DINAS A SIR ABERTAWE

HYSBYSIAD O GYFARFOD

Fe'ch gwahoddir i gyfarfod

Y BWRDD PENSIWN LLEOL

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

Dyddiad: **Dydd Mawrth, 5 Medi 2017**

Amser: **10.00 am**

Aelodaeth:
Cynrychiolwyr Cyflogwr:
Y Cynghorydd T M White (Dinas a Sir Abertawe), Y Cynghorydd Alan Lockyer (Cyngor Bwrdeistref Sirol Castell-nedd Port Talbot**),** J Andrew (Cyfarwyddwr Cyllid Cartrefi CNPT).

Cynrychiolwyr Aelodau'r Bwrdd Pensiwn Lleol:
A Chaves, I Guy, A Thomas.

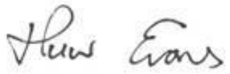
AGENDA

Rhif y Dudalen.

12 Penodi Rheolwr Isadeiledd. 77 - 87

13 Adroddiad Cysoni'r Isafswm Pensiwn Gwarantedig. 88 - 93

Cyfarfod nesaf: Dydd Iau, 28 Medi 2017 ar 10.00 am



Huw Evans
Pennaeth Gwasanaethau Democrataidd
Dydd Mawrth, 29 Awst 2017

Cyswllt: Gwasanaethau Democrataidd: - 636923

CITY AND COUNTY OF SWANSEA

MINUTES OF THE LOCAL PENSION BOARD

HELD AT COMMITTEE ROOM 5, GUILDHALL, SWANSEA ON THURSDAY, 23 MARCH 2017 AT 11.00 AM

PRESENT: Councillor A Lockyer (Chair) Presided

Employer Representatives:
J Andrew - Director of Finance NPT Homes
Councillor J E C Harris – City & County of Swansea

Local Pension Board Member Representatives:
I Guy

Officer(s)

Mike Hawes	Director of Resources / Section 151 Officer
Jeffrey Dong	Chief Treasury & Technical Officer
Paul Beynon	Chief Auditor
Simon Cockings	Senior Auditor
Jeffrey Dong	Chief Treasury & Technical Officer
Mike Hawes	Director of Resources / Section 151 Officer
Lynne Miller	Pensions Manager
Jeremy Parkhouse	Democratic Services Officer
Stephanie Williams	Principal Lawyer

Apologies for Absence
Independent Member(s): A Chaves and A Thomas

26 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 A Lockyer - Agenda as a whole - Member of LGPS.

J Andrew – Personal – Agenda as a whole - Member of LGPS.

I Guy – Personal – Agenda as a whole - Member of LGPS.

27 MINUTES.

RESOLVED that the Minutes of the Local Pension Board meeting held on 14 December 2016 be signed and approved as a correct record.

28 **PENSION FUND INTERNAL AUDIT REPORT 2016/17.**

The Chief Auditor presented the Internal Audit reports for Pension Fund activities in 2016/17.

It was outlined that the Internal Audit Plan included the following audits of the Pension Fund activities:

- Pensions Administration
- Pension Fund Investments
- Pension Fund Other

The Pensions Administration audit largely covered the aspects of pensions operated by the Pensions Section under the Head of Human Resources and Organisational Development e.g. collection of contributions, new pensioners, transfers etc.

The Pension Fund Investments audit covered the investment of fund assets by the Treasury and Technical Section via the various fund managers.

The Pension Fund Other audit was a new audit undertaken for the first time in 2015/16. This audit looked at any aspects not picked up in the other audits e.g. any income or expenditure included in the Pension Fund accounts not audited elsewhere.

It was explained that both the Pensions Administration and Pension Fund Investments audits were considered to be fundamental audits. Fundamental audits were those, which in consultation with the external auditor, were felt to be so significant that any issues with the systems were likely to have a material impact on the achievement of the Council's or Pension Fund's objectives. For this reason, fundamental audits are audited on a more frequent basis than other audits. The Pensions Administration audit was completed annually and the Pension Fund Investments audit was completed every 2 years. The Pension Fund Investments audit was not due for completion in 2016/17.

The level of assurance provided for the Pension Fund audits in 2016/17 was:

- Pensions Administration — Substantial
- Pension Fund Other — High

A copy of the final report for the Pensions Administration audit was provided at Appendix 1 and the final report for the Pension Fund Other audit was shown provided at Appendix 2.

RESOLVED that the contents of the report be noted.

29 **LOCAL PENSION BOARD WORK PLAN.**

The Chief Treasury and Technical Officer reported for approval a core workplan agenda for the Local Pension Board.

In line with the Code of Practice issued by the Pensions Regulator, it was proposed to adopt the following main areas contained in the Code as the core agenda items for consideration by the Local Pension Board work agenda:

Governing your scheme - Knowledge and understanding required by pension board members; conflicts of interest; information to be published about schemes.

Managing risks - Internal controls.

Administration - Scheme record-keeping; maintaining contributions; Information to be provided to members.

Resolving issues - Internal dispute resolution; reporting breaches of the law.

It was proposed to report on Scheme Administration and Resolving issues processes and procedures to the next meeting of the Board and it was recognised that the Local Pension Board should include topical and relevant items as appropriate.

Additional items to be included in the Workplan included working in tandem with the Pension Fund Committee on Investment Beliefs Workshop and Carbon Investment Policy.

The Board requested an update regarding attendance at Pension Fund Committee meetings by Board members. The Director of Corporate Services informed the meeting that Board members would be able to attend future Pension Fund Committee meetings if they signed the Code of Conduct and observed the confidential nature of the meetings and papers. An issue was raised by the Board as to whether the whole of the Code of Conduct applied to them and whether they could sign a confidentiality undertaking instead. This was agreed by the Director following advice from the Principal Lawyer.

