

CITY AND COUNTY OF SWANSEA

NOTICE OF MEETING

You are invited to attend a Meeting of the

PENSION FUND COMMITTEE

At: Committee Room 1, Civic Centre, Swansea

On: Thursday, 14 July 2016

Time: 10.00 am

Chair: Councillor Rob Stewart

Membership:

Councillors: P Downing, C E Lloyd, J Newbury, D G Sullivan and M Thomas

Neath Port Talbot Co-opted Member: Councillor P Rees

Independent Investment Co-advisors: V Furniss, N Mills

AGENDA

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1 Apologies for Absence.	
2 Disclosures of Personal and Prejudicial Interests. www.swansea.gov.uk/DisclosuresofInterests	
3 Minutes. To approve & sign the Minutes of the previous meeting(s) as a correct record.	1 - 4
4 Report(s) of the Section 151 Officer.	
a Pension Fund Committee Training.	5 - 9
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c Report on the Cessation of An Admitted Body - Colin Laver. (For Information)	20 - 35
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7 Report(s) of the Section 151 Officer.	
a Investment Summary.	83 - 95
b Submission by the Wales Pool to the Department for Communities and Local Government (DCLG) in Response to the Publication in November 2015 of LGPS: Investment Reform Criteria and Guidance.	96 - 130

8 Presentations - Fund Managers.

- Aberdeen Asset Management - Global Equities & Frontier Markets;
- Schroders Asset Management - UK Equities;
- JP Morgan Asset Management - Global Equities.

Next Meeting: Thursday, 15 September 2016 at 10.00 am



Huw Evans
Head of Democratic Services
7 July 2016

Contact: Democratic Services: - 636923

CITY AND COUNTY OF SWANSEA

MINUTES OF THE PENSION FUND COMMITTEE

HELD AT COMMITTEE ROOM 5, GUILDHALL, SWANSEA ON
THURSDAY, 10 MARCH 2016 AT 10.00 AM

PRESENT: Councillor P Downing (Vice-Chair) presided

Councillor(s)
P Downing

Councillor(s)
C E Lloyd

Councillor(s)
D G Sullivan

Neath Port Talbot County Borough Council Councillor:
P A Rees

Officer(s)

Jeffrey Dong
Jeremy Parkhouse
Stephanie Williams

Chief Treasury & Technical Officer
Democratic Services Officer
Principal Lawyer

ALSO PRESENT:

N Mills - Independent Investment Advisor
V Furniss - Independent Investment Advisor

Apologies for Absence

Councillor(s): J Newbury, R C Stewart and M Thomas

40 **DISCLOSURES OF PERSONAL AND PREJUDICIAL INTERESTS.**

In accordance with the Code of Conduct adopted by the City and County of Swansea, the following interest was declared: -

Councillor P Downing - agenda as a whole - my brother works for the Council and contributes to the Pension Fund.

NOTED that Councillor P Downing had received dispensation from the Standards Committee in this respect.

Councillor C E Lloyd – agenda as a whole – my father is a member of the Local Government Pension Scheme – personal.

Councillor D G Sullivan - agenda as a whole - I am in receipt of a Local Government Pension - administered by Dyfed Pension Scheme - personal.

41 **MINUTES.**

RESOLVED that the Minutes of the Pension Fund Committee held on 17 December 2015 be approved as correct record, subject to the following amendment: -

Minute No.35 – Review of the Current Abatement Policy – Paragraph 1 – amend the spelling of 'asses' to 'assess'.

42 **ANNUAL AUDIT PLAN 2016/17.**

In the absence of the Wales Audit Office, the Chief Treasury and Technical Officer presented the Annual Audit Plan 2016/17.

It was outlined that under the Code of Audit Practice the external auditor must examine and certify whether the City and County of Swansea Pension Fund Accounting Statements were "true and fair". The purpose of the plan was to set out the proposed work, when it will be undertaken, how much it would cost and who will undertake it. There had been no limitations imposed upon the external auditor in planning the scope of this audit and his responsibilities, along with those of management and those charged with governance were set out at Appendix 1 of the report.

It was added that the external auditor had responsibility to issue a report on the accounting statements for the year ending 31 March 2016. The financial audit risks which he considered to be significant were set out at Exhibit 2 along with the work the external auditor intended to undertake to address these risks. The estimated fee for 2016 was set out at Exhibit 3 and the timetable for work was provided at Exhibit 5.

RESOLVED that the contents of the report be noted.

43 **UPDATED INVESTMENT REGULATIONS RESPONSE TO CONSULTATION.
(FOR INFORMATION)**

The Chief Treasury and Technical Officer provided a 'for information' report regarding updated investment regulations response to consultation. The report presented the response of the City & County of Swansea Pension Fund Committee to the consultation exercise by DCLG.

44 **INVESTMENT REFORM CRITERIA - RESPONSE TO CONSULTATION. (FOR INFORMATION)**

The Chief Treasury and Technical Officer provided a 'for information' report regarding investment reform criteria response to consultation. The report presented the submitted response of the City & County of Swansea Pension Fund Committee to the consultation exercise undertaken by DCLG which had previously been approved by the Committee.

Discussions followed in relation to the proposed pooling arrangements.

45 **CITY AND COUNTY OF SWANSEA PENSION FUND BUSINESS PLAN 2016/17.**

The Chief Treasury and Technical Officer presented the City & County of Swansea Pension Fund Business Plan 2016/17. The report provided a working framework for

the Pension Fund's programme of work and the business plan for 2016/17 was included at Appendix 1.

The Pension Fund Risk Register 2016/17 was provided at Appendix 2 and the Pension Fund Budget 2016/17 was provided at Appendix 3.

The Committee discussed how external factors had influenced matters.

RESOLVED that: -

- 1) The contents of the report be noted and approved;
- 2) A training plan be proposed for the Pension Fund Committee.

46 **EXCLUSION OF THE PUBLIC.**

The Committee was requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it/they involve(s) the likely disclosure of exempt information as set out in the exclusion paragraph of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 relevant to the item(s) of business set out in the report.

The Committee considered the Public Interest Test in deciding whether to exclude the public from the meeting for the items of business where the Public Interest Test was relevant as set out in the report.

RESOLVED that the public be excluded for the following items of business.

(CLOSED SESSION)

47 **INDEPENDENT INVESTMENT CO-ADVISORS REPORT.**

The report presented the economic update and market commentary from the perspective of the appointed Independent Investment Advisors. Mr N Mills provided an economic and market update and Mr V Furniss provided an investment report for the quarter ended 31st December 2015.

The content of each report was noted by the Committee and the Independent Advisors were thanked for their reports.

48 **INVESTMENT SUMMARY. (FOR INFORMATION)**

The Chief Treasury and Technical Officer provided a "for information" report which presented the investment performance for the quarter year ended 31st December 2015. Attached at Appendix 1 of the report were the Quarterly Investment Summaries for the Pension Fund for the quarter ended 31st December 2015.

49 **PRESENTATIONS - FUND MANAGERS.**

- (1) A joint presentation was provided by Simon Betteley, Brendan Galloway and John Ware on behalf of Blackrock.
- (2) A joint presentation was provided by Terry Purcell, Christoph Englisch and Tim Haston on behalf of Permal / Entrust.

Questions in relation to the content of the presentations were asked at the end of each presentation by the Committee and responses were provided by the respective Fund Managers.

The contents of the presentations were noted and the Chair thanked each of the Fund Managers for attending the meeting.

The meeting ended at 12.30 pm

CHAIR

Report of the Section 151 Officer

Pension Fund Committee - 14 July 2016

TRUSTEE & PENSION FUND COMMITTEE TRAINING – CIPFA CODE OF PRACTICE PUBLIC SECTOR FINANCE KNOWLEDGE & SKILLS

Purpose:	To determine an annual training programme for Trustees and Officers of the Pension Fund
Policy Framework:	CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice
Reason for Decision:	To ensure compliance with the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that: 1) the Training identified for members and officers in sections 3.5 and 3.6 be approved
Report Author:	Jeffrey Dong
Finance Officer:	Jeffrey Dong
Legal Officer:	Stephanie Williams
Access to Services Officer:	Sherill Hopkins

1 Introduction

- 1.1 In March 2000, the Chancellor of the Exchequer commissioned Paul Myners to conduct a review of institutional investment in the UK. The review was asked to consider whether there were distortions in institutions' investment decision-making. The efficiency of investment decision-making is an important driver of productivity, helping ensure that capital is allocated effectively and that managers are monitored and held accountable for performance.
- 1.2 One of Myners' main conclusions was that many pension fund trustees lack the necessary investment expertise to act as strong and discerning customers of the investment consultants and fund managers who sell them services.
- 1.3 In order to address the distortions identified, Myners recommended that pension fund trustees voluntarily adopt, on a 'comply or explain' basis, a series of principles codifying best practice for decision-making in relation to investment. These principles would be a powerful force for behavioural

change. The central tenets included:

- decisions should be taken only by those with the right skills and expertise, and trustee boards should ensure they have access to appropriate skills and resources;
- fund managers should be set clear objectives and timescales;
- the performance of all managers should be measured, and trustees should assess their own performance;
- trustees should engage with investee companies where it is in the interests of their fund members so to do; and
- the investment strategy and returns of the fund should be reported annually to members and the public.

1.4 The Government agreed that the principles represent a clear and coherent approach, which will help the pensions industry respond to the challenges it faces, and from which everyone – consumers, industry and Government, but especially pension funds themselves – stands to benefit. The Government committed to reviewing after two years the extent to which the principles had been effective in bringing about behavioural change.

2 Progress

2.1 The Government has concluded that the voluntary approach is beginning to work, but considerably more efforts are needed to ensure that problem areas identified by the review are satisfactorily addressed. It believes that pension funds would better serve their members' and sponsors' interests if the best practice embodied in the Myners principles were to be strengthened and amplified, particularly in relation to trustee expertise and the process of investment decision-making.

2.2 Strengthening trustee skills and expertise is fundamental to achieving Myners' goals. The Pensions Act requires all trustees and officers to have appropriate knowledge and understanding of funding, investment, and relevant legal and scheme-specific issues. The Pensions Regulator will be responsible for enforcing this legal requirement, and the Occupational Pensions Regulatory Authority (OPRA) has developed a detailed code of practice to provide trustees with guidance.

2.3 The Government proposed that the Myners principle in relation to effective decision-making (principle 1) should be strengthened to align it with the objective standard of expertise set in the Pensions Act; but also to incorporate the review's conclusion that: the role played by the chair of the trustee board; having a critical mass of trustees with investment expertise; and the availability of additional resources to support the trustee board, are all key factors in promoting effective investment decision-making by pension funds. It therefore proposed to add three new elements to the principle. In all

pension funds, the chair has a critical role in ensuring that the board as a whole has appropriate skills to address its responsibilities, and sets aside the appropriate time and resources to address investment decision-making.

3 CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice

3.1 The CIPFA Code of Practice represents a key element in complying with Myners' requirements for knowledge & skills in decision makers in public pension funds.

