Pwyllgor Pensiynau a Buddsoddi

Man Cyfarfod
Ystafell Bwyllgor A - Neuadd y Sir, Llandrindod, Powys

Dyddiad y Cyfarfod
Dydd Iau, 9 Chwefror 2017

Amser y Cyfarfod
10.00 am

Neuadd Y Sir
Llandrindod
Powys
LD1 5LG

I gael rhagor o wybodaeth cysylltwch â
Stephen Boyd
01597 826374
steve.boyd@powys.gov.uk

Dyddiad Cyhoeddi

AGENDA

1.	YMDDIHEURIADAU	PIC1- 2017

Derbyn ymddiheuriadau am absenoldeb.

2.	DATGANIADAU O DDIDDORDEB	PIC2- 2017

Derbyn unrhyw ddatganiadau o fudd oddi wrth Aelodau yn ymwneud ag eitemau sydd i'w hystyried ar yr agenda.

3.	COFNODION	PIC3- 2017

Awdurdodi'r Cadeirydd i lofnodi confodion y cyfarfod diwethaf a gynhaliwyd ar 16 Rhagfyr 2016 yn gofnod cywir.

(Tudalennau 5 - 8)

4.	COFNODION Y BWRDD PENSIWN	PIC4- 2017

Derbyn er gwybodaeth gofnodion draft cyfarfod Bwrdd Pensiynau Powys a gynhaliwyd ar 6 Ionawr 2017.

(To Follow)

5.	**DIOGELWCH ASEDAU'R GRONFA BENSIWN**	**PIC5- 2017**

Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau.

(Tudalennau 9 - 10)

6.	**CORFF DERBYN NEWYDD - KIER FSL**	**PIC6- 2017**

Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau.

(Tudalennau 11 - 12)

7.	**CORFF PENDERFYNU NEWYDD - CYNGOR TREF MACHYNLLETH**	**PIC7- 2017**

Derbyn adroddiad y Cyfarwyddwr Strategol - Adnoddau.

(Tudalennau 13 - 14)

8.	**ADOLYGIAD O DDATGANIAD O'R STRATEGAETH CYFATHREBU**	**PIC8- 2017**

Ystyried y Cyfarwyddwr Strategol - Adnoddau.

(Tudalennau 15 - 24)

9.	**CRONFEYDD CYNLLUN PENSIWN LLYWODRAETH LEOL CYMRU - DATA CYMHAROL**	**PIC9- 2017**

Ystyried adroddiad y Cyfarwyddwr Strategol - Adnoddau.

(Tudalennau 25 - 30)

10.	**CRONFA CYMRU**	**PIC10- 2017**

Derbyn y diweddaraf ar lafar.

11.	**DATGANIAD AR Y STRATEGAETH BUDDSODDI**	**PIC11- 2017**

Ystyried y Datganiad ar y Strategaeth Buddsoddi.

(Tudalennau 31 - 44)

12.	**DATGANIAD O'R STRATEGAETH ARIANNU**	**PIC12- 2017**

Ystyried y Datganiad o'r Strategaeth Ariannu.

(Tudalennau 45 - 68)

13.	**CYNLLUN BUSNES I'R DYFODOL A'R CYNLLUN HYFFORDDIANT**	**PIC13- 2017**

Ystyried y cynllun busnes i'r dyfodol a'r cynllun hyfforddiant.

(Tudalennau 69 - 70)

14.	**ADOLYGIAD O BENDERFYNIADAU**	**PIC14- 2017**

Adolygu'r penderfyniadau a gafwyd mewn cyfarfodydd blaenorol.

(Tudalennau 71 - 72)

15.	**ARCHWILIAD IECHYD STRATEGAETH**	**PIC15- 2017**

Trafod ymhellach sut y gellir newid y portffolio i wella canlyniadau hirdymor y Gronfa. Bydd hyn yn cynnwys trafodaethau ar

- Fuddsoddiadau cronfeydd rhagfantoli
- Rhagfantoli risg arian cyfredol ac ecwitïau byd-eang
- Seilwaith ac asedau eraill anhylif.

(Tudalennau 73 - 84)

16.	**EITEMAU EITHRIEDIG**	**PIC16- 2017**

Mae'r Swyddog Monitro wedi pennu bod yr eitemau canlynol yn destun categori 3, Rheolau Gweithdrefn Mynediad i Wybodaeth. Ei farn o ran prawf lles y cyhoedd (wedi iddo ystyried darpariaethau Rheol 14.8 Rheolau Mynediad y Cyngor at Wybodaeth) oedd y byddai cyhoeddi'r wybodaeth hon yn datgelu gwybodaeth ynghylch materion ariannol neu fusnes unigolion penodol (gan gynnwys yr awdurdod oedd yn cadw'r wybodaeth honno).

Roedd o'r farn bod diddordeb y cyhoedd wrth gadw'r eithriad yn fwy pwysig na budd y cyhoedd wrth ddatgelu'r wybodaeth. Gofynnir i aelodau ystyried y ffactor hwn wrth benderfynu ar brawf lles y cyhoedd, a rhaid iddynt benderfynu ar hyn wrth ystyried eithrio'r cyhoedd o'r rhan hon o'r cyfarfod.

17.	**Y DIWEDDARAF AR ASEDAU A'R RHAGOLYGON BUDDSODDI CHWARTEROL**	**PIC17- 2017**

Derbyn ac ystyried y diweddaraf ar yr Asedau a'r rhagolygon buddsoddi chwarterol gan Aon Hewitt.

(Tudalennau 85 - 102)

18.	**DYRANNU ASEDAU YN Y TYMOR CANOLIG**	**PIC18- 2017**

Ystyried Dyraniad Asedau Tymor Canolig y 4ydd chwarter.

(Tudalennau 103 - 124)

19.	**Y DIWEDDARAF O RAN BARN AR DDYRANNU ASEDAU YN DILYN DIWYGIADAU YN SGIL BREXIT AC ETHOLIADAU'R UNOL DALEITHIAU**	**PIC19- 2017**

Derbyn y newyddion diweddaraf gan Aon Hewitt.

(Tudalennau 125 - 128)

MINUTES OF A MEETING OF THE PENSIONS AND INVESTMENT COMMITTEE HELD AT COUNCIL CHAMBER - COUNTY HALL, LLANDRINDOD WELLS, POWYS ON FRIDAY, 16 DECEMBER 2016

PRESENT
County Councillor A G Thomas (Chair)

County Councillors PJ Ashton, E A Jones, W T Jones, G P Vaughan and Councillor Martin Weale

Strategic Director Resources, Pension Fund Manager, Head of Business Services, Pension Administration Manager, the Financial Reporting & Policy Accountant.

Gerard Moore, Chair of the Powys Pensions Board

Chris Archer, Sion Cole, Simon Maine and Rachel Pinder Aon Hewitt

1.	**APOLOGIES**	**PIC64- 2016**

There were no apologies for absence.

2.	**DECLARATIONS OF INTEREST**	**PIC65- 2016**

All members present declared interests as members of the Local Government Pension Scheme.

3.	**MINUTES**	**PIC66- 2016**

The Chair was authorised to sign the minutes of the last meeting held on 30 September 2016 as a correct record.

4.	**PENSION BOARD MINUTES**	**PIC67- 2016**

The Committee received the minutes of the meeting of the Powys Pensions Board held on 11 November 2016. The draft minutes circulated with the agenda were replaced by a set approved by the Chair of the Board.

The Committee noted and accepted the recommendation made by the Board that when reviewing the Investment Strategy Statement consideration is given to greater analysis of the compliance statements.

5.	**NEW ADMISSION BODY - ELITE SEA LTD**	**PIC68- 2016**

The Committee was advised that Elite Supported Employment Agency Ltd had become a Pension Fund employer following the transfer of the Employment Support service from Powys County Council.

RESOLVED	**Reason for Decision:**
To note the admittance of Elite Supported Employment Agency Ltd to the Powys Pension Fund..	**As per report**

6.	PENSION FUND POOLING - UPDATE	PIC69- 2016

The Committee was advised that the Minister for Local Government had given his approval for the All Wales Investment Pool to go ahead. Officers from each of the Pension Funds were developing the governance arrangements. There would be an update at the next meeting.

RESOLVED	Reason for Decision:
To note the progress made in investment pooling in Wales since the last update.	**As per report**

7.	LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2016	PIC70- 2016

The Committee was advised that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which came into force on 1 April 2017 gave administering authorities wider, more flexible powers to invest beyond the previous prescriptions that were a feature of the 2009 Regulations. The new regulations also introduced a power for the Secretary of State to intervene in the management of individual LGPS Funds and placed a duty on Funds to publish an Investment Strategy Statement by 1st April 2017.

RESOLVED	Reason for Decision:
To note the contents of the report.	**As per report.**

8.	POWYS PENSION FUND ANNUAL REPORT 2015-16	PIC71- 2016

The Committee received the Pension Fund Annual Report for 2015/16. The report had been approved by Wales Audit Office and the Audit Committee and had been published on the Council's website by 1 December in accordance with regulations. The Committee agreed with the suggestion of the Chair of the Powys Pensions Board that future reports should refer to the duty to ensure compliance with Public Service Pensions Act in the section on functions delegated to the Section 151 Officer.

9.	ACTUARIAL VALUATION RESULTS	PIC72- 2016

Chris Archer presented the results of the actuarial valuation. He advised that the Fund was maturing with 37% of the membership active in 2016, down from 44% active in 2013. The Chair suggested that the Council, as an employer, should be doing more to encourage younger staff to enrol. The Chair also asked for comparative information on the number of ill health retirements in other Welsh authorities and the funding level of Welsh Pension Funds. The Powys Pension Find was 80% funded, an improvement on the 79% funded at the 2013 valuation.

The Actuary and Section 151 Officer had discussed the level of employer contribution, and a 18.6% contribution rate was proposed along with secondary contributions of £6.6m which would reduce the recovery rate from 25 years to 22 years.

10.	DRAFT INVESTMENT STRATEGY STATEMENT	PIC73- 2016

The Committee considered a first draft of the Investment Strategy that would replace the Statement of Investment Principles from 1st April 2017. The Committee agreed that the Strategy should include a section on the role of the Pensions Board and a section on pooling arrangements, including voting and governance. A further draft would be presented to the next meeting on 9th February 2017.

11.	FORWARD LOOKING BUSINESS PLAN AND TRAINING PLAN	PIC74- 2016

The Committee received the forward looking business plan and training plan.

