

## DINAS A SIR ABERTAWE

### HYSBYSIAD O GYFARFOD

Fe'ch gwahoddir i gyfarfod

### PWYLLGOR CRONFA BENSIWN

**Lleoliad:** Ystafell Bwyllgor 5, Neuadd y Ddinas, Abertawe

**Dyddiad:** Dydd Iau, 13 Gorffennaf 2017

**Amser:** 10.00 am

**Cadeirydd:** Y Cynghorydd Clive Lloyd

#### **Aelodaeth:**

Cynghorwyr: P Downing, M B Lewis, D G Sullivan, W G Thomas a/ac M Thomas

**Aelod Cyfetholedig o Gastell-nedd Port Talbot:** Y Cynghorydd P Rees

**Cyd-ymgyngorwyr Buddsoddi Annibynnol:** V Furniss, N Mills

### AGENDA

Rhif y Dudalen.

- 1 Ymddiheuriadau am absenoldeb.
- 2 Datgeliadau o fuddiannau personol a rhagfarnol.  
[www.abertawe.gov.uk/DatgeliadauBuddiannau](http://www.abertawe.gov.uk/DatgeliadauBuddiannau)
- 3 **Cofnodion.** 1 - 8  
Cymeradwyo a llofnodi, fel cofnod cywir, gofnodion y cyfarfod(ydd) blaenorol.
- 4 **Presenoldeb Aelodau'r Bwrdd Pensiwn ym Mhwyllgor y Gronfa Bensiwn.** 9 - 11
- 5 **Datganiad Drafft o Gyfrifon 2016/17.** 12 - 54
- 6 **Partneriaeth Pensiwn Cymru - Diweddariad. (Er Gwybodaeth)** 55 - 63
- 7 **Cynllun Hyfforddi.** 64 - 68
- 8 **MIFID II. (Er Gwybodaeth)** 69 - 77
- 9 **Côd Tryloywder Costau'r LGPS. (Er Gwybodaeth)** 78 - 82
- 10 **Polisi Torri Amodau. (Er Gwybodaeth)** 83 - 86
- 11 **Adolygiad o Adroddiadau Rheoli Mewnol. (Er Gwybodaeth)** 87 - 106

12	Gwahardd y Cyhoedd.	107 - 110
13	Adroddiadau Ymgynghorwyr. (Er Gwybodaeth)	111 - 123
14	Adroddiad Ymgynghorydd Buddsoddi. (Er Gwybodaeth)	124 - 138
15	Crynodeb Buddsoddiadau. (Er Gwybodaeth)	139 - 150
16	Cyflwyniad Rheolwr y Gronfa: <ul style="list-style-type: none"><li>• Harbourvest – Ecwiti Preifat Byd-eang.</li></ul>	

**Cyfarfod nesaf:** Dydd Iau, 14 Medi 2017 ar 10.00 am



**Huw Evans**  
**Pennaeth Gwasanaethau Democraidd**  
**06/07/2017**

---

**Cyswllt: Gwasanaethau Democraidd: - 636923**

# Agenda Item 3

## CITY AND COUNTY OF SWANSEA

### MINUTES OF THE PENSION FUND COMMITTEE

HELD AT COMMITTEE ROOM 5, GUILDHALL, SWANSEA ON  
THURSDAY, 9 MARCH 2017 AT 10.00 AM

**PRESENT:** Councillor P Downing (Vice Chair) presided

<b>Councillor(s)</b>	<b>Councillor(s)</b>
C E Lloyd	D G Sullivan

**Neath Port Talbot County Borough Council Councillor:**  
P A Rees

<b>Officer(s)</b>	
Jeffrey Dong	Chief Treasury & Technical Officer
Karen Cobb	Senior Accountant
Lynne Miller	Pensions Manager
Jeremy Parkhouse	Democratic Services Officer
Stephanie Williams	Principal Lawyer

**Also Present:**  
N Mills Independent Investment Advisor  
V Furniss Independent Investment Advisor

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

In accordance with the Code of Conduct adopted by the City and 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.

**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 – My daughter-in-law is a contributory member of the Pension Scheme and 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 meeting held on 7 December 2016 be approved as a correct record.

42 **DRAFT TRIENNIAL VALUATION RATES AND ADJUSTMENT CERTIFICATION 2016.**

Chris Archer, AON Hewitt the Statutory Appointed Pension Fund Actuary presented a report that sought to ensure compliance with Local Government Pension Scheme Regulations.

It was added that in line with the Local Government Pension Scheme Regulations, the City & County of Swansea Pension Fund undertook a full triennial actuarial valuation as at 31<sup>st</sup> March 2016, with a view to measuring the pension fund's assets and liabilities and consequently determining appropriate Employer's contribution rates payable for the 3 years commencing 1<sup>st</sup> April 2017. The actuarial rates and adjustment certificate was provided at Appendix 1. The appointed fund actuary had met and presented to employers his main assumptions and areas of development around the 2016 valuation. Employers had been consulted about indicative draft results and options for ameliorating increased contribution rates.

The Committee asked questions of the AON Hewitt representative who responded accordingly.

**RESOLVED** that the draft triennial valuation rates and adjustment certification 2016 be approved.

43 **DRAFT FUNDING STRATEGY STATEMENT 2017.**

The Chief Treasury and Technical Officer provided for approval the Funding Strategy Statement 2017.

It was added that in line with the Local Government Pension Scheme Regulations, the City & County of Swansea Pension Fund is required to produce a funding strategy statement in consultation with its scheme employers and appointed actuary and advisors.

The main purpose of the Funding Strategy Statement was to set out the processes by which the Administering Authority:

- Established a clear and transparent funding strategy, specific to the Fund, which identified how employer's pension liabilities were best met going forward.
- Supported the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary rate of contributions as possible.
- Ensured that the regulatory requirements to set contributions as to ensure the solvency and long-term cost efficiency of the Fund were met.
- Took a prudent longer-term view of funding the Fund's liabilities.

It was noted that, whilst the funding strategy applicable to individual employers must be reflected in the Funding Strategy Statement / Investment Strategy Statement, its focus should at all times be on those actions which were in the best long term interests of the Fund.

**RESOLVED** that the Funding Strategy Statement 2017 be noted and approved, subject to any material changes before 31 March 2017 being approved by the Section 151 Officer and reported back to the Committee.

44 **REPORTS BREACHES POLICY.**

The Principal Pensions Manager presented a report that sought approval of the policy for reporting breaches.

It was explained that breaches of the law were required to be reported to the Pensions Regulator under paragraphs 241 to 275 of the Pensions Regulator's Code of Practice No. 14 (Governance and administration of public service pension schemes) – "the Code of Practice". It was added that breaches could occur in relation to a wide variety of the tasks normally associated with the administrative function of a pension scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

The report outlined the procedures to be adopted by the City and County of Swansea Pension Fund in respect of the Local Government Pension Scheme (LGPS) managed and administered by the City and County of Swansea, in relation to reporting breaches of the law to the Pensions Regulator (tPR).

Some of the key legal provisions were included at Appendix A, an example of a breach register was included at Appendix B and guidance to traffic light framework were provided at Appendix C. A report recording breaches would be presented to the Pension Board and Pension Fund Committee on a quarterly basis.

The Committee discussed the information contained within the report.

**RESOLVED** that the Policy be approved.

45 **BUSINESS PLAN 2017/18.**

The Chief Treasury and Technical Officer presented a report which sought to provide a working framework for the Pension Fund's programme of work for 2017/18. The Business Plan for 2017/18 was attached at Appendix 1.

**RESOLVED** that: -

- 1) The Annual Business Plan 2017/18 is noted and approved;
- 2) The timescale and responsibility for key action points throughout the year be noted.

46 **WALES INVESTMENT POOL - INTER AUTHORITY AGREEMENT & JOINT GOVERNANCE COMMITTEE.**

The Chief Treasury and Technical Officer presented a 'for information' report that provided at Appendix 1 the Council Report of 23 February 2017, which approved the

Inter Authority Agreement, Host Authority and establishment of Joint Governance Committee.

47 **CLIMATE CHANGE & CARBON INVESTMENT POLICY - AN UPDATE.**

The Chief Treasury and Technical Officer presented a 'for information' report which updated the Committee on the previous recommendation to commission a portfolio analysis with a view to formulating a carbon investment policy.

48 **DRAFT INVESTMENT STRATEGY STATEMENT 2017.**

The Chief Treasury and Technical Officer presented a report which sought approval of the investment strategy statement. It was outlined that in line with the Local Government Pension Scheme Regulations, the City & County of Swansea Pension Fund was required to publish an investment strategy statement which replaced the statement of investment principles. The requirements of the Investment Strategy Statement were set out in Regulation 7 and were outlined in the report.

The draft Investment Strategy Statement was provided at Appendix 1.

**RESOLVED** that the draft investment strategy statement 2017 was approved recognising it is a dynamic document which was subject to revision as appropriate, as circumstances required.

49 **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)**

50 **INDEPENDENT INVESTMENT CO-ADVISORS REPORTS.**

The report presented the economic update and market commentary from the perspective of the appointed Independent Advisors.

Attached at Appendix 1 were the quarterly reports ended 31 December 2016 of the two independent investment advisors, Mr Noel Mills and Mr Valentine Furniss. Mr

Furniss also circulated an investment snapshot to cover the period 31 December 2016 to 9 March 2017.

The Committee asked questions of each Advisor which were responded to accordingly.

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

51 **INVESTMENT SUMMARY.**

The Chief Treasury and Technical Officer provided a “for information” report which presented at Appendix 1 the quarterly investment summaries for the Pension Fund for the quarter, year and three years ended 31 December 2016.

52 **PRESENTATIONS OF THE FUND MANAGERS: -**

- 1) A joint presentation was made by Peter Hunt, Funmi Osiyemi and John Ware of Blackrock
- 2) A joint presentation was made by Katie Jupp and Christoph Englisch of Entrust Permal.

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

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

The meeting ended at 12.40 pm

**CHAIR**

## CITY AND COUNTY OF SWANSEA

### MINUTES OF THE SPECIAL PENSION FUND COMMITTEE

HELD AT COMMITTEE ROOM 6, GUILDHALL, SWANSEA ON  
THURSDAY, 22 JUNE 2017 AT 10.00 AM

**PRESENT:** Councillor P Downing (Vice Chair) presided

**Councillor(s)**

M B Lewis  
W G Thomas

**Councillor(s)**

D G Sullivan

**Councillor(s)**

M Thomas

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

P A Rees

**Officer(s)**

Karen Cobb  
Jeffrey Dong  
Jeremy Parkhouse  
Ben Smith  
Stephanie Williams

Senior Accountant  
Chief Treasury & Technical Officer  
Democratic Services Officer  
Section 151 Officer  
Principal Lawyer

**Also Present:**

N Mills  
W Marshall  
L McAleer  
G Hopgood  
S Gervaise Jones

Independent Investment Advisor  
Hymans Robertson  
Hymans Robertson  
B Finance  
B Finance

**Apologies for Absence**

Councillor(s): C E Lloyd

53 **ELECTION OF VICE CHAIR FOR THE 2017-2018 MUNICIPAL YEAR.**

**RESOLVED** that Councillor P Downing be elected Vice Chair for the 2017-2018 Municipal Year.

**(COUNCILLOR P DOWNING PRESIDED)**

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

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

Councillor M B Lewis - agenda as a whole - Pension Fund member of the City & County of Swansea Pension Fund.



Councillor D G Sullivan - agenda as a whole – My daughter-in-law is a contributory member of the Pension Scheme and I am in receipt of a Local Government Pension administered by Dyfed Pension Scheme - personal.

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

Councillor W G - agenda as a whole - Pension Fund member of the City & County of Swansea Pension Fund.

55 **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)**

56 **INFRASTRUCTURE MANAGER PRESENTATION & SELECTION.**

Sam Gervaise Jones and Guy Hopgood of B Finance provided the Committee to background information relating to the appointment process. The Committee received presentations as follows: -

- 1) A joint presentation was made by Niall Mills, Hamish Lea-Wilson and Alec Mackenzie-Smith of First State
- 2) A joint presentation was made by Andrea Echberg, Welwin Lobo and Andy Bush of Pantheon.

Questions in relation to the content of the presentations were asked by the Committee and responses were provided accordingly. The Committee received advice from the B Finance and Hymans Robertson representatives.

**RESOLVED** that First State be appointed as Infrastructure Manager.

The meeting ended at 12.17 p.m.

**CHAIR**

# Agenda Item 4

## Report of the Head of Legal, Democratic Services and Business Intelligence and Monitoring Officer

Pension Fund Committee – 13 July 2017

### LOCAL PENSION BOARD MEMBERS' ATTENDANCE AT PENSION FUND COMMITTEE

Purpose: To inform Committee members regarding future arrangements for attendance of Pension Board members at Pensions Committee.

Report Author: Tracey Meredith

Finance Officer: Jeff Dong

Legal Officer: Stephanie Williams

Access to Services Officer: N/A

#### FOR INFORMATION

#### 1. Background

1.1 The Pensions Board was established in Swansea Council on the 3<sup>rd</sup> March 2015 under the Local Government Pension Scheme Regulations 106 (1). The Board has its own Terms of Reference and operates independently of the Pension Fund Committee. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme, and includes assisting in the development and monitoring of process improvements at the request of the Committee. The role of the Board should be interpreted as covering all aspects of governance and administration of the LGPS including funding and investments.

1.2 The Board consists of 3 Member representatives and 3 Employer Representatives, and the Chair is selected on a rotating basis.

#### 2. Relationship with Pensions Committee

2.1 The role of the Local Pension Board is to 'assist' the Administering Authority. The Local Pension Board does not replace the Administering Authority as scheme manager or make decisions which are the responsibility of the Administering Authority in that role and have been properly delegated to a Pension Committee or officer.

2.2 The Local Government Pensions Scheme Advisory Board has advised in Guidance that to ensure that the Local Pension Board can effectively undertake its role it would be expected that all

papers considered by the Pension Committee (including papers that were considered confidential) are made available to the Local Pension Board. If, in exceptional circumstances, the Administering Authority considered this was not possible then the Local Pension Board should be fully informed as to the reason why that decision was taken.

### **3. Attendance at Pensions Committee**

3.1 Currently Pension Boards members are not able to attend full meetings of the Pensions Committee and must leave when any exempted items are discussed similar to members of the public.

3.2 A letter was received by the previous Chair of the Pensions Committee Clir. Stewart, from the Chair of the Pensions Board Clir. Alan Lockyear. This formally requests attendance of a Pension Board representative at the Pensions Committee for the full agenda part one and two which includes exempted items. The letter states this is to comply with their Statutory duties and the representative would report back to the full Pensions Board.

3.3 Research shows that in Wales 5 Pensions Committees don't allow full attendance of Pensions Board members and 3 allow attendance.

3.4 Advice was given by the Head of Legal and Monitoring Officer and the previous Director of Resources in response to this letter. The advice is that Pension Board Members can have access to the confidential papers at the same time they are published for the Pensions Committee, and that the Chair or Vice Chair can attend the Committee meeting and stay for exempt reports. However there may be exceptional cases where they will be asked to leave and this will be explained to them.

3.4 The Pensions Board members would also be required to sign a confidentiality undertaking in relation to attendance at Pensions Committee for exempt items and access to exempt reports.

3.5 The Committee should therefore note the advice that the Pension Board Chair or Vice Chair can have access to confidential papers and stay for the whole Committee meeting; however there may be exceptional cases where they will be asked to leave and this will be explained to them.