3.2 The Code of practice is underpinned by 4 key principles:

1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making and other aspects of the financial administration of public sector pension schemes can only be achieved where the those involved have the requisite knowledge & skills.
2. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.
3. The associated policies and practices are guided by reference to the requirements outlined in the CIPFA Pensions Finance Knowledge & Skills framework.
4. The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

3.3 CIPFA recommends that all LGPS organisations adopt the following statements:

1. This organisation adopts the key recommendations of the Code of Practice
2. This organisation recognises that effective financial administration and decision making can only be achieved where those involved have the requisite knowledge and skills
3. accordingly that organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant knowledge and skills
4. The policies and practices will be guided by reference to CIPFA knowledge and skills framework
5. The organisation will report on an annual basis how these policies have been put into place
6. this organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of practice to the Section 151 Officer

3.4 The City & County of Swansea Pension Fund Policy Statement

The City & County of Swansea Pension Panel recognises the importance of ensuring that all staff and members charged with the financial management

and decision making with regard to the LGPS are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The City & County of Swansea Pension Fund formally adopted the CIPFA Pensions Finance Knowledge & Skills Code of Practice in June 2012. It will provide/arrange training for staff and members of the pension's decision making body to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

The pension panel has designated the Section 151 officer to be responsible for ensuring that the policies are implemented.

The Pension Committee has formally undertaken initial introductory training in the LGPS and now needs to consolidate that knowledge with continuous development.

With the pending revision of LGPS Governance/Investment Regulations, the importance of minimum Trustee competence, knowledge and skills will greatly increase.

3.5 In 2015/16, the following Trustee training was undertaken by members of the pension fund committee.

1. LGE (Local Government Employers) Trustee Fundamentals day 1, 2 & 3 (for those members who have not undertaken the course)
2. LGC Investment Summit
3. Investment Review
4. ESG Investing
5. Triennial Valuation Training

In 2016/17, it is recommended that the following training is undertaken by members and officers involved with the Committee along with any appropriate training opportunities which present themselves during the year identified by the Chief Treasury & Technical Officer.

1. LGE (Local Government Employers) Trustee Fundamentals day 1, 2 & 3 (for those who have not undertaken the course)
2. LGC Investment Summit
3. LAPFF Meetings
4. CIPFA Trustee Training
5. Investment Beliefs Session
6. Triennial valuation Training
7. ESC Policy Training

3.6 The determination of the training requirements for officers shall be delegated to the Section 151 Officer.

4 Financial Implications

4.1 The financial implications of the report are that costs will be maintained within the training budget of the Pension Fund.

5 Legal Implications

5.1 The underlying legal framework is set out in the Report.

6 Equality Impact Assessment Implications

6.1 An EIA Screening has been undertaken and no E&EIs have been identified.

Agenda Item 4b

Report of the Section 151 Officer

Pension Fund Committee - 14 July 2016

INVESTING IN INFRASTRUCTURE – AN UPDATE

Purpose: The report presents an update on the infrastructure investment manager appointment approved by the pension fund committee on 3rd December 2014.

Report Author: Jeffrey Dong

Finance Officer: Jeffrey Dong

Legal Officer: Stephanie Williams

Access to Services Officer: N/A

FOR INFORMATION

1 Introduction

1.1 The pension fund committee approved the appointment of Hastings Infrastructure on Dec 3rd 2014 to manage its allocation to infrastructure approved the previous December 2013 (report at Appendix A) following a full OJEU tender process undertaken by JLT consultants on a collaborative basis with Devon and Dorset pension funds.

2 Update

2.1 At appointment, Hastings have indicated a 4 year cycle to fully invest the fund, however to date no investments have been made by the fund. The fund was unsuccessful in an auction for a power generating hub in the Nordics in December 2015.

2.2 At this time, the parent company of Hastings, who are Westpac (An Australian bank) announced it was selling Hastings to a third party, which eventually fell through. This uncertainty on ownership impacted on further fund raising and resulted in some staff departures.

2.3 In May 2016 a group of limited partners, including City & County of Swansea Pension Fund wrote to Hastings and the Westpac seeking reassurance about the stability of the business and the investment pipeline and the prospects for new investors. The group formally asked for the fund to defer investments until such time that ownership and direction for the fund was determined

2.4 In June 2016, Hastings announced a number of new senior director appointments and a new investment management structure to take the fund forward.

2.5 The City &County of Swansea Pension Fund is contractually committed to its investments within the Hastings Infrastructure Income Fund. It would take a

resolution of 2/3 of the limited partners to dissolve the fund. The group of limited partners is seeking to meet with the Board of Hastings to determine when/how capital is going to be committed to new investment going forwards.

3 Way Forward

The City & County of Swansea continues to work with the other limited partners in determining a successful outcome.

Report of the Pension Fund Investment Sub Group

Pension Fund Committee Dec 5th 2013

INVESTING IN INFRASTRUCTURE – A RECOMMENDED STRATEGY

Purpose:	To consider a recommended strategy for investing in infrastructure for the City & County of Swansea Pension Fund
Policy Framework:	City & County of Swansea Pension Fund Statement of Investment Principles
Reason for Decision:	To consider infrastructure as a diversifying, return generating asset class for the Pension Fund
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that: <ol style="list-style-type: none"> 1) That the Committee considers the investment and funding strategy as set out in paragraphs 2.3, 3.1 and 4.1 for investing in infrastructure. 2) That a further report be made to Committee detailing the precise selection criteria and approval mechanisms for any single investment and the criteria that will be applied including:- <ul style="list-style-type: none"> • Perceived risk and mitigation • Potential and expected returns on investments and the timing of those returns • Ability and mechanism for Capital realisation of invested sums • Withdrawal mechanisms • Local impact of any investments
Report Author:	Jeffrey Dong
Finance Officer:	Mike Hawes
Legal Officer:	Nigel Havard
Access to Services Officer:	Sherrill Hopkins

- 1 Introduction**
 - 1.1 The Pension Fund Committee previously received a report outlining the advantages of investing in infrastructure as a diversifying return yielding investment for the pension fund. The report is attached at Appendix 2.
- 2 Implementation Strategy- Core Component**
 - 2.1 In assessing the investment dynamics offered by the asset class and how it can best fit into the current investment portfolio, the Investment Sub Group have met and appraised a number of managers and investors in the asset

class to evaluate the opportunities and different styles of investment available.

2.2 In evaluating the investment characteristics of the asset class, the main drivers for investment are :

- Long dependable income streams (often index linked)
- Real returns
- Real assets
- Non correlation with other asset classes
- Diversification

2.3 To best deliver the above in line with acceptable and complementary risk return profiles, it is recommended that a Globally Diversified (incl. UK) Core infrastructure asset class portfolio be implemented targeting returns in the range 9%-12%. The allocation to the same would be 2% of total assets. The investment would be made in line with procurement best practice.

3 Implementation Strategy- Discretionary UK Investment

3.1 To complement this Global Core component of infrastructure, it is recommended that up to 2% of total assets be invested in discretionary UK centric infrastructure funds which in addition to providing the investment returns sought by the Pension Fund will contribute to economic growth in the UK. The investments would be made in line with procurement best practice.

3.2 Opportunities to invest in traditional infrastructure on a local basis are rare, however there are some smaller scale projects which could provide the returns the fund is seeking whilst benefitting the local economy. An example of a UK centric infrastructure investment opportunity is presented at Appendix 3.

4 Strategy Funding

4.1 In order to fund the above strategy, it is recommended that:

1. the cash component managed by Legal & General be realised
2. the Global Tactical Asset Allocation portfolio Global Ascent managed by Blackrock be fully redeemed.

5 Legal Implications

5.1 When appropriate, the Head of Legal Services & Procurement will be consulted on the appropriate procurement methodology

6 Financial Implications

6.1 The investment recommended above is fully funded from the realisation of other assets in the portfolio.

7 Equality Impact Assessment Implications

7.1 None

Appendix 2

Report of the Pension Fund Investment Sub Group

Pension Fund Committee June 27th 2013

INVESTING IN INFRASTRUCTURE – AN ASSET CLASS OVERVIEW

Purpose: The report presents an overview of the investment opportunities presented by infrastructure

Report Author: Jeffrey Dong, Noel Mills, Valentine Furniss

Finance Officer: Jeffrey Dong

Legal Officer: Tracey Meredith

Access to Services Officer:

FOR INFORMATION

1 Introduction

- 1.1 Infrastructure is basic physical and organisational structures needed for the operation of a society or enterprise or the services and facilities necessary for an economy to function. It can be generally defined as the set of interconnected structural elements that provide framework supporting an entire structure of development. It is an important term for judging a country or region's development.
- 1.2 The term typically refers to the technical structures that support a society, such as roads, bridges, water supply, sewers, electrical grids, telecommunications, and so forth, and can be defined as "the physical components of interrelated systems providing commodities and services essential to enable, sustain, or enhance societal living conditions."
- 1.3 Viewed functionally, infrastructure *facilitates* the production of goods and services, and also the distribution of finished products to markets, as well as basic social services such as schools and hospitals; for example, roads enable the transport of raw materials to a factory.
- 1.4 Infrastructure is still a relatively new asset class with many investors drawn to it through its perceived attractive characteristics such as low correlation to broader economic cycles, strong capital preservation, attractive risk-adjusted

returns including a significant yield component and inflation protection. However for many early investors, the asset class has not delivered the promised consistent and non-cyclical returns. This outcome is often the result of suboptimal portfolio construction not suited to the asset class and specifically of over concentrating allocations across various relevant risk dimensions in infrastructure such as number of assets, sector, region and/or stage. This paper will argue that the specific nature of infrastructure returns, namely a non-standard return distribution characterized by a fat left tail and a high proportion of non-systematic risk requires a conscious and systematic approach to portfolio construction. It will specifically focus on the importance portfolio construction plays in achieving the investor objective in infrastructure of consistent total returns and recurring yield with little sensitivity to the economic cycle.

- 1.5 Understanding the underlying risk characteristics of infrastructure investments and appropriate diversification across different sets of risks is central to this approach. In private markets however, this approach is far from straight forward to implement. It requires not only a deep understanding of the risks inherent in different infrastructure assets but also the ability of investment managers to originate a sufficient number of actionable quality investment opportunities in order to build a portfolio in a reasonable amount of time and independent of the market cycle. For instance, one of the implications of the significant tail risk exposure of returns in core, brown field infrastructure assets is that an investor should add a proportion of projects with greenfield exposure to his portfolio. Similarly, in order to be able to access the market during times of capital constraint and avoid vintage year concentration, an investor should have the ability to add secondary investments to their portfolio.
- 1.6 Separately, for many investors, inflation protection is one of the key attractions of investing in infrastructure. However, inflation linkage is not always explicit in infrastructure assets. In order to achieve the desired real asset characteristics of an infrastructure portfolio, it is therefore necessary to carefully analyze how inflation will affect a specific investment. Understanding the impact of different drivers of inflation sensitivity such as regulated tariffs, contractual indexation, pricing power and replacement value considerations will determine how immediately an infrastructure portfolio will react to changes in inflation and consequently the inflation protection it offers. Further, it is also necessary to carefully consider the embedded inflation assumptions built into the valuation of infrastructure assets and compare them to prevailing and expected future inflation rates in the market in order to avoid overpaying for inflation protection through aggressive assumptions embedded in the investment case.