12.	STRATEGY HEALTHCHECK	PIC75- 2016

Rachel Pinder from Aon Hewitt outlined the develop stage of the strategy health check comparing the current investment strategy with a number of alternative strategies. The strategy proposed involved currency hedging to minimise the risk of volatility of currency movements, investment in infrastructure projects to provide cashflow and restructuring the hedge fund to minimise management fees. These ideas would be explored further at the next meeting.

13.	EXEMPT ITEMS	PIC76- 2016

RESOLVED to exclude the public for the following items of business on the grounds that there would be disclosure to them of exempt information under category 3 of The Local Authorities (Access to Information) (Variation) (Wales) Order 2007).

14.	QUARTERLY INVESTMENT REPORT	PIC77- 2016

The Committee received the quarterly report for the period ended 30 September 2016. The value of the Fund had grown by £27.6m over the quarter and by a further £3.6m to the end of November. The return for the Fund over 12 months was 18.9% against the benchmark of 21.2%. Of the two newly appointed managers, Hoskings were slightly ahead of the benchmark and Carnegie were slightly behind.

The Committee was reminded of the need to appoint a company to measure the benchmarks since WM had stopped providing this service.

15.	MEDIUM TERM ASSET ALLOCATION	PIC78- 2016

The current MTAA mandate had returned 34.1% compared to the benchmark of 35.2% to 30 September 2016. Being underweight in bonds and overweight in property had hurt performance.

County Councillor A G Thomas (Chair)

CYNGOR SIR *POWYS* COUNTY COUNCIL

Pensions and Investment Committee
9th February 2017

REPORT BY:	**Strategic Director of Resources**
SUBJECT:	**Security of Pension Fund Assets**
REPORT FOR:	**Decision**

1 Introduction

Committee will be aware that the issue of the security of Pension Fund assets in relation to the insolvency of investment managers is logged on the Fund's Risk Register. As a control to help manage this risk, and following a recommendation from the Pension Board, Committee are asked to consider the following proposal.

2 Risk Management

That where the Fund intends to enter into a contract with a manager to invest Fund assets, that, in all cases and as a matter of course, the contract documentation is first scrutinized by the Fund's legal advisers, in relation to this risk.

3 Recommendation

Committee is asked to approve the recommendation to refer each new contract in relation to the appointment of an asset manager, to the Fund's legal advisers for scrutiny.

Recommendation:		**Reason for Recommendation:**	
To approve the referral of all future contracts with asset managers to the Fund's legal advisers for scrutiny, in order to help manage the risk associated with investment manager insolvency.		**Statutory requirement**	
Person(s) To Action Decision:	Pension Fund Manager		
Date By When Decision To Be Actioned:		immediately	
Relevant Policy (ies):	N/A		
Within Policy:	N/A	**Within Budget:**	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

Relevant Portfolio Member(s):	Councillor Wynne Jones
Relevant Local Member(s):	**N/A**

CYNGOR SIR *POWYS* COUNTY COUNCIL

Pensions and Investment Committee
9th February 2017

REPORT BY: **Strategic Director of Resources**

SUBJECT: **New Admission Body – Kier Facilities Services Ltd**

REPORT FOR: **Information**

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1 Introduction

1.1 Committee are asked to note that Kier Facilities Services Ltd has become a Pension Fund employer following the transfer of the Schools Cleaning Service (Brecon and Llandrindod) from Powys County Council.

2 Legislation

2.1 Paragraph 1(d)(i) of Part 3 of Schedule 2 to the Local Government Pension Scheme Regulations 2013 [SI. 2013 No. 2356] provides that a Pension Fund may enter into an admission agreement with a body who provides a service that was formerly provided by a Scheme employer, as a consequence of a transfer of undertakings. In addition, the requirements of the Welsh Authorities Staff Transfers (Pensions) Direction 2012 applies in this case. The admission agreement discharges these requirements.

3 Actuarial Assessment

3.1 The Pension Fund's Actuary has advised that initially, Kier Facilities Services should pay an employer contribution rate of 23.2% of pensionable payroll. 37 employees are covered by the admission agreement, which is closed.

4 Recommendation

4.1 To note the contents of this report.

Recommendation:	**Reason for Recommendation:**
To note the admittance of Kier Facilities Services Ltd to the Powys Pension Fund.	**As per report**
Person(s) To Action Decision:	Pension Fund Manager
Date By When Decision To Be Actioned:	
Relevant Policy	N/A

(ies):				
Within Policy:	N/A		**Within Budget:**	N/A

Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

Relevant Portfolio Member(s):	Councillor Wynne Jones
Relevant Local Member(s):	**N/A**

CYNGOR SIR *POWYS* COUNTY COUNCIL

Pensions and Investment Committee
9th February 2017

REPORT BY: **Strategic Director of Resources**

SUBJECT: **New Resolution Body – Machynlleth Town Council**

REPORT FOR: **Information**

1 Introduction

1.1 Committee are asked to note that Machynlleth Town Council has become a Pension Fund employer following the passing of a statutory resolution by the Town Council on 19th December 2016.

2 Legislation

2.1 Paragraph 2 of Part 2 of Schedule 2 to the Local Government Pension Scheme Regulations 2013 [SI. 2013 No. 2356] provides that a Town and Community Council may become a participating employer within the LGPS Fund that covers the geographic area in which the Town and Community Council is located.

3 Actuarial Assessment

3.1 The Pension Fund's Actuary has advised that initially, Machynlleth Town Council should pay an employer contribution rate of 20.6% of pensionable payroll. 7 employees are covered by the resolution which commenced on 1st February 2017.

4 Recommendation

4.1 To note the contents of this report.

Recommendation:			**Reason for Recommendation:**
To note the admittance of Machynlleth Town Council to the Powys Pension Fund..			**As per report**
Person(s) To Action Decision:	Pension Fund Manager		
Date By When Decision To Be Actioned:			
Relevant Policy (ies):	N/A		
Within Policy:	N/A	**Within Budget:**	N/A

Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

Relevant Portfolio Member(s):	Councillor Wynne Jones
Relevant Local Member(s):	**N/A**

CYNGOR SIR *POWYS* COUNTY COUNCIL

Pensions and Investment Committee
9th February 2017

REPORT BY: **Strategic Director of Resources**

SUBJECT: **Review of Communications Strategy Statement**

REPORT FOR: **Decision**

1 Regulation 61 of the Local Government Pension Scheme Regulations 2013 [SI 2013 No. 2356] requires administering authorities to prepare and regularly review a written statement setting out details of communications strategy.

2 The strategy has been amended to include references to the Pension Board and to the Fund's strategy in relation to the provision and promotion of its Additional Voluntary Contributions (AVC) Scheme, as recommended by the Pension Board on 6th January 2017.

3 Committee is asked to approve the revised Communications Strategy Statement (attached).

Recommendation:			**Reason for Recommendation:**
To approve the revised Communications Strategy Statement.			**Statutory requirement**
Person(s) To Action Decision:	Pension Fund Manager		
Date By When Decision To Be Actioned:		immediately	
Relevant Policy (ies):	N/A		
Within Policy:	N/A	**Within Budget:**	N/A
Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

Relevant Portfolio Member(s):	Councillor Wynne Jones
Relevant Local Member(s):	**N/A**

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

CRONFA BENSIWN **POWYS** PENSION FUND

COMMUNICATIONS STRATEGY STATEMENT

Reviewed January 2017

1. Introduction

1.1 Regulation 61 of the Local Government Pension Scheme 2013 (as amended) [SI 2013 No. 2356] requires an administering authority to prepare, publish and maintain a statement that sets out strategy for communication and promotion of the Local Government Pension Scheme.

1.2 The Statement is required to include details of policy for communicating with Scheme members and their representatives; propective Scheme members; and Scheme employers.

1.3 In particular, the Statement must set out policy on the provision of information and publicity about the Scheme to Scheme members, their representatives and Scheme employers; the format, frequency and method of distributing such information or publicity; and the promotion of the Scheme to prospective members and their employers.

1.4 The Statement must be reviewed and published following any material change relevant to the policy.

1.5 An effective communications strategy is vital for any organisation that strives to provide a high quality and consistent service to its customers. The complexity of pensions in general and the LGPS in particular, places communications at the heart of a high quality service provision.

1.6 There are six distinct groups with whom Powys Pension Fund needs to communicate:

- Pension Fund Trustees and local Pension Board Members
- Scheme Members
- Prospective Scheme Members
- Scheme Employers
- Pension Fund Officers and Staff
- Other Stakeholders

1.7 Set out in this Statement are the mechanisms which are used to communicate with each of these groups, together with a strategy for widening and improving communications and to promote the Scheme amongst non-members.

2. Pension Fund Trustees and local Pension Board Members

2.1 The Trustees of Powys Pension Fund (the members of the Pensions & Investment Committee - six Powys County Council Elected Members plus two non-voting members representing other participating Scheme employers and Scheme members) and local Pension Board Members (an independent Chair, two Scheme employer representatives and two Scheme member representatives) receive information, primarily in the form of written reports and email correspondence, that cover investment, actuarial and administration issues. Committee and Board members also attend conferences and seminars on the LGPS.

2.2 Completion of appropriate training for Pension Fund Trustees and local Pension Board Members is a mandatory requirement. Ongoing knowledge development and training is to be provided via Pension Fund Officers and advisers. Full details are set out in the Knowledge & Skills Framework Policy appended to the Pension Fund's Governance Policy & Compliance Statement.

3. Scheme Members

3.1 Newsletters – are sent out to all active and pensioner members covering LGPS and related issues, as and when required.

3.2 Benefit Statements – sent to all active and deferred members (where a current home address is held) annually. Statements include State Scheme benefits and are produced in conjunction with the Department for Work and Pensions.

3.3 Scheme Literature – A range of Scheme literature and information covering many aspects of the LGPS is produced by Powys Pension Fund and is supplied direct to employers and Scheme members, as required.

3.4 Additional Voluntary Contributions (AVCs) – Regular promotional mailshots are sent to active members in partnership with the Fund's AVC providers.

3.5 Pay Advices – Powys Pension Fund issues pay advices to all its Fund pensioners twice per year, or more often where pay amounts vary from month-to-month.

3.6 Pensions Increases – all Fund pensioners are advised of their annual pension increase via a personalised letter sent in April each year.

3.7 Correspondence – the Pension Fund utilises both surface mail and email to send and receive correspondence with Scheme members.