### **4. Equality and Engagement Implications**

4.1 None

### **5. Legal Implications**

5.1 The legal implications are outlined in the report.

## **6. Financial Implications**

6.1 There are no financial implications.

### **FOR INFORMATION**

**Background papers:** - LGPS Advisory Board Guidance

**Appendices:** None

# Agenda Item 5

## Report of the Section 151 Officer

### Pension Fund Committee – 13 July 2017

#### CITY & COUNTY OF SWANSEA PENSION FUND DRAFT STATEMENT OF ACCOUNTS 2016/17

<b>Purpose:</b>	To approve the draft statement of accounts for the City & County of Swansea Pension Fund
<b>Reason for Decision:</b>	To comply with governance/reporting guidelines.
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation:</b>	That The City & County of Swansea Pension Fund Draft Statement of Accounts is approved.
<b>Report Author:</b>	J Dong
<b>Finance Officer:</b>	J Dong
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	S Hopkins

#### City & County of Swansea Pension Fund Draft Statement of Accounts 2016/17

##### **1 Background**

- 1.1 The City & County of Swansea Pension Fund Accounts form a distinct and separate component of the Statement of Accounts of the City & County of Swansea as a whole.

##### **2 Audit**

- 2.1 The Wales Audit Office have commenced their audit of the Pension Fund Draft Statement of Accounts 2016/17 in line with their audit plan presented to Pension Fund Committee earlier in the year. Their report shall be presented to Pension Fund Committee at the conclusion of the audit later in the year.

##### **3 Recommendation**

- 3.1 The Pension Fund Committee is asked to approve the City & County of Swansea Pension Fund Draft Statement of Accounts 2016/17 as attached at Appendix 1 which are subject to audit.

##### **4 Legal Implications**

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

##### **5 Financial Implications**

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

## **6 Equality and Engagement Implications**

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

**Background Papers:** None.

**Appendices:** Appendix A - Statement of Accounts.







# CITY & COUNTY OF SWANSEA PENSION FUND

## Section 151 Officer's Certificate

I hereby certify that the statement of accounts on pages 154 to 193 present fairly the position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31st March 2017.



12/06/17

Ben Smith  
Head of Financial Services

# CITY & COUNTY OF SWANSEA PENSION FUND

## Fund Account For The Year Ended 31st March

<b>2015/16</b>		<b>2016/17</b>		
<b>£'000 Contributions and benefits</b>	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Contributions receivable :				
61,743	Employers contribution	3	64,818	
16,649	Members contribution	3	16,903	81,721
2,451	Transfers in	4	<hr/>	3,841
119	Other income	5		194
<hr/>				<hr/>
80,962				85,756
Benefits payable :				
-56,555	Pensions payable	6	-58,454	
-16,357	Lump sum benefits	6	-17,779	-76,233
<hr/>			<hr/>	
Payments to and on account of leavers :				
-127	Refunds of contributions	7	-120	
-4,718	Transfers out	7	-4,750	-4,870
<hr/>			<hr/>	
-1,033	Administrative expenses	8		-1,141
<hr/>				<hr/>
<b>2,172</b>	<b>Net additions from dealing with members</b>			<b>3,512</b>
<hr/> <hr/>				<hr/> <hr/>
<b>Returns on investments</b>				
26,214	Investment income	9		29,838
-50,884	Change in market value of investments	12		313,086
-4,662	Investment management expenses	8		-5,512
<hr/>				<hr/>
<b>-29,332</b>	<b>Net returns on investments</b>			<b>337,412</b>
<hr/>				<hr/>
<b>-27,160</b>	<b>Net Increase in the fund during the year</b>			<b>340,924</b>
<hr/> <hr/>				<hr/> <hr/>
1,539,789	Opening Net Assets of the Fund			1,512,629
<b>1,512,629</b>	<b>Closing Net Assets of the Fund</b>			<b>1,853,553</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## Net Assets Statement As At 31 March

31st March 2016		31st March 2017
£'000	Notes	£'000
<b>Investments at market value:</b>		
1,445,832 Investment Assets	11	1,778,010
99 Cash Funds	12	1,664
62,783 Cash Deposits	12	67,561
3,137 Other Investment Balances - Dividends Due	12	3,211
<b>1,511,851 Sub Total</b>		<b>1,850,446</b>
6,592 Current Assets	16	7,402
-5,814 Current Liabilities	16	-4,295
<b><u>1,512,629</u> Net assets</b>		<b><u>1,853,553</u></b>

The financial statements on pages 154 to 189 summarise the transactions of the Fund and deal with the net assets at the disposal of the Pension Fund Committee. The financial statements do not take account of liabilities and other benefits which fall due after the period end. The actuarial position of the Fund, which does take account of such liabilities, is dealt with in the Statement of the Actuary in the Annual Report of the Pension Fund and a summary is included in Note 18 of this statement, and these accounts should be read in conjunction with this information.

## Notes to the Financial Statements

### 1. Basis of preparation

The financial statements summarise the fund's transactions for the 2016/17 financial year and its position at year-end 31 March 2017. The financial statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements do not take account of liabilities and other benefits which fall due after the period end.

### 2. Accounting Policies

The following principal accounting policies, which have been applied consistently (except as noted below), have been adopted in the preparation of the financial statements:

#### (a) Contributions

Normal contributions, both from the employees and from the employer, are accounted for on an accruals basis in the month employee contributions are deducted from the payroll.

Early Access contributions from the employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received. Under current rules, employers can exercise discretion to give access to a person's pension rights early (other than for ill health). Where this is done, the additional pension costs arising are recharged to the relevant employer and do not fall as a cost to the fund. Under local agreements some Employers have exercised the right to make these repayments over three years incurring the relevant interest costs. As a result total income is recognised in the Fund Account with amounts outstanding from Employers within debtors.

Other Contributions relate to additional pension contributions paid in order to purchase additional pension benefits.

#### (b) Benefits

Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.

Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the fund as appropriate.

#### (c) Transfers to and from other Schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the fund. They are accounted for on a cash basis, or where Trustees have agreed to accept the liability in advance of receipt of funds, on an accruals basis from the date of the agreement.

#### (d) Investments

- i) The net assets statement includes all assets and liabilities of the fund at the 31st March.

## 2. Accounting Policies (continued)

- ii) Listed investments are included at the quoted bid price as at 31st March.
- iii) Investments held in pooled investment vehicles are valued at the closing bid price at 31st March if both bid and offer price are published; or, if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- iv) Unquoted securities are valued by the relevant investment managers based on the Fund's share of the net assets or a single price advised by the Fund Manager, in accordance with generally accepted guidelines.
- v) Unit trusts are valued at the Managers' bid prices at 31st March.
- vi) Accrued interest is excluded from the market value of fixed interest securities but is included in accrued investment income.
- viii) Transaction costs are included in the cost of purchases and sales proceeds.
- ix) Investments held in foreign currencies have been translated into sterling values at the relevant rate ruling as at 31st March.
- x) Property Funds/Unit Trusts are valued at the bid market price, which is based upon regular independent valuation of the underlying property holdings of the Fund/Unit Trust.

### e) Financial Instruments

Pension Fund assets have been assessed as fair value through profit and loss in line with IAS19.

### f) Cash and Cash Funds

Cash comprises cash in hand and cash deposits. Cash funds are highly liquid investments held with Investment Managers.

### g) Investment Income

Investment income and interest received are accounted for on an accruals basis. When an investment is valued ex dividend, the dividend is included in the Fund account. Distributions from pooled investment vehicles are automatically reinvested in the relevant fund.

# **CITY & COUNTY OF SWANSEA PENSION FUND**

## **2. Accounting Policies (continued)**

### **h) Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net asset statement as 31 March 2017 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

- Actuarial present value of promised retirement benefits

### **i) Critical judgements in applying accounting policies**

The funds liability is calculated every three years by the appointed actuary. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary. The estimate is subject to significant variances based on changes to the underlying assumptions.

### **j) Other**

Other expenses, assets and liabilities are accounted for on an accruals basis.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 3. Analysis of Contributions

Total Contributions		Total Contributions
2015/16 £'000		2016/17 £'000
<b><u>Administering Authority</u></b>		
<b><u>43,983</u></b>	City & County of Swansea	<b><u>46,623</u></b>
<b><u>Admitted Bodies</u></b>		
378	Celtic Community Leisure	364
9	Colin Laver Heating Limited	0
18	Swansea Bay Racial Equality Council	42
111	Wales National Pool	117
25	Capgemini	0
2,614	NPT Homes	2,547
895	Grwp Gwalia	676
23	Rathbone Training Ltd (CCS)	11
36	Rathbone Training Ltd (Gower College)	36
<b><u>4,109</u></b>	<b>Total Admitted Bodies</b>	<b><u>3,793</u></b>
<b><u>Scheduled Bodies</u></b>		
7	Cilybebyll Community Council	8
17	Coedffranc Community Council	29
1,662	Gower College	1,737
1,735	NPTC Group	1,700
68	Neath Town Council	71
25,001	Neath Port Talbot County Borough Council	26,087
27	Margam Joint Crematorium Committee	37
5	Pelenna Community Council	5
15	Pontardawe Town Council	16
40	Swansea Bay Port Health Authority	28
1,723	University of Wales Trinity St Davids	1,584
0	Briton Ferry Town Council	3
0	Llanrhidian Higher Community Council	2
0	Ysalyfera Community Council	1
<b><u>30,300</u></b>	<b>Total Scheduled Bodies</b>	<b><u>31,305</u></b>
<b><u>78,392</u></b>	<b>Total Contributions Receivable</b>	<b><u>81,721</u></b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
	Employers	
58,800	Normal	60,780
0	Other	0
2,943	Early Access	4,038
<u>61,743</u>	<b>Total</b>	<u>64,818</u>
	Employees	
16,612	Normal	16,863
37	Other	40
<u>16,649</u>	<b>Total</b>	<u>16,903</u>
<u>78,392</u>	<b>Total Contributions Receivable</b>	<u>81,721</u>



# CITY & COUNTY OF SWANSEA PENSION FUND

## 4. Transfers In

Transfers in comprise of:

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
65	Group transfers from other schemes	0
2,386	Individual transfers from other schemes	3,841
<u>2,451</u>	<b>Total</b>	<u>3,841</u>

## 5. Other Income

Other income comprise of:

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
127	Bank Interest	200
-8	Early Access - Interest	-6
<u>119</u>	<b>Total</b>	<u>194</u>

## 6. Benefits Payable

By category

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
56,555	Pensions	58,454
14,165	Commutation and lump sum retirement benefits	15,417
2,192	Lump sum death benefits	2,362
<u>72,912</u>	<b>Total</b>	<u>76,233</u>

## 7. Payments to and on account of leavers

Transfers out and refunds comprise of:

<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
127	Refunds to members leaving service	120
4,718	Individual transfers to other schemes	4,750
<u>4,845</u>	<b>Total</b>	<u>4,870</u>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 8. Administrative and Investment Management Expenses

All administrative and investment management expenses are borne by the Fund:

2015/16 £'000		2016/17 £'000
	<b>Administrative Expenses</b>	
684	Support Services (SLA) & Employee Costs	690
30	Printing & Publications	18
168	Other	169
<u>882</u>		<u>877</u>
	<b>Oversight &amp; Governance</b>	
18	Actuarial Fees	55
43	Advisors Fees	45
50	External Audit Fees	50
26	Performance Monitoring Service	10
9	Pension Fund Committee	6
5	Pension Board	1
0	All Wales Pool Fees	97
<u>151</u>		<u>264</u>
	<b>Investment Management Expenses</b>	
4,117	Management Fees	4,894
437	Performance Fees	494
108	Custody Fees	124
<u>4,662</u>		<u>5,512</u>
<u>5,695</u>	<b>Total</b>	<u>6,653</u>

The above represents direct fees payable to the appointed fund managers, however the following mandates are appointed via a fund of funds/manager of managers approach and the table below represents the fees payable to underlying managers. Returns for these mandates are net of underlying fee costs. However for disclosure purposes the fees incurred were:

2015/16 £'000		2016/17 £'000
199	Partners Group	277
353	Blackrock	678
1230	Schroders Property Fund	1,300
726	Permal	733
706	HarbourVest	715
<u>3,214</u>	<b>Total</b>	<u>3,703</u>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 9. Investment Income

2015/16	2016/17
£'000	£'000
13,301 U.K. Equities	15,596
8,066 Overseas Equities	9,169
3,909 Managed Fund - Fixed Interest	3,854
936 Pooled Investment vehicles - Property Fund	1,289
2 Interest	-70
<b><u>26,214 Total</u></b>	<b><u>29,838</u></b>

The assets under management by Legal and General are managed wholly in a pooled investment vehicle. The pooled investment vehicles are a combination of equity, bond and money market unit funds which operate on an 'accumulation' basis, i.e. all dividends and investment income are automatically reinvested back into their relevant funds and not distributed as investment income. Therefore, the fund value and change in market value on these funds will reflect both capital appreciation / depreciation plus reinvested investment income.

## 10. Taxation

### a) United Kingdom

The Fund is exempt from Income Tax on interest and dividends and from Capital Gains Tax but now has to bear the UK tax on other income. The fund is reimbursed V.A.T. by H.M. Revenue and Customs and the accounts are shown exclusive of V.A.T.

### b) Overseas

The majority of investment income from overseas suffers a withholding tax in the country of origin.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 11. Investment Assets

	31st March 2016			31st March 2017		
	UK £'000	Overseas £'000	Total £'000	UK £'000	Overseas £'000	Total £'000
<b>Equities</b>						
Quoted	342,618	344,274	686,892	414,015	456,711	870,726
<b>Pooled investment vehicles</b>						
Managed Funds:						
Quoted:						
Equity	0	13,386	13,386	0	16,585	16,585
Fixed Interest	0	113,351	113,351	0	118,328	118,328
Unquoted:						
Equity	122,374	235,026	357,400	149,787	315,506	465,293
Fixed Interest	56,862	15,412	72,274	60,643	16,349	76,992
Index-linked	26,923	0	26,923	32,282	0	32,282
Property Unit Trust	13,204	0	13,204	12,053	0	12,053
Property Fund	34,956	36,524	71,480	36,162	39,025	75,187
Hedge Fund	0	48,494	48,494	0	52,318	52,318
Private Equity	0	42,428	42,428	0	58,246	58,246
<b>Total pooled investment vehicles</b>	<b>254,319</b>	<b>504,621</b>	<b>758,940</b>	<b>290,927</b>	<b>616,357</b>	<b>907,284</b>
<b>Total equities and pooled investment vehicles</b>	<b>596,937</b>	<b>848,895</b>	<b>1,445,832</b>	<b>704,942</b>	<b>1,073,068</b>	<b>1,778,010</b>
Cash Funds			99			1,664
Cash			62,783			67,561
Other Investment Balances Due			3,137			3,211
<b>Total</b>			<b>1,511,851</b>			<b>1,850,446</b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 11. Investment Assets (continued)

An analysis of investment assets based on the class of investment is shown below :

<b>31st March 2016 £'000</b>	<b>Investment assets</b>	<b>31st March 2017 £'000</b>
185,625	Fixed interest	195,320
26,923	Index linked securities	32,282
464,992	U.K. equities	563,802
592,686	Overseas Equities	788,802
84,684	Property	87,240
48,494	Hedge Funds	52,318
42,428	Private Equity	58,246
<b><u>1,445,832</u></b>	<b>Total investment assets</b>	<b><u>1,778,010</u></b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 12. Reconciliation of movements in investments

	Value at 31st March 2016	Purchases	Sales	Change in Market Value	Value at 31st March 2017
	£'000	£'000	£'000	£'000	£'000
<b>Equities</b>					
Aberdeen	100,275	15,056	-13,258	28,894	130,967
JPM	262,540	271,136	-266,026	82,602	350,252
Schroders	337,463	65,696	-58,375	61,308	406,092
L&G	357,400	1,290	-703	107,306	465,293
	<u>1,057,678</u>	<u>353,178</u>	<u>-338,362</u>	<u>280,110</u>	<u>1,352,604</u>
<b>Property</b>					
<b>UK</b>					
Schroders	48,160	4,883	-5,188	360	48,215
Partners	23,906	1,326	-3,780	3,751	25,203
Invesco	12,618	0	-494	1,698	13,822
	<u>84,684</u>	<u>6,209</u>	<u>-9,462</u>	<u>5,809</u>	<u>87,240</u>
<b>Fixed Interest</b>					
<b>Fixed Interest</b>					
L&G	72,274	0	-720	5,438	76,992
Goldman	113,351	3,854	0	1,123	118,328
	<u>185,625</u>	<u>3,854</u>	<u>-720</u>	<u>6,561</u>	<u>195,320</u>
<b>Index-Linked</b>					
L&G	26,923	0	0	5,359	32,282
	<u>26,923</u>	<u>0</u>	<u>0</u>	<u>5,359</u>	<u>32,282</u>
<b>Hedge Funds</b>					
BlackRock	25,733	0	-378	2,235	27,590
Fauchier	22,761	0	-213	2,180	24,728
	<u>48,494</u>	<u>0</u>	<u>-591</u>	<u>4,415</u>	<u>52,318</u>
<b>Private Equity</b>					
HarbourVest	42,428	13,313	-8,325	10,830	58,246
	<u>42,428</u>	<u>13,313</u>	<u>-8,325</u>	<u>10,830</u>	<u>58,246</u>
<b>Cash funds</b>					
Schroders	99	4,160	-2,597	2	1,664
	<u>99</u>	<u>4,160</u>	<u>-2,597</u>	<u>2</u>	<u>1,664</u>
<b>Total</b>	<u>1,445,931</u>	<u>380,714</u>	<u>-360,057</u>	<u>313,086</u>	<u>1,779,674</u>
<b>Cash</b>	<b>62,783</b>				67,561
<b>Other Investment Balances -</b>					
<b>Dividends Due</b>	<b>3,137</b>				3,211
<b>TOTAL</b>	<u><b>1,511,851</b></u>			<u><b>313,086</b></u>	<u><b>1,850,446</b></u>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 12. Reconciliation of movements in investments (continued)

Transaction costs are included in the cost of purchase and sales proceeds. Identifiable transaction costs incurred in the year relating to segregated investments amounted to £264k (2015/16: £180k). Costs are also incurred by the Fund in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately disclosed.