Revenues: The revenues generated by many infrastructure assets are contractually linked to a specific inflation measure. For instance, regulated monopolies like networks, toll road concessions or renewable feed in tariffs have explicit inflation linkage built into the remuneration formula in many countries (e.g. UK, France, Spain, Italy, Latin America). This offers the most direct and immediate inflation linkage as revenues will automatically rise in line with the specific indexation formula. On the other hand, there are infrastructure assets which are regulated on a nominal rate of return basis

(e.g. US utilities). These assets still exhibit inflation linkage in the medium term as allowed rates of returns will be adjusted to reflect changes in inflation but the adjustment may take time so returns in the short term can be negatively affected by an unexpected rise in inflation. There are also assets that earn fixed tariffs or have contracts with a defined price and/or revenue escalation which exposes them negatively to an unanticipated rise in inflation. For less regulated assets, the analysis of the impact of inflation on their revenues requires a fundamental assessment of their ability to pass on price increases to their customers. Given the high entry barriers and the low price elasticity of demand typically associated with infrastructure assets, many in fact have considerable pricing power and hence the ability to protect their returns in periods of rising inflation. However, this requires a fundamental analysis and assessment of the specific asset and is subject to errors. Operating costs: Infrastructure companies tend to have high operating margins. This reduces the effect of rising costs on the cash flows generated by the business. In addition, contracts often allow passing on rising input cost to the off-takers which further substantially reduces their exposure to unanticipated cost inflation.

2 Investing in infrastructure

2.1 Infrastructure assets historically include ; toll roads, ports, airports, sewage works, solar farms, wind farms, hydro electric facilities, schools, hospitals, prisons, social housing

2.2 Although, the assets themselves appear disparate, what they all share (in varying degrees of strength of covenant) are projected income streams guaranteed by contract or variable by usage. For example a sewage work will have a contract for payment in terms of tonnage of sewage processed which is going to be pretty constant and non cyclical whereas useage for a trade port is much more variable dependant on the economic cycle and the income stream is not so dependable.

2.3 Expected Investment returns –investment returns are expected in the range between 8-9% to 20-23% dependant on level of risk and where in the investment cycle the investment is entered into, i.e. is the investment a mature facility which is already established with a recognised cashflow or is the development a Greenfield investment which is not yet out of the ground. The former returns are more ‘Bond like’ in characteristic whilst the latter investments are more like ‘private equity’ in character.

2.4 Wherever on the spectrum of investment return, the proposed investment is made, it is essential that there is a robust investment case with achievable risk adjusted returns for the Pension Fund before any investment is made.

3 Investment Risk

3.1 Event risks are another central risk for infrastructure assets given the potential for significant losses with limited ability to compensate for them through out-sized returns. For instance, an important set of event risks in infrastructure are political or regulatory changes. Perhaps the most recent example of note is the retroactive change related to the solar feed-in tariff in Spain in 2010. Another example are the increasingly strict power plant emission standards being introduced by the US Environmental Protection Agency which will likely require new pollution controls to be installed by

existing generators where it is not clear if they will be able to pass through these incremental costs. While not completely impossible to predict or anticipate, the timing or scale of impact of political and regulatory changes remain significant unknowns for the investor. With respect to the impact of political and regulatory risks on infrastructure investments, there are three main points to consider: 1) these risks are less correlated across countries/regions than the economic cycle, suggesting greater benefits of diversification in infrastructure given the idiosyncratic nature of these risks, 2) the main difference with infrastructure businesses versus other regulated industries (e.g. banking, pharmaceutical) is that infrastructure assets cannot be easily moved to avoid regulation as is the case with some other businesses (e.g. financial services businesses such as hedge funds), and 3) the consequences of an adverse change are more severe in infrastructure as infrastructure assets require large upfront capital expenditure that requires long payback periods and is immobile post investment. In economic terms, this capital expenditure is considered a sunk cost. Again the specific nature of event risks on infrastructure assets has to be addressed on the portfolio level as it is a risk that cannot be mitigated on the asset level.

3.2 Asset specific risks in infrastructure can range from environmental risk to operational risk to demand risk. For instance, in relation to environmental risks, while insurance coverage can protect against some of the impact related to large events such as hurricanes or earthquakes, assets are often still left partially exposed. Less severe environmental conditions can also lead to more severe impacts on renewable energy investments. In particular, solar and wind investments are generally completely exposed to the amount of solar/wind resources. In relation to the operational risk of infrastructure investments (e.g. a mechanical problem in a production plant), these risks can have a significant impact to equity holders unless appropriate insurance or “pass through” contracts have been negotiated. However these operational asset risks tend to have a very low correlation to each other on a portfolio level. For instance, solar and wind hours have very little correlation to each other and further across different geographies, whilst mechanical problems at a water company do not impact the likelihood of unexpected repairs at an airport. Demand risks are often seen as a feature of transportation infrastructure. For example, there are two common structures for toll road concessions – availability based concessions and demand based concessions. Availability-based concessions provide for payments based strictly on whether or not the road is available for use, whereas demand-based concessions provide for owners to receive their return based on the actual usage of the road. As such, demand risk will likely cause little impact to an availability-based toll road but have a significant effect on a road operating under a demand based concession with the consequence that an investment in a demand-based toll road will typically provide a higher return to compensate the investor for the systematic or market risk that he faces. While asset risks are diversifiable risks, as the name implies, they are not specific to the infrastructure asset class. However the often higher leverage in infrastructure can result in more significant impacts for equity holders.

3.3 While infrastructure returns are typically less correlated to the economic cycle than other asset classes, there still remain elements of correlation to

the economic cycle. The impact of the economic cycle on infrastructure assets is not so much derived from changes in cash flows of the assets (as these usually have an element of contractual obligation) but rather from the impact of cyclical changes in required discount rates on asset values. In infrastructure this is namely the change in the real rates in the economy. Investors will demand (and typically receive) a return from the market in exchange for taking this risk but it is, by definition, a non diversifiable risk faced by all investors although investors in infrastructure will benefit from being less correlated to changes in growth compared to other asset classes. A specific challenge private market investors face in this respect, is that their ability to deploy capital in the infrastructure market is inversely correlated with movements in discount rates. Global M&A volume in utilities (the largest segment in infrastructure) was particularly high in a period of low credit spreads (used as a proxy of discount rates) which implies that a lot of equity was invested in periods of high valuations while M&A volumes are much lower in the current period of high credit spreads. As most private infrastructure investors have started allocating to the asset class in recent years, they have directly or indirectly deployed most of their capital in periods of high valuations while they are lacking exposure to the years where discount rates were at much more attractive levels (albeit risks may be higher too).

4 Political Considerations

- 4.1 There has been a lot of debate at Westminster and in Cardiff of the role Pension Funds can play in investing in local infrastructure. By its nature the type of infrastructure being proposed is at the early developmental stage which carries all the developmental, construction risk associated with immature projects.
- 4.2 Local, regional infrastructure investment can be accommodated within a more balanced diversified portfolio to mitigate some of the risks identified above, although a robust investment case must be demonstrated.

5 Legal Implications

- 5.1 There are no legal implications

6 Financial Implications

- 6.1 There are no financial implications

7 Equality Impact Assessment Implications

- 7.1 None

8 Conclusion

- 8.1 Infrastructure is a sound investment asset class for an LGPS Pension Fund. To develop further models for consideration, formal considerations are required in respect of:

1. Level of investment risk
2. Return profile sought
3. Local/regional infrastructure investing

Case Study – UK Infrastructure

Opportunity to co-invest alongside UK Government owned Green Investment Bank (“GIB”) who have seeded an initial £50m.

- Target capitalisation of £110m with a hard cap of £200m
- Projects comprise long term contracts delivering stable, predictable yields generated from environmentally sustainable infrastructure with 20 year + life
- Returns supported by long term, inflation linked government related subsidies
- Simple technologies within a diversified investment portfolio
- Ungeared/limited gearing in assets

UK Green Investment Bank (“GIB”) has been established with a mission to accelerate investment in the UK’s transition to a green economy

It is targeting investment in the following target sectors:

Offshore wind

Waste (recycling and EFW)

Green deal (domestic energy efficiency)

Non-domestic energy efficiency

Allocated £3.8 billion of tax payers money over 3 years from April 2012 to invest in these sectors

Project 1- Non Domestic Energy Efficiency

One of the projects in the above fund seeks to install highly efficient biomass boilers in non domestic situations e.g, commercial premises, government buildings, schools at no capital outlay to the user.

The user (e.g. a school) would pay a fixed rate for the life of the contract for the biomass fuel (wood pellets, a by product of the logging industry) which is typically 25-30% less than traditional fuels and the company would generate subsidy for this usage from the Government providing a return to the investor.

- The User (e.g school) will receive a fuel cost saving
- The pension fund receives a return
- The environment is benefitting from 97% fuel efficiency of the biomass boiler.

Agenda Item 4c

Report of the Section 151 Officer

Pension Fund Committee – 14 July 2016

REPORT ON CESSATION OF ADMITTED BODY – COLIN LAVER HEATING LTD

Purpose: The report is presented for information purposes regarding the cessation of Colin Laver Heating Ltd. as an Admitted Body in the City and County of Swansea Pension Fund.

Report Author: Lynne Miller – Pensions Manager

Finance Officer: Jeff Dong – Chief Treasury & Technical Officer

Legal Officer: Stephanie Williams

Access to Services Officer: N/A

FOR INFORMATION

1. Background

1.1 In 2008, the City & County of Swansea Pension Fund, Neath Port Talbot CBC and Colin Laver Heating Ltd entered into a Pensions Admission Agreement (backdated to 7th November 2005) under regulation 5(3)(a)(i) of the Local Government Pension Regulations 1997 (as amended).

1.2 The contract ceased on 4th November 2015.

2. Colin Laver Heating

2.1 In 2005, Neath Port Talbot CBC outsourced the contract to service central heating for its local authority housing to Colin Laver Heating Ltd.

2.2 The contract was for a period of 7 years with effect from 7th November 2005, with the option to extend the contract for a further 3 years.

2.3 In 2008, the Pension Fund Committee agreed to admit Colin Laver Heating Ltd into the LGPS as a Transferee Admission Body. Admission Body Status was backdated to the commencement of the contract with Neath Port Talbot CBC.

2.4 It was agreed that Colin Laver Heating was to be given 'orphaned' status and therefore, a condition of the contract was for Colin Laver Heating Ltd to provide a bond to the Fund to safeguard against the level of risk assessed.

2.5 The contract ceased on 4th November 2015. At that time, the two remaining employees were able to access their pension benefits as they were of pensionable age.

2.6 At cessation of the contract, the Fund is required under the Regulations to obtain a cessation valuation from the Fund's Actuary, to assess if Colin Laver's liabilities were in surplus or deficit.

2.7 This valuation has now been completed and it has been found that they are in deficit by £33,200.

2.8 Arrangements will now be made to obtain the amount owed from Colin Laver Heating Ltd or its sponsoring body Neath Port Talbot CBC.

4. Equality and Engagement Implications

4.1 There are no equality and engagement implications.

5. Legal Implications

5.1 The legal implications are outlined in the body of the report.

6. Financial Implications

6.1 The cessation deficit of £33, 200 shall be recovered from Colin Laver Heating Ltd or its sponsoring body Neath Port Talbot CBC

FOR INFORMATION

Background papers: Cessation Valuation of Colin Laver Heating Ltd by the Fund Appointed Actuary, Aon Hewitt.

Appendices: None.

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1. Results and Next Steps

On the basis of the instructions, data, methods and terminology explained in the remainder of this document, we have calculated the following figures in relation to the exit from the Fund of the Employer.

Important additional information

These results must be read in conjunction with the important additional information contained in the body of this document, including other documentation to which the reader is referred.

