



## City and County of Swansea

### Notice of Meeting

You are invited to attend a Meeting of the

## Pension Fund Committee

**At:** Committee Room 6 - Guildhall, Swansea

**On:** Thursday, 15 March 2018

**Time:** 10.00 am

**Chair:** Councillor Clive Lloyd

**Membership:**

Councillors: P Downing, M B Lewis, D G Sullivan, W G Thomas and M Thomas

Neath Port Talbot Council Co-opted Member: Peter Rees

Advisors: N Mills, V Furniss, W Marshall

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### Agenda

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- |          |   |                |
|----------|---|----------------|
| <b>1</b> | <b>Apologies for Absence.</b>   |                |
| <b>2</b> | <b>Disclosures of Personal and Prejudicial Interests.</b><br><a href="http://www.swansea.gov.uk/DisclosuresofInterests">www.swansea.gov.uk/DisclosuresofInterests</a> |                |
| <b>3</b> | <b>Minutes.</b><br>To approve & sign the Minutes of the previous meeting(s) as a correct record.  | <b>1 - 4</b>   |
| <b>4</b> | <b>Report(s) of the Wales Audit Office.</b>   |                |
| a        | 2018 Audit Plan - City and County of Swansea.   | <b>5 - 18</b>  |
| <b>5</b> | <b>Report(s) of the Section 151 Officer.</b>  |                |
| a        | Breaches Report.  | <b>19 - 24</b> |
| b        | Investment Beliefs.   | <b>25 - 29</b> |
| <b>6</b> | <b>Exclusion of the Public.</b>   | <b>30 - 33</b> |
| <b>7</b> | <b>Report(s) of the Section 151 Officer.</b>  |                |
| a        | Investment Strategy Review.   | <b>34 - 44</b> |
| b        | Pension Administration Section Resource Review Report.  | <b>45 - 51</b> |
| c        | Environmental Social Governance (ESG) Policy.   | <b>52 - 63</b> |

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| 8  | <b>Presentation - Wales Pension Partnership ACS Operator Link and their Appointed Advisor - Russell Investments.</b>            |                  |
| 9  | <b>Report of the Investment Consultant - Hymans Robertson.</b>  | <b>64 - 98</b>   |
| 10 | <b>Report(s) of the Independent Investment Advisors.</b>  | <b>99 - 111</b>  |
| 11 | <b>Investment Summary.</b>  | <b>112 - 113</b> |
| 12 | <b>Fund Manager's Presentation(s):</b> <ul style="list-style-type: none"><li>• Active UK Equity Managers – Schroders.</li></ul> |                  |

**Next Meeting:** 10am on Thursday, 12 July 2018

*Huw Evans*

**Huw Evans**  
**Head of Democratic Services**  
**Thursday, 8 March 2018**

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**Contact: Democratic Services: - 636923**



City and County of Swansea

## Minutes of the Pension Fund Committee

Committee Room 6 - Guildhall, Swansea

Thursday, 30 November 2017 at 10.00 am

**Present:** Councillor P Downing (Vice-Chair) presided

**Councillor(s)**

M B Lewis

**Councillor(s)**

M Thomas

**Councillor(s)**

W G Thomas

**Neath Port Talbot County Borough Council Councillor:**

P A Rees

**Officer(s)**

Karen Cobb

Jeffrey Dong

Jeremy Parkhouse

Stephanie Williams

Senior Accountant

Chief Treasury & Technical Officer / Deputy Section 151  
Officer

Democratic Services Officer

Principal Lawyer

**Also Present:**

N Mills

V Furniss

S Donaldson

Independent Investment Advisor

Independent Investment Advisor

Hymans Robertson

**Apologies for Absence**

Councillor(s): C E Lloyd

Independent Member(s):

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### 38 Disclosures of Personal and Prejudicial Interests.

In accordance with the Code of Conduct adopted by the City & County of Swansea, the following interests were declared: -

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

Councillor M B Lewis - agenda as a whole – member of the Local Government Pension Scheme - personal.

Councillor P Rees - agenda as a whole – Daughter-In-Law is a member of the Local Government Pension Scheme - personal.

Councillor M Thomas - agenda as a whole – My wife and I are both members of the Local Government Pension Scheme – personal.

Councillor W G Thomas - agenda as a whole – member of the Local Government Pension Scheme - personal.

**39 Minutes.**

**Resolved** that the Minutes of the Pension Fund Committee held on 14 September 2017 be signed and approved as a correct record.

**40 Breaches Report.**

The Chief Treasury & Technical Officer presented a 'for information' report which provided details of breaches which had occurred in the Pension Fund in accordance with the Reporting Breaches Policy.