He added that this was subject to a report being presented to the next Pension Fund Committee.

The Board welcomed the update and recognised the change as a positive step forward.

RESOLVED that: -

1) The Local Pension Board Workplan be approved;
2) The update regarding attendance at future Pension Fund Committee meetings be noted;
3) The Principal Lawyer would circulate a confidentiality undertaking for approval by the Pension Board.

30 TRIENNIAL VALUATION CERTIFICATION.

The Chief Treasury and Technical Officer presented a 'for information' report on Triennial Valuation Certification provided at Appendix A, which was considered at the previous Pension Fund Committee on 9 March 2017.

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 31st 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 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 noted the significant contribution increases charged to some employer organisations.

31 FUNDING STRATEGY STATEMENT.

The Chief Treasury and Technical Officer presented a 'for information' report on the City & County of Swansea Pension Fund Draft Funding Strategy Statement 2017 provided at Appendix A, which was considered at the previous Pension Fund Committee on 9 March 2017.

It was added that in line with the Local Government Pension Scheme Regulations, the City & County of Swansea Pension Fund was 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.

The Board discussed affordability for scheme members / employers and training provided to employers.

32 **BREACHES POLICY.**

The Principal Pensions Manager presented a 'for information' report on the Breaches Policy provided at Appendix A, which was considered at the previous Pension Fund Committee on 9 March 2017.

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 Board requested that an updated version of the Breaches Policy be circulated.

33 **BUSINESS PLAN.**

The Chief Treasury and Technical Officer presented a 'for information' report on the City & County of Swansea Pension Fund Business Plan 2017/18 provided at Appendix A, which was considered at the previous Pension Fund Committee on 9 March 2017. The report sought to provide a working framework for the Pension Fund's programme of work for 2017/18.

The Board asked questions in relation to the risk register, the policy document supporting the risk register and increases to investment / expenses.

34 **WALES INVESTMENT POOL - INTER AUTHORITY AGREEMENT.**

The Chief Treasury and Technical Officer presented a 'for information' report on the Wales Investment Pool – Inter Authority Agreement provided at Appendix A, which was considered at the previous Pension Fund Committee on 9 March 2017.

Appendix 1 provided the Council Report of 23 February 2017, which approved the Inter Authority Agreement, Host Authority and establishment of Joint Governance Committee.

35 **CARBON INVESTMENT STRATEGY - AN UPDATE.**

The Chief Treasury and Technical Officer presented a 'for information' report on Climate Change and a Carbon Investment Policy - an Update provided at Appendix A, which was considered at the previous Pension Fund Committee on 9 March 2017.

The report updated the Committee on the previous recommendation to commission a portfolio analysis with a view to formulating a carbon investment policy.

The Board discussed the information contained within the report and the implications for the Pension Fund going forward.

36 **INVESTMENT STRATEGY STATEMENT.**

The Chief Treasury and Technical Officer presented a 'for information' report on the City & County of Swansea Pension Fund Draft Investment Strategy Statement 2017 provided at Appendix A, which was considered at the previous Pension Fund Committee on 9 March 2017.

The Board asked questions regarding performance targets after fees and costs had been deducted and active / passive strategies.

37 **MINUTES OF THE PENSION FUND COMMITTEE - 9 MARCH 2017. (FOR INFORMATION)**

The Minutes of the Pension Fund Committee meeting held on 9 March 2017 were provided 'for information'.

The meeting ended at 12.25 pm

CHAIR

Report of the Section 151 Officer

Local Pension Board – 5 September 2017

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

Purpose:	To receive the draft statement of accounts for the City & County of Swansea Pension Fund
Reason for Decision:	To comply with governance/reporting guidelines.
Consultation:	Legal, Finance and Access to Services.
Report Author:	J Dong
Finance Officer:	J Dong
Legal Officer:	S Williams
Access to Services Officer:	S Hopkins
FOR INFORMATION	

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 Legal Implications

3.1 There are no legal implications arising from this report.

4 Financial Implications

4.1 There are no financial implications arising from this report.

5 Equality and Engagement Implications

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

Background Papers: None.

Appendices: Appendix A **–** Draft Statement of Accounts 2016/17.

CITY & COUNTY OF SWANSEA PENSION FUND

1. Introduction

The City & County of Swansea Pension Fund is administered by the City & County of Swansea. However it is a separate statutory fund and its assets and liabilities, income and expenditure are not consolidated into the accounts of the Authority. That is, the Pensions Fund's assets and liabilities are distinct.

The summarised accounts of the Pension Fund shown here comprise three main elements:-

- The Fund Account which shows income and expenditure of the fund during the year, split between payments to/contributions from members and transactions relating to fund investments.
- The Net Assets Statement which gives a snapshot of the financial position of the fund as at 31st March 2017.
- The Notes to The Financial Statements which are designed to provide further explanation of some of the figures in the statement and to give a further understanding of the nature of the fund.

2 Summary of transactions for the year

Where the money comes from:-

	£'000
Contributions and transfers in	85,562
Other	194
	85,756

And where it goes……

	£'000
Pensions Payable	58,454
Lump sum benefits	17,779
Refunds and transfers out	4,870
Administrative expenses	1,141
	82,244

	£'000
Net new money into the Fund	3,512
Net return on investments	337,412
Increase in Fund value	**340,924**

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

Fund Account For The Year Ended 31st March

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

Net Assets Statement As At 31 March

31st March 2016 £'000		Notes	31st March 2017 £'000
	Investments at market value:		
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
1,511,851	**Sub Total**		**1,850,446**
6,592	Current Assets	16	7,402
-5,814	Current Liabilities	16	-4,295
1,512,629	**Net assets**		**1,853,553**

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 it's 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.

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.