## 13. Concentration of Investments

The following investments represented 5% or more of the Fund's net assets at 31st March 2017:

	Value as at the 31st March 2016 £'000	Proportion of Net Asset %	Value as at the 31st March 2017 £'000	Proportion of Net Asset %
L&G UK Equity Index	122,374	8.1	149,787	8.1
Goldman Sachs Global Libor Plus II	113,351	7.5	118,328	6.4
L&G North America Equity Index	108,446	7.2	146,379	7.9

## 14. Realised Profit on the Sale of Investments

2015/16 £'000	2016/17 £'000
-3,917 U.K. Equities	9,312
2,377 Overseas Equities	39,557
946 Property Fund	2,286
11 Cash Fund	2
<b><u>-583</u> Net Profit</b>	<b><u>51,157</u></b>

## 15. Fixed Interest and Index Linked Investments

The fixed interest and index-linked investments are comprised of:

31st March 2016 £'000	31st March 2017 £'000
112,350 UK Public Sector	147,948
100,198 Other	79,654
<b><u>212,548</u></b>	<b><u>227,602</u></b>

# CITY & COUNTY OF SWANSEA PENSION FUND

## 16. Current Assets and Liabilities

The amounts shown in the statement of Net Assets are comprised of:

<b>31st March</b>		<b>31st March</b>
<b>2016</b>		<b>2017</b>
<b>£'000</b>		<b>£'000</b>
<b>Current Assets</b>		
603	Contributions - Employees	593
2,084	Contributions - Employers	2,594
2,143	Early Access Contributions Debtor	2,565
306	Transfer Values	406
1,456	Other	1,244
<u><b>6,592</b></u>		<u><b>7,402</b></u>
<b>Current Liabilities</b>		
-930	Investment Management Expenses	-547
-2,493	Commutation and lump sum retirement benefits	-1,970
-427	Lump sum death benefits	-44
-328	Transfers to Other Schemes	-677
-602	Payroll Deductions - Tax	-602
-695	Payable Control List	-30
-339	Other	-425
<u><b>-5,814</b></u>		<u><b>-4,295</b></u>
<u><b>778 Net</b></u>		<u><b>3,107</b></u>

Analysed as:

<b>31st March</b>		<b>31st March</b>
<b>2016</b>		<b>2017</b>
<b>£'000</b>		<b>£'000</b>
<b>Current Assets</b>		
573	Central Government Bodies	511
5,310	Other Local Authorities	6,039
709	Other Entities and Individuals	852
<u><b>6,592</b></u>		<u><b>7,402</b></u>
<b>Current Liabilities</b>		
-48	Central Government Bodies	-216
-1,490	Other Local Authorities	-739
-4,276	Other Entities and Individuals	-3,340
<u><b>-5,814</b></u>		<u><b>-4,295</b></u>
<u><b>778 Net</b></u>		<u><b>3,107</b></u>



# CITY & COUNTY OF SWANSEA PENSION FUND

## 16. Current Assets & Liabilities (continued)

### Early Access Debtor

	Instalment Due 2017/18 £'000	Instalment Due 2018/19 £'000	Instalment Due 2019/20 £'000	Instalment Due 2020/21 £'000	Total £'000
Early Access Principal Debtor	2,728	4	3	0	2,735
Early Access Interest Debtor	1	0	0	0	1
<b>Total (Gross)</b>	<b>2,729</b>	<b>4</b>	<b>3</b>	<b>0</b>	<b>2,736</b>

## 17. Capital and Contractual Commitments

As at 31st March 2017 the Scheme was committed to providing funding to appointed managers investing in unquoted securities. These commitments amounted to £70.0m (2015/16 : £81.0m).

# CITY & COUNTY OF SWANSEA PENSION FUND

## 18. Statement of the Actuary for the year ended 31 March 2017

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the City & County of Swansea Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme (Administration) Regulations 2013.

### Actuarial Position

1 The valuation as at 31 March 2016 showed that the funding ratio of the Fund was broadly similar to the funding ratio as at the previous valuation, with the market value of the Fund's assets at 31st March 2016 (of £1,512.6M) covering 80% of the liabilities in respect of service prior to the valuation date allowing, in the case of pre 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

2 The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 was:

- 18.0% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate).

#### Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 22 years from 1 April 2017 (the secondary rate), equivalent to 7.0% of pensionable pay (or £20.1M in 2017/18, and increasing by 3.5% p.a. thereafter).

3 In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon Hewitt Limited's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the respective employers.

4 The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at the time. The approach adopted, and the recovery period used for each employer was agreed with the administering authority reflecting the employers' circumstances.

5 The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 18. Statement of the Actuary for the year ended 31 March 2017 (continued)

### Discount rate for periods in service

Scheduled body employers *	4.6% p.a.
Orphan body employers	4.6% p.a.

### Discount rate for periods after leaving service

Scheduled body employers *	4.6% p.a.
Orphan body employers	2.5% p.a.
Rate of pay increase	3.5% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increase in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

*\*The scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*

*In addition the discount rate for orphan liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a. in service and left service.*

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) Core Projections Model released with Working Paper 91 with Core assumptions, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 were :

	Men	Women
Current pensioners aged 65 at the valuation date	22.8	24.3
Future pensioners aged 45 at the valuation date	24.4	26.1

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

8. This Statement has been prepared by the current Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2016. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

## **CITY & COUNTY OF SWANSEA PENSION FUND**

### **18. Statement of the Actuary for the year ended 31 March 2017 (continued)**

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, the City and County of Swansea, the Administering Authority of the Fund, in respect of this Statement.

9. The report on the actuarial valuation as at 31 March 2016 is available from the Fund's website at the following address:

<http://www.swanseapensionfund.org.uk/investment-and-fund/actuarial-valuations/>

Aon Hewitt Limited  
May-17

### **Actuarial Present Value of Promised Retirement Benefits**

CIPFA's Code of Practice also requires the actuarial present value of the promised retirement benefits to be disclosed based on IAS26 and using assumptions relevant to IAS19 and not the funding assumptions above. The actuarial present value of the promised retirement benefits on this basis as at 31st March 2016 is £2,249.7m (31st March 2013 £1,936.8m), which compares the market value of the assets at that date of £1,512.6m (31st March 2013 £1,277.6m).

### **Definitions**

#### **Admission Body**

An employer admitted to the Fund under an admission agreement.

#### **Orphan Body**

This is an admission body or other employer whose participation in the Fund may cease at some future point in time, after which it is expected that the Administering Authority will have no access to future contributions in respect of the employer's liabilities in the Fund once any liability on cessation has been paid.

#### **Scheduled Body**

Employers which participate in the Fund under Schedule 2 of the Administration Regulations.

## 18. Actuarial Present Value of Promised Retirement Benefits - Statement of the Actuary for the year ended 31 March 2017 (continued)

### Subsumption and subsumption body

When an admission body or other employer ceases participation in the Fund, so that it has no employees contributing to the Fund and once any contribution on cessation as required by the regulations has been paid, the Fund will normally be unable to obtain further contributions from that employer (eg if future investment returns are less than assumed). It is however possible for another long term employer in the Fund (generally a scheduled body) to agree to be a source of future funding should any funding shortfalls emerge on the original employer's liabilities. The long term employer effectively subsumes the assets and liabilities of the ceasing employer into its own assets and liabilities. In this document this is known as subsumption. In this document the admission body or other employer being subsumed is referred to as a subsumption body and its liabilities are known as subsumed liabilities.

### Certificate of the Actuary Regarding the Contributions Payable by the Employing

In accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 (the "Administration Regulations"), we certify that contributions should be paid by Employers at the following rates for the period 1st April 2014 to 31st March 2017.

- i) A common rate of 16.2% of Pensionable Pay.
- ii) Individual adjustments which, when added to or subtracted from the common rate, produce the following Employer contribution rates :

## CITY & COUNTY OF SWANSEA PENSION FUND

### 18. Actuarial Present Value of Promised Retirement Benefits - Statement of the Actuary for the year ended 31 March 2017 (continued)

Employer	Year Commencing 1 April		
	2014 % Pensionable Pay	2015 % Pensionable Pay	2016 % Pensionable Pay
<b>Scheduled bodies</b>			
City & County of Swansea	22.4	22.4	22.4
Neath Port Talbot County Borough	22.5	23.0	24.0
Pontardawe Town Council	19.7	19.7	19.7
Cilybebyll Community Council	20.5	20.5	20.5
Pelenna Community Council	21.9	23.6	25.3
Swansea Bay Port Health Authority	22.4	22.4	22.4
Neath Port Talbot Homes	16.2	16.2	16.2
Grwp Gwalia Cyf	20.4	20.4	20.4
Colin Laver Heating Limited	19.7	19.7	19.7
Swansea Bay Racial Equality Council	27.2	30.8	34.3
Celtic Community Leisure	11.1	11.1	11.1
Wales National Pool	14.5	14.5	14.5
Cap Gemini	18.7	18.7	18.7

Employer	Contribution rate 1 April 2014 to 31 March 2017 % Pensionable Pay	Additional monetary amount Year commencing 1 April		
		2014 £	2015 £	2016 £
<b>Scheduled bodies</b>				
Margam Joint Crematorium Committee	19.2	4,600	4,800	5,000
Coedffranc Community Council	19.2	3,700	3,850	4,000
Neath Town Council	19.2	15,100	15,700	16,300
Gower College	15.4	164,400	170,800	177,500
NPTC Group	14.7	151,900	157,800	164,000
<b>Admission bodies</b>				
Trinity St Davids	22.4	225,000	450,000	481,000

The contributions shown above represent the minimum contributions to be paid by each Employer. Employers may choose to pay additional contributions from time to time subject to the Administering Authority's agreement.

Where payments due from an Employer are expressed as monetary amounts, the amounts payable by that Employer should be adjusted to take account of any amounts payable, in respect of surplus or shortfall to which those monetary payments relate, by new employers created after the valuation date which have been credited with proportions of the assets and liabilities of the relevant Employer. Any adjustment should be as advised by the Fund Actuary.

Additional contributions may be required in respect of any additional liabilities that arise under the provisions of Regulations 30, 31, 35 and 38 of the 2013 Regulations, payable over a period of up to three years and Employers will be notified of such contributions separately by the Administering Authority.

The contributions rates for the City & County of Swansea and for Neath Port Talbot County Borough Council have been set as a percentage of pay. However, minimum monetary contribution amounts for these employers have been agreed with the Administering Authority and if the contributions actually received fall below this minimum level additional payments will be required.

Contribution rates for Employers commencing participation in the Fund after 31 March 2013 will be advised separately.

## **19. Related party transactions**

£690k (£684k 2015/16) was paid to the City & County of Swansea for the recharge of Administration, I.T., Finance and Directorate & Legal Services during the year.

Contributions received from admitted and scheduled bodies as detailed on page 161.

The City & County of Swansea acts as administering Authority for the City and County of Swansea Pension Fund (formerly the West Glamorgan Pension Fund).

Transactions between the Authority and the Pension Fund mainly comprise the payment to the Pension Fund of employee and employer payroll superannuation deductions, together with payments in respect of enhanced pensions granted by Former Authorities.

The Pension Fund currently has 35 scheduled and admitted bodies. Management of the Pension Scheme Investment Fund is undertaken by a panel. The panel is advised by two independent advisors.

### **Governance**

There are 7 councillor members of the pension committee who are active members in the City & County of Swansea Pension Fund. The benefit entitlement for the Councillors is accrued under the same principles that apply to all other members of the Fund.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 20. Additional Voluntary Contributions

Some members of the Fund pay voluntary contributions to the fund's AVC providers, The Prudential, to buy extra pension benefits when they retire. These contributions are invested in a wide range of assets to provide a return on the money invested. Some members also still invest and have funds invested with the legacy AVC providers, Equitable Life and Aegon.

The Pension Fund accounts do not include the assets held by The Prudential, Equitable Life or Aegon. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only.

AVC Provider	Value of Funds at 1st April 2016	Purchases at Cost (Contributions In/Out)	Sale Proceeds	Change in Market Value	Value of Funds at 31st March 2017
	£'000	£'000	£'000	£'000	£'000
Prudential	4,225	1,719	-1,048	330	5,226
Aegon	1,351	51	-163	-15	1,224
Equitable Life	296	2	-38	19	279
<b>Totals</b>	<b>5,872</b>	<b>1,772</b>	<b>-1,249</b>	<b>334</b>	<b>6,729</b>



# CITY & COUNTY OF SWANSEA PENSION FUND

## 21. Membership

The Pension Fund covers City & County of Swansea employees (except for teachers, for whom separate pension arrangements apply), and other bodies included in the schedule.

Detailed national regulations govern the rates of contribution by employees and employers, as well as benefits payable. At 31st March 2017 there were 17,903 contributors, 12,200 pensioners and 11,583 deferred pensioners.

<b>Membership statistics</b>	<b>31st March 2013</b>	<b>31st March 2014</b>	<b>31st March 2015</b>	<b>31st March 2016</b>	<b>31st March 2017</b>
	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Contributors	14,586	15,576	16,285	17,469	17,903
Pensioners	10,432	10,833	11,261	11,745	12,200
Deferred Pensioners	8,815	9,663	9,801	11,226	11,583
<b>Total</b>	<b>33,833</b>	<b>36,072</b>	<b>37,347</b>	<b>40,440</b>	<b>41,686</b>

See Appendix 1 for current year analysis

## 22. Fair Value of Investments

### Financial Instruments

The Fund invests mainly through pooled vehicles with the exception of three segregated equity mandates. The managers of these pooled vehicles invest in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings and unlisted equity and also monitor credit and counterparty risk, liquidity risk and market risk.

