and security-level.

Strategic Investment Decisions

These decisions are long-term in nature and are driven by an understanding of the objectives, needs and liabilities of the Fund.

The Committee take all such decisions themselves. Examples of such decisions and of tasks relating to the implementation of these decisions include the following:

- Setting investment objectives
- Determining the split between the growth and the stabilising portfolios
- Determining the allocation to asset classes within the growth and stabilising portfolios
- Determining the Fund benchmark
- Reviewing the investment objectives and strategic asset allocation

Tactical Investment Decisions

These decisions are short-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are ultimately the responsibility of the Committee. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund. Furthermore, the Committee have delegated certain powers to the Clwyd Pension Fund Manager taking advice from the Tactical Asset Allocation Group. The purpose of the Tactical Allocation Portfolio is to take advantage of short term (approximately one year) opportunities that are consistent with the long term risk and return goals of the Fund. The Tactical Allocation Group are bound by the Tactical Allocation Portfolio Terms of Reference.

Security Selection Decisions

All such decisions are the responsibility of the investment managers of the funds in which the Fund is invested.

Types of Investments Held

The Fund may invest in any type of investment permitted under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended). Consideration of each asset class or investment approach will include potential risk adjusted return expectations and an assessment of non-financial risks, liquidity, product structure and management costs.

The Fund is permitted to invest across a wide range of asset classes, including (but not exclusively) the following:

- UK and overseas equities
- UK and overseas government bonds, fixed and inflation linked
- UK and overseas corporate bonds
- Convertible bonds
- Property
- Commodities
- Timber
- Agriculture
- Hedge funds (including via a managed account platform)
- Managed futures
- Private equity
- Infrastructure
- High yield bonds
- Emerging market debt
- Diversified growth funds
- Liability driven investment products
- Cash (including currency)

The use of derivatives is as permitted by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

The Fund currently only invests in pooled funds but may also invest in segregated portfolios. In addition, the Fund will normally hold a proportion of its monies in short-term bank deposits and money market funds to meet operational requirements.

Balance between different types of investments

The Regulations require the administering authority to have regard for the diversification of the Fund's investments.

The Fund will, at all times, invest across a diversified portfolio of investments to reduce investment risk. In addition to diversifying by assets, the Fund will invest across a number of managers and via different approaches and styles to investing.

The Fund may invest via pooled and segregated portfolios based on the appropriateness for each portfolio. The Fund can invest across a combination of passive, active and absolute return investment approaches based on return potential, cost and flexibility of implementation.

The investment structure agreed in the 2014 investment strategy review is detailed in the table below.

Manager/Fund	Mandate	Objective (net of fees)	Strategic allocation (%)
Investec - Global Strategic Equity	Unconstrained Global Equities	MSCI AC World NR Index + 2.5% p.a.	8
Wellington - Emerging Market (Core)	Emerging Markets Equities	MSCI Emerging Markets Index + 1.0% p.a.	3.25
Wellington - Emerging Market (Local)	Emerging Markets Equities	MSCI Emerging Markets Index + 2.0% p.a.	3.25
Aberdeen - Frontier Market	Frontier Markets Equities	MSCI Frontier Equities Index + 1.5% p.a.	2.5
Stone Harbor - LIBOR Multi-Strategy	Multi-Asset Credit	1 Month LIBOR + 1.0% p.a. ⁽¹⁾	15
In-House – Property	Property	IPD Balanced Funds Weighted Average	7
In-House - Infrastructure	Infrastructure	3 Month LIBOR + 5.0% p.a.	2
In-House - Timber / Agriculture	Infrastructure	3 Month LIBOR + 5.0% p.a.	2
In-House - Private Equity & Opportunistic	Private Equity	3 Month LIBOR + 5.0% p.a.	10
Pyrford - Global Total Return	Tactical Allocation - DGF	UK Retail Price Index + 4.5% p.a. ⁽²⁾	5
Investec – Diversified Growth Fund	Tactical Allocation - DGF	UK Consumer Price Index + 4.6% p.a.	5
Best Ideas Portfolio	Tactical Allocation – Best Ideas	UK Consumer Price Index + 3.0% p.a.	9
Man FRM - Managed Account	Managed Account	3 Month LIBOR + 3.5% p.a.	9
	<i>Managed Futures</i>	<i>1 Month LIBOR + 4.0%</i>	
	<i>Hedge Funds</i>	<i>1 Month LIBOR + 3.0%</i>	
Insight – LDI	LDI & Synthetic Equities	Composite Liabilities & Synthetic Equity	19
TOTAL			100

