

Pensions and Investment Committee

Meeting Venue
**Committee Room A - County Hall,
Llandrindod Wells, Powys**

Meeting date
Thursday, 12 December 2019

Meeting time
10.00 am

For further information please contact
Carol Johnson
01597 826206
carol.johnson@powys.gov.uk



County Hall
Llandrindod Wells
Powys
LD1 5LG

6 December 2019

Mae croeso i chi siarad yn Gymraeg neu yn Saesneg yn y cyfarfod.
Rhowch wybod pa iaith rydych am ei defnyddio erbyn hanner dydd, ddau ddiwrnod
gwaith cyn y cyfarfod.
You are welcome to speak Welsh or English in the meeting.
Please inform us of which language you wish to use by noon, two working days
before the meeting.

AGENDA

1.	APOLOGIES
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To receive apologies for absence.

2.	DECLARATIONS OF INTEREST
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To receive any declarations of interest from Members relating to items to be considered on the Agenda.

3.	MINUTES
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To authorise the Chair to sign the minutes of the last meeting held on 22 November, 2019 as a correct record.

(To Follow)

4.	ADMINISTRATION AND LOCAL GOVERNMENT PENSION SCHEME [LGPS] UPDATE
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To consider the report.

(Pages 5 - 8)

5.	GOVERNANCE UPDATE
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To consider the report.

(Pages 9 - 16)

6.	AMENDMENT OF RISK REGISTER
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To consider the report.

(Pages 17 - 26)

7.	ACTUARIAL VALUATION UPDATE
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Actuarial Valuation as at 31 March 2019.

(Pages 27 - 54)

8.	WALES PENSION PARTNERSHIP [WPP] UPDATE
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To receive a report regarding the WPP.

(Pages 55 - 58)

9.	RESPONSIBLE INVESTMENT POLICY
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To consider the report.

(Pages 59 - 66)

10.	FORWARD LOOKING BUSINESS PLAN
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To consider the report.

(Pages 67 - 68)

11.	EXEMPT ITEM
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The Monitoring Officer has determined that category 3 of the Access to Information Procedure Rules applies to the following items. His view on the public interest test (having taken account of the provisions of Rule 14.8 of the Council's Access to Information Rules) was that to make this information public would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information). These factors in his view outweigh the public interest in disclosing this information.

Members are asked to consider these factors when determining the public interest test, which they must decide when considering excluding the public from this part of the meeting.

12.	EQUITY PROTECTION
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To consider the report.

(To Follow)

13.	INVESTMENT STRATEGY REVIEW
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To consider the report.
(Pages 69 - 84)

14.	QUARTERLY MONITORING REPORT
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To consider the report from Aon.
(Pages 85 - 124)

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**MINUTES OF A MEETING OF THE PENSIONS AND INVESTMENT COMMITTEE
HELD AT COMMITTEE ROOM A - COUNTY HALL, LLANDRINDOD WELLS,
POWYS ON FRIDAY, 22 NOVEMBER 2019**

PRESENT

County Councillor P E Lewis (Chair)

County Councillors E A Jones, T J Van-Rees, D H Williams, A W Davies, Martin and Moore

Mr G Moore, Chair Powys Pension Board

Mr M Weale, co-opted member

In attendance: Head of Finance and Pension Fund Manager

Aon representatives – Simon Mayne, George Feane and Rachel Pinder and Kenneth Ettles [via Skype] for Items 8 and Jennifer O’Neil [via Skype] for Item 9.

1.	APOLOGIES
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Apologies were received from County Councillor J. Morris.

2.	DECLARATIONS OF INTEREST
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Members of the Committee declared interests as members of the Local Government Pensions Scheme. These are personal interests, not prejudicial interests in accordance with Paragraph 12(b) (iv) of the Members Code of Conduct 2016.

3.	MINUTES
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The Chair was authorised to sign the minutes of the Pensions & Investment Committee meeting held on 4 October, 2019 as a correct record.

4.	POWYS PENSION BOARD - TERMS OF REFERENCE OF THE BOARD
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The Committee received a report from the Chair of the Local Pension Board regarding the Board’s Term of Reference and membership. The Committee noted that the membership of the Board currently complied with Regulations. The Board Chair advised that the Regulator is increasingly getting involved in the Local Government Pension Scheme [LGPS] and the Scheme Advisory Board [SAB] is also looking at the membership of Boards.