Appendix A provided the Breaches Report including details of breaches that had occurred since the previous Pension Fund Committee in September 2017. The details of the breaches and actions undertaken by the Pension Fund were highlighted.

**41 Wales Pension Partnership - Progress Update.**

The Chief Treasury & Technical Officer presented a 'for information' report which updated the Committee on the progress of the Wales Pension Partnership.

The Committee were updated regarding the submission in respect of the 8 Welsh Pension Funds, governance and procurement progress, including the reporting procedure of the Joint Governance Committee.

Appendix 1 provided the Welsh Pension Fund Partnership Local Government Pension Scheme Pooling: Progress Report October 2017.

**42 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 involved 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)**

**43 Wales Pension Partnership - Recommendation to Appoint an ACS Operator.**

The Chief Treasury & Technical Officer presented a report which sought approval of the recommendation of the Joint Governance Committee of the Wales Pension Partnership to appoint the Operator of the Authorised Contractual Scheme (ACS).

**Resolved** that: -

- 1) Bidder 1 is appointed as the preferred bidder for the Wales Pension Partnership Procurement for an Operator;
- 2) Subject to the completion of the standstill period and the finalisation of the Operator Agreement, Bidder 1 is appointed as the Operator under the Operator Agreement.

**44 Investment Beliefs.**

Hymans Robertson, Investment Consultants provided a 'for information' report which presented the recommended next steps in respect of developing and formalising the Committee's investment beliefs.

Appendix 1 provided a summary report from Hymans Robertson of the investment beliefs summarised from both the questionnaire and the training day.

**45 Environmental, Social & Governance Issues.**

Hymans Robertson, Investment Consultants provided a 'for information' report which presented the recommended next steps in respect of the Committee's policies on environmental, social and governance issues.

Attached at Appendix 1 was the summary report of next steps from Hymans Robertson.

**46 Investment Review.**

Hymans Robertson, Investment Consultants provided a 'for information' report which presented the quarterly investment and market update.

Attached at Appendix 1 was the quarterly report from Hymans Robertson.

**47 Report(s) of the Independent Advisors.**

The 'for information' report presented the economic update and market commentary from the perspective of the appointed independent investment advisors.

Attached at Appendix 1 were the quarterly reports ended 30 September 2017 of the two independent advisors, Mr Noel Mills and Mr Valentine Furniss. Mr Furniss provided an amended update.

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

**48 Investment Summary.**

The Chief Treasury and Technical Officer provided a 'for information' report which presented the investment performance for the quarter, year and 3 years ended 30 September 2017.

Attached at Appendix 1 were the quarterly investment summaries for the Pension Fund for the quarter, year and 3 years ended 30 September 2017.

**49 Fund Manager's Presentation(s):**

A presentation was made by David Thomas and Jason Smith of Goldman Sachs Asset Management.

Questions in relation to the content of the presentation were asked by the Committee and responses were provided accordingly.

The content of the presentation was noted and the Chair thanked the Fund Managers for attending the meeting.

The meeting ended at 12.20 pm

**Chair**



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

## 2018 Audit Plan – City and County of Swansea Pension Fund

Audit year: 2017-18

Date issued: March 2018

Document reference: 436A2018-19

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We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

This document was produced by John Herniman, Geraint Norman and David Williams.



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# 2018 Audit Plan

## Summary

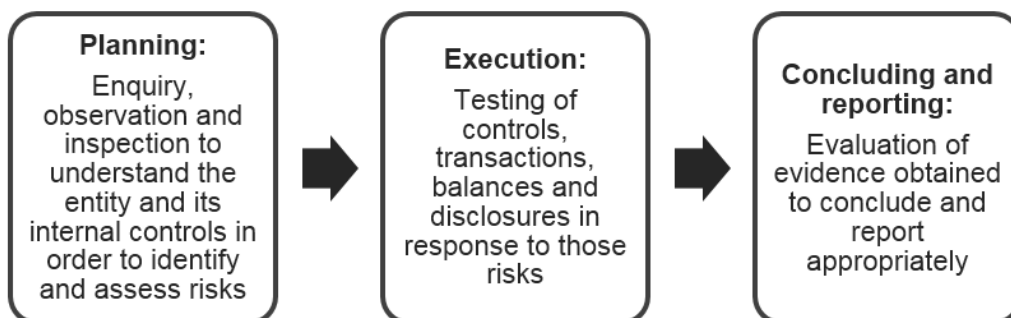
- 1 As your external auditor, my objective is to carry out an audit which discharges my statutory duties as Auditor General and fulfils my obligations under the Code of Audit Practice to examine and certify whether City and County of Swansea Pension Fund (the Pension Fund) financial statements are 'true and fair'.
- 2 The purpose of this plan is to set out my proposed work, when it will be undertaken, how much it will cost and who will undertake it.
- 3 There have been no limitations imposed on me in planning the scope of this audit.
- 4 My responsibilities, along with those of management and those charged with governance, are set out in [Appendix 1](#).