⁽¹⁾ FTSE A Gilts All Stocks Index until 31 March 2014.

⁽²⁾ UK Retail Price Index + 4.4% p.a. until 31 March 2015.

* 9% to be tactically allocated according to shorter-term market views. This can be implemented by increasing the allocation to any of the funds listed above or by separate fund(s) in any type of investment permitted under the regulations. This allocation is made through consultation with the Tactical Allocation Group, which is bound by the Tactical Allocation Portfolio Terms of Reference. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

The legacy funds in the table below do not form part of the long-term strategy but may be used in the interim as part of the Tactical Allocation Portfolio, in line with the Terms of Reference of the Tactical Allocation Group.

Manager/Fund	Mandate	Objective (net of fees)
Duet - Global Opportunities	Unconstrained Global Equities	3 Month LIBOR + 4.5% p.a.
BlackRock - GASL - Global Ascent (Sterling) Ltd	Global Tactical Asset Allocation	3 Month LIBOR + 4.5% p.a.
Bluecrest - AllBlue Ltd	Global Tactical Asset Allocation	3 Month LIBOR + 4.0% p.a.
Pioneer - Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR + 5.0% p.a.
SSARIS - Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR + 3.0% p.a.
Liongate - Fund of Hedge Funds	Fund of Hedge Funds	3 Month LIBOR + 5.0% p.a.
Aberdeen - Asia Pacific ex Japan	Asia Pacific ex Japan Equities	MSCI AC Pacific (ex Japan) Index + 2.75% p.a.
Wellington – Commodities	Commodities	S&P GSCI Equal Weighted (Hedged) + 1.0% p.a.

The Fund's investment managers are remunerated either by way of an ad valorem fee, i.e. the fee is a percentage of the value of assets under management, or a combination of an ad valorem and performance-related fee. The principle of performance-related fees is that the base fee is lower and that the manager is only paid a higher fee if the performance objective set by the Fund is met or exceeded.

The majority of the Fund's investment managers are remunerated on an ad valorem fee basis, with the fee being incorporated in the unit price of the fund invested in. Currently, only two of the Fund's investment managers have their fees paid by explicit payment of an invoice rather than the fees being incorporated in to the unit price.

Asset Allocation and Long Term Expected Return on Investment

The Committee is responsible for setting the strategic asset allocation for the Fund which in turn must be consistent with the investment return assumed in the funding strategy.

The investment strategy reflects the medium to long term nature of the liabilities but must also provide flexibility to manage short term volatility in markets. In addition, the investment strategy must take account of possible changes to cash flows as the membership profile of the Fund or the benefits structure changes.

The investment strategy reflects the differing return and risk profiles of each asset class. However, long term risk and return expectations are not consistently generated over all time frames and, for all asset classes, there can be periods of under- or out-performance compared to the long term expectations.

The strategic framework includes a target allocation against which strategic performance will be monitored ('Strategic Allocation'). In addition there are ranges for each asset category that allow limited deviation within the framework ('Strategic Range'). The ranges enable the Fund to reflect changes in the market outlook and provide greater flexibility to implement cash management and rebalancing.

In addition to the Strategic Allocation and Strategic Ranges, a conditional medium term asset allocation (Conditional Range) exists, to manage major risks to the long term strategic asset allocation which may emerge between Fund Reviews.

The Fund's strategic benchmark, as set out below, does not assume any outperformance from the investment managers. The expected returns stated in this table are as at the date of the 2014 strategic review.