The Powys Pension Board’s membership is currently two Scheme Member representatives plus two Employer representatives plus an independent Chair. A quorum for meetings is one representative from each of these groups and on two occasions during the previous 12 months the Board has not been quorate and meetings have been rescheduled. Increasing the membership to three plus three plus the independent Chair would build in more resilience into the Board. The Committee noted that there were five different membership models for Pension Boards used across Wales.

In response to questions the Pension Fund Manager advised that the additional cost of increasing the membership would be minimal. He advised that a budget is allocated to the Board from the Pension Fund and expenditure is currently

within this budget and consequently the cost of increasing the membership could likely be met by the existing budget allowance. The Committee noted that details of the costs of the Board are contained in the Pension Fund Annual report.

RESOLVED	Reason for decision
that a report detailing the costs of the current Board, increasing the membership of the Board, existing terms of reference for the Board and scheduled meetings be considered at a future Committee meeting.	To ensure the Committee is aware of the costs of increasing membership of the Powys Pension Board.

5. FUNDING STRATEGY STATEMENT [FSS]

The Committee received the draft Funding Strategy Statement [FSS]. The Pension Fund Manager advised that the Probability of Funding Success had increased from the previous valuation, reducing the associated funding risk as a result. The Committee noted that the Actuary would provide details of the impact of this on the Fund at the December Committee meeting.

The Pension Fund Manager advised that a further key risk should be added to the FSS in respect of the involvement in the Wales Pension Partnership [WPP] pooling process.

RESOLVED	Reason for Decision:
that the Funding Strategy Statement be approved subject to delegation of the wording regarding the additional risk in respect of involvement in the Wales Pension Partnership to the Pension Fund Manager in consultation with the Chair and Vice Chair.	As per the report. To include potential risks involved with pooling of assets.

6. EXEMPT ITEM

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).

7. INVESTMENT STRATEGY REVIEW

The Committee considered the Investment Strategy Review. Aon advised that although there had been a reduction in equity assets a similar return profile has been maintained. The Committee noted that, subject to checks, since 2016 the funding level had increased from 79% to 94%. This meant that the Fund was closer to being fully funded.

Committee discussed the approach proposed and the revision to the asset allocation, together with the expected returns and associated risks.

The Committee noted the recent Council decision asking the Committee to consider divestment of funds from companies engaged in the extraction of fossil fuels.

RESOLVED	Reason for decision
that the Committee notes the Investment Strategy Review and that a further report be considered at the Committee meeting in December.	As per the report.

8. EQUITY RISK MANAGEMENT

Aon presented a report regarding Equity protection. The Committee considered a review of equity markets and the equity protection since implementation and the investment market outlook. Members considered whether the equity protection should continue or cease, the timing of the changes and also the level of protection if this continues and the timing of any decision.

Kenneth Ettles, Aon joined the meeting via Skype.

The Committee considered the global equity market risk assessments and noted that Aon advised that the timing, depth and duration of a fall in markets is unknown. The Committee noted that Aon recommended that equity protection should be considered over a longer period until potential risks reduce.

The Committee noted the various options and protection levels including the amount of the fund which could be protected. The appropriate level of protection was dependent on the Committee's risk tolerance.

In response to questions, Aon advised that split protection could be considered so not fixing all protection to one date. The Committee considered the level of protection and whether 50% was the correct level. Aon advised that the amount protected depends on how much the Committee could tolerate the deficit increasing by from any equity market losses. In addition, if markets out performed predictions, the Committee needed to be able to defend any decision to protect at a higher level. Aon advised that it would be more risky to sell equity or hold cash than to continue to hold equity and protect this. It was noted that with protection the fund should still receive dividends from holdings.

It was moved and duly seconded to continue the equity protection due to come to an end in late December, 2019 and the level and type of protection and to consider the next tranche of protection at the next meeting.

RESOLVED	Reason for decision
that equity protection due to cease late December 2019 continues at a level of £77.85m and protect 1/3 each year for three years and that further advice be provided to the Committee regarding the next tranche of	To ensure the Equity protection strategy continues to protect the Fund against market downturns.

protections due to cease on 31 March 2020.	
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9. RESPONSIBLE INVESTMENT POLICY

Jennifer O'Neill, Aon joined the meeting via Skype.

The Committee considered the draft Responsible Investment [RI] Policy. The draft referred to the Committee's fiduciary duty to act in the best interest of the Fund's members but also acknowledged that this includes managing Environmental, Social and Governance [ESG] issues that may be financially material to the Fund.

County Councillor T. Van-Rees left the meeting.