## Audit of the Pension Fund financial statements

- 5 It is my responsibility to issue a report on the financial statements which includes an opinion on their 'truth and fairness'. This provides assurance that the accounts:
  - are free from material misstatement, whether caused by fraud or error;
  - comply with statutory and other applicable requirements; and
  - comply with all relevant requirements for accounting presentation and disclosure.

[Appendix 1](#) sets out my responsibilities in full.
- 6 The audit work I undertake to fulfil my responsibilities responds to my assessment of risks. This understanding allows us to develop an audit approach which focuses on addressing specific risks whilst providing assurance for the Pension Fund's financial statements as a whole. My audit approach consists of three phases as set out in [Exhibit 1](#).

### Exhibit 1: my audit approach



- 7 The risks of material misstatement which require audit consideration, are set out in [Exhibit 2](#) along with the work I intend to undertake to address them.

Exhibit 2: risks of material misstatement

Risks of material misstatement	Proposed audit response
<p>The risk of <b>management override</b> of controls is present in all entities. Due to the unpredictable way in which such override could occur, it is viewed as a significant risk [ISA 240.31-33].</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• test the appropriateness of journal entries and other adjustments made in preparing the financial statements;</li> <li>• review accounting estimates for biases; and</li> <li>• evaluate the rationale for any significant transactions outside the normal course of business.</li> </ul>
<p>The systems and records of the investment managers generate account entries made to the Pension Fund Account and Net Assets Statement. The investment managers provide <b>internal control reports</b> on the investments held on behalf of the Pension Fund. These are independently audited and provide the Pension Fund with assurance on a wide range of controls, eg valuation of the investment portfolio held.</p> <p>There is a risk that the internal control reports will not be available, or not provide sufficient assurance for audit purposes.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• assess the investment managers as a service organisation;</li> <li>• check that investments have been made in accordance with the Statement of Investment Principles;</li> <li>• obtain direct confirmation from the investment managers and custodian of year end investment balances and holdings; and</li> <li>• assess whether the investment managers internal control reports provide assurance over the relevant controls, including the valuation of investments held.</li> </ul>
<p>Year-end valuation of <b>private equity investments</b> are provided by investment managers which are based on forward looking estimates and judgements. As there is no quoted market price, there is a greater risk for the reasonableness or valuation base of these investments.</p>	<p>My audit team will:</p> <ul style="list-style-type: none"> <li>• confirm the investment valuations to audited financial statements; and</li> <li>• seek additional assurance over the valuation basis from controls assurance reports where available.</li> </ul>
<p>Welsh Government have issued <b>revised Accounts and Audit Regulations</b> for Wales. This revised legislation will apply to the 2017-18 financial year.</p> <p>One of the key changes included in this legislation is that Pension Fund financial statements are no longer to be incorporated into the administering authority financial statements and will need to be produced as a standalone document.</p> <p>There is a risk of none compliance with this legislative requirement.</p>	<p>My audit team will ensure that the requirements of the revised Accounts and Audit Regulations are complied with.</p>

Risks of material misstatement	Proposed audit response
<p>The 8 Pension Fund in Wales have created an 'all-Wales' <b>pooled investment vehicle</b> which will be overseen and reported on by a joint governance committee. An inter-authority agreement has been signed by the Welsh Pension Funds and the joint committee will be producing financial statements for the 2017-18 financial year. However no investments will be transferred to this new management arrangement until after 1 April 2018.</p> <p>Separate financial statements will need to be prepared for the joint committee which for 2017-18 are only expected to include administration costs of setting up the joint committee. However, individual Pension Funds will need to consider recognising a share of the 2017-18 joint committee financial statements in their financial statements.</p>	<p>My audit team will review progress on this arrangement and consider if there is an impact on the 2017-18 financial statements and what additional disclosures are required.</p>
<p>The Pension Fund was subject to a full <b>actuarial valuation</b> as at 31 March 2016. The new contribution rates come into effect on 1 April 2017. There is a risk that these new contribution rates are not fairly reflected in the Pension Fund's financial statements.</p>	<p>My audit team will check that the revised contribution rates have been correctly calculated in the 2017-18 financial statements.</p>