Funding Position

The accumulated shortfall with interest added in line with the investment return assumption to 31 May 2016, is also shown in the table below.

For comparison we also show the results of the 2013 triennial valuation for the Employer.

	2013 Valuation Results (£000s) (Ongoing funding target)	Orphan outcome (£000s) ('gilts' funding target)
Assets	289.9	309.7
(Liabilities)	270.5	(342.4)
Total surplus/(shortfall) at the Exit Date	19.4 (at 31 March 2013)	(32.7)
Interest on shortfall	N/a	(0.5)
Total surplus/(shortfall)	N/a	(33.2)

Commentary on Results

At the 2013 actuarial valuation the surplus attributable to the Employer was around £19.4K calculated using the ongoing funding target appropriate for the Employer. The position has therefore deteriorated by around £53,000 since the 2013 actuarial valuation based on the Orphan outcome.

The main factors that have led to a reduction in the funding position are:

- changes in financial conditions since 31 March 2013 leading to a fall in the real discount rate (i.e. the difference between the discount rate and the CPI inflation assumption)
- a change in the funding target reflecting the circumstances at exit

The assumptions used for the ongoing funding target for orphan bodies at the last valuation made an allowance for the reversion of gilt yields of 0.7% per annum and we set out that this is unlikely to have been fully recognised by the time Colin Laver exits the Fund (in reality, gilt yields have reduced since the last valuation). As a consequence it was agreed that Colin Laver should continue its contribution rate of 19.7% of pay which did not take full account of the 'surplus' and we suggested a review one year before eventual cessation. This review did not take place.

This reduction has been partially offset by the following main factor which led to an improvement in funding position:

- investment returns achieved by the Fund over the period since the 2013 valuation being higher than assumed.

Next steps

In your capacity as Administering Authority, please could you consider the calculations we have carried out and instruct us on how to proceed to certification. In particular, please consider:

- Whether the outcome envisaged is appropriate to the circumstances of the Employer or whether another outcome might more closely reflect the liability that will eventually be incurred by the Fund in respect of the members involved.
- Who will make good the shortfall and how that might happen.
- If some liabilities are to become 'orphan' liabilities, whether you would like us to calculate an additional reserve to cover administration expenses in relation to the orphan members.

We also recommend that you review the data summary and other information regarding the circumstances of the Employer, on which our calculations are based, and advise us if anything appears incorrect.

Where appropriate, we have produced an Employer Supplement at the back of this document suitable for passing to the Employer to provide them with a summary of the work we have carried out and the results. This may also be shared with any Related Employer, Subsuming Body or Guarantor.

Once you have confirmed the outcome and the data / information to be used, we will re-calculate figures if necessary. If a shortfall exists we will then issue a revision to the Rates and Adjustments Certificate in respect of the final amount.

2. General Information

The purpose of this document is to provide a final valuation of the liabilities in the Fund under Regulation 64 of the Regulations in relation to the exit of the Employer from the Fund.

Users of this document

This document has been commissioned by the Administering Authority to the Fund.

The advice contained in this document is provided to our client, in its capacity as Administering Authority to the Fund. **This advice should not be passed to the Employer or to any other party without our advance written permission.** We accept no responsibility to any party other than our client in relation to the advice.

Where appropriate, we have produced an Employer Supplement at the back of this document suitable for passing to the Employer to provide them with a summary of the work we have carried out and the results. This may also be shared with any Related Employer, Subsuming Body or Guarantor.

Context

The terms used in this document, the descriptions and the information used in our calculations (based on information supplied by the Administering Authority) are as follows. Where it has been necessary to make assumptions these are indicated in the table below.

Readers should refer to the Background Information Document for more information.

Terms used in document	Description	Information (where applicable)
Administering Authority		City and County of Swansea
Background Information Document	The document entitled 'Background Information: Actuarial calculations and funding' dated 9 November 2015	
Exit Date	The date the Employer exited the Fund	4 November 2015
Employer		Colin Laver Heating Ltd
Financial Date	The date of the market conditions underlying the calculations in this document	31 October 2015
Fund		City and County of Swansea Pension Fund
Outcomes illustrated	Orphan, Subsumption or other (see Background Information Document for more detail)	Orphan

Terms used in document	Description	Information (where applicable)
Regulations	The relevant regulations in force at the Exit Date	The Local Government Pension Scheme Regulations 2013
Triennial Valuation Report	The report dated 31 March 2014 on the actuarial valuation of the Fund as at 31 March 2013	
Type of Body	This relates to the regulatory framework under which the Employer participated in the Fund before the Exit Date.	Admission Body

Purpose of this document

The Employer exited the Fund on the Exit Date.

This report sets out the results of the final exit valuation as required by the Regulations.

The calculations in this document are a valuation exercise, the results of which may ultimately lead to contribution requirements through a revision to the Rates and Adjustments Certificate.

Data

The data on which our calculations are based is summarised in Appendix A. The data was supplied by the Administering Authority and we have relied on the accuracy of that data in performing our calculations.

We have performed some broad checks on the accuracy and consistency of the data and have no reason to believe that it is not adequate for the purposes of this exercise.

Developments since the Exit Date

The Regulations require that the liabilities of the Employer are valued as at the date of exit. As a result, no allowance has been made for any membership changes, differences between the return on Fund assets and liabilities or changes in market conditions since the Exit Date. Any gains or losses since the Exit Date will be borne by the Subsuming Body (if applicable), and all other employers in the Fund in other cases.

Unfunded pensions

The Employer may also be responsible for paying some unfunded pensions, e.g. Compensatory Added Years (CAY) pensions. We have not made any allowance for these in our calculations.

Please contact us if the Employer is responsible for unfunded pensions and you would like further advice in respect of this.

3. Method and Assumptions

The liabilities which exist on exit depend on the circumstances at that time.

Alternative outcomes on exit of the Employer

There are four common types of outcome at the exit of an employer from the Fund.

Orphan

Active members may not be re-employed, and all liabilities would become non-active 'orphan' liabilities in the Fund (i.e. no particular employer(s) would have future responsibility for funding these liabilities in the Fund).

Subsumption

All of the liabilities and assets may be subsumed by a Subsuming Body (which will generally be the Related Employer) as appropriate into its own pool of liabilities and assets, and the Subsuming Body would be a source of future funding for those liabilities.

BTV orphan

Active members may transfer back to the Related Employer or to another new employer. Non-active liabilities would become 'orphan' liabilities (i.e. no particular employer(s) would have future responsibility for funding these liabilities in the Fund).

BTV subsumption

Active members may transfer back to the Related Employer or to another new employer. Non-active liabilities would be subsumed by the Related Employer or (if different) any Subsuming Body as appropriate into its own pool of liabilities, and this body would then be a source of future funding for those liabilities.

Readers should note that this list is not exhaustive and other outcomes are possible, such as payment of 'cash equivalent' transfer values for non-pensioners.

We understand that all liabilities are to become 'orphan' liabilities in the Fund. The outcome will therefore be as described under the 'Orphan' heading above.

Method used for all members under Orphan outcome

Should a shortfall arise in respect of the 'orphan' liabilities in the future, all remaining employers in the Fund would be required to pay additional contributions to pay off this shortfall.

The Orphan outcome therefore assumes that the Administering Authority will wish to back the 'orphan' liabilities with more secure, matching assets such as UK Government bonds and reflects a more prudent approach to valuing the liabilities. This, in turn, results in a greater level of immediate shortfall payment, reducing the probability that additional contributions will be required from other employers at subsequent valuations.

Assumptions

The key assumptions used in our calculations are summarised in Appendix A. These assumptions are market related and are designed to produce liability values which are compatible with assets taken at market value.

The actuarial assumptions are consistent with those adopted for the 2013 actuarial valuation (updated for changes in market conditions), with the following exception:

- Where the Fund is assumed to have no access to future funding and liabilities become orphan liabilities in the Fund, we have made no allowance for any investment returns in excess of the returns available on UK Government bonds in the discount rate, i.e. a 'gilts funding target' has been used.

We believe that the methodology discussed above for setting the assumptions is reasonable for this exercise.

The assumptions to which this exercise is most sensitive are the key financial assumptions and the assumed levels of future mortality. A sensitivity analysis is provided in the Background Information Document.

Determining the notional asset share

In calculating the Employer's notional asset share at exit we have used, as our starting point, the notional asset share of the Employer calculated as part of the actuarial valuation as at 31 March 2013. We have projected this forward to the Exit Date allowing for:

- Investment returns earned by the assets of the Fund provided by the Administering Authority, net of investment expenses (assumed to be 0.4% per annum).
- Index returns appropriate to the mix of assets of the Fund for the remaining period up to the Exit Date.
- Contributions paid by the members and the Employer.
- Other cashflows in respect of the Employer's membership.

This gave rise to a notional asset share attributable to the Employer at the Exit Date as set out in Section 1.

Administration expenses

You may also wish to make allowance for future administration expenses. This can be done by calculating the present value of estimated future expenses over the expected future lifetime of the members. This has not been included in the results in Section 1.

Appendix A: Summary of Data and Assumptions

Summary of membership and cashflow data

Our calculations have been based on the membership and cashflow data which was provided by the Administering Authority.

DEFERREDS	Number	Total deferred pension at 4 November 2015 (£000's)	Average age (unweighted) at 4 November 2015
Male	1	*	*
Female	0	0.0	0.0
Total	1	*	*

*Anonymised for data protection purposes

PENSIONERS	Number	Total pension at 4 November 2015 (£000's)	Average age (unweighted) at 4 November 2015
Male	2	8.3	60.5
Female	0	0.0	0.0
Total	2	8.3	60.5

CASHFLOW DATA	1 April 2013 to 31 March 2014	1 April 2014 to 31 March 2015	1 April 2016 to 4 November 2016
Employer normal contributions	9,362.75	9,254.20	6,869.23
Employee contributions	3,089.25	3,053.43	2,266.45
Retirement lump sums	0.00	0.00	55,217.15

Asset data

The Administering Authority provided the following Fund investment returns (gross of investment expenses) earned by the Fund's assets. These returns are checked for reasonableness against the Fund's broad asset allocation and appropriate index returns over the period.

Quarter	Return
Quarter 2 2013	-0.20%
Quarter 3 2013	2.90%
Quarter 4 2013	4.50%
Quarter 1 2014	-0.10%
Quarter 2 2014	2.10%
Quarter 3 2014	1.90%
Quarter 4 2014	2.00%
Quarter 1 2015	4.40%
Quarter 2 2015	-2.50%
Quarter 3 2015	-4.50%

We have used an index return appropriate to the mix of Fund assets held for any periods for which investment returns were unavailable. The index return was 4.3% and covered the period from 1 October 2015 to Exit Date.

We have reduced the gross return by 0.4% p.a. to allow for investment expenses, which is based on recent experience of the Fund from the annual Reports and Accounts and is consistent with the 2013 Actuarial Valuation of the Fund. Please let us know whether any part of the return is quoted net of investment expenses, which would mean the returns used in our calculations can be increased.

Financial assumptions

The financial assumptions on which our calculations are based are as follows:

Assumption type	Orphan outcome (% p.a.)
Investment return	2.50
Pension increases	2.10
Revaluation of pension accounts	2.10

Demographic assumptions

The demographic assumptions are consistent with those used in the 2013 actuarial valuation of the Fund. Further details are as set out in the Triennial Valuation Report.