3.8 Telephone – much of the Pension Fund's communication with individual Scheme members is conducted by telephone.

3.9 Pensions Clinics – The Pension Fund provides a periodic clinic service where Scheme members have the opportunity to discuss their individual pension issues on a face-to-face basis. In addition, clinics focussing on AVCs are also held for the benefit of active members, provided by the Fund's AVC providers.

3.10 Welsh Language – wherever possible the Pensio Fund provides access to Scheme documents in the medium of Welsh.

3.11 Website - a full range of Pension Fund and LGPS information is available via the Pension Fund's dedicated bespoke website at www.powyspensionfund.org.

3.12 My Powys Pension – an online system that is available to all active and deferred Scheme members. It enables members to interact with their pension records; log changes to basic data (eg changes to address etc.); and perform pension benefit forecasts.

3.13 Powys Pension Fund has both facebook and twitter accounts through which it is able to communicate further with Scheme members who prefer to receive information via these media platforms.

4. Prospective Scheme Members

4.1 Scheme Guide – All prospective Scheme members are provided with Scheme information on being appointed to their employments.

4.2 Website - a full range of Pension Fund and LGPS information is available via the Pension Fund's dedicated bespoke website at www.powyspensionfund.org.

4.3 The Pension Fund's intention is to request formal notification of non-joiners from Scheme employers. The information will be used to market the Scheme with dedicated literature. (Targeted for implementation during 2017/18).

4.4 Pensions Clinics – The Pension Fund provides a periodic clinic service where prospective Scheme members have the opportunity to discuss their individual pension issues on a face-to-face basis.

5. Scheme Employers

5.1 Employers' Guide – An Employers' Guide is issued to each employer to assist them in the administration associated with participation in the Scheme.

5.2 Ill Health Retirements – The Pension Fund has made available to all participating employers access to the Pension Fund's approved Occupational Health Physician for the purposes associated with ill health benefits.

5.3 Employer Meetings and Reports – Periodic Employer meetings are held at least annually. Typically these are used to communicate a variety of Pension Fund matters of specific interest to employers, such as the results of triennial valuations. In addition, employers receive copies of the Pension Fund's Annual Report & Accounts, Statement Of Investment Principles, Funding Strategy Statement and Governance Policy & Compliance Statement.

5.4 Technical Updates – These are sent to employers from time to time to advise them of significant changes to the Scheme and associated legislation.

5.5 Website - a full range of Pension Fund and LGPS information is available via the Pension Fund's dedicated bespoke website at www.powyspensionfund.org.

5.6 It is envisaged that technical updates for employers will be regularised in the form of a quarterly briefing paper, to include, in addition to Scheme changes, matters of national debate and interest on the future development of pensions in general and the LGPS in particular. (Targeted for implementation during 2017/18).

5.7 Powys Pension Fund has both facebook and twitter accounts through which it is able to communicate further with employers who prefer to receive information via these media platforms.

6. Pension Fund Officers and Staff

6.1 Team Meetings – Pensions Administration meets quarterly at which team members consider procedural issues; plan work and developments for the coming quarter and beyond; and, at which the team is kept abreast of Scheme developments and changes.

6.2 Technical Information – Bulletins and Circulars issued by the Local Government Association together with guidance and consultation documents from the Department for Communities and Local Government are available to all Pension Fund Officers and Staff for information. In addition, periodic in-house procedural guidance, procedure notes and technical explanations are provided, as required.

6.3 Intranet and Internet – All staff have been enabled to use the corporate network in order to access both the Powys Intranet and the internet.

6.4 E-mails – All staff have access to email facilities.

6.5 Pension Fund Manager – The Pension Fund Manager maintains an open-door policy and attempts to make himself available to all staff at all times.

7. Other Stakeholders

7.1 All Wales Pension Officers' Group – Pension Officers from the 8 administering authorities in Wales meet regularly in order to ensure uniform interpretation of the LGPS and other associated regulations. The group's views are passed up to the national level via the Local Government Pensions Committee's Technical Group Meetings (an arm of the Local Government Association) that are held quarterly.

7.2 All Wales Communications Group – Pensions Officers from the 8 administering authorities in Wales meet periodically in order to devise, develop and promote the use of common Scheme literature.

7.3 CLASS Group – As a user of the Altair Pensions Administration System, the Pension Fund is a member of the local authority CLASS Group and attends both regional user groups and national meetings.

7.4 National Fraud Initiative – The Pension Fund has participated in the National Fraud Initiative since 1998 and continues to do so. This has helped to avoid the overpayment of pension benefits to both deceased and re-employed pensioners.

7.5 Taxpayers and the General Public – all the principal Pension Fund documents including the Annual Report & Accounts, Actuarial Valuation Reports, Statement of Investment Principles, Funding Strategy Statement, Governance Policy & Compliance Statement and this Statement, are available to the public via the Pension Fund's website at www.powyspensionfund.org or on request.

8. Contacts

8.1 Any questions, queries or observations on this Statement; or, on matters relating to the investment of the Powys Pension Fund; or, on the governance of the Pension Fund, should be addressed to:

Mr J Rollin
Pension Fund Manager
Powys County Council
County Hall
Llandrindod Wells
Powys LD1 5LG

Tel: 01597 827641

Email: joe.rollin@powys.gov.uk

8.2 Questions or queries concerning membership, benefits or information in respect of the Local Government Pension Scheme, should be directed to:

Mr C Hurst
Pensions Administration Manager
Powys County Council
County Hall
Llandrindod Wells
Powys LD1 5LG

Tel: 01597 827640

Email: chris.hurst@powys.gov.uk

8.3 All other enquiries should be addressed to:

The Pensions Section
Powys County Council
County Hall
Llandrindod Wells
Powys LD1 5LG

Email: pensions@powys.gov.uk

CYNGOR SIR *POWYS* COUNTY COUNCIL

Pensions and Investment Committee
9th February 2017

REPORT BY:	**Strategic Director of Resources**
SUBJECT:	**Welsh LGPS Funds Comparative Data**
REPORT FOR:	**Information**

1 Introduction

Committee will recall that at its last meeting (16th December 2016) requests were made that information be made available to Committee comparing: Welsh LGPS funding ratios; and, the incidence of ill health retirements.

2 Funding Ratios

Appendix 1 to this report sets out the funding ratio for each of the Welsh LGPS Funds as at 31st March 2016, as calculated by each Fund's actuary. In addition, the funding ratio for each Fund based on the standardised GAD approach are also given.

3 Ill Health Retirements

Appendix 2 to this report gives the actual number of ill health retirements for each of the Welsh LGPS Funds for each of the three years ending 31st March 2016. In addition, the number of ill health retirements expressed as a proportion of active membership is also shown in order to give appropriate context to any conclusions drawn from a comparison.

4 Recommendation

To note the contents of this report.

Recommendation:	**Reason for Recommendation:**		
To note the funding ratio of each of the Welsh LGPS Funds; and, to note the incidence of ill health retirements.	**As per report**		
Person(s) To Action Decision:	Pension Fund Manager		
Date By When Decision To Be Actioned:			
Relevant Policy (ies):	N/A		
Within Policy:	N/A	**Within**	N/A

		Budget:	

Contact Officer Name:	Tel:	Fax:	Email:
Joe Rollin	01597 827641	01597 826290	joe.rollin@powys.gov.uk

Relevant Portfolio Member(s):	Councillor Wynne Jones
Relevant Local Member(s):	**N/A**

Appendix 1

CYNGOR SIR *POWYS* COUNTY COUNCIL

Welsh LGPS Funds Comparative Data
Funding Ratios at 31st March 2016

Welsh LGPS Fund	Funding Ration – calculated at 2016 Valuation	Funding Ration – GAD Standardised Approach
Cardiff	85%	93%
Clwyd	76%	87%
Dyfed	97%	107%
Gwent	72%	87%
Gwynedd	91%	109%
Powys	80%	90%
RCT	undisclosed	undisclosed
Swansea	80%	87%

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

Appendix 2

CYNGOR SIR *POWYS* COUNTY COUNCIL

Welsh LGPS Funds Comparative Data
Ill Health Retirements 1st April 2013 - 31st March 2016

Welsh LGPS Fund	Ill Health Retirements Actual Numbers / (% of membership)		
	2014	2015	2016
Cardiff	26 (0.19%)	23 (0.16%)	30 (0.20%)
Clwyd	undisclosed	undisclosed	Undisclosed
Dyfed	undisclosed	undisclosed	undisclosed
Gwent	31 (0.13%)	29 (0.12%)	49 (0.20%)
Gwynedd	21 (0.14%)	17 (0.11%)	13 (0.08%)
Powys	12 (0.19%)	4 (0.07%)	9 (0.15%)
RCT	undisclosed	undisclosed	undisclosed
Swansea	60 (0.39%)	55 (0.34%)	50 (0.29%)

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

INVESTMENT STRATEGY STATEMENT – March 2017

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1. Introduction

1.1 Local Government Pension Scheme (LGPS) funds in England and Wales are required to publish an Investment Strategy Statement (ISS)[1] which must address the following:

- to ensure that asset allocation strategies are sufficiently diversified;
- to include the authority's assessment of the suitability of asset classes;
- to include the administering authority's approach to risk, the assessment of risks and how they are to be managed;
- the authority's approach to the pooling of investments, including the use of collective investment vehicles and shared services;
- the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
- the administering authority's policy of the exercise of the rights (including voting rights) attaching to investments;
- set out the maximum percentage of the total value of all investments that it will invest in in particular asset classes;
- review the ISS periodically and at least every three years.

1.2 Further, LGPS funds in England and Wales are required under Guidance from the Secretary of State for the Department of Communities and Local Government (DCLG) to progress plans to pool the investment of assets, which will result in changes in the way that the Powys Pension Fund's (Funds) assets will be managed moving forward.

1.3 Therefore, this ISS will be reviewed every three years after the investment strategy has been reviewed and is confirmed as fit for purpose. In addition the ISS will be reviewed following changes to the investment strategy.

1.4 A copy of this ISS will be made available on request to any interested party.

[1] Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016 No.946)

2. Overall Responsibility

2.1 The County Council is the designated statutory body responsible for administering the Fund on behalf of its constituent scheduled and admitted bodies.

2.2 Elected Members have a fiduciary duty to the Fund, Scheme members and local council taxpayers in relation to the delivery of the LGPS. Functions may be delegated to Officers but the Members retain overall responsibility for the management of the Fund and its investment strategy and individual decisions about investments. The County Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out monitoring and reviews of investment and performance. The County Council's Constitution delegates these functions to the Pensions & Investment Committee.