In respect of climate change the Committee noted the recent Council decision. The transparency of voting records of fund managers regarding climate change issues was considered.

It was moved and duly seconded that the draft be updated and circulated to the Committee prior to the December committee.

RESOLVED	Reason for decision
that the draft Responsible Investment Policy be updated and circulated to the Committee prior to the December committee.	To enable the Committee to agree the Responsible Investment Policy which will then be added to the Funds website.

10. THE INVESTMENT CONSULTANCY AND FIDUCIARY MANAGEMENT MARKET INVESTIGATION ORDER 2019
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The Committee received the Pension Fund Manager's report.

RESOLVED	Reason for decision
that the objectives for the Fund's Investment Consultant be agreed ahead of the meeting on 10 December, 2019.	As per report.

Future meeting date:

RESOLVED	Reason for decision
that a further Committee is held on 13 February, 2020 at 2.00 p.m.	To enable the Committee to consider whether the equity protection due to cease on 31 march 2020 should continue and if so in what format.

CYNGOR SIR POWYS COUNTY COUNCIL**Pensions and Investment Committee
12th December 2019****REPORT BY: Head of Finance****SUBJECT: Administration and LGPS Update**

REPORT FOR: Information

1 Introduction

- 1.1 This report has been produced to provide Committee with an update on LGPS and administration matters, together with any potential impacts of these on the Powys Pension Fund.
- 1.2 This report will provide Committee with updates on:
- Communications
 - My Powys Pension Statistics
 - Policy update and review
 - Other Issues

2 Communications

- 2.1 In an effort to provide a high quality service to the participating Employers within the Fund, a quarterly email is now issued providing updates on changes to legislation, process and general information on the LGPS. Feedback has been positive so far.
- 2.2 On the afternoon of the 12th of December 2019, the annual Employer engagement meeting is being held in County Hall, Llandrindod Wells. It will feature presentations from the Pension Board Chair on governance, the Pension Fund Actuary on the valuation, the Investment Consultant on fund investment performance over the past 12 months and also a session on monthly electronic data transfer.
- 2.3 Scheme member training. In 2020 there will be a series of presentations available to members on retirement and pensions taxation issues. These will be held in various venues around Powys with the dates and locations issued shortly.
- 2.4 With regards to pensions taxation, the Pension Saving Statements were issued on time to scheme members who exceeded the Annual Allowance, including relevant guidance notes via their chosen method of communication.

3 My Powys Pension Online Portal Registration Statistics

3.1 Powys Pension Fund launched an online member portal in 2016 and has been working hard since then to encourage registration of scheme members to the service, a 24/7 access for members to their pension records and scheme communications. As at the 30th of November 2019, there are 61% of active members signed up for the service (48.1% of all scheme members across all membership statuses). New entrants to the scheme are issued with activation details at the point of entry.

4 Policy Update and Review

4.1 Work has commenced on an over/underpayment policy, which will be available for Committee to consider and review in the near future.

4.2 A review of the existing Administration Strategy has also commenced and is due for completion in early 2020.

5 Other Issues

5.1 GMP reconciliation. The Fund is working closely with data specialists ITM on phase 3 of the GMP reconciliation exercise. Data is currently being tested ahead of loading into the test environment. It is expected that the project will be completed and all records reconciled in the summer of 2020.

5.2 A meeting with representatives from all other Welsh Funds and Heywood took place in November to discuss current software issues. Heywood agreed some action points and the meeting was deemed a success. A follow up meeting is to be arranged, to confirm the actions have been completed.

7 Recommendation

7.1 To note the contents of this report.

Recommendation:		Reason for Recommendation:	
<ul style="list-style-type: none">To note the update and raise any points of discussion or concerns to ensure that the Fund continues to focus on high standards of administration.		As per report	
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:
Chris Hurst	01597 827640	01597 826290	churst@powys.gov.uk

Relevant Portfolio Member(s):	Cllr Aled Davies
Relevant Local Member(s):	N/A

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CYNGOR SIR POWYS COUNTY COUNCIL

Pensions and Investment Committee
12th December 2019

REPORT BY: Head of Finance

SUBJECT: Governance Update

 REPORT FOR: Information

1 Introduction

1.1 This report has been produced to provide Committee with an update on the LGPS governance matters and the potential impact of these on the Powys Pension Fund.