Appendix B: Compliance and disclaimer

Compliance with the standards published for the Actuarial Profession

This document is required to comply with Technical Actuarial Standard 'R' (Reporting Actuarial Information), Technical Actuarial Standard 'D' (Data), Technical Actuarial Standard 'M' (Models) and the Pensions Technical Actuarial Standard issued by the Financial Reporting Council.

We set out below all of the information we have provided which we consider material to your decisions on what exit shortfall should be payable by the Employer.

- The Triennial Valuation Report
- Papers 5 and 6 of our suite of assumptions papers on the actuarial valuation of the Fund as at 31 March 2013
- The Background Information Document

In our opinion these documents, the supporting calculation processes and associated intermediate process documentation, comply with the standards noted above.

Disclaimer

The advice set out in this report has been prepared under instruction of our client, the Administering Authority of the Fund, on the understanding that it is solely for the benefit of our client, the Administering Authority.

As such, it should not be used or relied upon by any other person for any other purpose, and all third parties are hereby notified the report shall not be used as a substitute for any enquiries, procedures or advice which ought to be undertaken or sought by them. We do not accept any responsibility for any consequences arising from any third party seeking to rely on this report.

We neither warrant nor represent (either expressly or by implication) to any third party who receives this report that the information in the report is fair, accurate or complete, whether at the date of its preparation or at any other time.

Unless we provide express prior written consent no part of this report may be reproduced, distributed or communicated to any other party, and in providing this report we do not accept or assume any responsibility for any other purpose other than that described in this report or to anyone other than the addressee of this report.

No decisions should be taken on the basis of this report by any party other than our client, and nothing in this report removes the need for readers to take proper advice in relation to their specific circumstances.

Employer Supplement

We understand that Colin Laver Heating Ltd (the 'Employer') has exited the City and County of Swansea.

Introduction

When an employer exits the Fund, Regulation 64 of the Regulations sets out that the Administering Authority must obtain:

- An actuarial valuation as at the exit date of the liabilities of the Fund in respect of benefits in respect of the exiting employer's current and former employees; and
- A revised Rates and Adjustments certificate showing the exit payment due from the exiting employer in respect of those benefits.

We have been asked by our client, the Administering Authority, to provide a final valuation of the liabilities in the Fund under Regulation 64 of the Local Government Pension Scheme Regulations 2013, in relation to the exit of the Employer from the Fund.

This document summarises the results of this exercise.

Our client has permission to pass this document on to the Employer, or any Related Body, Subsuming Body or Guarantor in line with the conditions set out below. The Employer should refer to the Funding Strategy Statement for more information the funding principles and funding targets which apply.

Results

The shortfall in the Fund upon exit of the Employer as at the Exit Date, and the accumulated shortfall with interest to 31 May 2016, are set out in the table below.

	(£000's)
Assets	309.7
(Liabilities)	(342.4)
Total (Shortfall) at the Exit Date	(32.7)
(Interest on shortfall)	(0.5)
Total (Shortfall)	(33.2)

Method and assumptions

The liabilities which exist on exit depend on the circumstances at the time.

As all liabilities became non-active 'orphan' liabilities in the Fund upon exit of the Employer (i.e. no other Fund Employer will have ongoing responsibility for them), we have made no allowance for any investment returns in excess of the returns achievable on UK Government bonds in the discount rate, i.e. a 'low risk' funding target has been used appropriate at the Exit Date.

The Employer's notional asset share at the Exit Date has been determined by projecting forward the asset share from the most recent actuarial valuation of the Fund allowing for investment returns and cashflows in relation to the Employer and its members from the valuation date to the Exit Date.

Summary of membership and cashflow data

Our calculations have been based on the membership and cashflow data which was provided by the Administering Authority.

DEFERREDS	Number	Total deferred pension at 4 November 2015 (£000's)	Average age (unweighted) at 4 November 2015
Male	1	*	*
Female	0	0.0	0.0
Total	1	*	*

* Anonymised for data security purposes

PENSIONERS	Number	Total pension at 4 November 2015 (£000's)	Average age (unweighted) at 4 November 2015
Male	2	8.3	60.5
Female	0	0.0	0.0
Total	2	8.3	60.5

CASHFLOW DATA	1 April 2013 to 31 March 2014	1 April 2014 to 31 March 2015	1 April 2016 to 4 November 2016
Employer normal contributions	9,362.75	9,254.20	6,869.23
Employee contributions	3,089.25	3,053.43	2,266.45
Retirement lump sums	0.00	0.00	55,217.15

Financial assumptions

The key financial assumptions on which our calculations for this Employer are based are as follows:

Assumption type	Assumption (% p.a.)
Investment return	2.50
Pension increases	2.10
Revaluation of pension accounts	2.10

Demographic assumptions

The demographic assumptions are consistent with those used for the actuarial valuation of the Fund as at 31 March 2013.

Disclaimer

We permit this supplement to be released to the Employer, any related employer which is party to the admission agreement (if applicable), and to any guarantor (if applicable) (the Third Parties) for information only.

There is no duty of care established toward, and Aon Hewitt disclaims any responsibility or liability arising from any Third Party, any person having access to the supplement either directly from a Third Party, indirectly from another third party or through any other means. No recipients of the supplement are permitted to reproduce, distribute or communicate any part of this supplement to any other party or advisor. We neither warrant nor represent (either expressly or by implication) to any third party who receives this supplement that the information in the supplement is fair, accurate or complete, whether at the date of its preparation or at any other time. All third parties (including the Third Parties) are hereby notified that the supplement shall not be used as a substitute for any enquiries, procedures or advice which ought to be undertaken or sought by them. We do not accept any responsibility for any consequences arising from any third party seeking to rely on this supplement.

No decisions should be taken on the basis of this supplement and nothing within it removes the need for readers to take proper advice in relation to their specific circumstances.

This is not formal actuarial advice, and is not covered by the scope of actuarial guidance TAS R, TAS D, TAS M or the Pensions TAS.

Agenda Item 4d

Report of the Section 151 Officer

Pension Fund Committee – 14 July 2016

INTERNAL CONTROLS REPORTS OF APPOINTED FUND MANAGERS & CUSTODIAN

Purpose:	To inform Pension Fund Committee of reportable items contained within the internal controls reports of appointed fund managers
Consultation:	Legal, Finance and Access to Services.
Report Author:	Jeffrey Dong
Finance Officer:	Mike Hawes
Legal Officer:	S Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1 Background

- 1.1 The internal control and governance framework in which a business operates comprises the systems, work processes and culture and values by which the business directs and controls its business to provide comfort to its customers, clients and shareholders.
- 1.2 Asset managers and custodians are subject to heavy regulation from a global, EU and UK context. They are required to report on their systems of internal control which are subject to external audit and comment by suitably qualified and independent audit companies.
- 1.3 The summary of exceptions for the last calendar year is attached at Appendix 1 for the City & County of Swansea's appointed fund managers and custodian.

It is noted that the exceptions have been addressed appropriately by management and are recognised as such with appropriate remedial action being undertaken. The exceptions highlighted are taken seriously but do not pose direct concern for the businesses concerned or the assets under management.

2 Legal Implications

- 2.1 There are no legal implications arising from this report.

3 Financial Implications

- 3.1 There are no financial implications arising from this report.

4 Equality and Engagement Implications

4.1 There are no equality and engagement implications arising from this report.

Background papers: None.

Appendices: Appendix 1 - Fund Manager Summary of Internal Control Reports – 2015.

Fund Manager Summary of Internal Control Reports - 2015

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Blackrock – Report of Controls at Blackrock Placed in Operation and Test of Operating Effectiveness for Asset Management Services, 1st October 2014 to 30th September 2015

Control Procedure	Test Performed	Exception Noted	Management Response
<p>Business operations releases wire instructions to custodians to make certain types of payment in response to requests received from other groups. Wire instructions require dual authorisation from individuals on Blackrock’s authorised signatory list or unique bank approved-stamp approval process prior to release.</p>	<p>Inspected physical security of the bank-approved stamps to ascertain that stamps were secured in a locked drawer and access was limited to authorised personnel within Business Operations.</p>	<p>For 1 of 45 wire instructions selected for testing, performance of the dual authorisation was unable to be evidenced.</p>	<p>Due to the unique bank approved stamps, Japanese trust banks do not require dual authorisation to process wire payments, but management require dual authorisation for all manual payments globally. While dual authorisation could not be evidenced for one sample, management were able to confirm that payment was appropriate. In February 2015, Blackrock and the Japanese trust banks implemented a new payment process whereby settlement instructions form individual margin movements are no longer required.</p>
<p>Daily, DIG reviews an Aladdin-generated Unreviewed Securities Held in Positions Report and validates security data against data sources for accuracy. DID researches and resolves, as necessary.</p>	<p>On multiple occasions during the examination period, observed DIG review the Aladdin generated Unreviewed Securities Held in Positions Report, attest security data against external data sources and research and resolve exceptions, as necessary.</p>	<p>For 1 of 25 securities selected for testing from the Unreviewed Securities Held in Positions Report, DIG was unable to provide evidence of research and monitoring.</p>	<p>Management confirmed that the modification made was authorised, however, evidence of continuous monitoring prior to resolution was not able to be provided for testing. The modified security was reviewed within eighteen business days. Management noted that the exception identified had no impact to Blackrock managed client accounts.</p>

Blackrock Alternative Advisors cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Client reports are selected by Business Operations for quality assurance review based on account type, report type and report complexity, prior to client distribution. Discrepancies are researched and resolved.</p>	<p>On multiple occasions during the examination period, observed Business Operations select client reports for quality assurance review and observed Business Operations research and resolve discrepancies before client distribution.</p> <p>For a selection of client reports and months or quarters, inspected documentation to ascertain that Business Operations performed quality assurance activities on client reports before client distribution.</p>	<p>For 1 of 50 client reports selected for testing, performance of the quality assurance review was unable to be evidenced.</p>	<p>Management confirmed that the relevant teams were notified that the Australian fund-specific report was available for quality assurance review, however, no evidence of review was available for testing. Client Reporting Management re-emphasised the importance of maintaining the evidence of completed reviews.</p>
<p>Upon addition, transfer or termination of personnel in the HR system of record, Human Resources sends out an HR notification to formally notify corporate groups of events.</p>	<p>Obtained the termination listing during the examination period and compared it to enterprise logon access listing to identify if employees retained access subsequent to termination. For employees that retained enterprise access subsequent to terminations, obtained HR-act notification email to ascertain Human Resources formally notified corporate groups of the termination in a timely manner.</p>	<p>For 2 of the 102 individuals across new hires, transfers and terminations selected for testing to identify timely notifications by HR to corporate groups, noted that HR-act transfer notifications were not sent timely. New access was not granted until notifications were received.</p>	<p>HR Management re-emphasised the importance of the quality and timeliness of HR notifications as well as the retention of applicable documentation to the teams responsible for processing personnel updates in the HR system of record. HR is reviewing the timeliness of transfer notifications and processing through key metrics and process review.</p>