3. Analysis of Contributions

Total Contributions 2015/16 £'000		Total Contributions 2016/17 £'000
	Administering Authority	
43,983	City & County of Swansea	**46,623**
	Admitted Bodies	
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
4,109	**Total Admitted Bodies**	**3,793**
	Scheduled Bodies	
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
30,300	**Total Scheduled Bodies**	**31,305**
78,392	**Total Contributions Receivable**	**81,721**

3. Analysis of Contributions (continued)

Total Employer/Employee contributions comprise of:

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

4. Transfers In

Transfers in comprise of:

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

5. Other Income

Other income comprise of:

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

6. Benefits Payable

By category

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

7. Payments to and on account of leavers

Transfers out and refunds comprise of:

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

8. Administrative and Investment Manangement Expenses

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

2015/16 £'000		2016/17 £'000
	Adminstrative Expenses	
684	Support Services (SLA) & Employee Costs	690
30	Printing & Publications	18
168	Other	169
882		**877**
	Oversight & Governance	
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
151		**264**
	Investment Management Expenses	
4,117	Management Fees	4,894
437	Performance Fees	494
108	Custody Fees	124
4,662		**5,512**
5,695	**Total**	**6,653**

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
3,214	**Total**	**3,703**

9. Investment Income

2015/16 £'000		2016/17 £'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
26,214	**Total**	**29,838**

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.

11. Investment Assets

	31st March 2016			31st March 2017		
	UK £'000	**Overseas £'000**	**Total £'000**	**UK £'000**	**Overseas £'000**	**Total £'000**
Equities						
Quoted	342,618	344,274	686,892	414,015	456,711	870,726
Pooled investment vehicles						
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
Total pooled investment vehicles	254,319	504,621	758,940	290,927	616,357	907,284
Total equities and pooled investment vehicles	**596,937**	**848,895**	**1,445,832**	**704,942**	**1,073,068**	**1,778,010**
Cash Funds			99			1,664
Cash			62,783			67,561
Other Investment Balances Due			3,137			3,211
Total			**1,511,851**			**1,850,446**

11. Investment Assets (continued)

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

31st March 2016 £'000	Investment assets	31st March 2017 £'000
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
1,445,832	**Total investment assets**	**1,778,010**

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
Equities						
	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
		1,057,678	353,178	-338,362	280,110	1,352,604
Property						
UK						
	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
		84,684	6,209	-9,462	5,809	87,240
Fixed Interest						
Fixed Interest						
	L&G	72,274	0	-720	5,438	76,992
	Goldman	113,351	3,854	0	1,123	118,328
		185,625	3,854	-720	6,561	195,320
Index-Linked						
	L&G	26,923	0	0	5,359	32,282
		26,923	0	0	5,359	32,282
Hedge Funds						
	BlackRock	25,733	0	-378	2,235	27,590
	Fauchier	22,761	0	-213	2,180	24,728
		48,494	0	-591	4,415	52,318
Private Equity						
	HarbourVest	42,428	13,313	-8,325	10,830	58,246
		42,428	13,313	-8,325	10,830	58,246
Cash funds						
	Schroders	99	4,160	-2,597	2	1,664
		99	4,160	-2,597	2	1,664
Total		1,445,931	380,714	-360,057	313,086	1,779,674
Cash		**62,783**				67,561
Other Investment Balances - Dividends Due		**3,137**				3,211
TOTAL		**1,511,851**			**313,086**	**1,850,446**

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	Proportion of Net Asset	Value as at the 31st March 2017	Proportion of Net Asset
	£'000	**%**	**£'000**	**%**
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
-583	**Net Profit**	**51,157**

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
212,548		**227,602**

16. Current Assets and Liabilities

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

31st March 2016 £'000		31st March 2017 £'000
	Current Assets	
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
6,592		**7,402**
	Current Liabilities	
-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
-5,814		**-4,295**
778	**Net**	**3,107**

Analysed as:

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

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**
Total (Gross)	**2,729**	**4**	**3**	**0**	**2,736**

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).

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.

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

<u>Discount rate for periods in service</u>	
Scheduled body employers *	4.6% p.a.
Orphan body employers	4.6% p.a.
<u>Discount rate for periods after leaving service</u>	
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.

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 :

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
Scheduled bodies			
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 £
Scheduled bodies				
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
Admission bodies				
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 monerary 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.

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
Totals	**5,872**	**1,772**	**-1,249**	**334**	**6,729**

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.

Membership statistics	31st March 2013	31st March 2014	31st March 2015	31st March 2016	31st March 2017
	Number	Number	Number	Number	Number
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
Total	**33,833**	**36,072**	**37,347**	**40,440**	**41,686**

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 Instuments - 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:

22. Fair Value of Investments (continued)

FAIR VALUE - HIERARCHY

	31 March 2016				31 March 2017			
	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Market Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Equities								
UK Equities	342,618	342,618	-	-	414,015	414,015	-	-
Overseas Equities	344,274	344,274	-	-	456,711	456,711	-	-
Pooled Investment Vehicles								
Fixed-Interest Funds	113,351	113,351	-	-	118,328	118,328	-	-
UK Equity	122,374	-	-	122,374	149,787	-	-	149,787
Overseas Equity	248,412	13,386	-	235,026	332,091	16,585	-	315,506
Fixed Interest	72,274	-	-	72,274	76,992	-	-	76,992
Index-linked	26,923	-	-	26,923	32,282	-	-	32,282
Property Unit Trust	13,204	-	-	13,204	12,053	-	-	12,053
Property Fund	71,480	-	-	71,480	75,187	-	-	75,187
Hedge Fund	48,494	-	-	48,494	52,318	-	-	52,318
Private Equity	42,428	-	-	42,428	58,246	-	-	58,246
Infrastructure	-	-	-	-	-	-	-	-
Cash	62,882	62,882	-	-	69,225	69,225	-	-
Other Investment Balances - Dividends Due	3,137	3,137	-	-	3,211	3,211	-	-
Total	**1,511,851**	**879,648**	-	**632,203**	**1,850,446**	**1,078,075**	-	**772,371**

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.

