Complete Agenda

Democratic Service
Swyddfa'r Cyngor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSIONS COMMITTEE

Date and Time

2.00 pm, THURSDAY, 17TH MARCH, 2016

Location

Ystafell Gwyrfai, Council Offices,

Caernarfon, Gwynedd. LL55 1SH

Contact Point

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(DISTRIBUTED 10/03/16)

PENSIONS COMMITTEE

MEMBERSHIP (7)

Plaid Cymru (3)

Councillors

Peredur Jenkins | W. Tudor Owen | Simon Glyn

Independent (2)

Councillors

Trevor Edwards | John Pughe Roberts

Labour (1)

Councillor Glyn Thomas

Liberal Democrats (1)

Councillor Stephen Churchman

Co-opted Members

Councillor Hywel Eifion Jones	Anglesey County Council
Councillor Margaret Lyon	Conwy County Borough Council

Aelodau Ex-officio / Ex-officio Members

Chairman and Vice-Chairman of the Council

A G E N D A

PENSIONS COMMITTEE, 11.02.2016

Present: Councillors: Stephen Churchman, Trevor Edwards, Seimon Glyn, Margaret Lyon (Conwy County Borough Council Representative), W Tudor Owen (Chair) and John P. Roberts

Officers: Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Gareth Jones (Pensions Manager), Nicholas Hopkins (Deputy Pensions Manager) and Lowri Haf Evans (Member Support and Scrutiny Officer).

1. APOLOGIES

Apologies were received from Councillors H. Eifion Jones (Anglesey County Council Representative), Peredur Jenkins and Glyn Thomas (observer).

Sharon Warnes, Chair of the Pensions Board, was welcome to the meeting, as an observer.

2. DECLARATION OF PERSONAL INTEREST

None to note

3. URGENT ITEMS

None to note

4. MINUTES

The Chairman signed the minutes of the previous meeting of this committee, held on 10 December 2015, as a true record.

5. INVESTMENT REGULATIONS CONSULTATION

a) The Investment Manager submitted a report outlining a proposal within the current consultation by the Westminster Government on dissolving and superseding the local government pension scheme regulations 2009. It was highlighted that the reason for this was to enable funds to take part in merging investments without breaching current restrictions.

The Committee was asked to consider proposals to be included in the response from Gwynedd Council.

The two proposals under consideration

1. Adopt a local approach to investing
2. Present a defence - secretary of state had the power to intervene

b) In response to the first proposal - to adopt a local approach to investing, it was highlighted that the principle was acceptable, but there was insufficient detail on how it will be implemented; it would need to be ensured that clear statements and appropriate definitions were in place before adopting it fully. In considering establishing and investing in one fund across Wales, it was noted that the new regulations were practical and offered more freedom for funds to work together.

Proposal one was accepted and it was agreed to prepare a response.

c) In response to the second proposal - presenting a defence, it was highlighted that there was not a full explanation and there would be a need to understand what the structure of the intervention in question was. It was highlighted that the intervention could change by government and there it would be essential to ensure financial management of the regulations and not political management.

The Head of Finance added that he was not overly concerned about any intervention as the fund was administered effectively, but a specific process and structure needed to be in place to make clear in which circumstances the intervention would be likely - needed clarity.

It was decided to reserve opinion on this proposal, but include questions in the response

RESOLVED to delegate the power to the Investment Manager, the Head of Finance and the Chair to respond to both of the proposals.

6. INVESTMENT REVIEW CONSULTATION - RESPONSE OF CRONFEYDD CYMRU

a) The Investment Manager gave an update on the work undertaken by the Pensions Sub-group of the Society of Welsh Treasurers on establish ONE joint-investment vehicle to seek better fees. It was reiterated that the eight funds had received the support of their Committees, but it was predicted that there was a fund to the value of approximately £12bn and not one with at least £25bn as the Chancellor had announced. It was highlighted that despite this, the consultants would continue to put a proposal forward on behalf of the eight funds in Wales.