Blackrock Alternative Advisors cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>The ability to modify system security parameters or to perform user administration functions is granted only to administrators and operations personnel whose job functions require such access.</p>	<p>For a selection of users with the ability to modify system security parameters or perform user administration functions, inspected documentation and Company departments within the Human Resources listing, and inquired with process owners to ascertain that access was authorised and consistent with job responsibilities.</p>	<p>In testing the total population of 37 privileged OMS application users, noted one user with inappropriate access. Upon investigation, noted the administrative privileges were granted during the new user administration procedures. Per inspection of the applications database activity log, noted the user did not perform any administrative actions while the access was retained. Access for this user was corrected.</p>	<p>Management confirmed that while an approved access request did not exist for this user the individual was granted additional administrative access due to human error. Management has re-emphasised the importance of verifying that only the level of approved entitlements is granted, in addition to validating a request receives adequate approval. Management confirmed that the user did not perform any inappropriate activities with the elevated administrative access and removed access immediately upon identification of the issue. In addition management has in place a compensating control in the form of a periodic user access re-certification for this system.</p>

Aberdeen Asset Management Ltd – Internal Controls Report for the period ended 30th June 2015

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>The Client Lifecycle team ensures that new clients or funds are accurately set up in appropriate fund management, dealing and pricing systems, as part of the take-on process. For each client or fund take-on, the Appian workflow tool (or alternative checklist) that documents each stage of the take-on process, from completion of the Take-On Form/Account Opening Form to input of the client or fund information onto Aberdeen's systems, is completed to certify that each stage has been completed. The checklist is subject to sign-off by a preparer and reviewer.</p>	<p>For a sample of new clients taken on during the reporting period, inspected the Appian milestones (or legacy checklist) for evidence of completion and management sign-off.</p>	<p>For one of 10 items tested, there was no evidence available to demonstrate the review of the client take-on process by Client Lifecycle team, recorded on the Take-On Form/Account Opening form.</p>	<p>In this instance the coding was done by a new member of the team who was being supervised by his manager during the process to explain what was required and how to proceed with the coding. The coding was entered accurately and no further amendments were required by management. Whilst the document was not signed by a peer there was no risk as the oversight was still present and nothing extra was required other than the countersignature.</p>

Aberdeen Asset Management Ltd cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>A monthly review is performed by Front Office Compliance for a sample of trades placed during the previous month. The review is designed to assess trades' timely execution and fair allocation with respect to compliance with the Group's Trade Execution Policy & with relevant regulation. Any exceptions identified are reviewed by Compliance and raised with the business where necessary. Supporting rationale and explanations from the business are documented in a formal monthly report.</p>	<p>Inspected evidence that monthly reviews of a sample of trades were performed by Front Office Compliance in a timely manner.</p>	<p>For two of 5 items tested, Front Office Compliance did not carry out the monthly review of trading activity in a timely manner.</p>	<p>The control was operational during the period, but it is accepted that for two of the months sampled we were unable to demonstrate that this was operated in a timely manner. The delay in operating the control was a result of resource pressures arising from the integration of the SWIP business to AAM, and will not be a recurring issue. There was no client implication as a result of the delay in completing the controls, as no material concerns were identified. In addition compensating controls have been in place since September 2014 through committee governance structures.</p>

Aberdeen Asset Management Ltd cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Security prices which are stale, unquoted, fair valued, in liquidation, suspended or written down are sent to Fund Managers for review and sign-off on a monthly basis.</p>	<p>For a sample of months, inspected the evidence to confirm the review and sign-off of stale and unquoted prices by the Fund Manager.</p>	<p>For the full sample of 5 items, it was noted that the monthly sign-off of security prices which are stale, unquoted, fair valued, in liquidation, suspended or written down, were not completed in all instances by the Fund Managers.</p>	<p>The completeness of sign off of the monthly price reports has been an issue discussed at the Group Pricing Committee and raised during a recent Compliance Monitoring review of pricing. Issues with sign off have occurred since Stale prices were combined with Fair Value, Delisted, In Liquidation and Written down prices on a monthly basis to provide the front office with a single point of sign off in addition to combining with the SWIP universe of assets. It has subsequently been agreed to split the report and send all stale prices to the Dealers who will have better access to market colour whilst sending the other securities to the front office desk for confirmation of the price. This process along with a monthly fund valuation review currently forms part of a live project to optimise the sign off process by automating as much as possible and placing</p>

			less reliance on the Data Management team.
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Aberdeen Asset Management Ltd cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
All client reports (Investment and Accounting) are reviewed and formally approved by appropriate personnel via electronic signature in the Institutional Client Reporting database (Philadelphia – hard copy signature on Client Report Cover Sheet) prior to being distributed to clients.	For a sample of client reports issued in the reporting period, inspected evidence that the reports were reviewed and approved prior to being distributed to clients.	For 1 of 25 items tested, the formal approval of the client report was not performed prior to distribution of the client report.	On this occasion a verbal approval was given to ensure client requirements were met. We have retrospectively confirmed that all internal requirements were met and no issues were noted. Staff have been reminded to retain appropriate evidence in line with internal process.
On a daily basis, late or unexpected cash receipts that require action by SWIP are reported by State Street to the Trade Support team. Where there are no items to report, State Street advises SWIP by email. The Trade Support team investigates any cash reconciling items and evidence this through team member sign-off on the cash	For a sample of days, inspected the cash management daily checklists to confirm that the late or unexpected cash receipts report provided by State Street was reviewed and any reconciling items were investigated by the Trade Support team.	For two of 30 items tested, there was no evidence available to demonstrate the review of the cash reconciliations by a member of the Trade Support team, recorded on the daily checklist.	In this instance the daily reviews were conducted completely and accurately, and no issues were noted. It is recognised that as a result of human error the secondary review was not evidenced. All team members have been reminded of their responsibilities.

management daily checklist.			
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Aberdeen Asset Management Ltd cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
Outstanding stock reconciling items that require action by SWIP are reported by State Street to the Collective Investments team each day. Where there are no items to report, State Street advises SWIP by email. The Collective Investments team investigates any stock reconciling items and evidence this on a daily checklist that is reviewed by a second team member.	For a sample of days, inspected the daily checklist to confirm that the outstanding stock report provided by State Street is reviewed, any reconciling items are investigated by the Collective Investments team and that the checklist is reviewed by a second team member.	For one of 30 items tested, there was no evidence available to demonstrate the review of the stock reconciliation by a second member of the Collective Investments team, recorded on the daily checklist.	In this instance the daily reviews were conducted completely and accurately, and no issues were noted. It is recognised that as a result of human error the secondary review was not evidenced. All team members have been reminded of their responsibilities.
New investors' applications are reviewed for compliance with the account opening procedures. All investors' names, signatories, beneficial owners and proxies of the application	For a sample of new investor account setups, inspected that the applications are in line with the account opening procedures and that the blacklist performed in WorldCheck is evidenced in	For 1 out of 25 items tested, one signature in the application form does not appear on the authorised signature list.	We have reviewed the document in question and confirmed that the signatory was authorised to complete the process and that all actions were taken correctly, although it is recognised that the

form are run against official black lists.	the AWD history.		authorised signatory list was not up to date at the point of review. There was no risk to clients at any point in time. This appears to have been a one-off error; staff are fully aware of the requirement to check signatures and request updated authorised signatory lists in the event of discrepancies.
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Goldman Sachs – Report on Goldman Sachs Asset Management’s Description of its Investment Management System and on the Suitability of the Design and Operating Effectiveness of Controls – 1st October 2014 through 30th September 2015.

Control Procedures	Test Performed	Exceptions Noted	Management Response
GSAM and client initiated changes to investment guidelines or portfolio benchmarks require written authorisation from the client. Changes are reviewed and approved by the legal, coding, operations and portfolio management team as required. The Client Relationship Team monitors all required approvals to ensure	For a sample of changes, inspected evidence to determine whether written authorisation was received from the client for changes in investment strategy, investment guidelines or portfolio benchmarks.	For 1 of 45 sampled account changes, approval from the Coding team was not documented timely.	The account change identified as a timeliness exception was related to a GSAM initialled request to increase risk limits in a Clients portfolio. Investment guideline coding for this change was completed 8 business days after the effective date. There was no risk of being in breach of the new guidelines during this period as the existing

completion on a timely basis.			guidelines were more conservative than the new guidelines. In addition, there were no missed investment opportunities during the period as the portfolio management team was aware the amendment was in the process of being coded. Following the incident, GSAM enhanced weekly management reports to highlight imminent guidance, changes for which coding is pending. GSAM also reinforced internal processes and procedures with Client Relationship Management and Coding teams.
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HarbourVest Partners LLC – Private Equity Fund Administration Report on Controls Placed in Operation and Tests of Operating Effectiveness – October 1, 2014 to September 30, 2015

Control Procedures	Test Performed	Exceptions Noted	Management Response
After Accounting approval, the information is sent to the Marketing group, which then prepares a distribution notice to send to limited partners. The distribution notice and	Inspected a sample of Final Distribution Notices for evidence of approval by an accounting manager or fund controller and the Chief Financial Officer.	For one (1) of 40 Final Distribution Notices selected for testing, evidence of Chief Financial Officer approval was not provided.	Management acknowledges that evidence of review by the CFO for one distribution notice was not documented. However, there was evidence the distribution was reviewed by the Vice President,

<p>attachments are reviewed by an accounting manager or fund controller and then approved by the Chief Financial Officer. Once approved, marketing staff sends the distribution notice and attachments via email, fax, or mail to each of the limited partners, usually at least two days prior to the actual cash distribution.</p>			Fund Controller.
<p>Privileged access is limited to appropriate personnel within IT based on the assigned job role and responsibilities. For Equitrak, where access administration and access re-certifications are performed by an employee outside of IT, an independent review of such actions is performed by a Senior Business Analyst.</p>	<p>Inspected privileged access at the application, database and operating system levels to determine whether access was restricted to appropriate personnel within IT based on job role and responsibilities. For Equitrak, inspected a sample of Equitrak access requests and access re-certifications to determine that an independent review was performed by a Senior Business Analyst.</p>	<p>For one out of nine samples inspected for Equitrak to determine that an independent review was performed, the evidence of such review could not be retrieved.</p>	<p>Although the review was performed, the file evidencing the review could not be retrieved. Several attempts were made by the Director of Global Infrastructure, IT to recover the file. On a go forward basis, multiples copies of these files will be maintained.</p>

Invesco – Report on Invesco Asset Management Ltd, Description of their Investment Management Services and on the Suitability of the Design and Operating Effectiveness of Controls for the Period 1 October 2014 to 30 September 2015

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>When the Legal team has reviewed the changes to the IMA, Compliance is notified of the changes required for post-</p>	<p>Confirmed that when the Legal team has reviewed the changes to the IMA, Compliance is notified of the</p>	<p>For one out of one IMA changes the GDS Team Leader did not review and approve the checklist to ensure</p>	<p>In August 2015, a client instruction detailing changes to the Discretionary Investment Management Agreement</p>

<p>trade investment restriction monitoring. A GDS Team Leader then reviews and approves the checklist to ensure all appropriate actions have been taken and passes to the GDS Reporting Team Manager for final review and sign-off.</p>	<p>changes required for post-trade investment restriction monitoring.</p>	<p>that all actions had been taken and did not pass to the GDS Reporting Team Manager for final review and sign-off.</p>	<p>between IAML and an Institutional client managed by the Invesco Fixed Income Team was not passed to the correct team, who are responsible for the maintenance and updating of documentation for discretionary managed clients contracted with IAML, to action. Subsequently, the review and approval by this team was missed. There was no impact to the client as the change requested was actioned in a timely manner.</p> <p>The teams involved have recorded the incident on the Risk tool and the appropriate preventative measures have been taken. These measures include a refresher of the procedures, roles and responsibilities.</p>
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JP Morgan Asset Management – Report on JP Morgan Asset Management’s Description of its Investment Management Services System and on the Suitability of the Design and Operating Effectiveness of its Controls. 1 January 2015 – 31 December 2015