### Financial Instruments - Gains & Losses

Gains and losses on financial instruments have been disclosed within note 9, 12 and 14 of the pension fund accounts.

### Fair Value – Hierarchy

The fair value hierarchy introduced as part of the new accounting Code under IFRS7 requires categorisation of assets based upon 3 levels of asset valuation inputs -

- Level 1 - quoted prices for similar instruments.
- Level 2 - directly observable market inputs other than Level 1 inputs.
- Level 3 - inputs not based on observable market data.

The table on the following page shows the position of the Fund's assets at 31st March 2016 and 2017 based upon this hierarchy:

# CITY & COUNTY OF SWANSEA PENSION FUND

## 22. Fair Value of Investments (continued)

### FAIR VALUE - HIERARCHY

	31 March 2016			31 March 2017			
	Market Value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Equities</b>							
UK Equities	342,618	342,618	-	-	414,015	-	-
Overseas Equities	344,274	344,274	-	-	456,711	-	-
<b>Pooled Investment Vehicles</b>							
Fixed-Interest Funds							
UK Equity	113,351	113,351	-	-	118,328	-	-
Overseas Equity	122,374	-	-	122,374	-	-	149,787
Fixed Interest	248,412	13,386	-	235,026	16,585	-	315,506
Index-linked	72,274	-	-	72,274	-	-	76,992
Property Unit Trust	26,923	-	-	26,923	-	-	32,282
Property Fund	13,204	-	-	13,204	-	-	12,053
Hedge Fund	71,480	-	-	71,480	-	-	75,187
Private Equity	48,494	-	-	48,494	-	-	52,318
Infrastructure	42,428	-	-	42,428	-	-	58,246
	-	-	-	-	-	-	-
Cash	62,882	62,882	-	-	69,225	-	-
Other Investment Balances -							
Dividends Due	3,137	3,137	-	-	3,211	-	-
<b>Total</b>	<b>1,511,851</b>	<b>879,648</b>	-	<b>632,203</b>	<b>1,850,446</b>	<b>1,078,075</b>	<b>772,371</b>

## 23. INVESTMENT RISKS

As demonstrated above, the Fund maintains positions indirectly via its investment managers in a variety of financial instruments including bank deposits, quoted equity instruments, fixed interest securities, direct property holdings, unlisted equity products, commodity futures and other derivatives. This exposes the Fund to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

### Procedures for Managing Risk

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

The Fund continues to review its structure. A key element in this review process is the consideration of risk and for many years now the Fund has pursued a policy of lowering risk by diversifying investments across asset classes, investment regions and fund managers. Furthermore, alternative assets are subject to their own diversification requirements and some examples are given below.

- Private equity - by stage, geography and vintage where funds of funds are not used
- Property - by type, risk profile, geography and vintage (on closed ended funds)
- Hedge funds – multi-strategy and or funds of funds

### Manager Risk

The Fund is also well diversified by managers with no single active manager managing more than 25% of Fund assets. On appointment, fund managers are delegated the power to make such purchases and sales as they deem appropriate under the mandate concerned. Each mandate has a benchmark or target to outperform or achieve, usually on the basis of 3-year rolling periods. An update, at least quarterly, is required from each manager and regular meetings are held with managers to discuss their mandates and their performance on them. There are slightly different arrangements for some of the alternative assets. Some private equity and property investment is fund, rather than manager-specific, with specific funds identified by the investment sub group after careful due diligence. These commitments tend to be smaller in nature than main asset class investments but again regular performance reports are received and such investments are reviewed with managers at least once a year.

## 23. INVESTMENT RISKS (continued)

### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As noted above almost all the Fund's investments are through pooled vehicles and a number of these are involved in derivative trades of various sorts including futures, swaps and options. Whilst the Fund is not a direct counterparty to such trades and so has no direct credit risk, clearly all derivative transactions incorporate a degree of risk and the value of the pooled vehicle, and hence the Fund's holding, could be impacted negatively by failure of one of the vehicle's counterparties. However, part of the operational due diligence carried out on potential manager appointees concerns itself with the quality of that manager's risk processes around counterparties and seeks to establish assurance that these are such as to minimise exposure to credit risk.

There has been no historical experience of default on the investments held by the Pension Fund.

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

- The Fund's active fixed-interest bond portfolio £118,328k is managed (by Goldman Sachs) on an unconstrained basis and has a significant exposure to credit, emerging market debt and loans. At 31st March 2017, the Fund's exposure to non-investment grade paper was 7.4% of the actively managed fixed income portfolio.
- On private equity the Fund's investments are almost entirely in the equity of the companies concerned. The Fund's private equity investments of £58,246K are managed by Harbourvest in a fund of funds portfolio.

On hedge fund of funds and multi-strategy vehicles, underlying managers have in place a broad range of derivatives. The Fund's exposure to hedge funds through its managers at 31st March 2017 is set out below with their relative exposure to credit risk.

	<b>March 2017 £'000</b>	<b>Credit Exposure</b>
Permal	24,728	0.80%
Blackrock	27,590	23.2%

The Pension Fund has its own bank accounts. At its simplest, liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, especially pension payments to its members. At a strategic level the Administering Authority, together with its consulting actuary, reviews the position of the Fund triennially to ensure that all its obligations can be suitably covered.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

Ongoing cash flow planning in respect of contributions, benefit payments, investment income and capital calls/distributions is also essential. This is in place with the Fund's position updated regularly.

Specifically on investments, the Fund holds through its managers a mixture of liquid, semi-liquid and illiquid assets. Whilst the Fund's investment managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions, they hold within their pooled vehicles a large value of very liquid securities, such as equities and bonds quoted on major stock exchanges, which can easily be realised. Traditional equities and bonds now comprise 84.1% of the Fund's value and, whilst there will be some slightly less liquid elements within this figure (emerging market equities and debt for example), the funds investing in these securities offer monthly trading at least – often weekly or fortnightly.

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

The table below analyses the value of the Fund's investments at 31st March 2017 by liquidity profile.

	Amounts at 31st March 2017 £000s	Within 1 month £000s	1-3 months £000s	4-12 months £000s	> 1 Year £000s
<b>Equities</b>					
UK Equities	414,015	414,015	0	0	0
Overseas Equities	456,711	456,711	0	0	0
<b>Pooled Investment Vehicles</b>					
Fixed-Interest Funds	118,328	118,328	0	0	0
UK Equity	149,787	149,787	0	0	0
Overseas Equity	332,091	332,091	0	0	0
Fixed Interest	76,992	76,992	0	0	0
Index-linked	32,282	32,282	0	0	0
Property Unit Trust	12,053	0	0	12,053	0
Property Fund	75,187	0	0	36,162	39,025
Hedge Fund	52,318	0	0	52,318	0
Private Equity	58,246	0	0	0	58,246
Infrastructure	0	0	0	0	0
Deposits with banks and other financial institutions	69,225	69,225	0	0	0
Other Investment Balances - Dividends Due	3,211	3,211	0	0	0
<b>Total</b>	<b>1,850,446</b>	<b>1,652,642</b>	<b>0</b>	<b>100,533</b>	<b>97,271</b>

## 23. INVESTMENT RISKS (continued)

It should be noted that different quoted investments are subject to different settlement rules but all payments/receipts are usually due within 7 days of the transaction (buy/sell) date. Because the Fund uses some pooled vehicles for quoted investments these are often subject to daily, weekly, 2-weekly or monthly trading dates. All such investments have been designated "within 1 month" for the purposes of liquidity analysis. Open-ended property funds are subject to redemption rules set by their management boards. Many have quarterly redemptions but these can be held back in difficult markets so as not to force sales and disadvantage continuing investors. For liquidity analysis purposes, a conservative approach has been applied and all such investments have been designated "within 4-12 months".

Closed-ended funds have been designated illiquid for the purposes of liquidity analysis. However, these closed-ended vehicles have a very different cash flow pattern to traditional investments since the monies committed are only drawn down as the underlying investments are made (usually over a period of 5 years) and distributions are returned as soon as underlying investments are exited (often as early as year 4). In terms of cash flow, therefore, the net cash flow for such a vehicle usually only reaches a maximum of about 60-70% of the amount committed and cumulative distributions usually exceed cumulative draw downs well before the end of the specified period, as these vehicles regularly return 1½ to 2½ times the money invested. At the same time, it has been the Fund's practice to invest monies on a regular annual basis so the vintage year of active vehicles ranges from 2000 to 2013.

This means that, whilst all these monies have been designated closed-ended and thereby illiquid on the basis of their usual "10-year life", many are closer to maturity than implied by this broad designation. As can be seen from the table, even using the conservative basis outlined above, around 89% of the portfolio is realisable within 1 month and 95% is realisable within 12 months.

### Market Risk

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

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

The table on the following page sets out an analysis of the Fund's market risk positions at 31 March 2017 by showing the percentage invested in each asset class and through each manager within each main asset class, the index used as a benchmark and the target set for managers against this benchmark.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

Asset Class	Asset Allocation	Fund Manager		Benchmark	Performance target
		Passive	Active		
UK Equities	34% +/- 5%	14% L&G	20% Schroders	FTSE allshare	+3% p.a. over rolling 3 year
Overseas Equities	34% +/- 5%	13% L&G	21% JP Morgan & Aberdeen Aberdeen	MSCI World all share (ex UK) MSCI Frontier Markets Index	+3% p.a. over rolling 3year +% p.a. over rolling 3year
Global Fixed Interest	15% +/- 5%	6% L&G	9% Goldman Sachs	Libor	LIBOR +3%
Property	5% +/- 5%	-	5% Schroders. Partners & Invesco	IPD UK Pooled Property Fund Index	+ 1% p.a. over rolling 3 year, 8% absolute return
Hedge Funds	5% +/- 5%	-	5% Blackrock & Permal (formerly Fauchier)	LIBOR	+4%
Private Equity	3% +/- 5%	-	3% Harbourvest	FTSE allshare	+3% p.a. over 3 year rolling
Infrastructure	2% +/- 5%	-	2% To be Appointed	TBD	TBD
Cash	2% +/- 5%	-	2% In house and cash flows of fund managers	7day LIBID	=
<b>TOTAL</b>	<b>100%</b>	<b>33%</b>	<b>67%</b>		

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

Market risk is also managed through manager diversification – constructing a diversified portfolio across multiple investment managers. On a daily basis, managers will manage risk in line with the benchmarks, targets and risk parameters set for the mandate, as well as their own policies and processes. The Fund itself monitors managers on a regular basis (at least quarterly) on all these aspects.

Due to volatility in the equity markets, there was an imbalance of 3.6% over allocation to overseas equities as at 31st March 2017.

Permanent rebalancing will be considered in light of market reversion and inherent cost of rebalancing, in line with full investment strategy review following the triennial valuation July 2017/18.

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

### Price Risk

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

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

Following analysis of historical data and expected investment return movement during the financial year, and in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible. Had the market price of the fund investments increased/decreased in line with the potential market movements, the change in the net assets available to pay benefits in the market price as at 31 March 2017 would have been as follows:

#### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	563,802	9.10%	614,912	512,692
Overseas Equities	788,802	9.70%	865,012	712,592
Total Bonds & Index-Linked	227,602	6.00%	241,359	213,845
Cash	69,225	4.50%	115,558	105,570
Property	87,240	1.20%	70,052	68,398
Alternatives	110,564	3.20%	90,033	84,447
Other Investment Balances	3,211	0.00%	3,211	3,211
<b>Total Assets*</b>	<b>1,850,446</b>	<b>6.50%</b>	<b>1,970,170</b>	<b>1,702,722</b>

*\*The % change for Total Assets includes the impact of correlation across asset classes*

and as at 31st March 2016 :

#### Price Risk

Asset Type	Value (£'000)	% Change	Value on Increase	Value on Decrease
UK Equities	464,992	10.86%	515,490	414,494
Overseas Equities	592,686	9.91%	651,421	533,951
Total Bonds & Index-Linked	212,548	2.63%	218,138	206,958
Cash	62,882	0.01%	62,888	62,876
Property	84,684	3.22%	87,411	81,957
Alternatives	90,922	4.12%	94,668	87,176
Other Investment Balances	3,137	0.00%	3,137	3,137
<b>Total Assets*</b>	<b>1,511,851</b>	<b>6.96%</b>	<b>1,617,034</b>	<b>1,406,668</b>

*\*The % change for Total Assets includes the impact of correlation across asset classes*



# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

### Currency Risk

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

In consultation with the fund's investment advisors, the council has determined that the following movements in currencies are reasonably possible. The following represents a sensitivity analysis associated with foreign exchange movements as at 31 March 2017:

#### Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	7,178	11.20%	7,982	6,374
Brazilian Real	5,592	20.90%	6,761	4,423
Canadian Dollar	5,607	9.10%	6,119	5,095
Danish Krone	2,928	9.00%	3,191	2,665
EURO	100,151	9.00%	109,118	91,184
Hong Kong Dollar	12,098	8.90%	13,180	11,016
Indian Rupee	2,602	9.60%	2,852	2,352
Indonesian Rupiah	2,134	12.30%	2,396	1,872
Israeli Shekel	2,364	8.40%	2,563	2,165
Japanese Yen	75,520	14.90%	86,758	64,282
Mexican Peso	3,165	11.40%	3,527	2,803
Norwegian Krone	1,138	10.60%	1,259	1,017
Chinese Renminbi Yuan	15,645	8.50%	16,972	14,318
Russian Rouble	4,366	23.80%	5,406	3,326
Singapore Dollar	3,692	8.80%	4,017	3,367
South African Rand	3,556	16.50%	4,144	2,968
South Korean Won	12,650	10.40%	13,970	11,330
Swedish Krona	5,828	8.80%	6,340	5,316
Swiss Franc	25,258	11.90%	28,272	22,244
Taiwan Dollar	7,167	8.60%	7,782	6,552
Thai Baht	1,891	9.70%	2,074	1,708
Turkish Lira	1,203	14.60%	1,378	1,028
US Dollar	284,402	9.00%	309,938	258,866
North America Basket	146,379	8.70%	159,165	133,593
Europe ex UK Basket	64,782	8.70%	70,445	59,119
Asia Pacific ex Japan Basket	29,736	8.60%	32,283	27,189
Emerging Basket	59,041	9.20%	64,463	53,619
<b>Total Currency*</b>	<b>886,073</b>	<b>8.40%</b>	<b>960,300</b>	<b>811,846</b>

*\*The % change for Total Currency includes the impact of correlation across the underlying currencies*

# CITY & COUNTY OF SWANSEA PENSION FUND

## 23. INVESTMENT RISKS (continued)

and as at 31 March 2016:

### Currency Risk (by currency)

Currency	Value (£'000)	% Change	Value on Increase	Value on Decrease
Australian Dollar	5,656	9.26%	6,180	5,132
Brazilian Real	4,458	13.89%	5,077	3,839
Canadian Dollar	8,749	7.89%	9,439	8,059
Danish Krone	2,099	6.83%	2,242	1,956
EURO	90,569	6.77%	96,701	84,437
Hong Kong Dollar	9,619	7.67%	10,357	8,881
Indian Rupee	3,315	10.28%	3,656	2,974
Indonesian Rupiah	1,841	12.46%	2,070	1,612
Israeli Shekel	2,644	6.58%	2,818	2,470
Japanese Yen	50,706	11.68%	56,628	44,784
Mexican Peso	3,050	8.25%	3,302	2,798
Norwegian Krone	1,003	9.40%	1,097	909
Chinese Renminbi Yuan	9,001	7.68%	9,692	8,310
Peruvian New Sol	808	7.44%	868	748
Russian Rouble	4,391	21.00%	5,313	3,469
Singapore Dollar	4,546	6.17%	4,826	4,266
South African Rand	2,620	10.31%	2,890	2,350
South Korean Won	9,431	7.22%	10,112	8,750
Swedish Krona	3,645	7.65%	3,924	3,366
Swiss Franc	18,804	9.95%	20,675	16,933
Taiwan Dollar	5,266	6.59%	5,613	4,919
Thai Baht	799	8.39%	866	732
Turkish Lira	776	10.78%	860	692
US Dollar	204,139	7.78%	220,021	188,257
North America Basket	108,446	7.43%	116,504	100,388
Europe ex UK Basket	50,577	6.46%	53,844	47,310
Asia Pacific ex Japan Basket	21,610	6.52%	23,019	20,201
Emerging Basket	43,069	6.79%	45,993	40,145
<b>Total Currency*</b>	<b>671,637</b>	<b>6.14%</b>	<b>712,876</b>	<b>630,398</b>

*\*The % change for Total Currency includes the impact of correlation across the underlying currencies*

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

The Actuary, as part of their triennial valuation and dictated by the Funding Strategy Statement, will only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Progress is analysed at three yearly valuations for all employers.