	March 2017 £'000	Credit Exposure
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.

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
Equities					
UK Equities	414,015	414,015	0	0	0
Overseas Equities	456,711	456,711	0	0	0
Pooled Investment Vehicles					
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
Total	**1,850,446**	**1,652,642**	**0**	**100,533**	**97,271**

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.

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	=
TOTAL	100%	33%	67%		

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 inherant cost of rebalancing, in line with full investment strategy review following the triennial valuation July 2017/18.

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
Total Assets*	**1,850,446**	**6.50%**	**1,970,170**	**1,702,722**

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
Total Assets*	**1,511,851**	**6.96%**	**1,617,034**	**1,406,668**

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

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
Total Currency*	**886,073**	**8.40%**	**960,300**	**811,846**

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

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
Total Currency*	**671,637**	**6.14%**	**712,876**	**630,398**

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 Appendicies 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.

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.

Appendix 1

SCHEDULE OF EMPLOYING BODIES AND CONTRIBUTION RATES FOR THE PERIOD 1ST APRIL 2016 TO 31ST 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%
Scheduled Bodies				
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%
Admitted Bodies				
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%
Total	**17,903**	**12,200**	**11,583**	

Appendix 2

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 futher consultation on draft regulations covering the cap before this becomes effective.

6th March 2017 - the Occupational and Personal Pension Schemes (Automatic Enrolement) (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.

Appendix 3

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

Appendix 4

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 7

Report of the Section 151 Officer

Local Pension Board – 5 September 2017

WALES PENSION PARTNERSHIP INVESTMENT POOLING - AN UPDATE

Purpose:	To update Local Pension Board on the progress of the All Wales Investment Pool now known as The Wales Pension Partenrship
Consultation:	Legal, and Finance
Report Author:	Jeff Dong Chief Treasury & Technical Officer
Finance Officer:	Jeff Dong Chief Treasury & Technical Officer
Legal Officer:	Stephanie Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1 Background

1.1 In 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 4th 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 4th 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 29th 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

HYMANS ROBERTSON

Date	Topic	Action required	Responsible	Timings
19- 24 April	Selection questionnaire	Step 1 - Independent, desk based **pass/fail evaluation**	Officers 1/2 & Hymans	Complete
26 April	Selection questionnaire	Step 2 – Call with Officers 1, 2 & AJ to carryout **pass/fail consensus**	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 **technical evaluation** of case studies for "pass" submissions.	Officers 3/4/5 & Hymans	Complete
5 May	Selection questionnaire	Step 4 – **Technical consensus -** 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 – **Peer review** - 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 – **Treasurers group** – 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.

Report of the Section 151 Officer

Local Pension Board – 5 September 2017

LOCAL PENSION BOARD TRAINING PLAN 2017-18

Purpose:	To approve the training plan for the Local Pension Board.
Policy Framework:	None.
Reason for Decision:	Under Guidance, a Local Pension Board is required to approve a training policy and have a plan to implement that policy.
Consultation:	Legal, Finance & Delivery and Access to Services.
Recommendations:	It is recommended that:

1) The training identified in 3.1 for the City & County of Swansea Local Pension Board is approved.

Report Author:	Jeff Dong
Finance Officer:	Ben Smith
Legal Officer:	Stephanie Williams
Access to Services Officer:	Sherill Hopkins

1. Introduction

1.1 Members of the Local Pension Board are required to ensure that they are adequately trained and equipped with the appropriate skills and knowledge with which to discharge their duties. As part of the Pension Act 2013 and the Pension Regulator's (tPR) Code of Practice, the Local Pension Board is required to approve a training policy to implement appropriate training for Local Pension Board members. The Local Pension Board approved its training policy in July 2015.

2 Training Undertaken in the last 12 months

2.1 The Local Pension Board has undertaken the following training in the last 12 months:

LGA Trustee Fundamentals

- Day1
- Day2
- Day3

Triennial Valuation Training

CIPFA Governance Update Training

3 **Training Plan**

3.1 The following training is recommended :

LGA Trustee Fundamentals

- Day1
- Day2
- Day3

For Local Pension Board members who have not undertaken

CIPFA Local Pension Board member training

Regulated Investment Vehicle Training

Investment Beliefs & ESG Training

Transition Management training

Any other training identified by the Section 151 officer, which is appropriate for Local Pension Board Members.

4 **Financial Implications**

4.1 None.

5 **Legal Implications**

5.1 As outlined under the Pension Act 2013 and the Pension Regulator's (tPR)Code of Practice Guidance, the Local Pension Board is required to ensure its Local Pension Board members have adequate training.

6 **Equality Impact Implications**

6.1 There are no equality impact implications as a result of this report.

Background papers: None

Appendices: None.

Report of the Section 151 Officer

Local Pension Board – 5 September 2017

MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II (MIFID II)

Purpose:	To update the Local Pension Board on MIFID II and its potential impact on the LGPS nationally and locally
Report Author:	Jeff Dong Chief Treasury & Technical Officer
Finance Officer:	Jeff Dong Chief Treasury & Technical Officer
Legal Officer:	Stephanie Williams
Access to Services Officer:	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 <u>Qualitative Assessment</u>
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 <u>Quantitative Assessment</u>
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

Local Government Association

Submission

Layden House, 76-86 Turnmill Street, London EC1M 5LG
Email: Bevis.ingram@local.gov.uk Tel: 020 7664 3258

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.