1.2 It is provided in addition to and supplements, where appropriate, the executive summary presented by the Powys Pension Board Chair and will provide updates on:

- Scheme Advisory Board's (SAB) Good Governance project – Phase two recommendations
- The Pension Regulator's (TPR) Annual Survey 2019
- TPR Governance and administration risks in public service pension schemes: an engagement report
- Updates on the Fund's risk register
- Updates on the Fund's breaches register

2 Fund Governance2.1 SAB Update

2.2 On the 14 November 2019 the Scheme Advisory Board (SAB) published a [summary](#) of its meeting held on 6 November 2019. Topics discussed include the McCloud judgment, the good governance project, responsible investment guidance, cost transparency and the CMI data request. Full details of the meeting and agenda papers can be found at <http://www.lgpsboard.org/index.php/about-the-board/board-updates>. The next SAB meeting will take place on 3 February 2020.

2.3 The SAB Good Governance Project Update

The SAB have published [Phase II](#) of the Good Governance report. The report makes recommendations on new standards of governance and administration and proposals on how they can be measured and assessed independently. The recommendations cover the following areas:

- The need for new statutory governance guidance from the Ministry for Housing Communities and Local Government (MHCLG) to effectively implement the proposals from this project. The current guidance was published in 2008.

There will be a requirement for each administering authority to:

- have a single named officer responsible for the delivery of all LGPS related activity for that fund (i.e. an LGPS senior officer)
- publish an annual governance compliance statement that sets out how they comply with the governance requirements set out in MHCLG's new guidance. This would need to be co-signed by the LGPS senior officer and, where different, the S151 officer
- publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed
- refer to SAB guidance on statutory and fiduciary duty
- publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and to voting rights for each party.

In the areas of knowledge and skills:

- a requirement for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively (similar to those already in place for Local Pension Boards)
- a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding
- a requirement to have a policy setting out how training is delivered, assessed and recorded
- CIPFA and other professional bodies are to be asked to produce guidance and training modules (particularly for S151 officers).

In terms of the service delivery of the LGPS, each Administering Authority must:

- document key roles and responsibilities relating to the fund and publish a roles and responsibilities matrix setting out how key decisions are reached
- publish an Administration Strategy and report the Fund's performance against agreed indicators
- ensure their committee is included in the business planning and budget setting processes
- give proper consideration to pay and recruitment policies in order to meet the needs of the pension fund; not simply applying general council staffing policies such as recruitment freezes.

- 2.4 From a compliance and improvement perspective, the proposal is that each Administering Authority must undergo a biennial independent

governance review and produce an improvement plan to address any issues identified. In turn, those reviews and reports will be assessed by a SAB panel of experts. The Local Government Association (LGA) will also consider establishing a peer review process for LGPS funds

- 2.5 At their meeting of 6 November 2019, SAB agreed that phase III of the project, including draft statutory guidance on governance compliance statements and establishing a set of key performance indicators, should now be developed. Final proposals for phase III of the project will be considered by SAB when it next meets on the 3 February 2020.
- 2.6 The next phase of the project will focus on the independent governance review report and some national key performance indicators. Committee will be updated on the progress of this phase as more information becomes available.
- 2.7 The Pension Regulator's (TPR) Annual Survey 2019
- 2.8 In November, the Pensions Regulator: Public Service Governance and Administration Survey 2019 was issued to all LGPS funds, including the Powys Fund. This annual survey had to be returned to TPR by 29 November 2019 and this report confirms that this submission date was met by the Fund. The survey is designed to help TPR build a comprehensive picture of governance and administration standards across the LGPS nationally. The survey should be completed by the Scheme Manager (i.e. the Administering Authority) together with the Pension Board chair. For the Powys Pension Fund, it was completed by the Pension Fund Manager in accordance with the Pension Board Chair.
- 2.9 TPR Governance and administration risks in public service pension schemes: an engagement report
- 2.10 In September 2019, TPR published its findings following engagement with a cohort of ten LGPS funds between October 2018 and July 2019. the report is available [here](#), for your information. TPR indicated that they saw evidence of good practice across the LGPS funds, but also outlined key areas for improvement across the scheme, summarised below:
 - Key Person Risk
While most scheme managers demonstrated a good knowledge of what we expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored.
 - Pension Boards

Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged.

- Fraud / scams
We saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.
- Employers
We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally this was connected to fund resourcing but also related to different philosophies related to taking security over assets. A special meeting of the Local Pension Board is planned to discuss the report in more detail and the findings will be fed back to Committee.

2.11 Risk Register Updates

2.12 This is covered in a separate item on the agenda

2.13 Breaches Register Update

2.14 No recordable or reportable breaches added since last meeting. The latest version of the breaches log is attached, for your information.