## **24. Events After the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified :

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.
  
- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of those events and their estimated financial effect.

There are no known events that would have a material impact on these accounts.

## **25. Further Information**

Further information about the fund can be found in Appendices 2 to 4. Information can also be obtained from the Chief Treasury & Technical Officer, Civic Centre, Oystermouth Road, Swansea SA1 3SN or on [www.swanseapensionfund.org.uk](http://www.swanseapensionfund.org.uk).

## **26. Financial Position**

The accounts outlined within the statement represent the financial position of the City and County of Swansea Pension Fund at 31st March 2017.

# CITY & COUNTY OF SWANSEA PENSION FUND

## Appendix 1

### SCHEDULE OF EMPLOYING BODIES AND CONTRIBUTION RATES FOR THE PERIOD 1<sup>ST</sup> APRIL 2016 TO 31<sup>ST</sup> MARCH 2017

Contributors	Pensioners	Deferred Benefits	Employer Contribution Rate (% of Pensionable Pay) plus additional annual monetary amount	
Administering Authority	Number @ 31/03/17	Number @ 31/03/17	Number @ 31/03/17	
City & County of Swansea	10,658	5,289	5,385	22.4%
<b>Scheduled Bodies</b>				
Neath Port Talbot County Borough	5,156	3,617	4,442	24.0%
Briton Ferry Town Council	1	1	1	26.4%
Cilybebyll Community Council	6	0	1	20.5%
Clydach Community Council	0	0	1	-
Coedffranc Community Council	10	3	1	19.2% (+ £4,000)
Gower College	458	237	416	15.4% (+ £177,500)
Llanrhidian Higher Community Council	1	0	0	18.2%
Lliw Valley BC	0	231	23	-
Margam Joint Crematorium Committee	8	12	5	19.2% (+ £5,000)
NPTC Group	524	240	392	14.7% (+ £164,000)
Neath Port Talbot Waste Management	0	1	0	-
Neath Town Council	13	15	8	19.2% (+ £16,300)
Pelenna Community Council	2	2	3	25.3%
Pontardawe Town Council	5	1	0	19.7%
Swansea Bay Port Health Authority	1	11	1	22.4%
Swansea City Waste Disposal Company	0	16	3	-
University of Wales Trinity St Davids	168	134	225	22.4% (+ £481,000)
West Glamorgan County Council	0	2,163	256	-
West Glamorgan Magistrates Courts	0	38	16	-
West Glamorgan Valuation Panel	0	5	0	-
Ystalyfera Community Council	1	0	0	15.9%
<b>Admitted Bodies</b>				
BABTIE	0	3	12	-
Celtic Community Leisure	230	32	160	11.1%
Colin Laver Heating Limited	0	2	2	-
Swansea Bay Racial Equality Council	5	0	2	34.3%
The Careers Business	0	6	9	-
Wales National Pool	55	3	66	14.5%
West Wales Arts Association	0	2	0	-
Capgemini	0	1	4	-
NPT Homes	421	69	72	16.2%
Phoenix Trust	0	1	3	-
Grwp Gwalia	174	65	72	20.4%
Rathbone CCS	2	0	2	25.2%
Rathbone Gower College	4	0	0	28.9%
<b>Total</b>	<b>17,903</b>	<b>12,200</b>	<b>11,583</b>	

### Legislative Changes in the Local Government Pension Scheme (LGPS) during 2016/17

**23th September 2016** - DCLG issued the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 [SI 2016/946], effective from 1 November 2016, to facilitate the pooling of investment funds.

**27th May 2016** - DCLG commenced a consultation on draft amendment regulations for the LGPS in England and Wales. Amongst other amendments, the consultation covers Fair Deal and changes to AVC provisions in light of the recent Freedom and Choice reforms. The consultation closed on the 20th August 2016 and a response from the Government is now due.

### Other Impacting Legislation

**4th May 2016** - The Enterprise Act 2016 [2016/12] received royal assent, providing the legislative framework for the introduction of the £95k cap on public service exit payments. HM Treasury regulations need to be produced to provide further detail on how the cap will work in practice (and its implementation date). HM Treasury directions are also expected to provide detail of the circumstances in which the cap may be relaxed by permitted bodies.

**15th September 2016** - the Finance Act 2016 [2016/24] received royal assent reducing the lifetime allowance for the tax years 2016/17 and 2017/18 to £1million and also introduced the new lifetime allowance protections, namely Individual Protection 2016 and Fixed Protection 2016.

**24th January 2017** - HM Treasury issued the Enterprise Act 2016 (Commencement No 2) Regulations 2017 [SI 2017/70], effective from 1st February 2017. The regulations included changes to the Small Business, Enterprise and Employment Act 2015, which enables the £95k exit payment cap to be introduced; however, the commencement order does not bring the exit payment cap into effect itself, but allows the Government to make regulations providing for the introduction of the cap. HM Treasury plan to undertake a further consultation on draft regulations covering the cap before this becomes effective.

**6th March 2017** - the Occupational and Personal Pension Schemes (Automatic Enrolment) (Amendment) Regulations 2017 [SI 2017/79] made provision to add two new circumstances where the employer duties, to automatically enrol and re-enrol eligible jobholders, are turned into a discretion. The circumstances are when Fixed Protection 2016 and Individual Protection 2016 in relation to the lifetime allowance apply to the member.

**28 November 2016** - HM Treasury commenced a consultation that proposes options for the indexation of GMP elements for members of public service pension schemes who will reach SPA on and after 6th December 2018. The consultation period closed on 20th February 2017 and a response is now due from the Government.

### Investment Fund Management

The investment of the Fund is the responsibility of the Pension Fund Committee. The Committee as at 31st March 2017 comprised of :

- 7 Council Members (one member from Neath Port Talbot CBC representing other scheme members) advised by:
  - Section 151 Officer
  - Chief Treasury & Technical Officer
  - 2 Independent Advisers.

The Committee, after taking account of the views of the independent advisers and appointed actuary to the Fund, is responsible for determining broad investment strategy and policy, with appointed professional fund managers undertaking the operational management of the assets.

The fund has implemented a fully diversified investment approach with a view to reducing the volatility of investment returns, whilst maintaining above benchmark growth. The fund employs the services of specialist managers to outperform in each asset class invested in.

The investment managers currently are:

- Global Equities - JP Morgan Asset Management, L&G and Aberdeen Asset Management
- Global Bonds - Goldman Sachs Asset Management and L&G
- Fund of Hedge Funds - BlackRock and Permal
- Fund of Private Equity Funds - Harbourvest
- Property - Invesco
- Fund of Property Funds - Partners Group and Schroders Investment Management

### **Other Fund Documents**

The City & County of Swansea Pension Fund is required by regulation to formulate a number of regulatory documents outlining its policy. Copies of the :

- Statement of Investment Principles
- Governance Statement
- Funding Strategy Statement
- Communication Policy

are available on request from the City & County of Swansea Pension Fund website  
<http://www.swanseapensionfund.org.uk/>

# Agenda Item 6

## Report of the Section 151 Officer

Pension Fund Committee – 13 July 2017

### WALES PENSION PARTNERSHIP INVESTMENT POOLING - AN UPDATE

<b>Purpose:</b>	To update pension committee on the progress of the All Wales Investment Pool.
<b>Consultation:</b>	Legal, and Finance
<b>Report Author:</b>	Jeff Dong Chief Treasury & Technical Officer
<b>Finance Officer:</b>	Jeff Dong Chief Treasury & Technical Officer
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A

#### FOR INFORMATION

#### 1 Background

- 1.1 In the July Budget 2015, the Chancellor announced the Government's intention to work with Local Government Pension Scheme (the Scheme) administering authorities to ensure that they pool investments to significantly reduce costs while maintaining overall investment performance. Authorities are now invited to submit proposals for pooling which the Government will assess against the criteria in this document. The Chancellor has announced that the pools should take the form of up to six British Wealth Funds, each with assets of at least £25bn, which are able to invest in infrastructure and drive local growth.
- 1.2 In December 2015, the Government issued its criteria and guidance for what it expected to see addressed in its received proposals from LGPS funds in respect of their pooling proposals. This was considered by pension fund committee at its Dec 2015 meeting.
- 1.3 Following extensive work by the SWT Pensions Sub Group and their appointed advisors, Hymans Robertson, a joint submission has been formulated in respect of the 8 Welsh Pension Funds. The Pension Fund Committee Deputy Chairman has been involved at 2 Chairs meeting to agree the same and the Pension Fund Committee received a formal presentation of the final submission on the 4<sup>th</sup> July 2016.



## **2 Submission in respect of the 8 Welsh Pension Funds**

2.1 The submission in respect of the 8 Welsh Pension Funds to create a Wales Investment Pool was approved by Pension Fund Committee on the 4<sup>th</sup> July 2016.

2.2 The Pool will not be a merger of the eight funds. Each fund will retain its distinct identity and the administering authorities will remain responsible for complying with the LGPS regulations and pensions legislation in respect of their members. Annual Statements of Accounts and triennial Actuarial valuations will still be prepared for each individual pension fund and each fund will determine its own funding strategy. The Pool will have a limited remit and its objectives, as set out in the submission document, will be:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments

## **3 Interim Governance and Procurement Progress**

3.1 The Wales Investment Pool proposal includes the establishment of a Joint Governance Committee comprising elected members from each administering authority, supported by an Officer Working Group. It is also proposed to appoint a Financial Conduct Authority (FCA) regulated Operator to supply the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the eight funds.

3.2 Following extensive work by the Authorities, a legally binding Inter-Authority Agreement (incorporating the Terms of Reference for the Joint Committee), the specification of the services to be provided by the Operator and the role of the Officer Working Group has now been signed by all 8 funds. Consideration is also being given to the needs of the Pool for specialist legal and investment advice.

3.3 The Joint Governance Committee had its first formal meeting on June 29<sup>th</sup> 2017. The remit of the JCG is set out in the IAA. The JCG will oversee the procurement process for the Operator and the formal Joint Committee will make the final recommendation to appoint the bidder who best meets the specification criteria.

3.4 The Investment Practitioners Group and OWG have been working in consultation with Hymans Robertson and the appointed legal advisors Burges Salmon in formulating and finalising the procurement process and

documentation. The final Invitation to tender (ITT) was issued in June 2017. The OWG shall make the recommendation to appoint an operator to the JCG in September 2017. This decision shall then be approved by each Pension Fund Committee in September 2017.

- 3.5 An updated timetable and progress update produced by the Wales Pension Partnership's Advisors, Hymans Robertson is attached at Appendix 1.

#### **4 Legal Implications**

- 4.1 The current legislative framework for the pension fund investments carried out by Administering Authorities is set by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The law governing pensions is a complex and specialist area. National Government guidance indicates that the pooling of LGPS assets is permissible under current law.

The Inter-Authority Agreement has been approved and signed by all 8 Local Authorities.

The Pension Fund Committee Terms of Reference and Scheme of Delegation sets out the Committees responsibility for the strategic governance of the Pension Fund.

#### **5 Financial Implications**

- 5.1 Financial implications are indicated within the submission

#### **6 Equality Impact Assessment Implications**

- 6.1 There are no equality implications arising from this report

**Background Papers:** None.

**Appendices:** Appendix 1 - An updated timetable and progress update produced by the Wales Pension Partnership's Advisors, Hymans Robertson.

# All Wales Pool

## Timetable of events to Operator appointment and progress update

Date	Topic	Action required	Responsible	Timings
19- 24 April	Selection questionnaire	Step 1 - Independent, desk based <b>pass/fail evaluation</b>	Officers 1/2 & Hymans	Complete
26 April	Selection questionnaire	Step 2 – Call with Officers 1, 2 & AJ to carryout <b>pass/fail consensus</b>	Officers 1/2 & Hymans	Complete
27 April	Selection questionnaire	Email confirmation to Officers 3, 4 & 5 confirming pass submissions	Hymans	Complete
27 April – 4 May	Selection questionnaire	Step 3 – Independent, desk based <b>technical evaluation</b> of case studies for “pass” submissions.	Officers 3/4/5 & Hymans	Complete
5 May	Selection questionnaire	Step 4 – <b>Technical consensus</b> - evaluators have a face to face meeting to agree consensus case study scores.	Officers 3/4/5 & Hymans	Complete
8 May	Selection questionnaire	Step 5 – <b>Peer review</b> - call with all Officers to challenge/ approve scores for the pass/fail questions and case studies.	All Officers & Hymans	Complete
11 May	Selection questionnaire	Step 6 – <b>Treasurers group</b> – call with Treasurers to peer review Officer recommendation of bidders to receive ITT	Treasurers & Officers	Complete

Date	Topic	Action required	Responsible	Timings
12 May	ITT	Communication issued to all bidders	Hymans	Complete
5 June	ITT / Operator Agreement	Final versions reviewed and agreed by sub-group	Procurement Sub-group	Complete
5 June	ITT / Operator Agreement	Issued to the Officers, Treasurers and Monitoring Officers for formal sign off	Burges Salmon	Complete
9 June	ITT / Operator Agreement	Formal sign off received	Treasurers, Officers and Monitoring Officers	Complete
9 June	ITT / Operator Agreement	Issue to those selected to progress to ITT	Lead authority/Hymans	Complete
18 May – 7 July	ITT	Establish evaluation panel and associated roles	OWG & Hymans	7 weeks
9 June – 17 July	ITT	Receipt of completed ITT	Hymans	38 days
14 July	ITT	ITT Evaluation training	Burges Salmon, Hymans and Evaluation Panel	½ day
17 July – 11 Aug	ITT	Perform review and scoring of ITT responses	Evaluation Panel and Hymans	4 weeks
14 Aug – 18 Aug	ITT	Meetings with Evaluation Panel to discuss ITT scoring and agree short-list	Evaluation Panel and Hymans	TBC
21 Aug – 25 Aug	ITT	Bidder presentations in Cardiff to verify scoring	All Officers and Hymans	2 days

Date	Topic	Action required	Responsible	Timings
18 Sept	Operator selection	Operator recommendation to be made to the JGC	OWG	1 day
18 Sept	Operator recommendation	Decision on Operator made by the JGC	JGC	1 day
19 Sept – 3 Oct	Operator recommendation	Constituent Authorities to approve Operator selection	Treasurers	2 weeks
4 Oct	Operator selected	Issue award notice (TBC)	Hymans	1 day
4 Oct	Operator selected	Issue standstill letters	Hymans	1 day
5 Oct – 18 Oct	Operator selected	Standstill period	Burges Salmon	10 days
19 Oct – 1 Nov	Operator in place	Operator Agreement completed	OWG	2 weeks



## Procurement update

### ITT and Operator Agreement

Following the approval by Treasurers on 11 May to progress 6 bidders to ITT stage, the procurement sub-group have met frequently to progress the ITT and Operator Agreement. Areas of focus for the procurement sub-group included the ITT's pricing principles, number of sub-funds, VAT and insurance specifications.