In response to the Chancellor's announcement, it was highlighted that good arrangements were already in place in Wales and if the fund were to become larger, then the most obvious concern was that the line of accountability would be extended along with the ability to communicate effectively.

b) It was reported that Hymans Robertson has been appointed (through a procurement process) as the consultant that would act on behalf of the eight funds by assessing the business case and providing a response to the consultation on their behalf. It was reiterated, as part of brief, that Hymans would also offer observations on the governance arrangements.

c) The initial response, which had also been circulated across the eight funds in Wales, was distributed to the Members. It was highlighted that the hope was to support it as ONE proposal. Although there was no certainty what Westminster's response to the proposal would be, the hope was to continue as eight and/or perhaps join another group.

ch) It was proposed and seconded to submit the response as one fund for Wales and to receive Westminster's response (when it would be submitted). If the proposal were rejected, then further discussion and considering the possible options would be needed.

RESOLVED to support Hymans Robertson's proposals for the consultation

7. PRIVATE EQUITY AND INFRASTRUCTURE INVESTMENTS

a) In the recent quarterly meeting of the Investment Panel in London, Hymans Robertson's report on the options for further commitments to private equity and infrastructure investments had been discussed. It was concluded that direct funds should be invested in.

b) In response, it was noted that the discussion had already been held in London on 19.11.15 and therefore the Committee was ready to confirm these direct investments with

- €20m with the Partners Group Direct Equity 2016 Fund
- $43.6m with the Partners Group Direct Infrastructure 2015 Fund

in line with the opinion of the Investment Panel.

RESOLVED to accept the recommendation.

8. PENSION ADMINISTRATION UNIT STAFFING

a) Submitted – the report of the Pensions Manager requesting that the members approve the increase in expenditure on changing the structure of the Administration Unit along with agreeing on the revised staff structure that will be operational as of 1 March 2016.

b) It was highlighted that the adaptation would widen the supervisory responsibility within the unit, which, in due course, would strengthen the regulatory tiers within the structure, ensuring a more effective service and improving communication.

RESOLVED to accept the recommendation.

The meeting commenced at 2pm and concluded at 2:50pm

MEETING:	**PENSIONS COMMITTEE**
DATE:	**17 MARCH 2016**
TITLE:	**TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2016/17**
PURPOSE:	**To ask the pensions committee to adopt the strategies**
RECOMMENDATION:	**RECEIVE THE REPORT FOR INFORMATION**
AUTHOR:	**DAFYDD L EDWARDS, HEAD OF FINANCE**

1. THE PENSION FUND'S INVESTMENT STRATEGY

In accordance with the Welsh Assembly Government's Statutory Guidance on Local Government Investments, which requires an authority to produce an Annual Investment Strategy, it is considered best practice for the Gwynedd Pension Fund (the "Fund") to adopt Gwynedd Council's Treasury Management Strategy Statement (TMSS) for 2016/17, as amended for the purpose of the Pension Fund (which is attached as Appendix A). Gwynedd Council's TMSS for 2016/17 was approved by the Full Council on 3 March 2016.

2. CIPFA GUIDANCE

The Fund will also have regard to the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes.

3. THE PENSION FUND'S CASHFLOW

The Fund has net inflows from its dealings with its members, so in any month, the income from contributions and transfers-in significantly exceed the pensions, transfers out and costs paid out. Once there is sufficient surplus cash it is transferred to one or more of the Fund's investment managers. Normally up to around £5 million is held back for cashflow purposes, in particular in respect of pension payments and funding calls from the private equity funds. However in the past, due to known commitments, there have been times when the surplus cash held in the Fund's bank accounts with Gwynedd Council has been over £20 million.

4. POOLING IN ORDER TO MAXIMISE RETURNS

Currently all the Fund's surplus cash is pooled with the cash balances of Gwynedd Council and invested with counterparties in accordance with Gwynedd Council's Treasury Management Strategy Statement. At the end of the financial year, Gwynedd Council pays interest over to the Pension Fund based on the Fund's daily balances over the year. This can continue if the Pensions Committee requests that the pension fund's surplus cash balances are pooled with the Council's cash balances. It is apparent that by pooling the fund can take advantage of economies of scale, and as a result can attract better interest rates, reduce bank costs and avoid the duplication of work within the

Council. The report approved by the Full Council on 3rd March 2016 included agreement to continue the pooling arrangement with the Pension Fund following any request from Pensions Committee.

5. COUNTERPARTIES

The Council Treasury Management Policy Statement and practice papers include a risk matrix which will be used to define the instruments and counterparties to be used for investment purposes rather than a defined list each year.

6. SCOPE

The proposed strategy will not deal with the cash held by the Fund's investment Managers for settlements.