2.3 Under the regulations the Secretary of State has the power to intervene in the investment function of an administering authority if the administering authority does not have regard to the Regulations, guidance or if other concerns are raised. This may include changing the ISS and, in the extreme, the transfer of investment powers to the Secretary of State or another nominated person.

2.4 The Investment Regulations permit the appointment of one or more investment managers to manage the Fund on behalf of the administering authority, provided that the investment managers are suitably qualified by their ability and practical experience of financial matters to make investment decisions for them, and to their compliance with other specific requirements of the regulations.

2.5 Administering authorities are required to take proper advice to enable them to fulfil their obligations, "Proper advice" is defined in the regulations as "the advice of a person who is reasonably believed to be qualified by his ability and practical experience of financial matters".

2.6 The County Council has delegated the decision-making responsibilities to the Pensions and Investment Committee. The Section 151 Officer and external fund advisors offer advisory support. The Committee has co-opted two non-voting members, one staff representative nominated by the Trade Unions and one representative nominated by the Outside Bodies Employers.

2.7 There is also a Local Pension Board which provides oversight to ensure the Fund if effectively managed.

2.8 Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills, information and resources take decisions affecting the Fund. The Members of the Pension and Investment Committee will ensure they receive training as and when deemed appropriate, to enable them to evaluate critically any advice they receive.

2.9 The County Council has in place arrangements for the provision of specialist advice relating to actuarial matters (including the triennial valuation) and investment matters (including asset allocation and manager appointments).

2.10 The County Council has appointed independent specialists to provide actuarial and investment advice and is prepared to pay sufficient fees to attract a broad range of both kinds of providers when tendering.

2.11 The County Council will use suitable means to assess the advice received from its advisers in terms of its contribution to the decision making process.

2.12 Appropriate performance data will be included in the annual report and statement of accounts for the Fund and in the annual members' newsletter.

2.13 Investment Committee

2.13.1 Powys County Council delegates responsibility for the administrating authority role to the Pensions & Investment Committee (The Committee). This includes investing the Fund's assets. The Committee is supported by the Fund Administrator and investment advisors.

2.13.2 The Committee is responsible in respect of investment matters:

a. To determine the overall strategy relating to the investment of the Fund's assets and to meeting the Fund's liabilities.

b. To keep under review the performance of the Fund and the Fund's managers.

c. To approve the appointment of advisers and fund managers (unless the assets are invested in pooled arrangements in which case the latter may be delegated).

d. To publicise the stewardship role to all Scheduled and Admitted Bodies of the Powys Pension Fund and to all contributors and beneficiaries in accordance with the Fund's Communication Strategy.

e. The Pensions and Investment Committee regularly monitors the investment performance of the Fund in both absolute terms and against the specific benchmarks set. A review of overall or asset class specific benchmarks will be undertaken if the Pensions and Investment Committee considers it appropriate.

2.14 Investment Managers

2.14.1 Each investment manager, or subsequent manager of the Fund's investments, will be responsible for:

a. Discretionary management of their portfolio, in accordance with the terms of their management agreement, having regard to the need for diversification of investments so far as appropriate and the suitability of investments.

b. Providing the Committee with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolio.

c. Providing the designated provider with the information necessary to calculate performance statistics.

d. Investment manager(s) are permitted to use authorised financial instruments in appropriate circumstances following prior discussion and approval. Approval will not be withheld without clear justification.

e. The investment manager(s) are required to produce a quarterly investment report and to attend Pension and Investment Committee meetings as appropriate.

f. The County Council requires the investment manager(s) to provide details of the commission payments they receive on asset transactions (including soft commissions if applicable) and how they assess their overall trading efficiency. By discussing these matters with the investment manager(s), the County Council seeks to gain a full understanding of the transaction-related costs that the Fund incurs, and to understand the options open to the County Council in relation to those costs.

2.15 Investment Consultant

2.15.1 The Investment Consultant will be responsible for providing prompt, consistent and competent advice and support through one or two named representatives, in respect of investment matters when so requested by the Committee. Advice and support is likely to be sought in regard of:

a. Review of the Investment Strategy Statement.

b. Presentation and interpretation of investment performance measurement results.

c. The Potential impact of:

- any changes in the investment managers' organisations that could affect the interests of the Fund;
- any changes in the investment environment that could present either opportunities or problems for the Fund.

d. Investment manager selection, retention and termination (until such time as the investment pool takes over such responsibilities);

e. Benchmark adjustments;

f. The appropriate content of investment management and other related Agreements;

g. Appropriate investment structures for the Fund in the light of the Fund's liability profile. This will involve working with the Fund's Actuary and, in time, discussion with the investment pool.

h. Ad-hoc project work as required.

g. The independent investment adviser who attends each Pensions and Investment Committee meeting is required to produce a separate report on investment performance quarterly.

2.16 Pensions Board

2.16.1 The role of the board is to assist the Powys County Council pension fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

2.16.2 The board members work with the Council in its role as an administering authority and with the pension fund's officers to ensure that your pension scheme is being run properly.

2.16.3 To comply with requirements imposed by regulations which are enforced by the Pensions Regulator, the members of the local pension board are required to maintain their knowledge and understanding of the LGPS and pensions in general, so receive appropriate training.

3. Investment Objectives

3.1 The long term investment objectives of the Fund are to:

- maximise investment returns over the long term within an acceptable level of risk;
- ensure that sufficient assets are readily available to meet liabilities as they fall due;
- aim for long-term stability in the employers' contribution rates;
- achieve and maintain funding levels at, or close to, 100% of the Fund's liabilities.

3.2 Risk is mainly concerned with the possibility of a deficiency in the Fund or a substantial increase, or volatility, in future employer contribution rates.

3.3 Whilst stability of the employers' rate has a high priority, absolute cost to the employer is also important. This implies that:

- the cost of administering the Fund will be constrained by the adoption of best management practice;
- employers will adopt appropriate policies in those areas where they have discretion and where costs of their actions fall on the Fund;
- the Fund will, as far as is practicable, and through the Fund's Actuary, avoid cross subsidisation between the Fund's individual employers;
- the Fund's overall investment policy will be aimed at superior investment returns relative to the growth of liabilities. This implies that the Fund will take a controlled active risk relative to its liability profile.

4. The Balance Between Different Types of Investments

4.1 The County Council seeks to achieve its investment objectives through investing in a suitable mixture of real and monetary assets. A mixture across the asset classes should provide the level of returns required by the Fund to meet its liabilities at an acceptable level of risk and at an acceptable level of cost.

4.2 The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of our Investment Advisors in order to ensure the balance between expected return and risk is appropriate and the expected return is sufficient. In addition the split between potential asset classes has been set to ensure there isn't excessive exposure to any particular asset class or specific risk such as equities or credit risk.

4.3 To ensure that asset allocation is sufficiently diversified the Fund's investment strategy has been set using modelling techniques that cover all mainstream asset classes including those most likely to be available through the pooling arrangements available to the Welsh Funds. In addition

4.4 The current strategic benchmark is as follows:

Asset Class	%		Maximum %	Benchmark Index
Equities	**47**		**55**	
Active		19		MSCI All Countries World (NDR)
Passive		28		FTSE Developed World
Bonds	**30**		**35**	
Corporate Bonds		6		iBoxx Sterling Non-Gilts All Maturities
Index-Linked Gilts		15		FTSE UK Index-Linked over 5 years
Gilts		3		FTSE UK Gilts All Stock
Absolute Return Bonds		6		3 Month GBP LIBOR
Property	**10**		**15**	IPD Index
Private Equity	**5**		**10**	MSCI AC World ex UK
FoHF	**8**		**15**	3 Month LIBOR
Total	**100**			

4.5 In reaching its decisions on asset allocation the County Council will:

- take proper advice from specialist, independent advisers and give consideration to the desirability of receiving advice based on an asset / liability study.
- consider the volatility of returns which it is prepared to accept.
- determine the split between matching and returning seeking assets before it gives consideration to any other asset class.
- have due regard to the diversification and suitability of investments.

5. Approach to risk, the assessment of risks and how they are managed

5.1 The Committee recognises that risk is inherent in any investment activity and it seeks to manage the level of risk that it takes in an appropriate manner.

5.2 The main risk arising from the investment strategy will be a fall in the value of the investments relative to the value of the liabilities, potentially leading to higher contributions being required from the County Council and other employers within the Fund.

5.3 Other risks include but are not limited to risks such as not having enough liquidity to meet cash requirements and third parties defaulting on contracts.

5.4 The operational risk to the Fund is minimised by:

- the use of a regulated, external, third party, professional custodian for custody of assets.
- having formal contractual arrangements with investment managers.
- having access to the internal audit service of Powys County Council.
- the activities of the investment manager(s) being governed by detailed Investment Management Agreements. Investment managers are expected to have regards to these principles and legislative requirements, in particular the LGPS (Management and Investment of Funds) Regulations 2016 (SI 2016 No.946).
- having formal agreements in place with admitted bodies.

5.5 The investment risks to the Fund are managed by:

- diversification of types of investment.
- diversification of investment manager(s).
- the setting of a Fund-specific benchmark informed by asset-liability modelling of liabilities.
- the appointment of independent professional advisors.
- the appointed expert investment manager(s) being given clear performance benchmarks and maximum accountability for performance against those benchmarks over appropriate time-scales.
- investment manager(s) being required to implement appropriate risk management measures and to operate in such a manner that will ensure the likelihood of not achieving the performance target is kept within defined acceptable limits.

5.6 In order to reduce the risk of assets increasing beyond agreed ranges there is also a Medium Term Asset Allocation (MTAA) project. This project utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% p.a. by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. This service has run from 2009. The Pensions & Investment

Committee has recently decided to extend the project period, with regular reviews as they see fit. The MTAA service has an artificial benchmark of 49.5% equity / 32% bond / 18.5% alternatives. It operates within tolerance bands so the difference between the actual allocation and the strategic allocation will not deviate beyond these set limits. For further information on the MTAA project, please see Appendix B.

6. The expected return on investments

6.1 The wider strategy has been set to target 5.8% pa over the long term with a volatility of 11.7% pa. This is based on assumptions at 30 September 2016 and will be subject to change depending on changes in market conditions.

6.2 The investment manager(s) have been given specific performance targets measured against the index return in the relevant asset class. The County Council recognises that these targets will not be met in all periods under consideration, but expects that they will be met in the vast majority of periods under consideration.