The ITT and Operator Agreement were circulated to the Officers and Treasurers on 5 June for review and sign off. Following comments from several funds on the content of the documents, including the number of sub-funds and evaluation criteria, revised versions of both the ITT and Operator Agreement were circulated by Burges Salmon on 9 June.

Sign off was received from all 8 funds on 9 June, whereby the ITT and Operator Agreement were issued to the bidders.

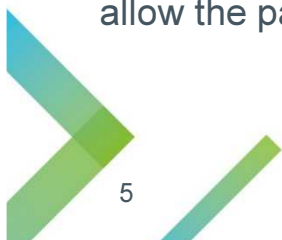
**Responses to the ITT are due to be received by Hymans Robertson on or before 17 July, which will then see the ITT evaluation stage commence.**

### ITT Evaluation

Following receipt of the completed ITT's, 4 weeks has been allocated for evaluation. A revised ITT evaluation structure has now been developed and agreed to, which sees ITT questions grouped for ease of evaluation.

A decision will be required by the Officer Working Group on who will perform each evaluation role. Evaluators will be accompanied by Andrew Johnston, and any other subject experts at Hymans Robertson, as required.

It is proposed that training be held for the evaluation panel with Burges Salmon on 14 July, to allow the panel to become familiarised with the evaluation criteria.





## Governance update

### Host Authority and Officer Working Group

Carmarthenshire have now assumed the host authority role for the pool, scheduling meetings of both the Officer Working Group (OWG) and Joint Governance Committee (JGC).

On 18 September, the Officer Working Group will make the recommendation on the preferred Operator to the JGC, before being approved at local level by the individual Authorities.

### Inter-Authority Agreement

On 8 June, Burges Salmon circulated the execution version of the IAA to the 8 funds. The funds were requested to sign, but not date, the execution version and return the signed copies to Burges Salmon.

All funds have now returned signed copies of the IAA which has now been executed by Burges Salmon. The funds agreed to a commencement date of 28 June.

### Joint Governance Committee

The first formal Joint Governance Committee meeting was held on 29 June.





# Agenda Item 7

## Report of the Section 151 Officer

Pension Fund Committee - 13 July 2017

### TRUSTEE & PENSION FUND COMMITTEE TRAINING –

#### CIPFA CODE OF PRACTICE PUBLIC SECTOR FINANCE KNOWLEDGE & SKILLS

#### THE PENSION REGULATOR KNOWLEDGE AND UNDERSTANDING DUTY ON COMMITTEE MEMBERS

<b>Purpose:</b>	To determine an annual training programme for Trustees and Officers of the Pension Fund
<b>Policy Framework:</b>	CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice The Pension Regulator Knowledge and Understanding Duty on Committee Members
<b>Reason for Decision:</b>	To ensure compliance with the CIPFA Public Sector Pensions Finance Knowledge & Skills Code of Practice and the Pension Regulator Knowledge and Understanding Requirements
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Recommendation(s):</b>	It is recommended that:  1) the Training identified for members in sections 3.7 be 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 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 Code of Practice & The Pension Regulator's Knowledge & Understanding Requirements**

#### **3.1 CIPFA Code**

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 Pension Regulator

#### Key points

- You must have the required knowledge and understanding of scheme rules, documents recording scheme administration policies and pensions law.
- You should have adequate training to meet the knowledge and understanding requirements.

### 3.5 Knowledge and understanding requirements

#### You must:

- be conversant with (ie have a working knowledge of) your scheme rules and any document recording policy about the administration of your scheme
- have knowledge and understanding of the law relating to pensions

#### Scheme rules and administration policies

You must have a working knowledge of your scheme rules and documented administration policies. You should understand them in enough detail to:

- know where they are relevant to an issue
- understand and if necessary challenge any advice that you're given

### 3.6 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 pensions decision making body to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

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

The majority of the Pension Committee have been in post for some time now and have formally undertaken initial introductory training in the LGPS and are consolidating that knowledge with continuous development.

It is recognised that there are two new members of Pension Fund Committee following the local election in May 2017 and their training requirements shall be addressed by the Chief Treasury & Technical Officer

by ongoing needs analysis during the year.

With the revision of LGPS Governance Regulations, the importance of minimum Trustee competence, knowledge and skills shall greatly increase

3.7 In 2016/17, the following Trustee training was undertaken by elected members:

1. LGE ( Local Government Employers) Trustee Fundamentals day 1, 2 & 3
2. LGC Investment Summit
3. Infrastructure Investment as an asset class
4. ESG and Impact Investing
5. LAPFF AGM

In 2017/18, the following training has been identified as appropriate training to be undertaken by members of the Committee along with any appropriate training opportunities which present themselves during the year to be agreed by the Section 151 Officer:

1. Investment Beliefs Workshop
2. ESG Beliefs Workshop
3. LGE ( Local Government Employers) Trustee Fundamentals day 1, 2 & 3
4. LGC Investment Summit
5. LAPFF AGM
6. CIPFA trustee training
7. Investment Pooling and the regulatory framework re. an ACS

3.8 The determination of the training requirements for officers shall be delegated to the Section 151 Officer and Chief Treasury & Technical 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

**Background papers:** None

**Appendices:** None.

# Agenda Item 8

## Report of the Section 151 Officer

Pension Fund Committee – 13 July 2017

### MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II (MIFID II)

<b>Purpose:</b>	To update the Pension Fund Committee on MIFID II and its potential impact on the LGPS nationally and locally
<b>Report Author:</b>	Jeff Dong Chief Treasury & Technical Officer
<b>Finance Officer:</b>	Jeff Dong Chief Treasury & Technical Officer
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A

#### FOR INFORMATION

## 1 Background

1.1 The Markets in Financial Instruments Directive ('MiFID'), part of the European Commission's Financial Services Action Plan, is legislation for the regulation of investment services within the European Economic Area which came into force in November 2007. The Directive replaced the Investment Services Directive. It was designed to:

- Achieve harmonisation throughout the economic area
- Aid transparency
- Protect investors
- Improve efficiency
- Increase competition

1.2 The European Commission instigated a review of the directive due to increasing complexity of financial products and issues related to the 2008 financial crisis. The outcome of the review was a revised Directive, MiFID II. The Financial Conduct Authority ('FCA') is now consulting on its third set of implementation proposals for MiFID II, which are due to take effect from 3 January 2018. The proposed changes to the FCA Handbook will have a significant impact on LGPS administering authorities.

## 2 Potential Impact on the LGPS

- 2.1 The main issue that administering authorities could face is a re-classification from 'per se professional' to 'retail' client status. If no action were taken, administering authorities could see restrictions as retail clients e.g. in terms of the universe of investment funds they may invest in.
- 2.2 The good news is that administering authorities will have the opportunity to "opt-up" to 'elective professional client', i.e. professional client status. The FCA believes that the ability to access financial markets will not be fundamentally affected by broader changes if classified as a professional client. The specific procedure for opting-up will include both qualitative and quantitative assessments, as outlined in the next section.

## 3 Assessment

- 3.1 The proposed assessment required to be undertaken by the fund manager of the client involves :

- 3.2 Qualitative Assessment

The qualitative assessment will require:

*"adequate assessment of the expertise, experience and knowledge of the client that gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved"*

The above should not present a major hurdle for the majority of LGPS administering authorities. Indeed, it is expected that those in positions of authority will be suitably qualified and possess the necessary experience to fulfil their roles. Administering authorities will, however, need to have sufficient evidence to demonstrate that the qualitative assessment is satisfied.

- 3.3 Quantitative Assessment

Quantitative test a), below and one of b) or c) must be satisfied:

a) the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds **£15m**

b) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters

c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged

- 3.4 Given the sizes of funds under management across the local government sector, criteria a) is not likely to present an issue. Criteria b) will present a major issue for the majority of administering authorities, with quarterly transaction activity typically not close to this level. Reliance will need to be placed on the remaining test to ensure an administering authority can consider opting-up to professional client status. It is not entirely clear how changes in team should be reflected in criteria c). For example, it may be possible that the qualitative assessment will need to be re-run each time there is a material personnel change.

#### **4 Financial Conduct Authority Consultation**

- 4.1 The FCA is currently consulting on proposed changes to the FCA handbook in light of the new directive. The full consultation document is available via this link below:

<https://www.fca.org.uk/sites/default/files/cp16-29.pdf>

The LGA has responded to the consultation on behalf of Administering Authorities, Councils and other public sector bodies affected by the changes. The response is attached at Appendix 1.

#### **5 Way Forward**

- 5.1 In light of the responses it has received from the consultation, the FCA has engaged with the LGA and CIPFA with a view to addressing compliance at a national level or mitigating the impact of the criteria outlined in the initial directive. The City & County of Swansea Pension Fund is confident of satisfying the assessment criteria in either instance.

#### **6 Legal Implications**

- 6.1 The legal implications of non-compliance are indicated within the Directive

#### **7 Financial Implications**

- 5.1 There are no financial implications arising from this report

#### **8 Equality and Engagement Implications**

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

**Background Papers:** None.

**Appendices:** Appendix 1 - LGA response.



# Local Government Association

## Response to Markets in Financial Instruments Directive II Implementation – Consultation Paper III

December 2016



### About the Local Government Association

The Local Government Association (LGA) is the national voice of local government. We work with councils to support, promote and improve local government.

We are a politically-led, cross party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. We aim to influence and set the political agenda on the issues that matter to councils so they are able to deliver local solutions to national problems. The LGA covers every part of England and Wales, supporting local government as the most efficient and accountable part of the public sector.

This response has been approved by LGA's Resources Board and, for the impacts on pension fund authorities only, the Local Government Pensions Committee (LGPC), and is submitted jointly with the Local Government Pension Scheme Advisory Board (SAB).

### General points on the approach taken to status of local authorities in the proposals

The LGA is strongly of the opinion that

- The reclassification of local authorities as retail investors is unnecessary and will have serious consequences for the effective implementation of pension fund investment strategies, as well as for general Treasury Management by local authorities.
- The elective professional status process is not appropriate for local authorities and will require adapting to effectively assess their decision making structures.
- The process for opting up to elective professional status as designed is not fit for purpose and will prevent the majority (and maybe all) local authorities, including pension funds, from opting up. They will therefore have to stay at retail status.
- UK local authorities have a good track record in managing their investments, particularly those encompassed by MiFID. The consultation offers no evidence that there is a problem with UK local authority investments, or that there is any evidence backed reason why local authorities should be prevented from retaining professional status.
- UK local authorities rely on the income they generate from their investments as part of their annual budgeting process. If this income is decreased through lack of access to investment opportunities, shortfalls will have to be met by reductions elsewhere in council budgets – and this is at a time when council budgets are already under severe pressure from major reductions in core funding.

# Submission

- Local Authorities are complex public sector bodies with tight financial governance processes in place that work well. These proposals will add an additional layer of governance or will simply prevent local authorities from continuing with their current investment activities, even if they are low risk - for example, they would prevent local authorities from making some investment and loan transactions with other local authorities.
- Collective Investment Schemes can provide an appropriate route to the range of instruments needed by local authorities, particularly pension funds, and with the assistance of the FCA could negate the need to undergo the elective professional process.
- Clarity is needed with regard to transactions made prior to 3<sup>rd</sup> January 2018.

### **Classification**

Before addressing the opt up criteria we would wish to state our disappointment that the reclassification of local authorities as retail investors is taking place. Local authorities in the UK have a robust track record of effective risk management with regard to investment and in respect of their pension funds considerable experience across a wide range of asset classes. The original EU directive did not highlight any problems being experienced by UK local authorities in last quarter century or so.

Furthermore investment by local authorities for pension fund purposes are subject to regulation (SI 2016 No. 946 PUBLIC SERVICE PENSIONS, ENGLAND AND WALES The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016) which include the requirement to take 'proper advice' when appointing investment managers.

This reclassification will in our view place local authorities at a significant disadvantage when implementing properly considered and constructed investment strategies. In particular the reclassification to retail client status:

- Will prevent authorities accessing the full range of asset classes and vehicles they currently use to execute investment strategy
- Is inconsistent with the 'prudent person' approach provided for in the Local Government Pension Scheme (LGPS) investment regulations 2016
- Is inconsistent with the Government's desire for greater infrastructure investment by local authority pension funds

The provision for elected professional status, although potentially mitigating the impact of the reclassification, will result in authorities having to go through a significant and time consuming process which, depending on the nature of its application by managers, provides no guarantees that future investment strategies will be able to be effectively executed with existing managers or on existing terms.

Finally the timing of the shift of classification provides a significant challenge to the introduction, at the instigation of the Government, of asset pooling for local authority pension funds.

### **Election for professional status**

Although the question in the consultation refers only to the revised quantitative test we would wish to comment on the complete election process. We do not consider that the process as it stands provides local authorities with an effective route to professional status in regard to their pension fund activities or other investment activities.

The proposed tests do not take account of the regulatory processes that local

authorities have to undertake in managing their finances and the checks and balances that these place on their activities. This will impact on the practical application of the proposed tests. In addition, these checks and balances should give reassurance of local authorities' suitability for professional status and so obviate the need for such difficult tests in the first place.

### **Qualitative test**

The questions in the consultation do not refer directly to the proposals around the qualitative test. However, we believe there are significant problems with the approach proposed.

- The qualitative test states that:

*firms must undertake an adequate assessment of the expertise, experience and knowledge of the client to give reasonable assurance in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved (COBS 3.5.3R(1))*

- The existing COBS 3.5.4 states that

*If the client is an entity, the qualitative test should be performed in relation to the person authorised to carry out transactions on its behalf.*

Local authorities have structures of delegation and internal controls designed to ensure proper decision making, risk management and execution.

With regard to pension fund investments the decision to invest in a particular asset class or vehicle or to engage a firm will normally be made by a committee acting on behalf of the council. Investment decisions are a function of the local authority with pension fund responsibilities and as such, can only be discharged by a committee constituted under Section 101 of the Local Government Act 1972 or by an officer given delegated authority to make such decisions. Section 101 committees consist of elected members with support from officers of the council, statutory advisors and consultants. The transaction itself would normally be executed by an officer with delegated authority to enact the decision of the committee.

When assessing a local authority for this test, firms should be able to do so in a consistent manner that reflects the decision making process and governance arrangements which led to the transaction. There is a concern that the wording of COBS 3.5.4 would lead to the assessing of the individual who executes the transaction on behalf of the council and not those who made the decision to enter into the transaction.

We would therefore ask that COBS 3.5.4 be amended to enable firms to assess collectively the expertise, experience and knowledge which resulted in the decision by the local authority as a body corporate to enter into the transaction.

Such an assessment would reflect the collective principle proposed for passing the 'fit' requirement in IORP II Article 23 1 (a) as below;

- (i) *for persons who effectively run the IORP, this means their qualifications, knowledge and experience are collectively adequate to enable them to ensure a sound and prudent management of the IORP;*

## **Pooled assets**

Since November 2015, local authorities have been developing asset pools at the behest of Government. These pools will have a number of different structures and will therefore be subject to different impacts from the reclassification.

Where pools are operating Collective Investment Schemes they have already or are considering setting up Qualified Investor Scheme fund structures in order to access the wide range of asset types necessary to effectively implement local authority pension fund investment strategies.

COLL 8.1.3 R states that the manager of the QIS must take reasonable care to ensure that ownership of units in that scheme is recorded in the register only for a person to whom such units may be promoted under COBS 4.12.4R.

COBS 4.12.4R sets out the exemptions from 4.12.3 which states that retail clients should not be sold non-mainstream pooled investments. There are 13 exemptions including elected professional clients (exemption 7) and certified and self-certified sophisticated investors (exemptions 8 and 9) each of which could provide a means of local authorities accessing the full range of assets offered by the pool.