7. RECOMMENDATIONS

7.1 The Pensions Committee is asked to approve the attached Treasury Management Strategy Statement and the Annual Investment Strategy for 2016/17, as amended for the Gwynedd Pension Fund (Appendix A).

7.2 The Pensions Committee is also asked to make a request to the Council (even though it is not a separate body) to allow the Pension Fund's surplus cash balances to be pooled with the Council's general cashflow from 1 April 2016 onwards.

APPENDIX A

Treasury Management Strategy Statement 2016/17

1. Introduction

1.1 In March 2011 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.2 In addition, the Welsh Government (WG) issued revised *Guidance on Local Authority Investments* in April 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

1.3 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the WG Guidance.

1.4 The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

2. External Context

2.1 Economic background

Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve raised policy rates to 0.5% at its meeting in December 2015. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

2.2 Credit outlook

The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

2.3 Interest rate forecast

The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

2.4 A more detailed economic and interest rate forecast provided by the Authority's treasury management advisor is attached at ***Annex A***.

2.5 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.63%, and that no new long-term loans will be required.

3. Local Context (Net borrowing position) – Not applicable to the Pension Fund

4. Borrowing Strategy – Not applicable to the Pension Fund

5. Investment Strategy

5.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £39 and £77 million, and similar levels are expected to be maintained in the forthcoming year.

This includes the cash balances of Gwynedd Pension Fund which are pooled with the Council's funds for investment purposes. The Pension Fund requests this annually as the returns received are improved and the risks reduced by combining the cash with the Council's funds. The Pensions Committee will approve the relevant elements of this Strategy Statement and request the continuation of the pooling arrangements for 2016/17 at its meeting on 17 March 2016.

5.2 **Objectives**
Both the CIPFA Code and the WG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3 **Strategy**
Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. The majority of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will therefore represent a substantial change in strategy over the coming year.

5.4 The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and time limits shown.

Table 2: Approved Investment Counterparties

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	5% 5 years	10% 20 years	10% 50 years	5% 20 years	5% 20 years
AA+	5% 5 years	10% 10 years	10% 25 years	5% 10 years	5% 10 years
AA	5% 4 years	10% 5 years	10% 15 years	5% 5 years	5% 10 years
AA-	5% 3 years	10% 4 years	10% 10 years	5% 4 years	5% 10 years
A+	5% 2 years	10% 3 years	5% 5 years	5% 3 years	5% 5 years
A	5% 13 months	10% 2 years	5% 5 years	5% 2 years	5% 5 years
A-	5% 6 months	10% 13 months	5% 5 years	5% 13 months	5% 5 years
BBB+	2.5% 100 days	5% 6 months	2.5% 2 years	2.5% 6 months	2.5% 2 years
BBB	2.5% next day only	5% 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	10% 25 years	£50,000 5 years	5% 5 years
Pooled funds	10% per fund				

5.5 **Credit Rating**
Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.6 **Banks Unsecured**
Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB are restricted to overnight deposits at the Authority's current account bank Barclays Bank plc.

5.7 **Banks Secured**
Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to

determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.8 **Government**

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

5.9 **Corporates**

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

5.10 **Registered Providers**

Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain a high likelihood of receiving government support if needed.

5.11 **Pooled Funds**

Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

5.12 **Local Loans Fund – Not applicable to the Pension Fund**

5.13 **Risk Assessment and Credit Ratings**

Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.14 **Other Information on the Security of Investments**

The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.15 **Specified Investments**

The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - o the UK Government,
  - o a UK local authority, parish council or community council, or
  - o a body or investment scheme of "high credit quality".

The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.16 **Non-specified Investments**

Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement; those that are defined as capital expenditure by legislation, such as shares in money market funds and other pooled funds; and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£40m
Total shares in Money Market funds	£40m
Total shares in other pooled funds	£8m
Total investments without credit ratings or rated below [A-]	£8m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below [AA+]	£8m
Total non-specified investments	£80m

5.17 **Investment Limits**

The Authority's revenue reserves and Pension Fund cash available to cover investment losses are forecast to be £56 million on 31st March 2016. In order that no more than 15% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £8 million. A group of banks under the same ownership or a group of funds under the same management will be treated as a single organisation for limit purposes. Limits will also be placed on investments in brokers' nominee accounts (e.g. King & Shaxson), foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£8m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£8m per group
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£40m per broker
Foreign countries	£8m per country
Registered Providers	£20m in total
Unsecured investments with Building Societies	£8m in total
Loans to unrated corporates	£8m in total
Money Market Funds	£40m in total

5.18 **Liquidity management**

The Authority uses prudent cash flow forecasting techniques to determine the maximum period for which funds may prudently be committed.