Asset Class	Strategic allocation (%)	Strategic range (%)	Conditional range (%) **	Expected return above Government Bonds p.a.***
Developed Global Equity	8.0	5.0 – 10.0	0 – 30	+4.0%
Emerging Market Equity	6.5	5.0 – 7.5	0 – 15	+5.0%
Frontier Market Equity	2.5	1.0 – 4.0	0 – 5	+6.0%
Multi-Asset Credit	15.0	12.5 – 17.5		+2.0%
<i>Government Bonds</i>			0 – 30	+0.0%
<i>Corporate Bonds</i>			0 – 30	+1.0%
<i>Overseas Government Bonds</i>			0 – 30	+1.0%
<i>Emerging Market Debt</i>			0 – 30	+2.1%
<i>High Yield Debt</i>			0 – 30	+2.1%
Property	7.0	5.0 – 10.0	5 – 15	+3.0%
Infrastructure	4.0	2.0 – 7.0	2 – 10	+3.1%
Private Equity	10.0	8.0 – 12.0	8 – 12	+5.1%
Tactical Allocation Portfolio *	19.0	15.0 – 25.0	10 – 30	+3.0%
<i>Diversified Growth</i>			5 – 15	+4.0%
<i>Best Ideas</i>			5 – 15	+2.0%
Managed Account	9.0	7.0 – 11.0		+3.5%
<i>Managed Futures</i>			0 – 15	+4.0%
<i>Hedge Funds</i>			0 – 10	+3.0%
Cash	-	0.0 – 5.0	0 – 30	+0.0%
Liability Hedging****	19.0	10.0 - 30.0	10 - 30	+4.0%

* The Tactical Portfolio can be invested in any asset class permitted by the regulations. The objective of the Tactical Allocation Portfolio is to add value to the overall Clwyd Pension Fund return.

** The Conditional ranges are at a total fund level, including the Tactical Allocation Portfolio but excluding the Liability Hedging mandate.

*** Expected return is expressed as an excess long-term return over UK government bonds of an appropriate duration or the “premium over gilts” to reflect the extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2014 strategic review. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.

**** The Liability Hedging Portfolio is a combination of Liability Driven Investment (LDI) and an equity overlay which will be managed as part of a de-risking approach. As the funding level improves, the equity exposure will be reduced and the LDI hedge ratio increased in a pre-determined way. Given the nature of this mandate i.e. protection against liability changes, it is not intended to rebalance the allocation, which can lead to a movement away from the initial strategic benchmark allocation of 19% at inception of the mandate.

The inclusion of a diversified range of assets and the scope for tactical allocation in the strategy is expected to reduce the overall volatility of returns without significantly altering the Fund's expected long term return. This was the case when modelling the revised investment strategy in 2014.

Cash is included in the strategic benchmark but in principle the Fund will aim to be fully invested. Cash is held by the managers, at their discretion within their investment guidelines, and internally to meet working requirements. The strategic benchmark allows cash to be held for tactical or operational reasons.

The strategic policy and the medium term performance of the managers are monitored at quarterly Advisory Panel and Committee meetings.

LDI flightpath strategy

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. An LDI manager was 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.

As mentioned above, the Liability Hedging Portfolio is a combination of Liability Driven Investment (LDI) and an equity overlay, which will be managed as part of the de-risking approach. As the funding level improves, the equity exposure will be reduced and the LDI hedge ratio increased, in a pre-determined way. More detail is set out in the Funding Strategy Statement and separate flightpath monthly and quarterly reports.

Realisation of investments

The Fund's investment policy is structured so that the majority of its investments (in equities, DGFs and bonds) can, except in the most extreme market conditions, be readily realised.

However, the availability of alternative investment vehicles enables the Fund to invest in less liquid asset classes and to build well-diversified portfolios. Investments such as property, infrastructure and private equity are long term investments which the Fund will not be able to realise in a short period. "Lock-up" periods are normal practice in hedge funds (to manage the in/out flows to ensure existing clients' capital is protected) which means that these investments are not readily realisable either.