- 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 3rd 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 is 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 10

Report of the Section 151 Officer

Local Pension Board – 5 September 2017

COST TRANSPARENCY – CODE OF CONDUCT

Purpose:	To update the Local Pension Board on the new voluntary code of conduct on cost transparency in the fund management industry
Report Author:	Jeff Dong Chief Treasury & Technical Officer
Finance Officer:	Jeff Dong Chief Treasury & Technical Officer
Legal Officer:	Stephanie Williams
Access to Services Officer:	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: 18th May 2017

Definitions

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

Administering Authority	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
Board	means the Local Government Pension Scheme Advisory Board
Investment Manager	means an investment manager appointed by an Administering Authority in accordance with the Investment Regulations
Investment Regulations	means The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as from time to time amended or replaced)
LGPS	means the Local Government Pension Scheme for England and Wales
Template	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.

Report of the Section 151 Officer

Local Pension Board – 5 September 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 19th 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 30th April so that the end–of-year reconciliation of contributions and pay to members' records can take place. The data was received on 22nd June and has put the employer at risk of breaching the requirement for its members' Annual Benefit Statements to be distributed by 31st 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	The Investment Strategy Statement outlines an indicative allocation of 34% +/- 5% to Global Equities. At 31st March 2017, the allocation was 43%	There is resulting over allocation to global equities	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. There is a planned investment review for 2017/18 which shall review asset allocations on a long term basis.	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

Report of the Section 151 Officer

Local Pension Board – 5 September 2017

CORE INFRASTRUCTURE MANAGER - APPOINTMENT

Purpose:	To update the Local Pension Board on the appointment of a core infrastructure manager.
Report Author:	Jeff Dong Chief Treasury & Technical Officer
Finance Officer:	Jeff Dong Chief Treasury & Technical Officer
Legal Officer:	Stephanie Williams
Access to Services Officer:	N/A
FOR INFORMATION	

1. Background

1.1 Pension Fund Committee has previously approved investment into infrastructure as an asset class and the subsequent procurement methodology of the same. (For previous Pension Fund Committee Reports please see Appendix ALPHA)

2. Assessment

2.1 Following the advised OJEU process, 22 managers submitted proposals, of which 6 were shortlisted for due diligence and technical interview. Of the 6 shorlisted, the top 2(appraised against the required criteria) were invited to present to the Pension Fund Committee for the final selection.

3. Appointment

3.1 Following presentation and evaluation of the same against the required criteria, the Pension Fund Committee selected First State who were appointed as the core infrastructure manager for the City & County of Swansea Pension Fund

4. Legal Implications

4.1 There are no legal implications arising out of 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 Alpha.

APPENDIX ALPHA

Report of the Section 151 Officer

Pension Fund Committee Dec 7th 2016

INFRASTRUCTURE – COLLABORATIVE PROCUREMENT

Purpose:	To approve the procurement strategy to fulfil the Fund's infrastructure allocation
Reason for Decision:	To implement its infrastructure investment.
Consultation:	Legal, Finance and Access to Services.
Recommendation:	It is recommended that the joint procurement exercise alongside the other named pension funds in 4.2 to appoint a core infrastructure manager is approved
Report Author:	J Dong
Finance Officer:	M Hawes
Legal Officer:	S Williams
Access to Services Officer:	S Hopkins

1 Introduction

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

1.2 As reported to Pension Fund Committee in Sep 2016, following a protracted period of inactivity and uncertainty in the parent company Westpac of the appointed Infrastructure manager, Hastings, the City & County of Swansea pension Fund negotiated an exit from its commitments at nil penalty. This was achieved working alongside a number of other global pension funds

- Ottawa University, Canada
- Nunavut Trust Canada
- Workers Compensation Insurance Trust, Australia
- Fonds 1818, Netherlands
- Oyens, Netherlands
- Grontmij Consultants, Netherlands
- City & County of Swansea Pension Fund, UK

in negotiating a favourable outcome.

2 Infrastructure Allocation

2.1 Having approved an allocation of 2%+2% to infrastructure in Dec 2013, the fund has to date no assets deployed in this asset class.

3 All Wales Pool & National Infrastructure Initiative

3.1 Since the original decision to invest in infrastructure was approved by the Committee, there has been lots of ‘noise’ surrounding the asset class in the interim.

3.2 The All Wales Investment Pool have agreed in principle to support collaborative infrastructure investment and also considering the national infrastructure platform when up and running in its submission to DCLG, but neither of these proposals is mature enough for consideration at this stage. When up and running these shall be the preferred methods for the deployment of infrastructure investment for the fund subject to satisfying our investment objectives.

3.3 Noting the position of the above options, The City & County of Swansea Pension Fund has approached the other Welsh Funds if they are in position to consider a joint procurement exercise at this stage, no funds are currently looking to invest in this asset class

4 Joint Procurement Proposals

4.1 A number of the other Limited Partners previously invested in the Hastings fund are similarly placed in having an uninvested infrastructure allocation.

4.2 The Nunavut Trust of Canada, Fonds 1818 of the Netherlands and potentially Ottawa University of Canada have proposed a joint procurement exercise using the consultants B Finance to manage a joint infrastructure manager search process where we can share the costs of the same whilst reducing due diligence and associated costs. CCS PF has previously used B Finance in conducting previous tender searches.

5 Financial Implications

5.1 The financial implications have been previously reported, the allocation is to be funded from

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

which have already been actioned in readiness for investment.