6.3 The performance targets for the investment manager(s) are shown in the table below:

Investment Manager	Mandate	Benchmark	Objective
Carnegie	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 3-5% p.a. (gross of fees) over a typical market cycle
Hosking	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 3-5% p.a. (gross of fees) over a typical market cycle
MFS	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 2% p.a. (gross of fees) over a typical market cycle
Schroders	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 3-4% p.a. (gross of fees) over a typical market cycle
BlackRock	Balanced	Composite benchmark	To track the benchmark
Aviva Investors	UK Property	IPD/PPFI All Balanced Funds Medium Index	To outperform the benchmark by 1% p.a. over rolling 3 year periods.
Hermes Fund Managers	UK Property	IPD Other Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling three year basis
Schroders	UK Property	IPD UK All Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling three year basis
CB Richard Ellis	European Property	UK Retails Price Index (The IPD UK Pooled Property Index will also be used for comparison purposes)	Provide investors with a return of 8-10% p.a., net of fees and expenses.
Insight Asset Management	UK Corporate Bonds	iBoxx Sterling Non-Gilt All Maturities Index	To outperform the benchmark by 0.75% p.a., net of fees

Insight Asset Management	Absolute Return Bonds	3 month GBP LIBOR	To outperform the benchmark by 2% gross of fees
Standard Life Investment	Private Equity (European)	MSCI World	To outperform the benchmark by 5% pa over a rolling three year period.
HarbourVest Partners	Private Equity (US)	MSCI World	No stated objective, just to produce returns which place HarbourVest in the top quartile in the industry
Goldman Sachs	Hedge Fund of Funds	3 month USD LIBOR	To outperform the benchmark by 4 – 9% p.a. net of fees
GAM	Hedge Fund of Funds	3 month GBP LIBOR	To achieve an absolute return of 8-13% p.a. over the long term.

6.4 The investment manager(s) benchmarks are based on market indices. The indices used were considered in consultation with the investment adviser and the investment manager(s) and carefully chosen with regard to their strategic suitability. The limits on the levels of divergence from these indices set out in the investment mandates were chosen with regard to the investment manager(s) overall performance objectives.

7. The realisation of investments

7.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. The Fund is currently paying out more than it receives in contributions meaning the assets need to cover any shortfall. Where possible assets are held in income producing investments. This helps increase cash available to meet outgoings. Also the majority of assets are invested in funds with good liquidity which can be used to meet any outstanding cashflow requirements.

7.2 The vast majority of the Fund's assets are readily marketable. However some investments, such as property and private equity, are less easy to realise in a timely manner. This relative illiquidity is not considered to have any significant adverse consequences for the fund.

7.3 The County Council would inform the investment manager(s) of any projected need to withdraw funds in order to enable the investment manager(s) to plan an orderly realisation of assets if this proves necessary.

8. Pooling

8.1 The County Council will aim for all assets to be managed under pooled arrangements through the Welsh Funds investment pool.

8.2 Investment opportunities outside the pooling arrangements will be considered if they are not already or likely to be available through the Welsh Funds investment pool, and there are suitable resources to invest in and monitor the investment. These can include contracts related to financial futures or insurance. Appropriate advice will be sought on alternative asset classes when setting the strategy and as opportunities arise.

8.2 Suitable asset classes include those available through the pooling arrangements as well as any asset class where the Pensions and Investment Committee have resource to understand and monitor the investment. This may include illiquid investments and other asset classes that offer improved risk and return expectations.

9. Socially Responsible Investment

9.1 The County Council has delegated responsibility for the selection, retention and realisation of investments to the investment manager(s).

9.2 The County Council's policy is to invest part of the Fund's assets on a passive basis. The County Council does not consider it appropriate for a passive investment manager to take account of social, environmental or ethical considerations in the selection, retention and realisation of investments.

9.3 The County Council's policy in respect of the actively managed portion of the Fund's assets is that the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments is left to the discretion of the active investment managers. However the County Council expects that the active investment manager(s) in the exercise of their delegated duties will take the extent to which social, environmental or ethical issues may have a financial impact on the portfolio into account.

10. The exercise of the rights attaching to investments

10.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its Investment manager(s) who exercise its voting rights. Votes are cast by proxy. Investment manager(s) provide reports when any voting rights are exercised. Only direct investments in traded equity shares carry such voting rights.

11. Corporate Governance

11.1 The County Council supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its investment manager(s) who exercise its voting rights. Votes are cast by proxy. Each investment manager is required to report its actions on a quarterly basis.

11.2 The County Council is aware of the UK Stewardship code. Although it has not formally signed up to the Code it aims to abide by the principles of the code where appropriate.

11.3 The principles of the UK Stewardship code are included in Appendix A for information.

11.4 In addition to the above the Fund is a member of the Local Authority Pension Fund Forum which helps ensure governance is in line with current best practice.

12. Stock lending

12.1 The Fund, custodian or investment managers do not engage in stock lending on behalf of the Fund.

13. Monitoring and Implementing of Investment Policy

13.1 The Committee will meet on a quarterly basis with the Investment Advisors to review and discuss the operation of each investment manager'(s) portfolio, including past and future policy decisions. The performance of the investment manager(s) will be monitored by the Committee on a quarterly basis at the Investment Committee meetings.

13.2 The Committee, in conjunction with the Investment Consultant, will review the allocation of assets between the passive and specialist portfolios, property and other asset classes.

13.3 The appointments of the investment manager(s) will be subject to review at the meeting held to consider the performance results from the designated provider. The review will be based on the monitoring of the Investment manager(s) processes as well as their performance.

13.4 The investment manager(s) appointments, whilst subject to annual monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks.

13.5 If an investment manager(s) performance prompts concerns then the Committee may ask the manager(s) to come to a meeting for a special review meeting.

Appendix A

Principles for Institutional Investment Decision Making

Compliance with CIPFA Principles for Investment Decision Making in LGPS

Principle	Compliance
Effective Decision Making	The Fund considers that its practices are compliant with the CIPFA principles
Clear objectives	The Fund considers that its practices are compliant with the CIPFA principles
Risk and Liabilities	The Fund considers that its practices are compliant with the CIPFA principles
Performance Assessment	The Fund considers that its practices are compliant with the CIPFA principles
Responsible Ownership	The Fund considers that its practices are compliant with the CIPFA principles
Transparency and Reporting	The Fund considers that its practices are compliant with the CIPFA principles

Principles of the UK Stewardship Code

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

Appendix B

Background to Medium Term Asset Allocation

Philosophy

The Committee recognises that it is possible to take advantage of excessive over/under valuations of markets in order to target additional returns. The Committee in conjunction with the Investment Consultant seeks to identify opportunities to allocate investments away from the strategic benchmark that are designed to add additional return relative to the benchmark return over the medium term (around 1 to 3 years).

Process

A thorough fundamental analysis of economics and financial markets is carried out to identify and incorporate general investor expectations into views of the different markets. In particular, attention is paid to establishing consensus views and profit is taken from positions which differ from the consensus. A range of appropriate timing indicators are utilised in order to achieve the best entry and exit levels to and from asset classes.

In terms of the practical application, once an opportunity has been identified the Fund's Investment Consultant will notify the Pensions & Investment Committee. The Committee decides whether to pursue the opportunity and if so will work with the Investment Consultant to complete any necessary asset transitions. The Investment Consultant liaises with the investment manager(s) and follows each transaction as it happens to make sure each trade goes through smoothly.

Risk management

Considerable lengths are taken to assess what correlations are likely to be in the future so as to ensure asset allocation views are truly diversified. The style of the MTAA project is to have a limited number of meaningful positions rather than either a small number of large positions or a large number of small positions. The overall objective is to achieve an additional return of 0.5% p.a. of assets involved in the MTAA project. The Investment Consultant will provide regular reporting to the Pensions & Investment Committee.

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

POWYS COUNTY COUNCIL PENSION FUND

Funding Strategy Statement

February 2017

Funding Strategy Statement

1. Introduction

This is the Funding Strategy Statement (FSS) of the Powys County Council Pension Fund.

It has been prepared by the Administering Authority in collaboration with the Fund Actuary, Aon Hewitt Limited, and after consultation with officers, elected members, the Fund's employers and investment advisors and is effective from the date of issue of this statement. A single strategy is produced for the Pension Fund. The FSS compliments the triennial Actuarial Valuation and the Statement of Investment Principles or Investment Strategy Statement as follows:

Actuary's Valuation Report	Funding Strategy Statement (FSS)	Statement of Investment Principles (SIP) or Investment Strategy Statement (ISS)
Defines what employer contributions should be made to meet current and future pension payments.	States how solvency and risk will be managed in relation to liabilities.	How and where the fund will be invested and managed.

1.1 Regulatory Framework

This statement, originally prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997, has been reviewed in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) (the LGPS 2013 Regulations) and the Local Government Pension Scheme (Investment and Management of Funds) Regulations 2016 (the Investment Regulations).

As required by Regulation 58(4) of the LGPS 2013 Regulations, the Statement has been prepared having regard to guidance published by CIPFA in October 2012. The Statement also has regard to updated guidance published by CIPFA in September 2016.

Members' benefits and contributions are also set out in the LGPS 2013 Regulations. The members' contributions do not cover the full cost of benefits and the shortfall or liability is met by the participating employers within the fund. The FSS sets out how this liability will be funded in the long term.

1.2 Purpose of this Funding Strategy Statement

The main purpose of the FSS is to document the processes by which the Administering Authority:

• establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
• supports the regulatory framework to maintain as nearly constant primary contribution rates as possible;

• enable overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating, and admitted bodies
• ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met
• takes a prudent longer-term view of funding the Fund's liabilities.

These objectives are desirable individually, but may be mutually conflicting. This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis. The focus of the FSS is on those actions which are in the best long term interests of the Fund.

1.3 Reviews of FSS

The FSS will be reviewed in detail at least every three years in line with triennial valuations being carried out. It will be circulated to employers prior to the completion of each valuation. It will only need to be updated in between valuations if there has been material change. Small updates can be attached to the original approved.

1.4 Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

The Authority has produced this FSS having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles (SIP) or Investment Strategy Statement (ISS) published under Regulation 7 of the Investment Regulations and the funding policy set out in this Statement. The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

2. Purpose and Aims of the Fund

2.1 Purpose of the Fund

The purpose of the Fund is to invest monies in respect of contributions, transfer values and investment income to produce a Fund to pay the Scheme benefits over the long term and in doing so smooth out the contributions required from employers over the long term.