6. Treasury Management Indicators – Not applicable to the Pension Fund

7. Other Items

7.1 There are a number of additional items that the Authority is obliged by CIPFA or WG to include in its Treasury Management Strategy.

7.2 **Policy on Use of Financial Derivatives**
In the absence of any legal power to do so, the Authority will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

7.3 **Investment Training**
The needs of the Authority's treasury management staff for training in investment management are assessed every year as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.

7.4 **Investment Advisers**
The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is monitored by the Head of Finance and the Investment Manager on a regular basis.

7.5 **Investment of Money Borrowed in Advance of Need – Not applicable to the Pension Fund**

8. Financial Implications – Not applicable to the Pension Fund

9. Other Options Considered

The WG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Head of Finance, having consulted the Cabinet Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses will be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses will be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income High premia for early redemption of debt may outweigh any savings	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast January 2016

Underlying assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. The rise in official interest rates by the Federal Reserve was to 0.5% in December 2015.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**0.55**	**0.60**	**0.70**	**0.80**	**0.95**	**1.05**	**1.15**	**1.30**	**1.40**	**1.55**	**1.65**	**1.80**	**1.85**
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	**1.10**	**1.20**	**1.35**	**1.45**	**1.55**	**1.70**	**1.80**	**1.95**	**2.00**	**2.10**	**2.15**	**2.15**	**2.15**
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**1.50**	**1.55**	**1.60**	**1.70**	**1.80**	**1.90**	**2.00**	**2.10**	**2.20**	**2.25**	**2.30**	**2.35**	**2.35**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.00**	**2.05**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.80**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**2.95**
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**3.00**	**3.00**
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

COMMITTEE	**PENSIONS COMMITTEE**
DATE	**17 MARCH 2016**
PURPOSE	**Adopt the revised Statement of Investment Principles following the consultation process**
TITLE	**STATEMENT OF INVESTMENT PRINCIPLES**
AUTHOR	**CAROLINE ROBERTS, INVESTMENT MANAGER**

1. INTRODUCTION

1.1 Following the report to this committee in November 2015 the changes discussed have been included in Statement of Investment Principles. The revised document was out for consultation with all interested parties for eight weeks and the final version now needs to be formally adopted by the Committee.

2. CONSULTATION PROCESS

2.1 The consultation process with interested parties including all employers within the fund, investment managers and investment advisor took place from mid December to mid February. Some amendments were recommended by Hymans Robertson, the fund's investment advisor and these have been incorporated in the document. No other responses or objections were received.

2.2 The Statement of Investment Principles has been amended to simplify the language. The changes in the requirements are in italics in Appendix A.

3. RECOMMENDATION

3.1 It is recommended that the Committee formally adopts the revised Statement of Investment Principles.

APPENDIX A

Gwynedd Pension Fund
Statement of Investment Principles (SIP)

1. Background

1.1 This is the Statement of Investment Principles (the "Statement") (SIP) required by the Local Government Pension Scheme *(Management and Investment of Funds) Regulations 2009 (the "2009 Regulations").* The regulations also require the administering authority to state within the statement the extent to which it complies with a series of principles of good governance known as the Myners Principles. The purpose of this document is to satisfy the requirements of these regulations.

1.2 The Statement has been adopted by the Pensions Committee which acts on the delegated authority of Gwynedd Council, the administering authority for the Gwynedd Pension Fund ("the Fund"). The Statement must be revised from time to time by the Administering Authority in accordance with any material change in policy. In preparing this document the Pensions Committee have taken professional advice from the Fund's actuaries and advisers, Hymans Robertson and have obtained and considered written observations from the scheme's Fund Managers.

2. Organisational and Management Arrangements of the Fund

2.1 The Council has delegated the investment management of the scheme to the Pensions Committee who decide on the investment policy most suitable to meet the liabilities of the scheme and the ultimate responsibility for the investment strategy lies with them. Investments and performance are monitored on a regular basis by the Pensions Committee and advice is received from professional advisers.

2.2 The Statement outlines the broad investment principles governing the investment policy of the Fund. The Pensions Committee have delegated the management of the Fund's investments to professional Fund Managers whose activities are constrained by detailed investment management agreements.