Notwithstanding this, the Fund maintains sufficient investments in liquid assets to meet its liabilities in the short and medium term as they fall due.

Cash Strategy

From 1st April 2011 Investment Regulations require the Pension Fund to have a separate bank account from the Local Authority.

The Pension Fund does not have a strategic allocation to cash for investment purposes but holds surplus cash for paying:

- Benefits and transfers as per the Regulations.
- The administration costs of the Fund.
- The Investment management fees.
- Commitments to real assets and alpha seeking alternative asset managers.

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

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

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

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

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

Stock Lending

The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund.

5. Risk

Types of Risk

The Committee are aware, and seek to take account, of a number of risks in relation to the Fund's investments.

The main risk for the Fund is the mismatch between its assets and liabilities. As a consequence, if the investment returns are less than that required in the funding strategy the funding level will deteriorate, all else being equal. The main risks within the funding strategy are interest rate, inflation and mortality risks, and investment risk arising from the investment portfolio, which is controlled through diversification of asset holdings.

Investment, by its very nature, is a risk based activity where the returns achieved will reflect differing levels of risk. There are a number of investment risks to consider within an investment fund, namely manager, market, credit, currency and liquidity risks. Consideration of financially material non-financial risks is discussed in Section 7 – Sustainability of the SIP.

Manager Risk

The aim of the investment strategy and management structure is to manage the appropriate level of risk for the return target which reflects the funding strategy. The Fund's investments are managed by external investment managers who are required to invest the assets in line with the investment guidelines set by the Fund, appropriate for each mandate. Independent custodians safekeep the assets on behalf of the Fund.

Market Risk

Investment risk is controlled through the strategic policy which ensures diversification of investments across a range of asset classes and markets that have low correlations with each other and across a selection of managers. As most of the portfolio is exposed to market risk, the main risk to the Fund is a fall in market prices. Although market movements cannot be completely avoided and indeed there are periods when all assets become more highly correlated, the impact can be mitigated through diversifying across asset classes and approaches to investing.

Credit Risk

Credit (and counterparty) risk arises in the bond portfolios, the management of cash balances and the trade settlement process. At all times the Fund ensures it appoints reputable and creditworthy external suppliers and that credit management policies are adhered to.

Liquidity Risk

Liquidity risk is the risk that the Fund cannot realise its assets as needed. As a result, the Fund limits its investment in less liquid asset classes such as property, hedge funds, private equity and infrastructure.

Liability Based Risk

The investment strategy provides some protection against the liability based risks, mainly interest rates and inflation. The LDI and bonds (to some extent) provide interest rate and inflation hedges. Infrastructure, property and, to a lesser extent, timber, agriculture, equities and DGFs, provide an inflation hedge over the medium to longer term. The Fund is not hedged against mortality risk.

Risk Budgets

In formulating the revised investment strategy, expected risk and return figures were utilised for each asset class. The figures used in the 2014 strategic review are as follows.

Asset Class	Expected return above Government Bonds p.a.*	Expected Risk (Volatility) p.a.**
Developed Global Equity	+4.0%	14%
Emerging Market Equity	+5.0%	21%
Frontier Market Equity	+6.0%	20%
Multi-Asset Credit	+2.0%	6%
<i>Government Bonds</i>	+0.0%	10%
<i>Corporate Bonds</i>	+1.0%	9%
<i>Overseas Government Bonds</i>	+1.0%	10%
<i>Emerging Market Debt</i>	+2.1%	12%
<i>High Yield Debt</i>	+2.1%	10%
Property	+3.0%	5%
Infrastructure	+3.1%	10%
Private Equity	+5.1%	28%
Tactical Allocation Portfolio	+3.0%	9%
<i>Diversified Growth</i>	+4.0%	9%
<i>Best Ideas</i>	+2.0%	9%
Managed Account	+3.5%	6%
<i>Managed Futures</i>	+4.0%	6%
<i>Hedge Funds</i>	+3.0%	6%
Cash	+0.0%	1%
Liability Hedging	+4.0%	21%

* Expected return is expressed as an excess long-term return over UK government bonds or the “premium over gilts” to reflect the extra risk being taken, excluding active management. This is based on JLT Market Forecast as at the date of the 2014 strategic review. Gilts are used as the basis for expected returns as they are a proxy for valuing the liabilities.