6 Legal Implications

6.1 The relevant procurement legal framework (e.g OJEU) shall be followed

7 Equality Impact Implications

7.1 There are no equality impact implications arising from this report

APPENDIX A

Item 7
Report of the Pension Fund Investment Sub Group

Pension Fund Committee Dec 5th 2013

INVESTING IN INFRASTRUCTURE – A RECOMMENDED STRATEGY

Purpose:	To consider a recommended strategy for investing in infrastructure for the City & County of Swansea Pension Fund
Policy Framework:	City & County of Swansea Pension Fund Statement of Investment Principles
Reason for Decision:	To consider infrastructure as a diversifying, return generating asset class for the Pension Fund
Consultation:	Legal, Finance and Access to Services.
Recommendation(s):	It is recommended that:

1) That the Committee considers the investment and funding strategy as set out in paragraphs 2.3, 3.1 and 4.1 for investing in infrastructure.
2) That a further report be made to Committee detailing the precise selection criteria and approval mechanisms for any single investment and the criteria that will be applied including:-
   - Perceived risk and mitigation
   - Potential and expected returns on investments and the timing of those returns
   - Ability and mechanism for Capital realisation of invested sums
   - Withdrawal mechanisms
   - Local impact of any investments

-

Report Author:	Jeffrey Dong
Finance Officer:	Mike Hawes
Legal Officer:	Nigel Havard
Access to Services Officer:	Sherrill Hopkins

1 Introduction

1.1 The Pension Fund Committee previously received a report outlining the advantages of investing in infrastructure as a diversifying return yielding investment for the pension fund. The report is attached at Appendix 2.

2 Implementation Strategy- Core Component

2.1 In assessing the investment dynamics offered by the asset class and how it can best fit into the current investment portfolio, the Investment Sub Group have met and appraised a number of managers and investors in the asset class to evaluate the opportunities and different styles of investment available.

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

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

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

3 Implementation Strategy- Discretionary UK Investment

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

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

4 Strategy Funding

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

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

5 Legal Implications

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

6 Financial Implications

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

7 Equality Impact Assessment Implications

7.1 None

Appendix 2

Item 7
Report of the Pension Fund Investment Sub Group

Pension Fund Committee June 27th 2013

INVESTING IN INFRASTRUCTURE – AN ASSET CLASS OVERVIEW

Purpose:	The report presents an overview of the investment opportunities presented by infrastructure
Report Author:	Jeffrey Dong, Noel Mills, Valentine Furniss
Finance Officer:	Jeffrey Dong
Legal Officer:	Tracey Meredith
Access to Services Officer:	
FOR INFORMATION	

1 Introduction

1.1 Infrastructure is basic physical and organisational structures needed for the operation of a society or enterprise or the services and facilities necessary for an economy to function. It can be generally defined as the set of interconnected structural elements that provide framework supporting an entire structure of development. It is an important term for judging a country or region's development.

1.2 The term typically refers to the technical structures that support a society, such as roads, bridges, water supply, sewers, electrical grids, telecommunications, and so forth, and can be defined as "the physical components of interrelated systems providing commodities and services essential to enable, sustain, or enhance societal living conditions."

1.3 Viewed functionally, infrastructure *facilitates* the production of goods and services, and also the distribution of finished products to markets, as well as basic social services such as schools and hospitals; for example, roads enable the transport of raw materials to a factory.

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

1.5 Understanding the underlying risk characteristics of infrastructure investments and appropriate diversification across different sets of risks is central to this approach. In private markets however, this approach is far from straight forward to implement. It requires not only a deep understanding of the risks inherent in different infrastructure assets but also the ability of investment managers to originate a sufficient number of actionable quality investment opportunities in order to build a portfolio in a reasonable amount of time and independent of the market cycle. For instance, one of the implications of the significant tail risk exposure of returns in core, brown field infrastructure assets is that an investor should add a proportion of projects with greenfield exposure to his portfolio. Similarly, in order to be able to access the market during times of capital constraint and avoid vintage year concentration, an investor should have the ability to add secondary investments to their portfolio.

1.6 Separately, for many investors, inflation protection is one of the key attractions of investing in infrastructure. However, inflation linkage is not always explicit in infrastructure assets. In order to achieve the desired real asset characteristics of an infrastructure portfolio, it is therefore necessary to carefully analyze how inflation will affect a specific investment. Understanding the impact of different drivers of inflation sensitivity such as regulated tariffs, contractual indexation, pricing power and replacement value considerations will determine how immediately an infrastructure portfolio will react to changes in inflation and consequently the inflation protection it offers. Further, it is also necessary to carefully consider the embedded inflation assumptions built into the valuation of infrastructure assets and compare them to prevailing and expected future inflation rates in the market in order to avoid overpaying for inflation protection through aggressive assumptions embedded in the investment case.

Revenues: The revenues generated by many infrastructure assets are contractually linked to a specific inflation measure. For instance, regulated monopolies like networks, toll road concessions or renewable feed in tariffs have explicit inflation linkage built into the remuneration formula in many countries (e.g. UK, France, Spain, Italy, Latin America). This offers the most direct and immediate inflation linkage as revenues will automatically rise in line with the specific indexation formula. On the other hand, there are infrastructure assets which are regulated on a nominal rate of return basis (e.g. US utilities). These assets still exhibit inflation linkage in the medium term as allowed rates of returns will be adjusted to reflect changes in inflation but the adjustment may take time so returns in the short term can be negatively affected by an unexpected rise in inflation. There are also assets that earn fixed tariffs or have contracts with a defined price and/or revenue escalation which exposes them negatively to an unanticipated rise in inflation. For less regulated assets, the analysis of the impact of inflation on their revenues requires a fundamental assessment of their ability to pass on price increases to their customers. Given the high entry barriers and the low price elasticity of demand typically associated with infrastructure assets, many in fact have considerable pricing power and hence the ability to protect their returns in periods of rising inflation. However, this requires a fundamental analysis and assessment of the specific asset and is subject to errors. Operating costs: Infrastructure companies tend to have high operating margins. This reduces the effect of rising costs on the cash flows generated by the business. In addition, contracts often allow passing on rising input cost to the off-takers which further substantially reduces their exposure to unanticipated cost inflation.