2.3 Gwynedd Council is the Administering Authority and is responsible for managing the Fund in accordance with the Regulations.

2.4 The Pensions Committee carries out the role of the Administering Authority. It has full delegated authority to make decisions on Fund matters. In particular it:

- decides the Investment Principles and ensures that investments are sufficiently diversified;
- determines the fund management structure;
- reviews investment performance on a quarterly basis;
- appoints and removes Fund Managers, Custodians and any external advisers;
- prepares the Statement of Investment Principles, monitors compliance with the Statement and reviews its contents from time to time;
- makes decisions in the context of pension administration.

2.5 *The Pension Board is a non-decision making body to assist the Administering Authority in securing compliance with scheme regulations, other legislation covering governance and administration and the requirements of the Pensions Regulator. The Board shall also assist the Administering Authority to secure effective and efficient governance and administration of the Scheme. The Pension Board will meet at least twice a year.*

2.6 Fund Managers are responsible for:

- the investment of the Fund's assets in compliance with prevailing legislation, the constraints imposed by the Fund's policy documents and the detailed investment management agreements;
- tactical asset allocation around the strategic benchmark and security selection within asset classes;
- preparation of a quarterly report including a review of investment performance and attending meetings of the Pensions Committee as requested;
- preparation of an annual confirmation that their activities comply with this statement;
- voting shares in accordance with their published policy;
- providing details in a timely manner to State Street Global Services, the Fund's performance measurer.

2.7 Custodians are responsible for:

- keeping the assets of the Fund safe, settling trades and dealing with corporate actions;
- their own compliance with prevailing legislation;
- providing the administering authority with monthly valuations of the scheme's assets and details of all transactions during the month;
- providing details in a timely manner to State Street Global Services, the Fund's performance measurer;
- collection of income and tax reclaims.

2.8 The Investment Adviser - is responsible for:

- advising the Pensions Committee on investment strategy and policy.
- assisting the Head of Finance and the Pensions Committee in:
    - the selection and appointment of Fund Managers and custodians;
    - their regular monitoring of the Fund Managers performance;
    - the preparation and review of this document.

2.9 The Actuary is responsible for:

- assisting the Head of Finance and the Pensions Committee in the preparation of this document, and
- providing advice as to the maturity of the scheme and its funding level in order to aid the committee in balancing the short term and long term objectives of the Fund.

2.10 The Head of Finance is responsible for:

- ensuring compliance with this document and bringing breaches thereof to the attention of the Pensions Committee;
- ensuring that this document is regularly reviewed and updated in accordance with the regulations;
- preparing an annual report which will include amongst other issues references to investment results.

3. Description of the Scheme's Liabilities

3.1 The Fund is a defined benefit scheme which has historically, provided benefits related to final salary for members. From 1st April 2014 the scheme was changed by regulation from a final salary to a career average scheme. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the scheme's assets. Full details of scheme benefits are set out in the LGPS regulations.

3.2 All active members of the scheme are required to make pension contributions which are based upon a fixed percentage of their pensionable pay as defined in the LGPS regulations.

3.3 The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets, (as calculated in the triennial Valuation) and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

3.4 Employers contribution rates are determined triennially based on the advice of the scheme's actuary, and are subject to inter-valuation monitoring. The Pensions Committee will be advised by the actuary of any significant changes to the Fund during the inter-valuation period.

4. Fund Objectives

4.1 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (See Appendix 1). The strategic benchmark is reflected in the investment structure adopted by the Committee; this comprises a mix of segregated and pooled, and active and passive, manager mandates. The Fund benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

4.2 The Committee monitors investment strategy relative to the agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

5. Investment Policy and Objectives

5.1 The Investment Policy is to appoint expert Fund Managers with clear performance benchmarks and to place the maximum accountability for performance against that benchmark on the Fund Manager. Individual managers' current activity and transactions are reported quarterly to the Pensions Committee. While their performance is monitored quarterly and reviewed annually, performance will be assessed on a rolling three year basis.

5.2 Types of investment to be held

5.2.1 The Fund Managers have to ensure that investments are made in accordance with the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). These Regulations allow a degree of flexibility within investment limits for pension schemes whilst maintaining fundamental principles of prudence and diversification.

5.2.2 The prevailing legislation allows the Fund to invest in quoted and unquoted securities of UK and overseas markets, including equities, private equity, infrastructure, fixed interest and index linked bonds, cash, property and commodities, either directly or through pooled funds.