** Expected risk is based on 10 year historic returns and volatility

Risk Register

The Clwyd Pension Fund has a Risk Policy and Risk Register in place.

The Clwyd Pension Fund Risk Register has a section dedicated to Funding & Investment Risks (including accounting and audit). Specific asset/investment risks highlighted in the risk register include those around investment markets, the failure of managers to achieve their objectives, missing out on market opportunities, and liquidity.

The risk register is kept up to date and ongoing consideration of key risks is undertaken at Committee and Advisory Panel meetings.

Regulatory limits

The regulations impose certain limits on the way in which the Fund's assets can be invested. In principle these are designed to ensure diversification and reduce risk.

For example there are limits on the amounts which can be invested in partnerships, unlisted securities, unit trusts and life funds. There is a two tier system of limits. The first tier is the "normal" limit; the second tier is a set of higher limits which can only be utilised once the Committee has passed a resolution, having complied with certain conditions.

6. Monitoring of Investment Advisers and Manager

Investment Advisers

All advisers have fixed term contracts and the performance of contract specifications is reviewed annually as part of the overall governance review.

Further details in relation to this are included in the latest Business Plan.

Investment Managers

The Advisory Panel and Committee receive at least quarterly monitoring reports on the performance of their investment managers against their specific benchmark. In addition, the Investment Consultant carries out ongoing research with investment managers and highlights changes that could impact on future performance. Officers also meet with investment managers on a frequent basis.

7. Sustainability

Responsible Investing Policy

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.

As part of this strategy, the Fund, subject to fiduciary duties, makes selective investments in environmentally supportive areas such as clean-technologies, clean energy, environmental infrastructure and forestry

The Fund regularly meets with existing and new managers to discuss opportunities within the environmental area.

The Clwyd Pension Fund has incorporated these areas and others into its Sustainability Policy, a copy of which is included in Appendix A.

At the strategic level, a manager's approach to identifying and managing RI risks and opportunities is evaluated as part of the tender process for appointing new managers. It is also incorporated into the on-going process of monitoring the investment managers' performance.

The Fund has adopted the FRC UK Stewardship Code which aims to enhance the quality of engagement between institutional investors and companies. The aim is to improve long-term returns to shareholders and by setting out good practice on engagement with investee companies, improve governance standards. The Fund seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to adopt the Code.

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF), whose

primary aims are to seek improvements in the corporate governance of the companies in which member funds invest, and also to promote Socially Responsible Investment (SRI) on environmental issues and issues relating to overseas employment standards. This very much reflects the principles built into the Fund's own Sustainability Policy.

The Fund is also a member of NAPF which also provides further guidance on Governance and Social Responsibility issues as well as the wider pension issues.

Exercise of Voting Rights

The Fund recognises its responsibility as a shareholder to actively encourage good corporate governance standards in the companies in which it invests as poor governance can negatively impact shareholder value.

The Fund obtains corporate governance updates and voting details from managers and portfolios. The Fund also provides details of any LAPFF alerts during the period. The manager can then advise the Fund as to how they voted on those occasions

8. Compliance with Guidance

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

The Fund's compliance statement on these Myner's Principles is attached in Appendix B, explaining the extent of compliance with each Principle and the reasons for this.

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 Appendix C.

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

Approval, Review and Consultation

The investment strategy of the Clwyd Pension Fund was reviewed by its Committee and Advisers in November 2014. Representatives of employers and scheme members who are Pension Fund Committee members were involved in the review.]

This Statement of Investment Principles was approved at the Clwyd Pension Fund Committee on 21 May 2015. It will be formally reviewed and updated at least every six months or sooner if the 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:

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Appendix A – 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.
- 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)

Given the constraints outlined above and particularly the pooled nature of many of the Fund's investments, it would be difficult for the Fund to become a formal signatory to the UNPRI.