However all the exemptions listed above include a level of uncertainty with regard to the required assessments and the potential for inconsistent application. We therefore request that FCA ensure that asset pools can provide an effective point of access for local authority pension funds, in line with Government policy objectives, by listing them as an exemption in their own right.

This would result in local authority pension funds being able to invest in a full range of assets via Collective Investment Schemes without having to undergo an elective process. The elective process would still be required where authorities continue to invest outside of pools or where pools do not operate Collective Investment Schemes, and for local authorities acting in their own right and not as a pension fund.

## **Transitional issues**

Under the proposals Local authorities will become retail clients on 3rd January 2018. There will be a transitional period (which in some cases will be years) before investments are switched to the pools and/or the authority successfully elects for professional status. Firms and local authorities need clarity with regard to transactions made before that date as per se professional clients which could not be made after it as a retail clients. FCA are therefore requested to provide reassurance that should the proposal be implemented such transactions may be honoured and will not have to be terminated on 3rd January 2018

## **Response to questions in the consultation directly affecting local authorities (questions 16 and 17).**

*Question 16: Do you agree with our approach to revise the quantitative thresholds as part of the opt-up criteria for local authorities by introducing a mandatory portfolio size requirement of £15m? If not, what do you believe is the appropriate minimum portfolio size requirement, and why?*

The quantitative test (based on COBS 3.5.3R(2)) requires that the criteria in paragraph (a) and the criteria in either paragraph (b) or (c) must be satisfied:

*(a) the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds £15,000,000*

*(b) the client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters*

*(c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged*

The size of the portfolio cut off (a) has been set so that any local authority that does not qualify under this criterion alone cannot qualify for opt up and so be excluded in all cases from MiFID scope business. The consultation states that the £15,000,000 cut off is to exclude smaller authorities from opt up status as "the size of a local authority often aligns with its level of knowledge and expertise". No evidence has been offered to back up this assertion and to demonstrate that smaller authorities are per se not capable of holding professional status; indeed the FCA's own analysis in the consultation states that a number of local authorities currently carrying out MiFID scope business will be excluded in the future due to this criterion.

The requirement for the cut-off point to be £15,000,000 has come from the FCA; the EU directive was based on 500,000 euros and no evidence based reason has been given in the consultation for this not to be used in the UK's implementation. As is acknowledged in the consultation, a portfolio size of 500,000 euros would not be a significant bar to UK local authorities

The consultation states that the typical portfolio size for a smaller local authority is £10,000,000, yet the analysis carried out by the FCA itself in the consultation concludes that the £15,000,000 cut off would exclude about half of all UK local authorities.

The FCA's analysis in the consultation of the size of local authority investment portfolios is based on annual statistics published by DCLG. This is problematical as it only shows a snapshot of the investment portfolio, including cash balances, at a single year end date. Due to significant in year cash flows such as influxes of tax revenues such as council tax and business rates, receipts of central government grants, and significant payments made out over a year, a local authority's daily balance can vary significantly between different dates. Using a large figure such as £15,000,000 (as opposed to the EU directive figure of 500,000 euros) means that there will be days when a snapshot of local authority balances will show that even some of the biggest local authorities in the country will not qualify on that day. This can be seen from the DCLG statistics published for the year after that used in the analysis in the consultation which shows some very large authorities with balances below £15,000,000 on that date. It is therefore doubtful whether the proposal as drafted will achieve the stated aim, and may in fact exclude the vast majority of local authorities acting in a non pension fund capacity. In conclusion, the proposed limit of £15,000,000 represents a major barrier for local authorities and its impact will go far beyond the aims of the original EU directive and even the stated aims of the FCA in proposing it. We would urge reversion to the original 500,000 euro limit in the EU directive.

Pension Fund Authorities will all qualify under (a) however except in very particular circumstances they will not under (b). The LGPS Advisory Board's investigations in this area indicated that only 3 LGPS funds (all with internal investment operations) would have any possibility of meeting this test. This means that only local authorities, including pension fund authorities, able to pass tests (c) and (a) will be able to successfully complete the opt up process. This means test (c) is particularly important.

With test (c), as with the qualitative test, the uncertainty lies in who is being assessed. COBS 3.5.4 does not apply therefore it is 'the client' against whom the assessment is made.

COBS 3.2 defines a client as

*A person to whom a firm provides, intends to provide or has provided: a service in the course of carrying on a regulated activity; or in the case of MiFID or equivalent third country business, an ancillary service.*

The Handbook Glossary defines a person as:

*(in accordance with the Interpretation Act 1978) any person, including a body of persons corporate or unincorporate (that is, a natural person, a legal person and, for example, a partnership).*

A local authority is a corporate body therefore the above would lead to the conclusion that the assessment in (c) should be against that body corporate. However the wording of (c) does not comfortably fit with that conclusion as it reads as if the firm should be assessing an individual. Although a local authority as a body corporate can possess knowledge of the transactions or services envisaged how can it work in the financial sector for at least one year in a professional position?

*Question 17: Do you agree with our approach to extend these proposals to non-MiFID scope business? If not, please give reasons why.*

As outlined in the rest of this response, we believe the proposed approach to the implementation needs to be rethought before any consideration can be given to extending proposals to non-MiFID scope business. Since we believe the current proposals to be flawed, we cannot see any advantage in extending them.

# Agenda Item 9

## Report of the Section 151 Officer

Pension Fund Committee – 13 July 2017

### COST TRANSPARENCY – CODE OF CONDUCT

<b>Purpose:</b>	To update the Pension Fund Committee on the new voluntary code of conduct on cost transparency in the fund management industry
<b>Report Author:</b>	Jeff Dong Chief Treasury & Technical Officer
<b>Finance Officer:</b>	Jeff Dong Chief Treasury & Technical Officer
<b>Legal Officer:</b>	Stephanie Williams
<b>Access to Services Officer:</b>	N/A

#### FOR INFORMATION

- 1 Background**
  - 1.1 One of the most material costs incurred by LGPS funds are usually fund manager costs. These can be charged in a number of ways e.g flat fees, performance fees, high water marks, catch up etc.
  - 1.2 Quite often the headline manager fee payable is not the only cost incurred by the fund as often broker's commissions, transaction costs, FX costs are netted of the bottom line. These various practices although industry standard make for comparison and benchmarking of total fund manager costs challenging.
  - 1.3 In light of the above the Scheme Advisory Board ( SAB) of the LGPS has developed a voluntary Code of Conduct that investment managers can sign up to, in order to demonstrate full disclosure of all their costs.
- 2 Scheme Advisory Board**
  - 2.1 The Scheme Advisory Board ( SAB) of the Local Government Pension Scheme views cost transparency as a vital tool for those charged with governance and those who manage schemes can ensure they achieve value for money with their appointed managers.
  - 2.2 The move toward investment fee transparency and consistency is seen by the Board as an important factor in the LGPS being perceived as a value led and innovative scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and

accounts and included in the government's criteria for pooling investments.

To assist LGPS funds in obtaining the data they require in order to report costs on a transparent basis the Board has developed a voluntary Code of Transparency for LGPS asset managers.

**3 Code of Conduct**

- 3.1 Attached at Appendix 1 is the Code of Conduct for Cost Transparency. It is recognised that the template for completion has only been developed for equity mandates at this stage and the templates for other asset classes are being developed, however it is intended to engage our already appointed equity managers and ( other asset class managers as the templates become available ) to sign up to the voluntary code. It should become a requisite of any future appointments to the fund or the Wales Pension Partnership Pool.

**4 Legal Implications**

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

**5 Financial Implications**

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

**6 Equality and Engagement Implications**

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

**Background papers:** None

**Appendices:**



## **LGPS Investment Code of Transparency (“the Code”)**

**Date of Publication: 18<sup>th</sup> May 2017**

### **Definitions**

For the purpose of this Code the following definitions shall apply:

<b>Administering Authority</b>	means the administering authority of a pension fund within the LGPS. For the purposes of the Code only this term shall also apply to the operator of any LGPS investment pool
<b>Board</b>	means the Local Government Pension Scheme Advisory Board
<b>Investment Manager</b>	means an investment manager appointed by an Administering Authority in accordance with the Investment Regulations
<b>Investment Regulations</b>	means The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as from time to time amended or replaced)
<b>LGPS</b>	means the Local Government Pension Scheme for England and Wales
<b>Template</b>	means the template information form for the relevant investment types provided by the Board as updated from time to time and made available on the Board’s website

### **A Introduction**

1. The Board is a body established under the Local Government Pension Scheme Regulations 2013. The function of the Board is to provide advice to the Secretary of State on the desirability of making changes to the LGPS. The Board also has the function of providing advice to Administering Authorities and local pension boards in relation to the effective and efficient administration and management of the LGPS and their pension funds. The Board has the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.
2. The Board views the move toward investment cost transparency and consistency as an important factor in the LGPS being perceived as a value-led and innovative pension scheme. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and is included in the government’s investment reform guidance and criteria for LGPS pooling.
3. To assist LGPS administering authorities in obtaining the more detailed investment fee data they require, the Board has worked with key stakeholders including investment managers, CIPFA and LGPS administering authorities to develop the Code.
4. The Administering Authority and the Board recognise their obligations pursuant to the Freedom of Information Act and the Section 45 FoIA Code of Practice and will engage with Investment Managers appropriately in that respect.

### **B Application of the Code**

5. The Code is a voluntary code and covers the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities.

6. An Investment Manager may sign up to the Code in writing in the form agreed by the Board. By doing so the Investment Manager is demonstrating its commitment to the transparent reporting of LGPS investment costs and fees to administering authorities.
7. An Investment Manager who signs up to the Code in respect of the investment types covered by the Code agrees that within a period of twelve months of signing up to the Code (or such longer period as the Board may in its discretion agree) it will put in place the systems necessary to allow the completion and automatic (i.e. without the client having to make a request) submission of the Template(s) to each Administering Authority that the Investment Manager is appointed by (whether at the time of signing up to the Code or in the future).
8. The Template(s) must be submitted automatically (i.e. without the client having to make a request) each year to each Administering Authority (if required by the Administering Authority) and to any independent third party appointed by the Board in accordance with paragraph 12. Administering Authorities may also request such submissions on a quarterly basis.
9. There are separate Templates for segregated portfolio management and for pooled funds. Where an Investment Manager operating a segregated mandate invests in a pooled fund as part of that mandate, the reporting will be done via the Investment Manager's own Template.
10. The Investment Manager will not vary the Templates except with the written agreement of the Board and the relevant Administering Authority.
11. The current Templates only apply in relation to listed asset classes. Templates for unlisted asset classes such as private equity will be developed in due course. It is envisaged that the Templates will develop over time to encompass other more challenging areas of cost transparency and will remain flexible to enable changes to meet the rapidly developing market for investment products. The listed asset Template may be amended from time to time to keep in line with the Investment Association's Disclosure Code.
12. The Board may appoint an independent third party to audit Templates provided in accordance with the Code and general compliance of the Code by Investment Managers. The third party may also be asked by the Board to collate, analyse and publish generic, non-attributable information obtained from the Templates at a national level. The Investment Manager shall co-operate with the Board and/or appointed third party and provide such information and explanations as the third party may reasonably require within a reasonable period of request.
13. The third party shall report the findings of any audit direct to the Board, including any recommended actions or improvements. The Investment Manager shall co-operate and work with the Board to address and implement any recommended actions or improvements.
14. The Investment Manager may, subject to any overarching legal or reporting requirements, require an Administering Authority to sign up to a reasonable confidentiality agreement not to disclose the information contained in the Template to any third parties (excluding any third party appointed by the Board).
15. The Board agrees that when an Investment Manager signs up to the Code in the agreed form it will, as soon as reasonably practicable, list the Investment Manager on its website and allow the Investment Manager to use the Code's logo on its marketing literature in accordance with the Code Logo Use and Guidance (available from the Board website and amended from time to time). The Code Logo Use and Guidance can be downloaded from the Board website.
16. The Board owns the Code logo and will retain all intellectual property rights and any other rights in the Code logo. An Investment Manager will not acquire any rights, title or interest in the Code logo and will not use the Code logo except as expressly specified in the Code and the Code Logo Use and Guidelines.

17. An Investment Manager will be permitted to use the Code logo on a non-exclusive basis to communicate their compliance with the Code. The Code logo will convey to stakeholders that the Investment Manager is compliant with the Code and committed to the transparent reporting of LGPS investment costs and fees.
18. An Investment Manager will not use the Code logo for any other purpose nor for the benefit of any other person and will not alter or change the Code logo in any way – ownership of any modifications in the Code logo will vest in the Board.
19. The Board may revoke use of the Code logo and remove an Investment Manager from the list on its website at any time if an Investment Manager is reported by an Administering Authority to be in breach of the Code.

# Agenda Item 10

## Report of the Section 151 Officer

Pension Fund Committee – 13 July 2017

### REPORTING BREACHES POLICY

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

Report Author: Lynne Miller – Principal Pensions Manager

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 adoption of the Reporting Breaches policy, 20.37% of retirement lumps sums have not been paid within one month of retirement; however, further investigation has ascertained that all the late payments were as a result of members not returning the appropriate paperwork in order to make payment.
- 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.
- 2.6 The final breach during this quarter is the failure of one employer (Gwrp Gwalia) to submit data to the Pension Fund by 30<sup>th</sup> April so that the end-of-year reconciliation of contributions and pay to members' records can take place. The data was received on 22<sup>nd</sup> June and has put the employer at risk of breaching the requirement for its members' Annual Benefit Statements to be distributed by 31<sup>st</sup> August after year-end.
- 2.7 Regular contact was made between the Pension Fund and Gwrp Gwalia during this period to ensure their responsibilities were understood and the risks attached to non-compliance. An invitation has been made to meet with them to discuss moving to i-connect in order that monthly returns may be submitted electronically.

### **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 The financial effects of each breach is identified below with the addition of the possibility of a penalty charge from TPR.