2 Investing in infrastructure

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

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

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

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

3 Investment Risk

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

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

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

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

4 Political Considerations

4.1 There has been a lot of debate at Westminster and in Cardiff of the role Pension Funds can play in investing in local infrastructure. By its nature the type of infrastructure being proposed is at the early developmental stage which carries all the developmental, construction risk associated with immature projects.

4.2 Local, regional infrastructure investment can be accommodated within a more balanced diversified portfolio to mitigate some of the risks identified above, although a robust investment case most be demonstrated.

5 Legal Implications

5.1 There are no legal implications

6 Financial Implications

6.1 There are no financial implications

7 Equality Impact Assessment Implications

7.1 None

8 Conclusion

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

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

APPENDIX 3

Case Study – UK Infrastructure

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

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

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

It is targeting investment in the following target sectors:

Offshore wind
Waste (recycling and EFW)
Green deal (domestic energy efficiency)
Non-domestic energy efficiency

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

<u>Project 1- Non Domestic Energy Efficiency</u>

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

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

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

Report of the Section 1.5.1.Officer

Local Pension Board – 5 September 2017

CONSIDERATION OF OPTIONS TO COMPLETE THE GMP RECONCILIATION EXERCISE WITHIN TIMESCALES AVAILABLE

Purpose:	To inform the Pensions Committee that an exercise is being undertaken to consider the options available to complete the GMP reconciliation exercise within the required timescales
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. Background

1.1 At the Pension Fund Committee meeting on 12th March 2015, the Committee approved funding to purchase software and appoint a temporary member of staff to achieve Guaranteed Minimum Pension (GMP) reconciliation between Fund and HMRC records to address discrepancies in respect of the GMP values held for members and identify those for which the Fund holds no liability.

1.2 The facility is available until December 2018, after which HMRC will accept no further challenges. Failure to complete the exercise provides a potential additional liability risk to the Fund.

2.

2.1 The reconciliation exercise has proven to be resource intensive.

2.2 The exercise consists of four stages:

- Stage 1 – Initiate exercise, carrying out data collection and analysis.
- Stage 2 – Initial reconciliation, resolving bulk issues (e.g. members who are incorrectly included in HMRC records and vice versa).
- Stage 3 – Individual reconciliations - including identifying any cases that may have been underpaid and overpaid, and ensuring that all records are certified with the correct GMP and contracted out information.

- Stage 4 - Rectification – benefit correction

2.3 The Fund has completed Stage 1 with more than 42,000 records identified as mismatched (this includes records for which the Fund believes it no longer holds liability) and has completed just over 25% of Stage 2.

2.4 There is concern that the reconciliation exercise cannot be completed in the timescales demanded without additional resource. A consultation to review the Fund's position has recently been undertaken and has identified that an additional 8 FTE staff would be required to ensure success.

2.5 Due to ongoing workload constraints, re-allocating existing staff to assist in this exercise would have an extreme detrimental impact on service delivery and performance. In addition, due to the complex nature of the exercise and level of knowledge and experience that would be required it would not be prudent to appoint additional staff who do not have a pension administration background.

2.6 The Fund has therefore signed up to the National LGPS Framework to obtain information about the options available, which include consultancy support and the procurement of the services of a field expert, to complete the exercise within the limited timescale remaining.

2.7 The consideration of the options is ongoing and a further report for approval will be presented to Committee at the earliest opportunity.

3. Equality and Engagement Implications

3.1 None

4. Legal Implications

4.1 Proper procurement processes will need to be undertaken to procure the necessary support.

5. Financial Implications

5.1 Failure to complete the exercise provides a potential additional liability risk to the Fund.

FOR INFORMATION

Background papers: None

Appendices: None

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Briefing note

The end of defined benefit (DB) contracting-out and GMP reconciliations

The option to contract-out of the State Second Pension (S2P) will come to an end in 2016 when the Single State Pension is introduced. Currently it is only possible to contract-out of S2P (previously SERPS) for schemes providing 'defined benefits' above a certain minimum level. Prior to April 1997 the minimum level of benefit the DB scheme had to provide was known as a Guaranteed Minimum Pension (or GMP), which still forms part of many members' benefits.

When contracting-out ends in April 2016, HM Revenue and Customs (HMRC) will no longer track contracted-out rights and will issue closure schedules to schemes so they can compare these against GMP amounts held on scheme records. This is known as a GMP reconciliation.

Following this, from December 2018 HMRC is planning to send individuals information about their contracting-out history.

As a result of the above, all schemes will need to reconcile their GMPs with those held on HMRC's records by December 2018.

"We are able to help our existing clients as well as schemes with in-house administration teams who are looking for professional support in a specialist area."

What can Barnett Waddingham do to help you?

We have significant experience in helping trustees with GMP reconciliation exercises. We are able to help our existing clients as well as schemes with in-house administration teams who are looking for professional support in a specialist area. This document sets out our approach to GMP reconciliations and gives some guidance to trustees on issues they should be considering as well as providing background to the changes being introduced.

If you would like to talk to someone about this service please call 020 7776 2200, visit *www.barnett-waddingham.co.uk*, or e-mail us at *pensionadministration@barnett-waddingham.co.uk*

Background information

What is a GMP reconciliation exercise?

The National Insurance Contributions Office (NICO) of HMRC maintains a record of GMPs held under each scheme. The GMP amount they hold is used to calculate the 'contracted-out deduction' they make from Additional State Pension so it is important this figure is correct and agrees with the amount the scheme holds. Over time a number of factors may mean the payroll data supplied to HMRC and the scheme administrator differs or perhaps there has been a merger of schemes resulting in GMPs being transferred from one scheme to another but not updated on HMRC's records.

A GMP reconciliation exercise lists all the members who have a GMP under a scheme and compares this against a list of all the members who HMRC believes hold a GMP under that same scheme.