Control Procedures	Test Performed	Exceptions Noted	Management Response
Trade Order Entry and Allocation Controls provide reasonable assurance that trade orders are authorised and executed with JP Morgan Asset Management approved brokers or counterparties and allocated in a complete and accurate manner.	Trade orders can only be entered into the order entry system by the Portfolio Manager or their delegate.	One user, who was not a Portfolio Manager, of a population of 205 users had inappropriate order entry access to the Osiris (Equity) application for the period 20 August 2015 through 31 December 2015.	Management had independently identified the inappropriate access and arranged for it to be removed. Management confirmed this was a one-off error and performed a detailed review which confirmed the user had not raised any orders on Osiris.
For Fixed Income, a quarterly review of raised orders is performed to confirm orders raised by on e portfolio manager are executed by a different portfolio manager or trader.	Any orders identified as raised and executed by the same person are logged and monitored to resolution.	For three of four quarters, the review to determine if orders were raised and executed by the same Portfolio Manager or Trader was not performed on a timely basis.	The Fixed Income Teams in London were split between dedicated Portfolio Managers and Traders. However, there were as small number of individuals, approved by Management, who were able to act as both Portfolio Manager and Trader for contingency purposes, hence the report was put in place to identify any inappropriate trading activity. Following identification of the exception, a subsequent review of all orders that might have been executed by the

			same individual was performed. In the two instances where it was identified the trades were raised and executed by the same individual, the trades have been found appropriate.
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JP Morgan Asset Management cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
On a daily basis, OTC derivative prices received are compared to internally generated prices and differences greater than the threshold are reviewed. A checklist is completed by the individual who completes the review of differences and the approver who reviews the changes made.	To review the checklist	For two of a sample of 40 days, Fixed Income OTC derivative price variances were not reviewed completely.	The prices for the seven derivatives that were not reviewed on the two days where exceptions were identified were subsequently reviewed. It was confirmed that they were appropriately priced.

Legal & General – AAF 01/06/ISAE 3402 Assurance Report on Internal Controls for the Period 1 January 2015 to 31 December 2015

Control Procedures	Test Performed	Exceptions Noted	Management Response
Investment limits and restrictions are established.	Amendments to a FOG must be initiated by an approved source. Amendments are reviewed and circulated to the Fund Manager.	For one sample, there is no evidence of complete review (checklist incomplete). This was due to a member of the team leaving mid process.	All amendments to FOGs have to be initiated by an approved source, independently reviewed and then the amended document distributed to the Fund Manager and interest parties. On the 3rd March 2015 for one amendment, whilst being initiated by an approved source and independently reviewed there was no evidence of the changed FOG being distributed. There was no failure in his control process and the change was distributed, however there was a lack of evidence of the distribution. It has already been re-iterated to the team that they must ensure that they maintain evidence of all of their reviews and related communications.

Legal & General cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Client new monies and withdrawals are processed and recorded completely and accurately; withdrawals are appropriately authorised.</p>	<p>For new monies, all funds received are paid into the PMC management account for which bank reconciliations are prepared and reviewed daily.</p>	<p>For one out of 25 days sampled there was no evidence that the reconciliation had been reviewed.</p>	<p>The PMC dealing accounts undergo a daily reconciliation to determine the expected end of day cash positions, which allows for balances to be placed on deposit with counterparties and manage PMC daily cash exposure. The reconciliation for the Daily Sterling Dealing account on 22 April 15 was completed and reviewed as expected, but the signature box at the bottom of the reconciliation was not signed.. There was no process failure other than the missing signatures. Daily placing of monies / exposure management on this day was complete with no reported errors. The message of greater diligence around sign off of files has been fully communicated with the responsible Team.</p>

Legal & General cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Logical access to computer systems programs, master data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.</p>	<p>User access to IT network, infrastructure and applications is disabled on staff departure date and deleted after three months.</p>	<p>For 6 out of 155 leavers, access was not appropriately disabled after they left LGIM.</p>	<p>HR Operations in Cardiff have responsibility for sending the Leavers List email to various recipients, IT being one of them. IT access is then removed as per the date on the email. In these instances, a process handover failure resulted in the email not being distributed or actioned. LGIM HR and IT have already re-enforced what the process should be to their teams and training has taken place.</p>
<p>The physical IT equipment is maintained in a controlled environment.</p>	<p>Regular maintenance of environmental controls is scheduled using a diary application by GRE team. A log is maintained containing sign-offs that maintenance has occurred.</p>	<p>The maintenance of the fire suppression system of the LGIM server and media room has not been performed in the period under review.</p>	<p>The scheduled Fire suppression maintenance did not proceed as planned in June 2015 due to an access issue on the day, it has since been rescheduled and confirmed to take place on 24th February 2016.</p>

Permal – Report on HSBC Security Services in Ireland’s Description of its Fund, Custody and Transfer Agency Services System and on the Suitability of the Design and Operating Effectiveness of Controls for the period 1 January 2015 – 30 November 2015

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Notifications from third parties are captured in the XSP application. Automatic matching occurs for each event, where differences are identified the record is manually validated to other external sources and a “Golden Record” is created. Each Golden Record is subject to second-level review.</p>	<p>Validation of corporate actions</p>	<p>For one of 25 corporate action events sampled, there was no evidence of a secondary review of the details uploaded into Icon.</p>	<p>The Head of Asset Servicing reviewed the incomplete checklist and can confirm that a second level review was undertaken at the time. The approval is recorded within the XSP system and the audit trail clearly shows that this event was approved in a timely manner. Controls had been completed and the non-completion of the checklist is a documentation oversight. To avoid a recurrence, team management has strongly reiterated the requirement to complete all checklists as required. We can confirm that the corporate action event on the date where the checklist exception was noted was not applicable to any clients of HSS in Ireland.</p>

Partners Group – Report on the Internal Controls, Holdings AG as of 31 December 2015

Control Procedures	Test Performed	Exceptions Noted	Management Response
		There were no exceptions noted.	

Schroders Investment Management Ltd – Internal Controls Report 2015 ISAE 3402/AAF 01/16

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>As part of the client take-on process, Schroders conducts anti-money laundering checks, codes investment restrictions and ensures other key support functions are operationally ready for investment activity to commence. The Schroders Client Service Team, completes and reviews a checklist (signed by both Client Executive/Manager & Client Director) to ensure that all of the required functions have confirmed completion of their activities.</p>	<p>For a sample of new clients in the period, inspected the new client checklist and supporting documentation to confirm that:</p> <ul style="list-style-type: none"> - it included the confirmation that anti-money laundering checks had been conducted, investment restrictions had been coded and key support functions were operationally ready for investment activity to commence; and - it had been completed prior to investment activity commencing. 	<p>For the test sample of 64 which represents the total population, there were 2 exceptions identified.</p>	<p>Client take-on processes are in place and require check lists and sign off to verify completion of all required activities; however, for one UK client, the due diligence and sign off control were not fully completed prior to inception of investment activity. This was due to human error in ensuring the requirements for this particular client were completed. During the on-boarding of a different UK client, the take-on processes were undertaken correctly but the check-list was not signed due to human error. In both cases, the control processes were completed immediately upon identification of the errors. We have put in place additional controls in the UK including automatically generated</p>

			exception reports and enhanced review of client take-on documentation by managers. Relevant staff members have also been re-trained on the control requirements.
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Schroders Investment Management Ltd cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
A client agreement (e.g. investment management agreement or life policy) specifying investment strategy guidelines is: signed by both the client and authorised Schroders personnel and obtained prior to investment activity commencing, unless authorisation to proceed is received from the client and approved by authorised personnel. The account "active" flag is not updated in the order management system until authorisation has been received, and the system automatically prevents trading on the account until the account is flagged as active in the system.	<p>For a sample of new clients during the period, inspected the client agreement and confirmed that:</p> <ul style="list-style-type: none"> - it had been signed by an authorised client signatory and an authorised Schroders' signatory prior to the first investment transaction; or that authorisation to proceed had been received from the client and approved by authorised personnel. - any contractual changes to the client agreements are authorised by the client and approved by authorised Schroders personnel. <p>For a sample of contractual changes to client agreements during the period, inspected the client agreement and confirmed that it had been signed by an authorised client signatory and an</p>	For 1 out of 38 contractual changes tested, the authoriser was not included within the approved Schroders personnel listing.	A human error occurred in judging the nature of the client document received by Client Services and resulted in the document not being signed by an appropriately authorised Schroders member of staff. Mitigation of this risk will be achieved through formalising referral routes to Legal and Company Secretariat in the event that there is any doubt as to who is authorised to sign documentation on behalf of Schroders.

	authorised Schroders' signatory.		
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Schroders Investment Management Ltd cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
Key terms in respect of in-scope instruments as per European Securities and Markets Authority (ESMA) guidelines are reconciled to counterparty data for portfolios holding OTC and ETD derivatives on a daily basis. Unreconciled items are notified to the relevant counterparties and investigated and resolved.	For a sample of days, inspected reconciliation performed as per ESMA guidelines for OTC and ETD derivatives. For a sample of unreconciled items for OTC and ETD derivatives, inspected evidence that they were notified to the relevant counterparties, investigated and resolved.	For 24 out of 45 unreconciled OTC trades tested, evidence was not retained for the notification to the relevant counterparties of unreconciled items.	For 24 out of a sample of 45 unreconciled items, evidence of the notification to the counterparty could not be retrieved from the third party software used for the investigations. No items remained unreconciled and all issues were resolved in a timely manner. No regulatory breach occurred. Notifications are now being evidenced manually whilst alternative methods of retaining evidence are explored with the software vendor.
For new and existing clients who wish to start trading derivatives, a checklist detailing all tasks required for the client take-on/change process is completed and signed off prior to the commencement of investment activity. This includes checking whether clients have an active Legal Entity Identifier (LEI), obtaining the LEI and ensuring it is uploaded into the relevant	For a sample of new and existing clients who wish to start trading derivatives, inspected checklists for client take-on/change process to ensure they had been completed and signed off. Inspected that these had been signed off prior to the commencement of investment activity, and that they had been uploaded into the relevant systems.	For 4 out of 6 clients tested, one of the procedures was not completed (the LEI was not uploaded onto the trade repository) prior to the investment activity.	The four exceptions occurred as a result of errors in the LEI set up process. These errors were identified and resolved during Q1 2015 following the introduction of a new internal exception report. As a result, additional controls and changes in process such as regular exception reports and system enhancements to include mandatory regulatory data fields were implemented during the first

systems for reporting to the trade repository.			half of 2015 to reinforce our timely reporting to the trade repository.
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Schroders Investment Management Ltd cont'd

Independent service auditor's assurance report on controls at Schroders in respect of the European Markets Infrastructure Regulations (EMIR).

Service auditor's assurance report on EMIR controls

Inherent Limitations

Controls designed to address specific control objectives are subject to inherent limitations and accordingly, errors or irregularities may occur and not be detected. Such controls and our work related to those controls cannot guarantee protection against (amongst other things) fraudulent collusion especially on the part of those holding positions of authority or trust. Our opinion is based on historical information and the projection to future periods of any evaluation of the fairness of the presentation of the description, or the suitability of the design or operating effectiveness of the controls would be inappropriate.