2.2 Aims of the Fund

The aims of the Fund in relation to the Funding Strategy include:

• to ensure the long-term solvency of the Fund. The Fund Solvency should be assessed in light of the risk profile of the Fund and the risk appetite of the Administering Authority and employers;
• to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
• to maximise the returns from investments within reasonable risk parameters;
• to manage employers liabilities effectively through regular review of contributions and additional contributions for early retirement;
• to try to maintain stability of employer contributions, and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies.

3. Responsibilities of Key Parties

The LGPS Regulations set out the responsibilities of the key parties and are summarised below.

3.1 The Administering Authority should:-

• administer the Fund
• collect investment income and other amounts due to the Fund including employer and employee contributions and exit payments from employers whose participation in the Fund has ceased. The administering authority will ensure all individual employers are aware that they must pay contributions in accordance with Regulations 67 to 71 of the LGPS 2013 Regulations;
• invest surplus monies in accordance with the regulations;
• pay from the Fund the relevant entitlements as set out in the LGPS 2013 Regulations
• ensure that cash is available to meet liabilities as and when they fall due;
• manage the valuation process in consultation with the fund's actuary;
• prepare and maintain a FSS and a SIP/ISS, both after proper consultation with interested parties;
• monitor all aspects of the fund's performance and funding and amend the FSS/ISS as necessary;
• effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.
• Enable the local Pension Board to review the valuation process as set out in their terms of reference.

3.2 Individual Employers should:-

• deduct contributions from employees' pay correctly;
• pay both ongoing members' and employer's contributions (both percentage of pay and monetary shortfall recovery contributions which are due) as determined by the Fund's actuary, promptly by the 19th day of the month. Unless an agreed arrangement is in place, late payments will incur interest of 1% above base rate.
• develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions;
• make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain;
• notify the administering authority promptly of all changes to membership or, as maybe proposed, which affect future funding;
• noting and if desired responding to any consultation regarding the FSS, the SIP/ISS, or other policies;
• pay any exit payments required in the event of their ceasing participation in the Fund.

3.3 The Fund Actuary should:-

• prepare valuations including the setting of employers' contribution rates at a level to ensure solvency and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to the FSS and the Regulations

• prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters, on exit valuations on cessation of admission agreements or when an employer ceases to employ any active members, and in connection with bonds and other forms of security against employers default.

Such advice will take account of the funding position and FSS, as well as other relevant matters when instructed to do so.

The Fund Actuary will assist the Administering Authority in assessing whether employer contributions need to be revised between actuarial valuations as required or permitted by the Regulations.

The Fund Actuary will ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Administering Authority.

4 Funding Strategy

4.1 Risk Based Approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach. In practice, three key decisions are required for the risk based approach:

• what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),

• the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and

• the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the discount rate and, by extension, the appropriate levels of contribution payable. Together they measure the amount of risk in the funding strategy.

These three terms are considered in more detail below.

4.2 Solvency Target

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target, where the Solvency Target is the value of the Fund's liabilities evaluated using appropriate actuarial methods and assumptions.

Some comments on the principles used to derive the Funding Target and Solvency Target for different bodies in the Fund are set out below.

<u>4.2.1 Scheduled Bodies and Admission Bodies with guarantors agreeing to subsume assets and liabilities following exit</u>

The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than risk free assets for scheduled bodies and certain other bodies. With regard to Admission Bodies the guarantor must have been judged to be of suitable covenant by the Administering Authority (see section on Guarantors in section 5).

For these bodies, appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund had reached the Solvency Target and its financial position continued to be assessed by use of such methods and assumptions, and contributions were paid in accordance with those methods and assumptions, there would be a chance of at least 80% that the Fund would continue to be 100% funded after a period of 25 years. The level of funding implied by this is the Solvency Target. For the purpose of this Statement, the required level of chance is defined as the Probability of Maintaining Solvency.

4.2.2 Admission Bodies and other bodies whose liabilities are expected to be orphaned

For admission bodies the Administering Authority will have regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit from the Fund, and any likely change in notional or actual investment strategy as regards the assets held in respect of the admission body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or a guarantor exists to subsume the notional assets and liabilities). For most bodies where liabilities will become orphaned, the chance of achieving solvency will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after exit.

If the liabilities for such bodies are deemed to be small compared to the liabilities of the whole Fund (and therefore the risk related to these liabilities is small) then the Administering Authority may decide to use the Funding Target and Solvency Target used for Scheduled Bodies for practical reasons.

4.2.3 Orphan Liabilities

These are liabilities with no access to funding from any employer in the Fund. To minimise the risk to other employers in the Fund the notional assets related to these liabilities may be assumed to be invested in low risk investments. This is described in more detail later in this document.

If these liabilities are deemed to be small compared to the liabilities of the whole Fund (and therefore the risk related to these liabilities is small) then the Administering Authority may decide to use the Funding Target and Solvency Target used for Scheduled Bodies for practical reasons.

4.3 Probability of Funding Success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers.

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

The trajectory period is set to be 25 years.

4.4 Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the triennial actuarial valuation exercise and is not necessarily the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method. The valuation method including the components of Funding Target, future service contributions and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible:

- contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.

- for employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.

4.5 Full Funding and Solvency

The Fund is deemed to be fully funded when the assets held are equal to or greater than 100% of the Funding Target. When assets held are greater than this amount the Fund is deemed to be in surplus, and when assets held are less than this amount the Fund is deemed to be in deficiency.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

4.6 Recovery Periods

Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employer contribution rates will be adjusted to target restoration of the Funding Target over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund’s liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. In general for employers that are closed to new entrants and are of sufficient term the recovery period is set with regard to the estimated future working lifetime of the active membership (i.e. the estimated period of time until the last active member leaves or retires). The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery and trajectory periods when the employer has a deficiency and has agreed with the Fund actuary a limit of 25 years in these circumstances, which can be extended in exceptional circumstances for employers of sound covenant to an absolute limit of 40 years. The Administering Authority’s policy with regard to employers with a deficit (surplus) is to agree recovery periods with each employer which is as short (long) as possible within this framework. The Administering Authority may encourage employers with a surplus not to take any reduction in their contribution rate to assist with stability requirements.

For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund actuary would agree to a recovery period longer than the remaining term of participation.

4.7 Long term cost efficiency

In order to ensure that measures taken to maintain stability of employer contributions are not inconsistent with the statutory objective for employer contributions to be set so as to ensure the long-term cost efficiency of the Fund, the Administering Authority has assessed the actual contributions payable by considering:

- The implied average deficit recovery period, allowing for the stepping of employer contribution changes;
- The investment return required to achieve full funding over the recovery period; and
- How the investment return compares to the Administering Authority's view of the expected future return being targeted by the Fund’s investment strategy.

4.8 Phasing in of Contribution Rates

Phasing in periods will be influenced by the perceived credit worthiness of the employer when there is a deficiency. The Administering Authority's policy is that in the normal course of events no more than 3 annual steps will be permitted. Further steps may be permitted at the Administering Authority's discretion, but the total is unlikely to exceed 6 steps. No limit will be set to phasing in contribution rates when the employer has a surplus.

4.9 Grouping

In some circumstances it is desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reduction of volatility of contribution rates for small employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared. The Administering Authority’s policy is to consider the position carefully at initial grouping and at each valuation and to notify each employer that is grouped that this is the case, which other employers it is grouped with and details of the grouping method used. If the employer objects to this grouping, it will be offered its own contribution rate.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum benefits on death in service – in other words, the cost of such benefits is shared across the employers in the Fund. Such lump sum benefits at no fault of the employer can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

Currently there is one group of employers in the Fund pooled together for funding and contribution purposes. All risks are shared within this group, they have a common primary (future service) contribution rate but they retain responsibility for the payment of the contributions towards the deficit relating to them.

In addition Powys County Council has agreed a risk sharing approach with a number of employers whereby the employer will pay their primary rate only plus any agreed additional contributions arising from actions taken by the employer. Such employers will be required to sign an agreement with Powys County Council which will set out the contributions to be paid.

The employers to whom these grouping arrangements apply are set out as an Appendix to this Statement.

4.10 Asset shares notionally allocated to employers

In order to establish contribution rates for individual employers or groups of employers it is convenient to notionally subdivide the Fund as a whole between the employers, as if each employer had its own asset share within the Fund.

This subdivision is for funding purposes only. It is purely notional in nature and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

The asset share allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit payments, transfers in and out and investment income. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year. However, where significant one-off employer contributions have been paid, allowance is made for the timing of such contributions. Further adjustments are made for:

- A notional deduction to meet the expenses paid from the Fund in line with the assumption used at the previous valuation.
- Allowance for any known material internal transfers in the Fund (cashflows will not exist for these transfers). The actuary will assume an estimated cashflow equal to the value of the liabilities transferred from one employer to the other unless some other approach has been agreed between the two employers.
- Allowance for lump sum death in service benefits shared across all employers in the Fund.
- An overall adjustment, as part of each triennial valuation, to ensure the notional assets attributed to each employer is equal to the total assets of the Fund which will take into account any gains or losses related to the orphan liabilities.

In some cases information available will not allow for such cashflow calculations. In such a circumstance:

- Where, in the opinion of the actuary, the cashflow data which is unavailable is of low materiality, estimated cashflows will be used
- Where, in the opinion of the actuary, the cashflow data which is unavailable is material, or the results of the cashflow approach appears to give unreliable results perhaps because of unknown internal transfers, the actuary will instead use an analysis of gains and losses to roll forward the asset share. Analysis of gains and losses methods are less precise than use of cashflows and involve calculation of gains and losses to the surplus or deficiency exhibited at the previous valuation. Having established an expected surplus or deficiency at this valuation, comparison of this with the liabilities evaluated at this valuation leads to an implied notional asset share.

4.11 Fund Maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed deficiency may be set as a percentage of payroll. To protect the Fund against the risk of payroll failing to grow at the assumed rate, the Administering Authority will monitor payrolls where this approach is agreed.