The lists are rarely fully aligned at the start of the process however, with discrepancies usually occurring both in terms of membership and/or GMP amounts. Where there is a discrepancy then this should be investigated and a decision taken whether to accept the HMRC record as being correct.

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> “The data supplied by SRS can be imported onto a scheme's pension administration system in order that the scheme administrator can help trustees understand how their GMP records stack up against those held by HMRC.”

What are the benefits of a GMP reconciliation exercise?

- compliance with The Pensions Regulator's (TPR) data quality guidance;
- ensure members' benefits are accurate;
- provide for more accurate actuarial valuations;
- as a first step in the data cleansing required to buy out pension liabilities and to allow more favourable terms to be secured with an insurance company;
- ensure that scheme liabilities are correctly recorded; and
- increase administrative efficiency.

Furthermore, with GMP equalisation on the horizon, the reconciliation will be required before equalisation can be applied to accurate records.

How closely matched do the records need to be?

It can be counterproductive to spend lots of time investigating cases where the difference in GMP is small and will not have a material effect on a member's benefits. Schemes can decide a 'tolerance level' below which they will simply accept HMRC's information without further investigation. This tolerance level can range from a few pence per week to a couple of pounds per week depending on what trustees feel comfortable accepting for their scheme.

What is the HMRC Scheme Reconciliation Service?

Recognising the tight timescales involved HMRC has launched a Scheme Reconciliation Service (SRS) to enable schemes to start comparing their non-active GMP amounts (e.g. for deferred and pensioner members) in advance of the scheme ceasing to contract-out in April 2016.

We can import the data supplied by SRS onto a scheme's pension administration system in order that the scheme administrator can help trustees understand how their GMP records stack up against those held by HMRC. This can help determine a suitable tolerance level, plan next steps in the reconciliation project and assist greatly with setting appropriate fee budgets. Having HMRC and scheme data separately identifiable during the process along with 'agreed' data will allow flexible reporting throughout and following a GMP reconciliation process. It also allows 'point in time' analysis to take place in the event of future queries from members.

How does this differ from Shared Workspace?

Shared Workspace (SWS) is an electronic reconciliation service – or 'eRoom' – offered by HMRC to trustees of schemes whose contracting-out certificate has already been surrendered, i.e. those which no longer have active contracted-out members. Schemes using SWS have a forum for submitting and receiving queries direct with HMRC but, while data is provided through a similar eRoom for SRS cases, queries for this type of reconciliation have to be submitted manually to HMRC.

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“”

We have sophisticated and robust systems and procedures in place to enable us to efficiently interrogate data and raise queries with HMRC at the same time as reporting progress to trustees, which enables us to keep costs at a manageable level.

What is involved in the GMP reconciliation process?

The likely steps involved in a GMP reconciliation process can be summarised as follows:

Task	Description	Timescale
Initial data reviews NB. for schemes using SWS only	Initial review of HMRC data and ‘quick win checks’ before loading to SWS	2 months
‘State of Play’ report	Liaise with HMRC regarding provision of data and carry out quick initial analysis	2 months
Work through queries and update records	In-depth review of HMRC data and investigation into any discrepancies with scheme data. Amend benefits where scheme data is incorrect. Completion of HMRC’s forms to amend HMRC’s incorrect records.	Dependent on scheme size, typically 1-2 years for a 1,000 member scheme
Reporting and Project Management	Production of progress reports for trustees Project supervision and liaison with HMRC regarding priority cases	Ongoing

What will it cost?

This will vary significantly from scheme to scheme. Barnett Waddingham will work with trustees to establish their scheme’s starting position for any reconciliation via a ‘State of Play’ report. Using this information we will help trustees identify the amount of work required to undertake the reconciliation taking into consideration their attitude towards cost and risk along with their tolerance for accepting variances in scheme and HMRC’s records. We have sophisticated and robust systems and procedures in place to enable us to efficiently interrogate data and raise queries with HMRC at the same time as reporting progress to trustees, which enables us to keep costs at a manageable level.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above in more detail. Alternatively contact us via the following:

pensionadministration@barnett-waddingham.co.uk
020 7776 2200
www.barnett-waddingham.co.uk

Barnett Waddingham
a **true partnership** approach

> Our primary objective is the delivery of an efficient, cost-effective and high quality service.

Why choose Barnett Waddingham

Barnett Waddingham is an independent limited liability partnership wholly owned and managed by its Partners. Barnett Waddingham Partners take personal responsibility for their clients and play an active and hands-on role in providing advice to each client.

Barnett Waddingham employs over 680 people including 62 partners. Our current turnover is in excess of £57 million. Our core business is the provision of administration, actuarial, investment and consultancy services to medium sized pension schemes.

Our primary objective is the delivery of an efficient, cost-effective and high quality service. We achieve this through a combination of our people and our systems – experienced professional staff backed by leading edge IT systems.

Our size, structure, efficiency and use of technology enables us to offer services and training which represent excellent value for money.

Barnett Waddingham is well-respected, influential and well-informed. We actively participate in the Institute and Faculty of Actuaries ; the Association of Consulting Actuaries; the Pensions Management Institute; the National Association of Pension Funds; the Society of Pension Consultants and the International Association of Consulting Actuaries.

All partners are directly involved in providing services and advice to all of our clients. Each client is looked after by a team of people working in one of our seven offices. Each office provides the full range of services to pension scheme trustees and employers from that location. We provide administration, actuarial and investment consultancy services to approximately 600 UK occupational pension schemes.

Our main practice areas are as follows:

- Trustee Consulting
- Pension Administration
- Investment Consulting
- Corporate Consulting
- Public Sector Consulting
- Insurance Consulting
- Workplace Health and Health
- Private Clients (SIPP, SSAS, Investment and Executive Pensions)
- Longevity Consulting