5.2.3 The Fund may also make use of derivatives either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

5.2.4 The Pensions Committee considers all of these classes of investment to be suitable in the circumstances of the Fund.

5.2.5 **LGPS (Management and Investment of Funds) Regulations Schedule 1 Limits on Investments**

At the meeting on 10 November 2015, the Pensions Committee agreed to the following amendments to the limits on investments:

- *An increase under any single insurance contract where the collective investment schemes constituted by the companies are managed by one body, from 25% to 35% (the upper limit specified in Schedule 1 of the 2009 Regulations). Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The decision was taken because the 35% limit allows the Fund to have all of its passively managed assets with Blackrock rather than having to use two passive managers. Having the assets with one manager allows any rebalancing or asset transfers to be carried out in a more cost-effective manner.*

- *An increase in the limit for all contributions to any single partnership to 5% and an increase in the total of all contributions to partnerships to 15% (the upper limits specified in Schedule 1 of the 2009 Regulations). Before taking this decision, the Committee took proper advice from its investment adviser, Hymans Robertson LLP, in relation to the impact of the increase on overall risk within the Fund and how the Committee monitors and manages that risk. The decision was taken because the increased limits on partnership investments allow the fund to improve diversification of its growth assets. Currently these limits relate to the target allocations to private equity (5%) and infrastructure (2.5%). However, partnership structures are also used for accessing other types of investment which may also be attractive to the Fund in future such as private forms of debt or global property. These types of investment allow the Fund, as a long term investor, to benefit from the illiquidity premium.*

5.3 **Balance between different kinds of investments**

5.3.1 An agreement is in place for each Fund Manager which sets out the relevant benchmark, performance target, and where appropriate asset allocation ranges and any restrictions, as determined by the Committee.

5.3.2 The Committee has agreed a benchmark which provides an efficient balance between risk and return, in the light of the liability profile and funding level of the Fund.

5.4 Risk

5.4.1 The Fund needs to manage (rather than avoid) risk on the investment markets in order to achieve rewards in the form of financial returns on assets. However, the Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks (threats) affecting the Fund are:

5.4.2 **Funding risks:**

- Financial mismatch - The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities; or that unexpected inflation increases the pension benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics - The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or Fund Managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. It also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee regularly reviews mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at each triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

5.4.3 **Asset risks:**

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the Fund Managers to achieve the rate of investment return assumed in setting their mandates.

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Committees' expected parameters. By investing across a range of assets, including quoted equities and bonds, the Committee has recognised the need for some access to liquidity in the short term. In appointing several Fund Managers, the Committee has considered the risk of underperformance by any single Fund Manager.

5.4.4 **Other provider risk**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

5.5 Expected return on investments

5.5.1 Over the long term, the strategic benchmark is expected to produce a return in excess of the investment return implied in the actuarial valuation. Investment returns are defined as the overall rates of return (capital growth and income combined).

5.5.2 The majority of the Fund's assets are managed on an active basis and are expected to outperform their respective benchmarks over the long term. In this way, the investment performance achieved by the Fund is expected to exceed the rate of return assumed by the actuary in funding the liabilities on an ongoing basis.

5.6 **Realisation of investments**

5.6.1 The majority of stocks held by the Fund Managers are quoted on major stock markets and may be realised quickly if required. Property investments, which are relatively illiquid, currently make up around 10% of the Fund's assets. Private equity and infrastructure investments, which are relatively illiquid, currently make up around 5% of the Fund's assets and are due to increase to 7.5% over the short term.

6. Social, Environmental and Ethical Considerations

6.1 With regard to socially responsible investment, the Committee is mindful of legal principles which are based on decisions in the courts and which apply to all pension schemes. In particular the administering authorities are not entitled to subordinate the interests of members to social, environmental and ethical demands. The financial performance of the Fund consistent with proper diversification and prudence is paramount.

6.2 The Committee has demonstrated its commitment to the Stewardship Code which was published by the Financial Reporting Council in 2010. The Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Code sets out good practice on engagement with investee companies.

6.3 The Fund is a member the of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. The LAPFF brings together a number of local authority pension funds providing an opportunity for discussion of investment issues and shareholder action. The influence gained by such funds acting together as shareholders on issues of common concern has considerable potential in relation to companies where they invest. Such influence can be used to address social, environmental and ethical issues within investee companies.