## **FOR INFORMATION**

**Background papers:** None

**Appendices:**

**Appendix A:** Breaches Report

City and County of Swansea Breach Register

Appendix A

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	<p>The Investment Strategy Statement outlines an indicative allocation of 34% +/- 5% to Global Equities.</p> <p>At 31<sup>st</sup> March 2017, the allocation was 43%</p>	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 retirement	The administering authority has accrued interest payments on the retirement lump sums under the 2013 LGPS	This was due to members not returning relevant documentation in a timely manner	.		✓

			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			✓

\*New breaches since the previous meeting should be highlighted

# Agenda Item 11

## Report of the Section 151 Officer

Pension Fund Committee – 13 July 2017

### INTERNAL CONTROLS REPORTS OF APPOINTED FUND MANAGER'S & CUSTODIAN

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

## 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:** Fund Manager Summary of Internal Control Reports – 2016.

**Fund Manager Summary of Internal Control Reports - 2016**

<b>Fund Manager</b>	<b>Page</b>
1. Blackrock	2
2. Aberdeen Asset Management	4
3. Goldman Sachs	6
4. HarbourVest	7
5. Invesco	8
6. JP Morgan	9
7. Legal & General	11
8. Permal	14
9. Partners Group	15
10. Schroders Investment Management	16
11. HSBC Security Services (Custodian)	17

**Blackrock – Report of Controls at Blackrock Placed in Operation and Test of Operating Effectiveness for Asset Management Services, 1<sup>st</sup> October 2015 to 31<sup>st</sup> October 2016**

Control Procedure	Test Performed	Exception Noted	Management Response
<p>The data team is responsible for processing data on accrued dividends, accrued interest and dividend and interest income/expense on exchange-traded instruments. The data uploaded is derived from external sources and the processing of accrued dividends, accrued interest and dividend and interest income/expense is automated via Paladyne Security Master, which obtains information from third party providers. Log files are reviewed by the Data Team to check that data uploads are complete and exceptions are addressed.</p>	<p>Inspected a sample of Geneva data input feeds from Reuters (primary source since July 2016) and Bloomberg (primary source after July 2016) processed through Paladyne Security Master to determine whether the upload logs were reviewed by the data team.</p>	<p>40 Samples were selected for testing and it was determined that 3 of the reviews were not available.</p>	<p>Management performed additional reviews and is confident that the reviews were completed as required as evidenced by the uploads being accurate.</p> <p>Management has emphasised the importance of filing the checklist and related documents appropriately to avoid misplacement of documentation in the future to the appropriate personnel.</p>

**Blackrock Cont'd**

<b>Control Procedure</b>	<b>Test Performed</b>	<b>Exception Noted</b>	<b>Management Response</b>
<p>Corporate actions (dividends) for listed instruments are received from third party data providers on a daily basis. Data is loaded into Geneva as part of a standard upload, which generates system log files that are reviewed by the Data Team to validate that data uploads are complete.</p>	<p>Inspected a sample of Geneva data input feeds from a third party data providers processed through Paladyne Security Master to determine whether the upload of logs were reviewed by the Data Team.</p>	<p>40 samples were selected for testing and it was determined that 1 of the reviews was not available.</p>	<p>Management performed additional reviews and is confident that the reviews were completed as required as evidenced by the absence of corporate actions upload errors.</p> <p>Management has emphasised the importance of filing the checklist and related documents appropriately to avoid misplacement of documentation in the future to the appropriate personnel.</p>

**Aberdeen Asset Management Ltd – Internal Controls Report for the period ended 30<sup>th</sup> June 2016**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>All invoices received are authorised by appropriate personnel in accordance with the Authorities document.</p> <p>All invoices received are reviewed for accuracy and appropriate authorisation by a senior member of the Property Operations team prior to payments being processed.</p>	<p>For a sample of invoices received, inspected evidence to confirm invoices were authorised by appropriate personnel in accordance with the Authorities document.</p>	<p>For one of the 45 items in our sample, it was not possible to obtain the invoice showing sign off by the Fund Managers or Property Operations in line with the Authorities document.</p>	<p>Management acknowledge that the invoice was no longer attached to the cover sheet, however, it should be noted that all invoices will only be released for payment if authorised by appropriate person(s) and two separate processes ensure that this always occurs. The importance of accurate filing has been stressed to staff. No client impact occurred.</p>
<p>Exposure limits are monitored as part of the daily breach monitoring on all funds by the Guidelines Monitoring EMEA team and provided to the Quantitative investment desk for review.</p> <p>Any active breaches are logged with SWORD by the Quantitative investment desk and corrected in a timely manner.</p>	<p>For a sample of days, inspected evidence to confirm that the monitoring of post-trade breaches was performed by the Guideline Monitoring EMEA team and any valid exceptions were logged by SWORD. For a sample of all relevant breaches logged on SWORD, inspected evidence to confirm further investigation was performed and the breach was resolved.</p>	<p>For one of 30 days in our sample, the exceptions report was produced by the Guideline Monitoring EMEA team, however the report was not then provided to the Quantitative investment desk for review</p>	<p>This was an isolated instance. Staff involved in this process have been reminded of the requirements to follow process. There was no client impact.</p>

**Aberdeen Asset Management Ltd cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Until April 2016, as part of the daily price check for all daily priced funds, the Investment Accounting team uses predetermined tolerances to verify the day-to-day price movements against market indices. Any movements out with tolerance are investigated and resolved. The price check is subject to monthly senior management review.</p>	<p>For a sample of days, inspected evidence to confirm that day-to-day price movements were verified against market indices using predetermined tolerances and that any movements out with tolerance were investigated and resolved.</p> <p>For the same sample, inspected evidence to confirm that the check was subject to monthly senior review from a member of the Investment Accounting team.</p>	<p>For one of the 8 months tested in our sample, the review by Senior Management was delayed by one month</p>	<p>We acknowledge the delay and have re-iterated the need to complete the activity in a timely manner to management and staff. There was no impact on clients.</p>

**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 – 1<sup>st</sup> October 2015 through 30<sup>th</sup> September 2016.**

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Backups to tape are monitored and failures are managed through remediation.</p>	<p>For the population of production servers configured for backup to tape, inspected evidence to determine whether backups to tapes were performed and whether failures were identified.</p> <p>For a sample of failures, inspected evidence to determine whether the failures were managed through to remediation.</p>	<p>For the period 1<sup>st</sup> October 2015 to 31 December 2015, the following exceptions were noted related to the population of backups to tape</p> <p>- 50 month end server backups across 35 unique servers were not written to tape media. For the 50 month-end server backups, a successful disk backup was performed.</p> <p>For the period 1 January 2016 to 30 September 2016 no exceptions were noted related to the population of backups to tape.</p>	<p>The exception resulted from the misconfiguration of a new backup-to-disk system to provide faster backups and recovery. During the period 1 October 2015 to 31 December 2015, 50 month end backups across 35 production servers were not copied to tape and as a result, a control incident was generated.</p> <p>The underlying technology issue that caused the control failure – misconfiguration of the disk to tape tier was addressed in February 2016.</p> <p>For all servers across all months, at least one backup method (tape or disk) succeeded, no data was at risk.</p> <p>Additional measures were implemented to prevent re-</p>

			occurrence, including continuous monitoring of the disk-to-tape process.
--	--	--	--

**HarbourVest Partners LLC – Private Equity Fund Administration Report on Controls Placed in Operation and Tests of Operating Effectiveness – October 1, 2015 to September 30, 2016**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
IT personnel are automatically notified of backup failures and appropriate action is taken for resolution	For a sample of backup failures identified by the automated backup tool, inspected documentation to determine whether backup failures were reviewed and appropriate action was taken for resolution.	Evidence of a backup failure resolution is not retained to determine whether appropriate action was performed. The in-scope applications did not experience backup failures during the period covered by this report.	During the period covered by this report, no backup failures were experience for in-scope applications. In addition, controls are such that the IT personnel perform a daily review of the Commvault summary log which would indicate any case of failures, management has reinforced requirements to maintain evidence of the resolution indicating the steps which were performed to resolve the incident or confirming that no action was needed.



**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 2015 to 30 September 2016**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>User accounts for Invesco Information Systems are removed promptly upon change of employment</p>	<p>Inspected the terminated employee listing and the active user listings for the databases, operating systems and applications to determine whether user accounts were removed promptly following a change in employment status.</p>	<p>Sybase – of the population of two Sybase users terminated during the period, access for one terminated user was not removed.</p> <p>Frontier – of the population of three Frontier users terminated during the period, access for one terminated user was not removed.</p> <p>Proxy Exchange – Of the population of five Proxy Exchange users terminated during the period, access for two terminated users was not removed.</p>	<p>The terminated users identified were subsequently removed from the respective systems. Network access was removed in a timely manner for each terminated user, which reduces the risk of the respective user accessing the applications.</p> <p>Further awareness and education to the teams involved in the user access process for these applications is underway to provide more rigor and oversight around the current manual process.</p>

**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 2016 – 31 December 2016**

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Portfolio investment decisions and trade execution functions are segregated for equities and fixed income transactions</p>	<p>Inspected user lists with access to the equity and fixed income systems to confirm that users who had the ability to authorise portfolio investment decisions did not have the ability to execute equity transactions.</p>	<p>For the period 6 September 2016 through 31 December 2016, one user had Prism access to authorise fixed income portfolio investment decisions and Minerva access to execute fixed income transactions.</p>	<p>Management had remediated the inappropriate access. The one user was a portfolio manager within the Global Liquidity team whose access should have been limited to Global Liquidity accounts only. Management performed a detailed review that confirmed that the user had not raised any orders on any Fixed Income accounts in Prism.</p>
<p>Access to systems is granted only upon approval by authorised management or a designee. The approver confirms access is commensurate with the users’ job responsibilities.</p>	<p>For a sample of new user entitlements, inspected on-boarding documentation to confirm that access had been approved by authorised management or a designee and was granted in accordance with the request.</p>	<p>Five new users to the client account management application (PandA) were not members of the Identity and Access Management (CTRIAM) team were granted security administration entitlements to the client account management application during the report period. The five users did not use their access to perform</p>	<p>The two control exceptions noted were identified by internal control testing conducted by management. Management was able to provide evidence to the Independent Auditor that the assignment of security administration entitlements was limited to 6 users, that the entitlements were removed from the 6 users with the</p>

**JP Morgan Asset Management cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
		<p>any security administration activity within the report period</p> <p>For the period 14 November 2016 to 31 December 2016, one new user was provided access to the LENS application without documented approvals in place. 5 users who previously had read-only access in the legacy LMA application were further provided with edit access in the LENS application.</p>	<p>period under review and via reference to activity logs generated by the application, that none of the 6 users had performed any security administration activity since 1 January 2016, therefore there was no business impact as a result of the exception.</p>

**Legal & General – AAF 01/06/ISAE 3402 Assurance Report on Internal Controls for the Period 1 January 2015 to 31 December 2016**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
Investment strategy is set and implemented in a timely manner	A Fund Objectives and Guidelines document (FOG) is created for each fund that summarises all of the investment guidelines and restrictions as part of the agreement. Each new FOG is reviewed and signed off by the Fund Manager, Client Account Manager and Portfolio Monitoring team	For a sample of 2 out of 26 new funds, the FOG document was not signed by a member of the Portfolio Monitoring team.	The control framework has been strengthened so that senior managers in the team now confirm that all FOGs documents are signed and guidelines released in MIG21 before funds are made live. This is evidenced in our Risk Management System.
Investment strategy is set and implemented in a timely manner	The majority of investment restrictions and guidelines are monitored through MIG21. These are input by a member of the Portfolio Monitoring team and reviewed and released by a second person in the team before the fund goes live.	For a sample of 2 out of 26 new funds, the investment restrictions and guidelines were not released on MIG21 before the funds went live.	The control framework has been strengthened so that senior managers in the team now confirm that all FOGs documents are signed and guidelines released in MIG21 before funds are made live. This is evidenced in our Risk Management System.

**Legal & General cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Commission levels and transaction costs are monitored</p> <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>On a monthly basis, the heads of asset classes review a report of commission levels and turnover rates with the Head of Dealing. The final monthly report is prepared and shared with the Board and reviewed by the Board annually.</p> <p>User access to IT network, infrastructure and applications is disabled on staff departure date and deleted after three months.</p>	<p>Due to software issues the monthly report was not ran for 3 months of the year. As such no meeting was held to discuss commission levels and turnover rates.</p> <p>For 6 out of 162 leavers access was not appropriately disabled after they left LGIM.</p>	<p>Steps have been taken to improve reliability of report generation and a subsequent review of the period in question showed that commission levels and turnover were within acceptable boundaries.</p> <p>To date, the process by which HR and IT are notified of leavers has been manual and relied on line managers notifying HR promptly. We are introducing a new control whereby the line manager will use Service Now to log leavers within LGIM. This will send automated reports to HR and IT, who will then remove or disable systems access. This will remove the manual element and the reliance on line managers which has caused the control to fail in the past. We expect this to be in place by end of Q2. No</p>

**Legal & General cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
			Inappropriate access was achieved or attempted by the leavers.

**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 December 2015 – 30 September 2016**

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Corporation Action 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>For a sample of corporate actions inspected the authoritative record to validate the creation of such a record and the audit trail to confirm that all differences were identified and approved.</p> <p>Inspected the corporate action sheet to confirm validation of key data against two or more sources and verified that there was a secondary level of the checklist.</p>	<p>For one of the 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.</p> <p>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.</p> <p>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 Ireland.</p>

**Partners Group – Report on the Internal Controls, Holdings AG as of 31 December 2016**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Notices are entered into the system by Treasury Management. The timely execution of instructions to issue a capital call notice or distribution notice is ensured through maintaining instruction monitoring sheets or through AutoAlert</p>	<p>Validated the expected functionality of the AutoAlert and reviewed the system set up for AutoAlert.</p>	<p>We noted that due to an update in AutoAlert the AutoAlert functionality was not operating for some products during the period from August to November 2016.</p>	<p>Partners Group has a compensating control in place which ensures the timely execution of capital calls and distributions. For a sample of capital calls and distributions, PwC inspected the evidence that the timely execution thereof was monitored in the monitoring sheets with no exception noted.</p> <p>Controls are further being improved to ensure that capital calls and distribution notices to investors are issued on a timely basis.</p>



**Schroders Investment Management Ltd – Internal Controls Report 2016 ISAE 3402/AAF 01/16**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>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 systems for reporting to the trade repository.</p>	<p>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.</p>	<p>For 1 out of 7 clients tested, one of the checklists was not completed (the LEI was not uploaded onto the trade repository) prior to the investment activity.</p>	<p>One exception occurred when an existing client began trading in-scope derivatives, as a result of a change in mandate, without an LEI in place. This was identified by Schroders and reported to PwC. The LEI has since been uploaded to the trade repository.</p> <p>Enhancements to the mandate change process were implemented in February 2017. Management has performed a review to identify the changes required to the Charles River order management system to prevent investment activity from commencing without an LEI in place where it is required.</p>

**HSBC Security Services Description of its Global Custody Services System and on the Suitability of the Design and Operating Effectiveness of Controls for the period 1 December 2015 – 30 September 2016**

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Payment entitlements input into GC GHSS are subject to a system enforced dual control to prevent input and authorisation by the same operator before release to the client's account.</p>	<p>Observed the payment entitlement and claim input into the GPS to determine whether payment entitlement and claim input is subject to a system enforced dual control to prevent input and authorisation by the same operator.</p>	<p>The system enforced dual control doesn't operate as expected and therefore the input and authorisation by the same operator is not prevented.</p>	<p>System setting has been fixed by 2 December 2016 to ensure proper system enforced dual control is in place. While there was a flaw noted in the system design, the process integrity has not been affected during the review period because :</p> <ol style="list-style-type: none"> <li>1. Daily reconciliation is in place as a compensating control to identify discrepancies between HSS and Agents payout. The daily reconciliation processes have been tested by PWC with no exception noted.</li> <li>2. There has been no payment error identified due to this issue from 1 December 2015 to the date of this report.</li> </ol>

**HSBC Security Services cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>The TAS team reconciles the total number of client holdings from the Trade Transition Status Summary, Intraday and Aged reports back to the client instructions to verify that client holdings have successfully transitioned to HSS. Discrepancies and researched and resolved by the TAS Team.</p>	<p>For a sample of new clients, inspected the Transition Trade Status Summary, Intraday and Aged reports to the client instructions to determine whether the TAS Team reconciles the total number of client holdings from the Trade Transition Status Summary, Intraday and Aged reports back to the client instructions to verify that client holdings have been successfully transitioned to HSS and whether the discrepancies are researched and resolved by the TAS Team.</p>	<p>For 1 out of 20 items sampled, reconciliations to client instructions to ensure all holdings transitioned was not performed.</p>	<p>This was the first Fundsettle transition we have undertaken since 2006 and the instance highlighted that our procedures needed to reflect the Fundsettle business as usual model, different from normal custody transition (i.e. Fundsettle instructing and confirming the trade into GCS). For future Fundsettle transitions, procedures will be amended to incorporate a reconciliation from the client instructions to the Fundsettle report.</p>

# Agenda Item 12

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

### Pension Fund Committee – 13 July 2017

#### 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>Reason for Decision:</b>	To comply with legislation.	
<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.</b>	<b>Relevant Paragraphs in Schedule 12A</b>
	13	14
	14	14
	15	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> <p><b>a)</b> 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</p> <p><b>b)</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 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>

# Agenda Item 13

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted



# Agenda Item 14

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

# Agenda Item 15

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted

Yn rhinwedd paragraff(au) 14 Atodlen 12A  
o Ddeddf Llywodraeth Leol 1972  
fel y'i diwygiwyd gan Orchymyn Llywodraeth Leol (Mynediad at  
Wybodaeth) (Amrywiad) (Cymru) 2007.

Document is Restricted