- 8 I do not seek to obtain absolute assurance that the Pension Fund financial statements are true and fair, but adopt a concept of materiality. My aim is to identify material misstatements, that is, those that might result in a reader of the financial statements being misled. The levels at which I judge such misstatements to be material will be reported to the Pension Fund Committee and the Audit Committee and to those charged with governance for City and County of Swansea (the Council), as the administering authority of the Pension Fund as a whole, prior to completion of the audit.
- 9 For reporting purposes, I will treat any misstatements below a trivial level (set at 5% of materiality as not requiring consideration by those charged with governance and therefore I will not report them.
- 10 My fees are based on the following assumptions:
- information provided to support the financial statements is timely, to the quality expected and has been subject to quality assurance review;
  - appropriate accommodation and facilities are provided to enable my audit team to deliver my audit in an efficient manner;

- all appropriate officials will be available during the audit;
- you have all the necessary controls and checks in place to enable the Responsible Financial Officer to provide all the assurances that I require in the Letter of Representation addressed to me; and
- Internal Audit's planned programme of work is complete and management has responded to issues that may have affected the financial statements.

## Statutory audit functions

- 11 In addition to the audit of the financial statements, I have statutory responsibilities to receive questions and objections to the accounts from local electors. These responsibilities are set out in the Public Audit (Wales) Act 2004:
- Section 30 Inspection of documents and questions at audit; and
  - Section 31 Right to make objections at audit.
- 12 Audit fees will be chargeable for work undertaken in dealing with electors' questions and objections. Because audit work will depend upon the number and nature of any questions and objections, it is not possible to estimate an audit fee for this work.
- 13 If I do receive questions or objections, I will discuss potential audit fees at the time.

## Fee, audit team and timetable

### Fee

- 14 Your estimated fee for 2018 is set out in **Exhibit 3**. This figure represents a 10 per cent decrease compared to the fee set out in the 2017 audit plan.
- 15 As per our approved Fee Scheme for 2018-19, a small increase has been applied to my fee rates (less than one per cent) which we have looked to offset by a reduction in audit days and skill mix.

#### Exhibit 3: audit fee

Audit area	Proposed fee for 2018 (£)	Actual fee for 2017 (£)	Proposed fee for 2017 (£)
Audit of pension fund accounts <sup>1</sup>	45,000	45,000	50,000

<sup>1</sup> The fees shown in this document are exclusive of VAT, which is no longer charged to you.

- 16 Planning will be ongoing, and changes to my programme of audit work and therefore my fee, may be required if any key new risks emerge. I shall make no changes without first discussing them with the Audit Committee.

17 Further information on my [fee scales and fee setting](#) can be found on the Wales Audit Office website.

## Audit team

18 The main members of my team, together with their contact details, are summarised in [Exhibit 4](#).

### Exhibit 4: my team

Name	Role	Contact number	E-mail address
John Herniman	Engagement Lead – Financial Audit	02920 320500	<a href="mailto:john.herniman@audit.wales">john.herniman@audit.wales</a>
Geraint Norman	Financial Audit Manager	07810 056683	<a href="mailto:geraint.norman@audit.wales">geraint.norman@audit.wales</a>
David Williams	Financial Audit Team Leader	07812 670234	<a href="mailto:david.williams@audit.wales">david.williams@audit.wales</a>

19 I can confirm that my team members are all independent of the Pension Fund and its officers. In addition, I am not aware of any potential conflicts of interest that I need to bring to your attention.

## Timetable

20 I will provide reports, or other outputs as agreed, to the Pension Fund Committee, the Audit Committee and Council, covering the areas of work identified in this document. My key milestones are set out in [Exhibit 5](#).

### Exhibit 5: timetable

Planned output	Work undertaken	Report finalised
<b>2018 Audit Plan</b>	December 2017 to February 2018	March 2018
<b>Financial accounts work:</b> <ul style="list-style-type: none"> <li>• Audit of Financial Statements Report</li> <li>• Opinion on Financial Statements</li> <li>• Financial Accounts Memorandum</li> </ul>	February to September 2018	September 2018 September 2018 October 2018
<b>2019 Audit Plan</b>	October to December 2018	January 2019

## Future developments

### Well-being of Future Generations (Wales) Act 2015

- 21 The Well-being of Future Generations (Wales) Act 2015 (the Act) became law in April 2015. The Act requires me to report every five years to the National Assembly on how public bodies apply the sustainability principles. During 2016 I consulted on my options for reshaping public audit in Wales and this year have been working collaboratively with a small number of public bodies to develop an audit approach which is rigorous, meaningful and proportionate. I have also undertaken my first audit work relating to the Act, the Year One Commentary. I will publish a report on my findings in Spring 2018 and will share those findings at a national stakeholder event in May 2018.