6.4 The Committee expects that the boards of companies in which the Fund invests should pay due regard to social, environmental and ethical matters and thereby further long-term financial interests of the shareholders. The Committee looks to the directors of a company to manage that company's affairs taking proper account of the shareholder's long-term interests.

7. Exercise of Voting Rights

7.1 The Committee has delegated the exercise of voting rights to the Fund Managers on the basis that voting power will be exercised by it with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their processes and practice in this regard. The managers are encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

8. Stock Lending

8.1 Stock lending will be permitted subject to specific approval. The policy on stock lending reflects the nature of the mandates awarded to Fund Managers by the Committee, which include both pooled and segregated mandates.

9. Compliance

9.1 Fund Managers and custodians will provide the Committee, with annual confirmation that their activities, have in respect of that part of the Fund over which they have control, complied with the investment restrictions set out in this document (to the extent amendments thereto are notified to the Manager) and more particularly set out in their investment management agreement.

9.2 The Committee will be responsible for assessing the risks assumed by the scheme at a global level, i.e. assuming that the portfolios of the individual managers were amalgamated and for monitoring the scheme's performance both at global level and manager by manager.

9.3 The Committee is responsible for monitoring the qualitative performance of the managers and custodians employed to ensure that they remain suitable Fund Managers/custodians for the scheme. These qualitative aspects include, inter alia, changes in ownership, changes in personnel, poor administrations etc.

9.4 The Committee will consider the scheme's compliance with this statement of investment principles on a regular basis, and the statement will be reviewed at least in full every three years (in conjunction with the other parties to the statement) and a revised statement prepared and published.

10. Compliance with Investment Principles.

10.1 In response to the Treasury Report "Updating the Myners Principles: A Response to Consultation (October 2008), LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles contained in the CIPFA document titled "Investment Decision Making and Disclosure in the Local Government Pension Scheme".

10.2 **Appendix 2** notes the extent to which the Gwynedd Fund complies with these six principles and if they do not comply, the reasons why.

11. Additional Voluntary Contributions (AVCs)

11.1 The Committee gives members the opportunity to invest in a range of vehicles at the members' discretion.

Appendix 1: Strategic Asset Allocation

The Fund has a bespoke benchmark against which its performance is measured. Each Investment Manager has an individual benchmark for measuring performance against its own targets. The Fund's benchmark allocation is as follows:

	Total %
UK Equities	**19.5**
Overseas Equities	**48.0**
North America	22.5
Europe ex-UK	10.0
Japan	5.0
Pacific Basin	4.5
Emerging Markets	6.0
Private Equity	**5.0**
Total Equities	**72.5**
Global Bonds	15.0
Total Bonds	**15.0**
Property	**10.0**
Infrastructure	**2.5**
Total	**100.0**

Appendix 2: Compliance with Myners Principles

Principle 1: Effective Decision Making

Administering authorities should ensure that:

- **decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

The Gwynedd Fund complies with this principle. Responsibility for the Pensions Committee structure and composition lies with Gwynedd Council and is reviewed on a periodic basis as structural issues arise.

All members of the Pensions Committee are required to attend a three day Trustee Training Fundamentals course, after which they receive an "LGPS Fundamentals" training certificate. Ideally new members are required to complete the course prior to sitting on the Pensions Committee for the first time. *The Pensions Committee has adopted the recommendations of the CIPFA Knowledge and Skills Framework. Training assessments are undertaken and training is planned to ensure that members have the knowledge and skills to carry out their responsibilities. The Pension Board members are also included in this process.*

Members of the Pensions Committee are not paid - they receive the same allowances as other local authority members. No specific allowances are given in relation to their Pensions duties.

Principle 2: Clear Objectives

An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and Fund Managers.

The Gwynedd Fund complies with this principle.

The investment objective is to ensure there are sufficient resources to pay pensions liabilities now and in the future whilst ensuring that the employers' contributions are affordable.

The triennial actuarial valuation to set employers contributions includes assessments of how the risks facing the fund can be mitigated. A flexible approach to employer contributions is taken to according to the position of each individual employer.

The fund's investment advisors assist the fund in setting the investment objective for the fund and managers are appointed with specific mandates and targets to help achieve the overall target.

<u>Principle 3: Risk and Liabilities</u>

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The Gwynedd Fund complies to a large degree with this principle.