Basis for Qualified Opinion

- 1) For the period 1 January 2015 to 31 December 2015, management were unable to provide evidence of the investigation of the majority of unreconciled OTC trades with the counterparties. As a result, controls were not operating effectively to achieve the relevant control objective "Controls provide reasonable assurance that client positions and transactions are monitored for timely confirmation matching, portfolio reconciliation, portfolio compression and dispute resolution with evidence retained (as a regulatory requirement and for audit purposes)" during this period; and
- 2) For the period 1 January 2015 to 31 December 2015, controls to ensure that clients' Legal Entity Identifier (LEI) were uploaded into the relevant systems for reporting to the Trade Repository prior to the client trading derivatives were not operating effectively to achieve the control objective "Events related to EU Client positions are reported to Trade Repository accurately, completely and timely" during the period.

Opinion

In our opinion, in all material respects, except for the matters described in the Basis for Qualified Opinion paragraph above, based on the criteria:

- a. the description on pages 60 to 64 fairly presents the EMIR control procedures that were designed and implemented throughout the period from 1 January 2015 to 31 December 2015;

b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 January 2015 to 31 December 2015; and

c. the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 January 2015 to 31 December 2015.

Description of tests of controls

The specific controls tested and the nature, timing and results of those tests are detailed on pages 60 to 64.

Intended users and purpose

This report and the description of tests of controls and results thereof on pages 60 to 64 are intended solely for the use of the Service Organisation and solely for the purpose of reporting on the controls of the Schrodgers' service organisation, in accordance with the terms of our engagement letter dated 24 September 2015 (the "agreement").

Our report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission. We permit the disclosure of this report, in full only, including the description of tests of controls and results thereof by the Schrodgers' service organisations at their discretion to customers using their investment management services conducted on behalf of institutional clients invested in direct portfolios or pooled funds and to the auditors of such customers, to enable customers and their auditors to verify that a service auditor's report has been commissioned by the Service Organisation and issued in connection with the controls of the Schrodgers' service organisation, and without assuming or accepting any responsibility or liability to customers or their auditors on our part.

We are prepared to extend our assumption of responsibility to those customers of the Service Organisation who first accept in writing the relevant terms of the agreement entered previously with the Service Organisation as if the customer had signed the agreement when originally issued, and including the provisions limiting liability contained in the agreement ("Contracted Customers"). This extension will not apply to a customer where we inform that customer, whether before or after the customer accepts the relevant terms of the agreement, that they do not meet our acceptance criteria.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Service Organisation and Contracted Customers for our work, for this report or for the opinions we have formed.

PricewaterhouseCoopers LLP
Chartered Accountants
17 March 2016

HSBC Security Services in Ireland (Custodian) - Report on the Description of its Fund, Custody and Transfer Agency Services System and on the Suitability of the Design and Operating Effectiveness of Controls for the period 1 January 2015 – 30 November 2015

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>The Global Corporate Actions Processing team performs manual position/entitlement reconciliation between GCS and the agent for each corporate actions event. Discrepancies are researched and resolved by the Global Corporate Actions Processing team with the agent.</p>	<p>To test reconciliation of corporate events.</p>	<p>For 1 of the 25 dates sampled, there is no evidence of the control operation.</p>	<p>The printout of entitlement from GCS and the agent has not been saved as part of the archived corporate action event dossier. However, the entitlement reconciliation is performed under a dual control that is evidenced in GICAD, therefore if the reconciliation was not performed, the relevant action would appear in the end of the day GICAD report that is reviewed on a daily basis by the manager. The relevant screen prints from GICAD has been provided which shows that the event was checked. A compensating control to capture any stock breaks is a stock reconciliation performed on a daily basis.</p>

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HSBC Security Services cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
The Global Corporate Actions Processing team reconciles the payment notification from agents/brokers against the transaction recorded in GCS. Reconciliation breaks are researched and resolved by the Global Corporate Actions Processing team with the agent/broker.	To test the reconciliation of payment notifications.	For 3 out of 25 corporate action events sampled, there is no evidence of the control operation.	The Matched cash printout from Scannor has not been saved as part of the archived corporate action event dossier. However, the matching of cash is performed under a dual control that is evidenced in GICAD, therefore if the reconciliation was not performed, the relevant action would appear in the end of the day GICAD report that is reviewed on a daily basis by the manager. The relevant screen prints from GICAD have been provided which shows that the event was checked. A compensating control to capture any unmatched cash items is a cash reconciliation performed on a daily basis.

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HSBC Security Services cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
On a daily basis, the Front Office team reviews and signs off the Negative Availability reports which lists holdings with negative availability on Global One. Reported holdings are monitored and recalls are initiated if required by the Front Office team.	To test controls around Negative Availability reports.	For 1 of the 25 dates sampled, there is no evidence of the control operation.	HSS will add a weekly sign-off by the recalls desk assistant and Head of trading or deputy to ensure that each days recall notifications are stored securely and available for review.

Report of the Deputy Head of Legal & Democratic Services

Pension Fund Committee – 14 July 2016

EXCLUSION OF THE PUBLIC

Purpose:	To consider whether the Public should be excluded from the following items of business.	
Policy Framework:	None.	
Reason for Decision:	To comply with legislation.	
Consultation:	Legal.	
Recommendation(s):	It is recommended that:	
1)	The public be excluded from the meeting during consideration of the following item(s) of business on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Paragraphs listed below of Schedule 12A of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007 subject to the Public Interest Test (where appropriate) being applied.	
	Item No's.	Relevant Paragraphs in Schedule 12A
	5	14
Report Author:	Democratic Services	
Finance Officer:	Not Applicable	
Legal Officer:	Tracey Meredith – Deputy Head of Legal & Democratic Services (Deputy Monitoring Officer)	

1. Introduction

- 1.1 Section 100A (4) of the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007, allows a Principal Council to pass a resolution excluding the public from a meeting during an item of business.
- 1.2 Such a resolution is dependant on whether it is likely, in view of the nature of the business to be transacted or the nature of the proceedings that if members of the public were present during that item there would be disclosure to them of exempt information, as defined in section 100I of the Local Government Act 1972.

2. Exclusion of the Public / Public Interest Test

- 2.1 In order to comply with the above mentioned legislation, Cabinet will be requested to exclude the public from the meeting during consideration of the item(s) of business identified in the recommendation(s) to the report on the grounds that it / they involve(s) the likely disclosure of exempt information as set out in the Exclusion Paragraphs of Schedule 12A of the Local Government

Act 1972 as amended by the Local Government (Access to Information) (Variation) (Wales) Order 2007.

- 2.2 Information which falls within paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended is exempt information if and so long as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
- 2.3 The specific Exclusion Paragraphs and the Public Interest Tests to be applied are listed in **Appendix A**.
- 2.4 Where paragraph 16 of the Schedule 12A applies there is no public interest test. Councillors are able to consider whether they wish to waive their legal privilege in the information, however, given that this may place the Council in a position of risk, it is not something that should be done as a matter of routine.

3. Financial Implications

- 3.1 There are no financial implications associated with this report.

4. Legal Implications

- 4.1 The legislative provisions are set out in the report.
- 4.2 Councillors must consider with regard to each item of business set out in paragraph 2 of this report the following matters:
 - 4.2.1 Whether in relation to that item of business the information is capable of being exempt information, because it falls into one of the paragraphs set out in Schedule 12A of the Local Government Act 1972 as amended and reproduced in Appendix A to this report.
 - 4.2.2 If the information does fall within one or more of paragraphs 12 to 15, 17 and 18 of Schedule 12A of the Local Government Act 1972 as amended, the public interest test as set out in paragraph 2.2 of this report.
 - 4.2.3 If the information falls within paragraph 16 of Schedule 12A of the Local Government Act 1972 in considering whether to exclude the public members are not required to apply the public interest test but must consider whether they wish to waive their privilege in relation to that item for any reason.

Background Papers: None.

Appendices: Appendix A – Public Interest Test.

Public Interest Test

No.	Relevant Paragraphs in Schedule 12A
12	Information relating to a particular individual.
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 12 should apply. His view on the public interest test was that to make this information public would disclose personal data relating to an individual in contravention of the principles of the Data Protection Act. Because of this and since there did not appear to be an overwhelming public interest in requiring the disclosure of personal data he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
13	Information which is likely to reveal the identity of an individual.
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 13 should apply. His view on the public interest test was that the individual involved was entitled to privacy and that there was no overriding public interest which required the disclosure of the individual's identity. On that basis he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
14	Information relating to the financial or business affairs of any particular person (including the authority holding that information).
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 14 should apply. His view on the public interest test was that:</p> <p>a) Whilst he was mindful of the need to ensure the transparency and accountability of public authority for decisions taken by them in relation to the spending of public money, the right of a third party to the privacy of their financial / business affairs outweighed the need for that information to be made public; or</p> <p>b) Disclosure of the information would give an unfair advantage to tenderers for commercial contracts.</p> <p>This information is not affected by any other statutory provision which requires the information to be publicly registered.</p> <p>On that basis he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>

No.	Relevant Paragraphs in Schedule 12A
15	<p>Information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matter arising between the authority or a Minister of the Crown and employees of, or office holders under, the authority.</p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 15 should apply. His view on the public interest test was that whilst he is mindful of the need to ensure that transparency and accountability of public authority for decisions taken by them he was satisfied that in this case disclosure of the information would prejudice the discussion in relation to labour relations to the disadvantage of the authority and inhabitants of its area. On that basis he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
16	<p>Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.</p>
	<p>No public interest test.</p>
17	<p>Information which reveals that the authority proposes: (a) To give under any enactment a notice under or by virtue of which requirements are imposed on a person; or (b) To make an order or direction under any enactment.</p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 17 should apply. His view on the public interest test was that the authority's statutory powers could be rendered ineffective or less effective were there to be advanced knowledge of its intention/the proper exercise of the Council's statutory power could be prejudiced by the public discussion or speculation on the matter to the detriment of the authority and the inhabitants of its area. On that basis he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>
18	<p>Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime</p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 18 should apply. His view on the public interest test was that the authority's statutory powers could be rendered ineffective or less effective were there to be advanced knowledge of its intention/the proper exercise of the Council's statutory power could be prejudiced by public discussion or speculation on the matter to the detriment of the authority and the inhabitants of its area. On that basis he felt that the public interest in maintaining the exemption outweighs the public interest in disclosing the information. Members are asked to consider this factor when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.</p>

Agenda Item 6

By virtue of paragraph(s) 14 of Schedule 12A
of the Local Government Act 1972
as amended by the Local Government (Access to
Information) (Variation) (Wales) Order 2007.

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By virtue of paragraph(s) 14 of Schedule 12A
of the Local Government Act 1972
as amended by the Local Government (Access to
Information) (Variation) (Wales) Order 2007.

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Agenda Item 7b

By virtue of paragraph(s) 14, 15 of Schedule 12A
of the Local Government Act 1972
as amended by the Local Government (Access to
Information) (Variation) (Wales) Order 2007.

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By virtue of paragraph(s) 14, 15 of Schedule 12A
of the Local Government Act 1972
as amended by the Local Government (Access to
Information) (Variation) (Wales) Order 2007.

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