### Other

- 22 Details of other future developments including changes to key International Financial Reporting Standards (IFRS) and of the Wales Audit Office's Good Practice Exchange (GPX) seminars are set out in [Appendix 2](#).
- 23 The Wales Audit Office's GPX programme seeks to support the improvement of public services across Wales by identifying and sharing good practice. The GPX seminars bring a range of public sector bodies together to share their practical experiences and learning in areas we consider would benefit from sharing good practice. The seminars are provided free of charge to delegates.

# Appendix 1

## Respective responsibilities

The Council is the administering authority of the Pension Fund. This Audit Plan has been prepared to meet the requirements of auditing standards and proper audit practices. It provides the Council with an outline of the financial audit work required for the Pension Fund accounts.

As amended by the Public Audit (Wales) Act 2013, the Public Audit (Wales) Act 2004 sets out my powers and duties to undertake your financial audit. It is my responsibility to issue a certificate and report on the Pension Fund financial statements which includes an opinion on their 'truth and fairness', providing assurance that they:

- are free from material misstatement, whether caused by fraud or error;
- comply with the statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

My audit work does not relieve management and those charged with governance of their responsibilities which include:

- the preparation of the financial statements and Annual Report in accordance with applicable accounting standards and guidance;
- the keeping of proper accounting records;
- ensuring the regularity of financial transactions; and
- securing value for money in the use of resources.

Management agrees to provide me with:

- access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- additional information that I may request from management for the purpose of the audit; and
- unrestricted access to persons within the authority from whom I determine it necessary to obtain audit evidence.

Management will need to provide me with written representations to confirm:

- that it has fulfilled its responsibilities for the preparation of the financial statements;
- that all transactions have been recorded and are reflected in the financial statements;
- the completeness of the information provided to me for the purposes of the audit; and
- to support other audit evidence relevant to the financial statements or specific assertions in the financial statements if I deem it necessary or if required by ISAs.



# Appendix 2

## Other future developments

### Forthcoming IFRS changes

Exhibit 6: forthcoming IFRS changes

Standard	Effective date	Further details
IFRS 9 financial instruments	2018-19	IFRS 9 financial instruments will replace IAS 39 and includes a new principles-based approach for the classification and measurement of financial assets. It also introduces a new impairment methodology for financial assets based on expected losses rather than incurred losses. This will result in earlier and more timely recognition of expected credit losses. The accounting requirements for financial liabilities are almost all carried forward unchanged from IAS 39.
IFRS 15 revenue from contracts with customers	2018-19	IFRS 15 revenue from contracts with customers introduces a principles-based five-step model for recognising revenue arising from contracts with customers. It is based on a core principle requiring revenue recognition to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration the body expects to be entitled to, in exchange for those goods or services. It will also require more extensive disclosures than are currently required.
IFRS 16 leases	2019-20	IFRS 16 will replace the current leases standard IAS 17. The key change is that it largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It will lead to all leases being recognised on the balance sheet as an asset based on a right of use principle with a corresponding liability for future rentals. This is a significant change in lessee accounting.

## General Data Protection Regulation (GDPR)

The GDPR is a new data protection law for the whole of the EU applicable from 25 May 2018, which has the intention of harmonising and updating data protection laws. The UK Government has introduced the Data Protection Bill which will incorporate the GDPR into UK law and replace the 1998 Data Protection Act, and which it intends will also come into force on 25 May 2018.

The GDPR introduces new requirements for personal data processing, including an accountability principle which will require more detailed records of the processing of personal data, evidence of compliance with the data protection principles and the technical and organisational security measures taken to protect the data. We are updating our own policies, processes and documentation with a view to meeting these requirements and expect that the bodies we audit will be taking similar steps. Key areas of additional work include the use of more detailed fair processing notices, more privacy impact assessments and more extensive record keeping in relation to processing activities.

## Good Practice Exchange

The Wales Audit Office's Good Practice Exchange (GPX) helps public services improve by sharing knowledge and practices that work. Events are held where knowledge can be exchanged face to face and resources shared online.

The focus of GPX events include financial management, public sector staff and governance. Further information, including details of forthcoming GPX events and outputs from past seminars, can be found on the [GPX section of the Wales Audit Office website](#).



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## Report of the Section 151 Officer

Pension Fund Committee – 15 March 2018

### Breaches Report

**Purpose:** The report presents any breaches which have occurred in the period in accordance with the Reporting Breaches Policy.