3 Recommendation

3.1 To note the contents of this report.

Recommendation:		Reason for Recommendation:	
<ul style="list-style-type: none"> • To note the update and raise any points of discussion or concerns to ensure that the Fund continues to focus on high standards of governance. 		As per report	
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:

Chris Hurst	01597 827640	01597 826290	churst@powys.gov.uk
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Relevant Portfolio Member(s):	Cllr Aled Davies
Relevant Local Member(s):	N/A

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Breach No	YEAR	Breach Type	Nature of Breach	Breach Description	Action	Material Significance (Y/N)	P & I Committee Notified	Pension Board Notified	TPR Notified	RAG Status
1	2018/19	Administration	Late Notification of deferred Benefits	Disclosure Regulations state that any deferred leaver should be notified of their deferred benefit options within two months of the fund receiving complete leaver information from the employer. Due to the backlog of casework in the fund these deadlines have not been met for c200 deferred members. Cause: The backlog has occurred through the introduction of the new LGPS and the increased complexity around administration (aggregations, final salary links etc). An increase in the numbers of deferred pensioners who have left employment through reorganisations in recent months has also had an impact. Effect: although a breach, it is not considered material, as the information is not critical when making future decisions. Where a deferred member reaches retirement age their calculation will be completed at that point. This is a national issue for most funds across the LGPS.	New letter produced and issued to leavers upon notification of leaving, stating their entitlements upon leaving membership of the LGPS (i.e. under 2 years = refund, over 2 years = Deferred)	N	N	Y	N	
2	2018/19	Administration	Automatic payment of refund after 5 years for post 2014 leavers	Members have been contacted requesting bank details in order to pay refunds, however, no reply has been received from the scheme members. 14 members to 30.11.19	The National Technical Group has recommended to the SAB that the regulations in respect of refunds is amended and reflects the position prior to April 2014.	N	Y	Y	N	

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CYNGOR SIR POWYS COUNTY COUNCIL**Pensions and Investment Committee
12th December 2019****REPORT BY: Head of Finance****SUBJECT: Amendment of Risk Register**

REPORT FOR: Decision

1 Introduction

- 1.1 At the meeting of the Powys Pension Board held on 26th November 2019, the Board recommended that the Pension Fund's Risk Register be amended.

2 Board Recommendations

- 2.1 The Board recommended that the Risk Register be amended to include the following identified potential risk:
- MIFID II ongoing compliance and the financial risks of the Fund not being treated as a retail investor

3 Risk Register Amendment

- 3.1 In the light of the Board's recommendations it is proposed that the Risk Register be amended by the inclusion of PEN034 (see amended Risk Register attached).
- 3.2 This review has also given the opportunity to amend the following existing risks:
- PEN003 – Updated
 - PEN014 – Updated Risk to Head of Service from Director
 - PEN019 – Updated wording
 - PEN029 – Updated to reflect current position
 - PEN030 – Updated Further Actions/Controls

4 Recommendations

- 4.1 Committee is asked to approve the inclusion of PEN034 in the Risk Register.

Recommendation:		Reason for Recommendation:	
<ul style="list-style-type: none"> To approve the inclusion of PEN034 (ongoing compliance with MIFID II). 		As per report	
Person(s) To Action Decision:			
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:
Chris Hurst	01597 827640	01597 826290	churst@powys.gov.uk