The investment strategy is reviewed at least every three years following the actuarial valuation.

A long term view is taken for the tax raising bodies in order to stabilize contribution levels.

The fund is currently undertaking a more detailed assessment of the covenants for other participating employers.

<u>Principle 4: Performance Assessment</u>

Arrangements should be in place for the formal measurement of performance of the investments, Fund Managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

There is partial compliance with this principle. There are processes to measure the performance of the investments and Fund Managers. However, no formal process exists to assess the advisors performance. The Committee has had no cause to consider that the advice received in relation to choosing benchmarks and Fund Managers was not up to the performance level required.

No formal process exists to assess the Committee's own performance. *The Pension Board has a role in reviewing decisions made by the Pensions Committee and a more formal assessment of the effectiveness of the Committee's decisions will be developed.*

Principle 5: Responsible Ownership

Administering authorities should:

- **adopt, or ensure their Fund Managers adopt, the Institutional Shareholders' Committee Statement of Principles (ISC SIP) on the responsibilities of shareholders and agents;**
- **include a statement of their policy on responsible ownership in the statement of investment principles; and**
- **report periodically to scheme members on the discharge of such responsibilities.**

The Gwynedd Fund partially complies with this principle.

Some of our Fund Managers have adopted the ISC SIP, others are reviewing it and some haven't adopted it. Our private equity manager does not believe that the ISC SIP applies to them. To the best of their knowledge it only applies to institutional investors located in the UK.

The Statement of Investment Principles includes the policy on responsible ownership and the Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF) in order to have a greater impact on investee companies.

A report on such activities will be included in the Annual Report each year.

Principle 6: Transparency and Reporting

Administering authorities should:

- **act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;**
- **provide regular communication to scheme members in the form they consider most appropriate.**

The Gwynedd Fund complies with this principle.

The Pension Fund holds employer meetings and the Annual General Meeting where information on management of investments, governance and risks are included. The investment performance is published in the Annual Report which is distributed to all stakeholders. The Pension Fund website also has relevant information for any interested parties.

The agendas and minutes of meetings of the Pensions Committee and the Pension Board are available on the Gwynedd Council website.

It is important that scheme members are kept informed on all aspects of the pension scheme. In order to communicate with members the following methods are used:

Fund Website

A comprehensive website has been developed. It contains information on all aspects of the scheme and includes a secure section whether members can calculate their own benefits. In order to use this provision of the site a password is needed. The website is continually updated and has proved to be a useful source of information for members.

Employee Newsletter

A newsletter is produced on an annual basis. It usually covers wide-ranging issues such as changes to the scheme and information on the options available. This newsletter is sent directly to the member's home address.

Annual Benefit Statements

An annual benefit statement is sent to the members showing the value of the benefits on the previous 31st March. An effort is made each year to develop a clearer and user-friendlier statement following feed-back from members. It is anticipated that the statements are sent in August each year.

Employer surgeries

The communication team at the Pension Section is available to hold surgeries on an individual basis. At these surgeries members can discuss any pension problems they may have or gain more information on the pension scheme. At these surgeries no financial advice can be given – only facts.

Presentations

The communication team are also available to offer talks or presentations on the scheme.

Scheme booklets

A short scheme booklet is issued to all new employees. It contains basic information on the pension scheme and the benefits it offers. A copy of the booklet is also available to any existing members. Factsheets are also available on topics such as improving benefits and retirement options.

MEETING	**PENSIONS COMMITTEE**
DATE	**17 MARCH 2016**
TITLE	**WESTMINSTER GOVERNMENT (DCLG) CONSULTATIONS UPDATE**
AUTHOR	**DAFYDD EDWARDS, HEAD OF FINANCE**

1. INTRODUCTION

1.1 At the Committee meeting on 11 February 2016 members discussed responses to the two consultations issued by DCLG as follows:

a) Local Government Pension Scheme: Investment Reform Criteria and Guidance.

b) Revoking and Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

1.2 As agreed the eight pension funds in Wales submitted a joint response to the Investment Reform consultation with a supporting letter from each of the eight funds signed by the Chairman of the relevant Pensions Committee.

1.3 The eight Welsh funds responded separately to the Management and Investment of Funds consultation.

2. RESPONSE FROM GOVERNMENT

2.1 The Government response to the submissions received following the consultation has not been published yet. If the government publishes the outcome of the consultation before 17 March a verbal update will be given at the meeting.