**Report Author:** Jeff Dong - Chief Treasury & Technical Officer

**Finance Officer:** Jeff Dong - Chief Treasury & Technical Officer

**Legal Officer:** Stephanie Williams – Principal Lawyer

**Access to Services Officer:** N/A

#### For Information

#### 1. Introduction

1.1 The Reporting Breaches policy was adopted with effect from 9 March 2017.

1.2 The policy requires a report to be presented to the Pension Board and Pension Fund Committee on a quarterly basis, highlighting any new breaches which have arisen since the previous meeting and setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates
- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated

#### 2. Breaches

2.1 Under the policy, breaches of the law are required to be reported to the Pensions Regulator where there is reasonable cause to believe that:

- A legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- The failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions

- 2.2 The Breaches Report is attached at Appendix A and the following further information is provided.
- 2.3 Under the LGPS regulations, interest is paid on retirement lump sum payments if the payment is made more than one month after retirement and calculated at one per cent above the base rate on a day to day basis from the due date of payment and compounded with three-monthly rests.
- 2.4 Since the last report on 30<sup>th</sup> Nov 2017, 67.59% of retirement lumps sums have not been paid within the benchmark; however, further investigation has ascertained that, in the main, the late payments were as a result of members not returning the appropriate paperwork in order to make payment. Communication sent to members at time of retirement has been reviewed to ensure that the importance of timely return of required documents is highlighted. It is recognised that this is a material deterioration of this PI and management are identifying measures to improve and prevent.
- 2.5 The Fund requires that employers pay employee and employer contributions to the Fund on a monthly basis and no later than the 19<sup>th</sup> of the month after which the contributions have been deducted. There have been a number of instances during the reporting period where breaches have occurred. In each case, Treasury Management staff have written to the employers to request payment and provide a reminder of the responsibilities to submit on time.

### **3. Equality and Engagement Implications**

N/A

### **4 Legal Implications**

- 4.1 Where breaches have occurred, the legal implications are outlined in Code of Practice no.14.

### **5. Financial Implications**

- 5.1 Minimal loss of investment income and a possible penalty charge from TPR.

**Background papers:** None

**Appendices:**

Appendix A: Breaches Report

**City and County of Swansea Breach Register**

**Appendix A**

**City and County of Swansea Breach Register**

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	New Breach (since last report)
Mar 2017	Investment asset allocation	The Investment Strategy Statement outlines an indicative allocation of 34% +/- 5% to Global Equities. At 31 <sup>st</sup> March 2017, the allocation was 43%	There is resulting over allocation to global equities	<p>The asset class in question returned 33% during the year which has caused the uplift in valuation- the best performing asset class during the year.</p> <p>There is a planned investment review for 2017/18 which shall review asset allocations on a long term basis</p>	Noting the volatility of asset values and the pending asset allocation review, it is determined imprudent to incur material transaction costs to address the allocation imbalance. A longer term allocation shall be derived from the pending investment review.	Allocations shall be reviewed as part of the investment review	
Mar – Jun 2017	Administration	20.37% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early	The administering authority has accrued interest payments on the retirement lump sums under the	This was due to members not returning relevant documentation in a timely manner	.		

		retirement	2013 LGPS regulations				
Mar – Jun 2017	Contributions	Employers have not paid contributions within required timescale	Loss of investment returns	Employers are contacted once breach has occurred			
30/04/2017	Administration	Gwrp Gwalia did not submit their annual return for year-end reconciliation until 22/06/2017 when it should have been provided by 30/04/2017	Delay in year-end reconciliation exercise and possibility of failure to issue Annual Benefit Statements to Gwrp Gwalia members	Regular contact maintained with employer throughout the delay. Recommended move to monthly returns via i-Connect		Recommended move to monthly returns via i-Connect	
Jul - Aug 2017	Administration	32.71% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	This was due to members not returning relevant documentation in a timely manner		Communication to members regarding retirement options reviewed to ensure the importance of returning documents in a timely manner is emphasised	
Jul - Aug 2017	Contributions	2 Employers have not paid contributions within required timescale	Loss of investment income	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has	



						passed	
Sept – Nov 2017	Administration	52.28% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 6.60% was not paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	This was mainly due to members not returning relevant documentation in a timely manner		Communication to members regarding retirement options reviewed to ensure the importance of returning documents in a timely manner is emphasised	
Sept – Nov 2017	Contributions	2 Employers have not paid contributions within required timescale	Minimal loss of investment income	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	
Dec 17 – Feb 18	Administration	67.59% of retirement lump sums not paid within 1 month of normal retirement or 2 months of early retirement; 90.34% was paid within 1 month of receipt of member option return	The administering authority has accrued interest payments on retirement lump sums, paid more than one month after their due date, under the 2013 LGPS regulations	This was due to members not returning relevant documentation in a timely manner or deferred benefits coming into payment.		Communication to members regarding retirement options reviewed to ensure the importance of returning documents in a timely manner is emphasised	✓