5. Special Circumstances related to certain employers

5.1 Interim Reviews

Regulation 64(4) of the LGPS 2013 Regulations provides the Administering Authority with a power to carry out valuations in respect of employers expected to exit the Fund at some point in the future, and for the Fund Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times in relation to admission bodies is that, where possible, there is clarity over the funding target for that body, and that contribution rates payable are appropriate for that funding target. However, this is not always possible as any date of exit may be unknown (for example, participation may be assumed at present to be indefinite), and also because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than 3 years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.
- For transferee and Schedule 2 Part 3 (1)(d) admission bodies falling into the above category, the Administering Authority sees it as the responsibility of the Relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the Relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.
- For an employer whose participation is due to cease within the next 3 years, the Administering Authority will monitor developments and may see fit to request an interim valuation at any time.

Notwithstanding the above guidelines, the Administering Authority reserves the right to request an interim valuation of any employer at any time if with Regulation 64(4) applies.

5.2 Guarantors

Some employers may participate in the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their associated Guarantors. The Administering Authority, unless notified otherwise, sees the duty of a Guarantor to include the following:

- If an exiting employer defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of the employer a guarantor can at any time agree to the future subsumption of any residual liabilities of an admission body. The effect of that action could be to reduce the Funding and Solvency Target for the employer, which could probably lead to reduced contribution requirements.

5.3 Bonds and other securitization

Paragraph 6 of Part 3 of Schedule 2 of the LGPS 2013 Regulations creates a requirement for a new Admission Body to carry out to the satisfaction of the Administering Authority (and the Scheme Employer in the case of an Admission Body admitted under paragraph 1(d)(i)) an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the Administering Authority from an organisation who either funds, owns or controls the functions of the admission body.

The Administering Authority's approach in this area is as follows:

- In the case of Admission Bodies admitted under paragraph 1(d) and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the admission body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.

- In the case of Admission Bodies admitted under paragraph 1(e), or under paragraph 1(d) where the Administering Authority does not judge the Relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.

- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover regularly, at least once a year.

5.4 Subsumed Liabilities

Where an admission body is ceasing participation in the Fund such that it will no longer have any contributing members, it is possible that another employer in the Fund (the 'accepting employer') has agreed to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

In such circumstances the liabilities are known as subsumed liabilities (in that responsibility for them has been taken on by the accepting employer). For such liabilities the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer. Generally this will mean assuming continued investment in more risky investments than Government bonds.

5.5 Orphan Liabilities

Where an admission body is ceasing participation in the Fund such that it will no longer have any contributing members, unless any residual liabilities are to become subsumed liabilities, the Administering Authority may act on the basis that it will have no further access for funding from that employer once any exit valuation, carried out in accordance with Regulation 64, has been completed and any sums due have been paid. Residual liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

The Administering Authority will seek to minimise the risk to other employers in the Fund that any deficiency arising on the orphan liabilities creates a cost for those other employers to make good such deficiency. To give effect to this, the Administering Authority may seek funding from the outgoing employer sufficient to enable it to match the liabilities with low risk investments, generally Government fixed interest and index linked bonds.

However, if these liabilities are deemed to be small compared to the liabilities of the whole Fund (and therefore the risk related to these liabilities is small) then the Administering Authority may decide to use the Funding Target used for Scheduled Bodies for practical reasons.

Any excess or deficient returns on the notional or actual assets attributable to these liabilities relative to the Funding Target will be added to or deducted from the investment return to be attributed to the notional assets of all employers in the Fund.

Liabilities in the Fund which are already orphaned will be assumed to be 100% funded on the appropriate funding target at each triennial valuation. This will be achieved by the Actuary notionally re-allocating assets within the Fund as required.

5.6 Exit Valuations

Where an employer exits the Fund, an exit valuation will be carried out in accordance with regulation 64. That valuation will take account of any activity as a consequence of cessation of participation regarding any existing contributing members (for example any bulk transfer payments due) and the status of any liabilities that will remain in the Fund.

In particular, the exit valuation may distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed (see above) by other employers.

For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

For orphan liabilities the exit valuation could anticipate investment in low risk investments such as Government bonds or be calculated in the same way as subsumed liabilities, as considered appropriate.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer will be expected to make good the funding position revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not remove the possibility of a exit payment being required.

6. Key Risks & Controls

6.1 Types of Risk

The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- investment;
- solvency;
- liability;
- regulatory;
- employer.

The Administering Authority will ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate and includes defining a role for the Local Pension Board within this framework.

6.2 Investment Risks

Risk	*Control*
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. The Administering Authority will request quarterly funding updates between the completion of the valuation report and the date of the next valuation to monitor the position.
Inappropriate long-term investment strategy	Set Fund-specific benchmark in accordance with appropriate advice.
Active investment manager underperformance relative to benchmark	Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark. The Fund Actuary will be asked to evaluate the implications if there is significant underperformance.
Effect of possible increase in employer's contribution rate on service delivery and admission/ scheduled bodies	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises. Consult employers on possibility of paying more (extra administration and

Risk	*Control*
	higher regular contributions) to enable employer-specific investment strategies to give greater certainty of cost.
Potential cashflow implications of increasing maturity of the Fund, for example as a result of reduced numbers of staff working in local government or through outsourcing	Regularly review position including communication with employers about their plans. Plan investments to ensure sufficient liquidity.

6.3 Solvency Risks

Risk	Control
Permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.	It is policy to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 25 years in the vast majority of circumstances, and no longer than 40 years under any circumstances.
Permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.	The risks inherent in each situation are discussed with the Fund Actuary and to limit the number of permitted steps to three annual steps or, at the Administering Authority's discretion, to six annual steps.

6.4 Liability Risks

Risk	Control
Pensioners living longer and changing retirement patterns.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary investigates these matters at each valuation or if appropriate more frequently and will report on developments. If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers on the anticipated costs that will emerge at the next valuation and will review the bonds that are in place for the Transferee Admitted Bodies.

Risk	Control
Deteriorating patterns of ill health and other early retirements	Employers are charged the extra capital cost of non ill health early retirements following each individual decision. Ill health retirements will be monitored.
Demographic experience differing from the assumptions used by the actuary	The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation, or more frequently if appropriate.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	Allowing for a risk-based approach should limit the impact of short term changes in returns on Government bonds on the liabilities. Some investment in bonds also helps to mitigate this risk. Inter-valuation monitoring, as set out above, gives early warning of changing liability values.
Pay and price inflation significantly more than anticipated	Employers pay for their own salary awards and are reminded of the geared effect on salary-linked pension liabilities of any bias in pensionable pay rises towards longer-serving employees.

6.5 Regulatory Risk

Risk	Control
Changes to regulations.	The Administering Authority will keep abreast of all proposed changes and where possible express their opinion during consultation periods after careful consideration. The Fund Actuary is asked to assess the impact on costs of any changes and where these are likely to be significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.

6.6 Employer Risk

Risk	Control
Administering Authority being unaware of structural changes in an employer's membership (e.g. large fall in employee members or a large number of retirements).	The Administering Authority monitors membership movements on an annual basis, via a report from the administrator to the Pension Fund Committee. The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 64(4) or 64(7) of the LGPS 2013 Regulations between triennial valuations.
The risk of being unable to collect contributions from employers with no contributing members (e.g.risk associated with employers with a small number of declining contributing members).	The Administering Authority monitors membership movements on an annual basis as set out above. The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 64(4) of the LGPS 2013 Regulations between triennial valuations.
Administering Authority failing to commission the Fund Actuary to carry out an exit valuation for a departing employer and losing the opportunity to call in a debt.	In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers to inform it of forthcoming changes
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by : Seeking a funding guarantee from another scheme employer, or external body, wherever possible. Requiring a bond or some other security to protect the scheme from the existing deficit and the extra cost of early retirements on redundancy if the employer failed. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.

Risk	Control
	Vetting prospective employers before admission.

Appendix

Grouped employers

Currently there is one group of employers in the Fund pooled together for funding and contribution purposes. All risks are shared within this group, they have a common primary (future service) contribution rate but they retain responsibility for the payment of the contributions towards the deficit relating to them. The following employers included in this group at the date of writing this Statement are as follows:

- Welshpool Town Council
- Llanidloes Burial Joint Committee
- Town Council of Newtown & Llanllwchaiarn
- Ystradgynlais Town Council
- Ystradfellte Community Council
- Llandrindod Wells Town Council
- Brecon Town Council
- Llanidloes Town Council
- Machynlleth Town Council