United Nations Principles for Responsible Investing (UNPRI)

The Clwyd Pension Fund –

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

The Fund Objective stated above already encompasses most of the UNPRI.

Application of Sustainability Principles

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

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

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

Sustainability Approach

In framing an approach to sustainability, the key focus has to be on the UNPRI principles 1 and 2 as these underlie most investment and governance processes. Sustainability-related issues have been considered on a regular basis for many years, with broad corporate governance policy guidelines in place from 1996. More recently these form part of the Fund's 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. Myners Principle 5 is also relevant here. This requires that trustees adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. The Institutional Limited Partners Association (ILPA) has authored the ILPA Private Equity Principles, a document that contains best practice concepts and that speaks to issues relating to the alignment of interest between general partners and limited partners, fund governance, transparency and reporting guidelines in order that these can be taken account of in their investment management decision-making processes.

In order to monitor the performance of external managers in terms of their degree of compliance with the guidelines and the performance of underlying investments with the Fund's sustainability objectives, there needs to be regular reporting and disclosure on sustainability issues, particularly areas of concern, as well as actions taken to address these

Company Engagement & Voting

The Clwyd Fund –

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

Investment Management & Monitoring of Performance

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

Appendix B – Myners Principles – 2014/15 Compliance

Principle 1

Administering authorities should ensure that:

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

Key Areas and Guidance	Comment & Actions	Compliance
It is good practice to have an investment sub-committee, to provide the appropriate focus and skills on investment decision-making.	The administering authority delegates investment decisions to the Clwyd Pension Fund Committee. The Committee delegate functions to Officers who take investment advice as required from a Pension Advisory Panel who provide appropriate focus and skills on investment decision making. Furthermore, a Tactical Allocation Group has been formed to take advantage of short term opportunities that are consistent with the long term risk and return goals of the Fund. Representatives and roles are defined in the 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. The Fund has produced a training policy for Members and Senior Officers. A needs assessment process will be introduced for members of the new Committee.	Partial
There should be sufficient internal resources and access to external resources for trustees and boards to make effective decisions.	The Committee has access to experienced and trained officers and an Advisory Panel of professionals qualified to provide proper advice.	Full
There should be an investment business plan with progress regularly evaluated.	The three year business plan includes an investment business plan, which is approved by the Committee who then receive updates on progress each Committee.	Full
The remuneration of trustees should be considered.	Remuneration and expenses are reviewed, considered and set by Council.	Full
Particular attention should be paid to managing and contracting with external advisers (including advice on strategic asset allocation, investment management and actuarial issues).	The Investment Consultant, Actuary and Independent Adviser all have contracts which are regularly reviewed. Performance of the Investment Consultant and Actuary will be monitored by the Independent Adviser. The Investment Consultant and Independent Adviser contracts were tendered in 2013/14 and new provider contracts commenced in April 2014.	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 objectives, some market-based with others more absolute return in nature. The Liability Hedging portfolio has a liability based benchmark. 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. The Fund monitors each of the participating LGPS employers and admitted bodies.	Full

Principle 3

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

Key Areas and Guidance	Comment & Actions	Compliance
Trustees should have a clear policy on willingness to accept underperformance due to market conditions.	Most managers have market-related benchmarks. There is clear acceptance of the fact that markets can be volatile in the short term. The setting of the Fund's strategic benchmarks is based upon the probable long-run performance of specific asset classes. Similarly, whilst the Fund's aim is that managers will outperform their benchmarks at all times, periods of under-performance are accepted as long as longer-term performance remains intact.	Full

	A Tactical Allocation Portfolio, which looks to take advantage of short term opportunities that are consistent with the long term risk and return goals of the Fund, form part of the new investment strategy.	
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. The Investment Consultant provides regular performance monitoring reports to both the Advisory Panel and Committee.	Full
Trustees should demonstrate an effective contribution and commitment to the role (for example measured by participation at meetings).	Records of attendance at Committee and training events are maintained and reported in the Annual Report. Participation is recorded in the Committee minutes.	Full