Dec 17- Feb 18	Contributions	3 Employers have not paid contributions within required timescale	Loss of investment income	Employers are contacted once breach has occurred		Employers are contacted as soon as the deadline for submission of contributions has passed	✓
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\*New breaches since the previous meeting should be highlighted



## Report of the Section 151 Officer

Pension Fund Committee – 15 March 2018

### Investment Beliefs

<b>Purpose:</b>	The reports outlines the Investment Beliefs adopted by this Pension Fund Committee
<b>Policy Framework:</b>	Investment Management Regulations
<b>Consultation:</b>	Finance, Legal and Access to Services
<b>Recommendation:</b>	It is recommended that the Statement of Investment Beliefs attached at Appendix 1 is approved.
<b>Report Author:</b>	Jeffrey Dong
<b>Finance Officer:</b>	Jeffrey Dong
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	Sherill Hopkins

#### 1 Background

1.1 The Pension Fund Committee and the Local Pension Board received a full day's training and workshop on November 15<sup>th</sup> 2017 provided by the fund's consultants Hymans Robertson in considering and developing the Committee's investment beliefs. The Pension Fund Committee subsequently considered a report summarising both the contents of the investment beliefs questionnaire and also the consensus of opinions at the training day at its meeting of the 30<sup>th</sup> November 2017.

1.2 It is important to document the investment beliefs adopted by the Investment Committee to ensure consistency and transparency in its decision-making. The key advantages are:

1. **Clarity on why each mandate is held and the role it performs in the Fund's arrangements** – this clarity is of benefit to the Committee and the

underlying members. It also offers a basis for framing external communication on investment strategy which is of particular relevance where decisions are subject to public scrutiny.

2. **Prioritisation** - having identified which investment decisions are most important, advice can be sought and meetings scheduled around these key priorities.
  3. **Long-term thinking** - having a set of stated investment beliefs, the Committee is better able to avoid being unduly influenced by short-term market noise and in-vogue investment ideas.
  4. **Consistency, both of advice and decision-making** – i.e. all decisions are reached using the same consistent framework.
  5. **Continuity of understanding in decision-making** – having a decision-making framework based on a set of beliefs allows decisions to be contextualised, which is particularly valuable if there is turnover of Committee members.
- 1.3 It is recommended that the resultant document outlining the Investment Committee’s Investment Beliefs at Appendix 1 is approved.

## **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 implications arising from this report.

**Background papers:** None.

**Appendices:** Appendix 1: Statement of Investment Beliefs.

# Appendix 1

## Statement of Investment Beliefs

The Committee believes that having a well-defined set of investment beliefs offers a number of advantages, including:

6. **Clarity on why each mandate is held and the role it performs in the Fund's arrangements** – this clarity is of benefit to the Committee and the underlying members. It also offers a basis for framing external communication on investment strategy which is of particular relevance where decisions are subject to public scrutiny.
7. **Prioritisation** - having identified which investment decisions are most important, advice can be sought and meetings scheduled around these key priorities.
8. **Long-term thinking** - having a set of stated investment beliefs, the Committee is better able to avoid being unduly influenced by short-term market noise and in-vogue investment ideas.
9. **Consistency, both of advice and decision-making** – i.e. all decisions are reached using the same consistent framework.
10. **Continuity of understanding in decision-making** – having a decision-making framework based on a set of beliefs allows decisions to be contextualised, which is particularly valuable if there is turnover of Committee members.

The Committee's investment beliefs, outlined below, will be revisited on a regular basis to ensure they remain appropriate for the Fund.

### Investment Beliefs

#### **Belief: Clear and well defined objectives are essential to achieve future success**

The Committee is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due.

#### **Belief: Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection**

The Committee understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters.

#### **Belief: Funding and investment strategy are linked**

The Committee understands that a number of funding related aspects feed into investment strategy decisions, including maturity, sponsor covenant and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Committee.

#### **Belief: The Fund should take no more investment risk than is necessary to meet its objectives**

One key element of the link between funding and investment strategy is that as funding level improves there is generally scope for the level of investment risk to be reduced.

**Belief: Long term investing provides opportunities for enhancing returns**

The Committee believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

**Belief: Equities are expected to generate superior long term returns**

The Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

**Belief: The Fund's equity allocation adopts a global approach**

The Committee currently adopts a global approach to gaining equity exposure (albeit, largely for historic grounds, the Fund has an overweight to UK equities). The Committee believe that the equity market is increasingly global in nature and the location of listing of a particular share does not necessarily reflect the region of its economic exposure. The Committee review the nature of their equity exposure on a regular basis.