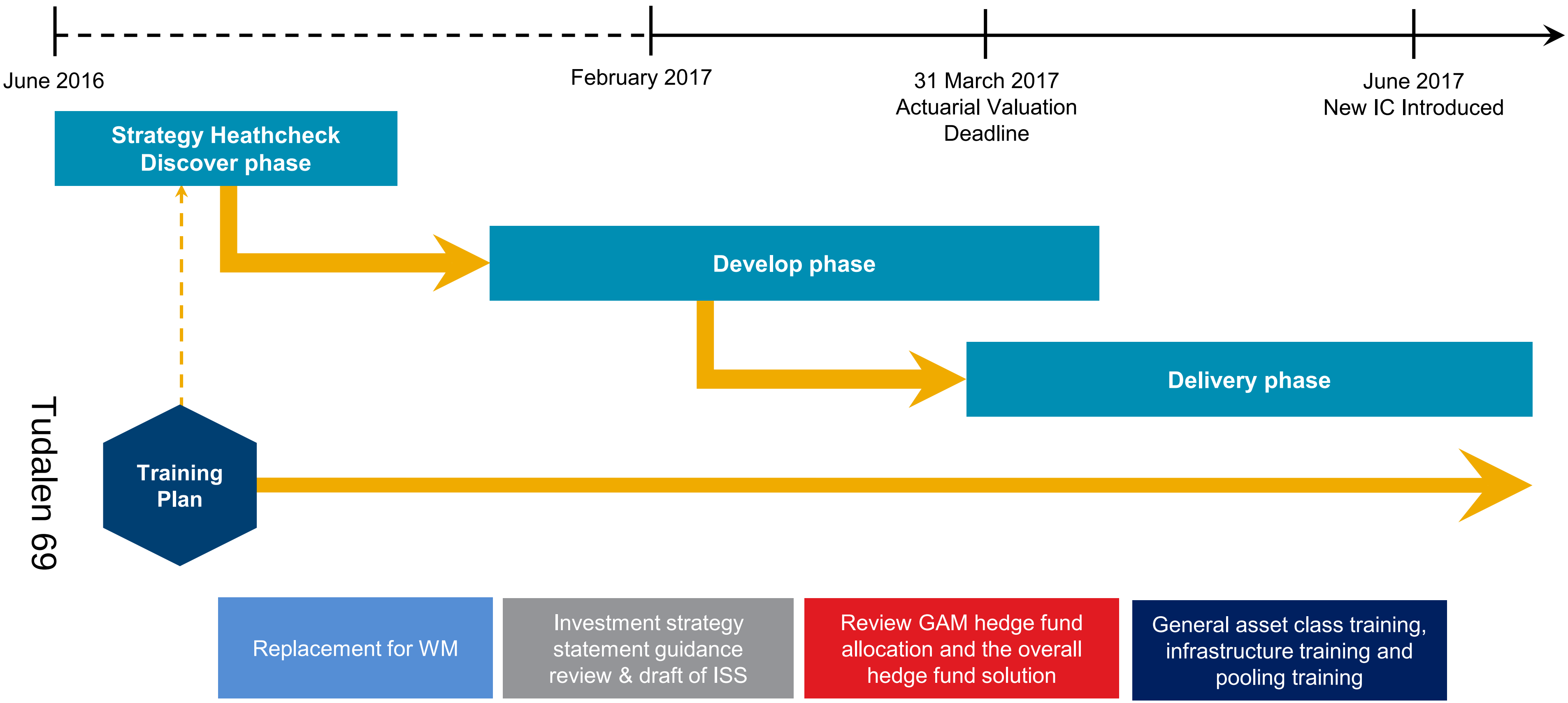
Risk sharing

Powys County Council has agreed a risk sharing approach with a number of employers whereby the employer will pay their primary rate only plus any agreed additional contributions arising from actions taken by the employer. Such employers will be required to sign an agreement with Powys County Council which will set out the contributions to be paid. The employers who have signed such an agreement at the date of writing this Statement are as follows:

- Camping & Caravanning Club
- Elite Supported Employment Agency Limited
- PAVO
- Powys Dance
- Solo Services Group Limited

Mae'r dudalen hon wedi'i gadael yn wag yn fwriadol

Powys County Council Pension Fund – Forward Looking Business Plan



PIC13- 2017

Forward looking business plan does not include some regular activities carried out by the IC. For example:

- Performance monitoring (quarterly basis). This requirement will diminish with the creation of the Welsh Investment Pool.
- Regular discussions with the Pensions Board Chair

Prepared by Aon Hewitt
Retirement and Investment

Empower Results®

Powys County Council Pension Fund – Investment Training Plan

Governance: General

The Pensions Regulator (tPR) Code of Practice

- Board already monitoring
- 90 statements covering broad topics such as good governance and administration
- tPR has their own tool (free) to help assess compliance

The UK Stewardship Code should be reviewed and a decision made as to whether it should be signed up to.

Governance: Role of Investment Committee

Governance and role of the Committee will change due to pooling.

- Consider how LGPS Pooling is likely to impact governance and oversight requirement e.g.
  - Interaction with the Joint Chairs Group (JCG)
  - Selection, appointment, monitoring of operator.
  - Receiving and considering reports from the JCG perhaps
- CIPFA guidance available to help:
  - Delivering Good Governance in Local Government: Framework (CIPFA/Solace 2016)
  - Principles for Investment Decision making and Disclosure in the Local Government Pension Scheme in the UK (CIPFA 2012)

Investment Strategy

- Review Investment Strategy Statement (ISS), in particular higher focus on risk management
- Illiquid assets training, including the role of illiquid assets within a strategy
- Learn more about the following asset classes:
  - Infrastructure
  - Unconstrained Bonds
  - Hedge Funds
- For the new Investment Committee (IC), training on existing asset classes may also be needed

This training plan will evolve over time to incorporate the needs of the Committee and changes due to the Pooling Exercise. We are aware that the Committee may have already discussed or completed some of the actions above and for all training that has already been completed we would recommend keeping a record or log.

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Retirement and Investment

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Retirement and Investment

Powys County Council Pension Fund
Decision Review

Q3 2015

Meeting Date: 30 September 2015

- More cost effective training for the Committee and the Pensions Board required.
- Discussed the appointment of a single passive investment management with the other Welsh Pension Funds.
- Monies invested with Hermes as new property manager.

Q4 2015

Meeting Date: 21 October 2015

- Discussed governance arrangements.
- No rigid system to force the replacement of managers.
- Where an investment manager becomes rated as either 'Qualified' or 'Sell', the Fund will terminate that manager's mandate where appropriate.
- Aon advised that Aberdeen's performance was unlikely to improve significantly and hence the Committee agreed to interview other global equity managers.

Q1 2016

Meeting Date: 14 January 2016

- Interviewed three global equity managers to replace Aberdeen.
- Agreed to appoint both Hosking and Carnegie, with the mandate divided. between them.

Meeting Date: 11 February 2016

- Considered a proposed submission to put forward the case for a Welsh pool.
- Discussed options surrounding both of the 'Qualified' hedge fund managers.
- BlackRock selected, with the 8 Welsh LGPS Pension Funds, to manage the pooled index investment mandate.

Q2 2016

Meeting Date: 11 July 2016

- Discussed the 'Buy', 'Sell' and 'Qualified' rating system and the difference in classification for illiquid holdings.
- Discussed the process for an investment strategy health check in conjunction with the actuarial valuation.
- Disinvestment from Permal was completed successfully. Proceeds transfered to Goldman Sachs.

Q3 2016

Meeting Date: 30 September 2016

- Completed the Strategy Healthcheck Discover phase.
- Discussed options surrounding the replacement of WM as performance measurers.

Q4 2016

Meeting Date: 16 December 2016

- Continued to update the Investment Strategy Statement (ISS).
- Discussed the actuarial valuation, including contribution rate and basis.

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Strategy Healthcheck

Develop Stage

Prepared by Simon Mayne, Sion Cole and Richard Antrobus
Aon Hewitt | Retirement and Investment

Presentation to Powys County Council Pension Fund

QAS Institute and Faculty of Actuaries®
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Agenda

- Recap
- Develop stage: recommendations
  - Currency hedging
  - Infrastructure
  - Hedge fund review
- Next Steps

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Strategy Healthcheck Process

Three simple steps

Discover

- Gather information on your beliefs using a multiple choice questionnaire
- Explore your expressed and implied beliefs in relation to investment and funding
- Provide a “Beliefs document” – also provides useful information to help create a training program

Develop

- Develop your current investment strategy
- Consider the most important outcomes for you
- Perform an assessment of risk

Deliver

- Present a solution that reflects your beliefs and agreed objective
- Create a plan to achieve long term goals
- Monitor the strategy to enable appropriate responses to changing circumstances

Discover Stage Review : Summary

Discover

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Objective

Achieve full funding on a technical provisions basis, whilst ensuring a positive net cashflow allowing for investment income

Risk and Return

Broad consensus to maintain the current level of return and risk

Funding

Ensure that there is a high probability of full funding by the recovery date, whilst managing key risks

Need appropriate balance between contributions and investment return, together with the appropriate recovery period

Governance

Your governance requirements will evolve over time as the Wales Pool develops

The level of understanding to be expected of the Committee in respect to investment strategy will focus more on strategic decisions

Risk Management

Downside protection is important

Consider methods to introduce further diversification during the strategy healthcheck, cognisant of the requirement to maintain a suitable level of return

Committee was happy to consider more illiquid investments to benefit from illiquidity premium and increase diversification

Develop Lens: Quantitative Analysis

Develop

Data Extract from Stochastic Modelling

	Current Strategy	Currency Hedge 50% of Global Equities	Allocate 10% to Infrastructure	Restructure the Hedge Fund Allocation	Fully Incorporate Ideas
10 Year Median Return %	5.8	5.8	5.8	6.0	5.8
10 Year Median Volatility %	11.7	10.8	10.7	11.4	9.6
One Year Value at Risk (95th Percentile)	£ 160 M	£ 157 M	£ 154 M	£ 159 M	£ 148 M
Year of Full Funding (73rd Percentile)	2039	2039	2038	2037	2036

Develop Stage: Summary

- Identified three key recommendations to look into in more detail:

Currency Hedging

Infrastructure

Hedge Funds

Develop Stage: Currency Hedging

Currency Hedging

Recommendation: implement a 50% currency hedge for the Fund's global equity portfolio

- Sterling has depreciated substantially during the last year.
- The Fund asset value has benefited as the global equity allocation is translated into sterling at a higher value.
- Implementing a currency hedge for the global equity allocation partially protects a reversal.
- Does not affect liquidity.

Implementation

- BlackRock and Schroders both offer currency hedged share classes (which we rate) for funds already invested in
  - This means a transition can occur at minimal cost
- We recommend investing 100% of the Schroders holding in the currency hedged share class.
  - In-specie transition at no cost.
  - The additional fund management cost for this fund is 3bps p.a.
- To bring the Fund's strategic benchmark to an overall 50% currency hedge, 66% of the BlackRock passive equity portfolio benchmark will be currency hedged
  - This will allow the MTAA mandate to take currency positions in either direction
  - Minimal additional fund management cost

Manager	Benchmark weight of equity portfolio
BlackRock	60%
MFS	12%
Schroders	10%
Hosking	10%
Carnegie	8%

Develop Stage: Infrastructure

Infrastructure

Recommendation: implement a 10% allocation to infrastructure

- Infrastructure increases diversification.
- The value of certain Infrastructure investments are linked to the movement in inflation and help to mirror movement in the value of liabilities.
- The combined assets of the Wales Pool may lead to increased opportunities for investment.
- Infrastructure investment can provide a stream of cashflows to cover pension obligations.

Implementation

- Use 10% from global equities
- Implementation fees are variable depending on the complexity of the infrastructure investment.
- Typically has a higher level of associated fees than core asset classes consisting of a management fee and performance element.
- Training required prior to implementation - to be provided at 30 June meeting.

Develop Stage: Hedge Funds

Hedge Funds

Recommendation: Carry out a full review of the Fund's hedge fund strategy, looking to restructure the allocation away from Hedge Fund of Funds and instead invest in single strategy managers.

- More opportunities likely to be available through the Wales Pool for investment into single strategies.
- Investing in single strategies will remove a layer of management fees.

Implementation

- There may be explicit transaction costs associated with restructuring the Hedge Fund allocation.
- Restructuring the allocation is likely to lead to a reduction in fees as a layer of management is removed.
- Training required prior to implementation - to be provided at 30 June meeting.

Next steps

- Decide whether to pursue these options further
  - Provide further detail on implementation of currency hedging
  - Provide infrastructure and hedge fund training in June
- Review private equity holdings alongside infrastructure and other illiquids

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