The chairman should address the results of the performance evaluation.	All current performance evaluation documents (Training records, Independent Adviser, risk, Audit) are brought to Committee. The Chairman has a key role in this, but also taking input from Officers and the Advisory Panel, with appropriate actions being agreed.	Full
There should be a statement of how performance evaluations have been conducted.	Investments and Investment Managers are monitored on a quarterly basis by Committee and Advisory Panel. All advisers have fixed term contracts and the performance of contract specifications is reviewed annually as part of the overall governance review.	Full
When selecting external advisers, relevant factors including past performance and price should be taken into account.	Advisers are selected competitively, based on performance, price and other factors.	Full

Principle 5

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

Key Areas and Guidance	Comment & Actions	Compliance
Policies regarding responsible ownership should be disclosed to scheme members in the annual report and accounts or in the Statement of Investment Principles.	The Fund's Sustainability Policy 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 is regularly monitored and managed. In all manager selection exercises undertaken, the sustainability policy that fund managers apply to their investments is reviewed.	Full
Trustees should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company.	The Fund is aware of the voting policies of its underlying managers. A questionnaire is issued periodically to all fund managers on their sustainability policy and their replies explain their approach.	Full
Trustees ensure that Investment Consultants adopt the ISC's Statement	The Investment Consultant supports and adheres to the standard agreed with the investment consulting industry	Full

Principle 6

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

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

Appendix C – FRC UK 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.	<p>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 through its Sustainability Policy document.</p> <p>The Fund's investment strategy seeks long-term returns from investing in a highly diversified portfolio of assets and appoints asset managers who best reflect this long-term sustainability approach in their investment philosophy and process.</p>	Full
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. Regular review meetings with the Fund's asset managers provide an opportunity for particular company issues to be discussed. Under the Fund's Sustainability Policy, managers are required to report any areas of concern.	Full
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 a 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. A summary of manager voting is included in the Fund's Annual Report.	Full, but further improvements are possible
Principle 7		
Institutional investors should report periodically on their stewardship and voting activities.	<p>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 to the Pension Fund Advisory Panel as are summary voting records from managers.</p> <p>All managers provide details of voting activity and a summary is provided in the Fund's Annual Report.</p>	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 in a user-friendly format. In addition, when available, the statement includes 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 visits to employers are popular, and can be triggered by a combination of departmental reviews, scheme changes and other influences from the public domain. These sessions can be used, not only to discuss individual member issues but also the impact of generic issues such as redundancy.

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 – The Communications Officer attends pre-retirement courses to inform members who are approaching retirement age, about Local Government retirement procedures. There are usually six courses held per annum.

The courses are 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. The Communications 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.
- 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
- Topping up your Benefits
- Maternity Leave
- The Rule of 85
- Pension Transfers

Pensions Taxation Correspondence – The Clwyd Pension Fund issues 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 autumn 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 Technical Team Leader. 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 meetings 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.

Auditor General for Wales' statement to the Members of Clwyd Pension Fund

I have examined the pension fund accounts and related notes contained in the 2014-15 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 2015, which were authorised for issue on 29 September 2015. The pension fund accounts comprise the Fund Account and the Net Assets Statement.

Respective responsibilities of the Administering Authority and the Auditor General for Wales

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. This other information comprises of the following: Governance Structure, Joint Report from the Treasurer and Administrator, Independent Advisor Annual Report, Management of Pension Fund Risk, Financial Performance, Cash Flow, Investment and Funding, Sustainability Policy, Administration Update and Other information.

I conducted my work based on the requirements of Bulletin 2008/3 issued by the Financial Reporting Council. 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.

Opinion

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 2015, which were authorised for issue on 29 September 2015, on which I issued an unqualified opinion.

I have not considered the effects of any events between the date, on which I issue my opinion on the pension fund accounts included in the authority's Statement of Accounts, 30 September 2015 and the date of this statement.



For and on Behalf of:
Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff CF11 9LJ

20 October 2015