**Belief: Alternative asset class investments provide diversification**

The Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Committee believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, absolute return funds, private equity, infrastructure and property) will provide the Fund with diversification benefits.

**Belief: Increasing diversification is beneficial, but only if the costs of doing so are justified**

The Committee understands that increasing diversification comes with costs, including the governance burden of overseeing additional mandates and managers. The Committee review the level of diversification when reviewing the Fund's strategy and manage arrangements.

**Belief: Fees and costs matter**

The Committee recognises that fees and costs reduce the Fund's investment returns. The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process.

**Belief: Active management can add value but is not guaranteed**

The Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to

generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Committee will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers, and recognising that periods of underperformance will arise, the Committee seeks to minimise the additional risk from active management, and continue to monitor active managers to ensure their mandates remain appropriate for the Fund.

**Belief: The Fund will not seek to benefit from tactical asset allocation**

The Committee do not believe that tactical asset allocation (i.e. moving assets *between* asset classes over short time frames) can add value for the Fund.

**Belief: Passive management has a role to play in the Fund's structure**

The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

**Belief: Choice of benchmark index matters**

The Committee recognises that, for each asset class, there is a range of benchmark indices that they could use. As a result, the Committee focus on the benchmark's underlying characteristics and consider how they may be appropriate for the Fund.

**Beliefs: Rebalancing can add value**

Academic studies show that regular rebalancing can help add value over the long-term. The Committee will consider putting in place agreed tolerance ranges for their liquid assets, with the intention that assets will be rebalanced, at least towards target, should these ranges be breached.

**Belief: Environmental, social and corporate governance ('ESG') issues can have a material impact on the long term performance of its investments**

The Committee recognises that ESG issues can impact the Fund's returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers.

The Committee believes that companies with a responsible ESG policy are expected to give more predictable returns compared to companies without an ESG policy, over the longer term.

The Committee is reviewing its approaches to engagement and voting and will consider its ESG aims when constructing the Fund's investment portfolio. Divestment will remain the ultimate sanction for the Committee but will only be considered if prolonged engagement is viewed as being unsuccessful.

The Committee intends to make use of collaboration with other funds to pursue their ESG objectives, including through being members of the Local Authority Pension Fund Forum ("LAPFF"). The Committee also commits to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations.



## Report of the Head of Legal, Democratic Services & Business Intelligence

Pension Fund Committee – 15 March 2018

### Exclusion of the Public

<b>Purpose:</b>	To consider whether the Public should be excluded from the following items of business.	
<b>Policy Framework:</b>	None.	
<b>Consultation:</b>	Legal.	
<b>Recommendation(s):</b>	It is recommended that:	
<b>1)</b>	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.	
	<b>Item No's.</b>	<b>Relevant Paragraphs in Schedule 12A</b>
	7-12	14
<b>Report Author:</b>	Democratic Services	
<b>Finance Officer:</b>	Not Applicable	
<b>Legal Officer:</b>	Tracey Meredith – Head of Legal, Democratic Services & Business Intelligence(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
<b>12</b>	<b>Information relating to a particular individual.</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 12 should apply. Their 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 they 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>
<b>13</b>	<b>Information which is likely to reveal the identity of an individual.</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 13 should apply. Their 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 they 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>
<b>14</b>	<b>Information relating to the financial or business affairs of any particular person (including the authority holding that information).</b>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 14 should apply. Their view on the public interest test was that:</p> <ul style="list-style-type: none"> <li>a) Whilst they were 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</li> <li>b) Disclosure of the information would give an unfair advantage to tenderers for commercial contracts.</li> </ul> <p>This information is not affected by any other statutory provision which requires the information to be publicly registered.</p> <p>On that basis they 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><b>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.</b></p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 15 should apply. Their view on the public interest test was that whilst they are mindful of the need to ensure that transparency and accountability of public authority for decisions taken by them they were 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 they 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><b>Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.</b></p>
	<p>No public interest test.</p>
17	<p><b>Information which reveals that the authority proposes:</b>  <b>(a) To give under any enactment a notice under or by virtue of which requirements are imposed on a person; or</b>  <b>(b) To make an order or direction under any enactment.</b></p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 17 should apply. Their 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 they 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><b>Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime</b></p>
	<p>The Proper Officer (Monitoring Officer) has determined in preparing this report that paragraph 18 should apply. Their 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 they 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>

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

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# Agenda Item 9

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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Information) (Variation) (Wales) Order 2007.

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# Agenda Item 10

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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