Relevant Portfolio Member(s):	Councillor Aled Davies
Relevant Local Member(s):	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN001	01/11/2015		Pensions Administration	Failure to pay pensions and lump sums on time	Financial difficulty for the scheme member concerned, reputational risk to the Pension Fund, and additional cost to the employer where interest is payable as a result of late payment.	M	L	Low	Maintenance and update of Altair and Trent systems, sufficient staff resources and training. Quality assurance processes in place to check work done.	Pension Fund Manager	A Davies	Review of process as part of the ongoing review of pensions administration processes following the implementation of the 2014 Scheme.	M	L	Low	
	PEN002	01/11/2015		Finance	Failure to collect and account for pension contributions being paid over to the Fund on time by Fund employers.	Adverse audit opinion, potential delays to Fund employer FRS17/IAS19 reporting; and potential delay to production of annual report and accounts	L	M	Low	Contributions received monitored on a monthly basis by Fund accounting staff.	Section 151 Officer	A Davies	Requirement that each end of scheme year, Fund employers certify that they have paid over contributions at the correct rates and on time.	L	M	Low	
	PEN003	01/10/2019		Finance	Insufficient Fund cashflow to meet liabilities as they fall due.	Immediate injections of cash from Fund employers would be required where Fund assets cannot be liquidated quickly. For now the Fund is cashflow positive but will not remain so for much longer, therefore requiring the use of investment income to subsidise the payment of pension benefits rather than being reinvested as now.	H	M	Medium	Funding strategy statement. Will this year (2019) commission Fund actuary to undertake a Fund cashflow forecast based on Fund maturity	Section 151 Officer	A Davies	Following completion of the fund actuary's cashflow forecast, review strategic asset allocation to ensure that cashflow remains positive (on a targeted and monitored basis) whilst at the same time ensuring that the Fund is not forced to liquidate assets on an unplanned basis.	M	L	Low	
	PEN004	01/11/2015		Pensions Administration	Inability to deliver service as a result of loss of pensions administration system, or any other system used in the provision of service (eg. pensioner payroll). Failure of any system used by the service as a result of a breach of cyber security.	Immediate injections of cash from Fund employers would be required where Fund assets cannot be liquidated quickly. For now the Fund is cashflow positive but will not remain so for much longer, therefore requiring the use of investment income to subsidise the	L	L	Low	Business Continuity Plan for the Pensions administration service. Assurances received from all systems providers in relation to their current resilience to the threat of a failure in cyber security.	Pension Fund Manager	A Davies	Keep Business Continuity Plan under review. Periodic review by the Pension Board of provider assurances in respect of cyber security.	L	L	Low	
	PEN005	01/11/2015		Pension Fund	Inability to deliver service as a result of the loss of key personnel	Failure to provide service at all, or at an acceptable level	L	M	Low	Business Continuity Plan in place for the pensions administration service	Pension Fund Manager	A Davies	Keep Business Continuity Plan under review	L	M	Low	
	PEN006	01/11/2015		Pension Fund	Loss of funds through fraud or misappropriation	Financial loss to the Fund	L	M	Low	Internal and External Audit regularly test that appropriate controls are in place and are working effectively. Due diligence is carried out whenever a new investment manager is appointed.	Pension Fund Manager	A Davies	None	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN007	01/01/2015	FSS	Pension Fund	Significant rise in employer contribution rates for Fund employers with strong covenants, as consequence of increases in liabilities.	Employer contribution rates rise to unacceptable levels, putting upward pressure on Council Tax rates and the ability of Powys County Council to continue to deliver services to its communities.	L	M	Low	Employers have Discretionary Powers Policies that help to control liabilities. In reality, little can actually be done in mitigation due to the fact that liabilities are largely determined by bond yields that are outside of the Fund's control.	Pension Fund Manager	A Davies	Investigate further liability mitigations such as ill health strain insurance; developing guidance to assist employers to manage liability increases derived from their actions or inactions; and, work closely with the Fund actuary to determine appropriate valuation assumptions and deficit recovery strategies.	L	M	Low	
	PEN008	01/01/2015	FSS	Pension Fund	Significant rises in employer contribution rates for Fund employers with weak covenants as a consequence of increases in liabilities.	Employer contribution rates rise to unsustainable levels that cause employers to become insolvent	L	H	Medium	Employers have Discretionary Powers Policies that help to control liabilities. In reality, little can actually be done in mitigation due to the fact that liabilities are largely determined by bond yields that are outside of the Fund's control.	Pension Fund Manager	A Davies	In process of developing risk sharing arrangements to enable employers with weak covenants to attain a degree of certainty over the level of employer contribution rates.	L	M	Low	
	PEN009	01/01/2015	FSS	Pension Fund	Significant rises in employer contribution rates for employers with strong covenants as a result of poor/negative investment returns.	Employer contribution rates rise to unacceptable levels that result in Powys County Council being unable to provide appropriate services for its communities.	L	M	Low	Use expert specialist consultants to help set and monitor investment strategy and investment manager performance and selection. Quarterly investment performance reports presented to Pension Fund	Pension Fund Manager	A Davies	Continual monitoring of performance; review of asset allocation strategy, including consideration of alternative asset classes and non-market led assets.	L	M	Low	
	PEN010	01/01/2015	FSS	Pension Fund	Significant rises in employer contribution rates for employers with weak covenants as a result of poor/negative investment returns.	Employer contribution rates rise to unsustainable levels that result in employers with weak covenants becoming insolvent.	L	H	Medium	Use expert specialist consultants to help set and monitor investment strategy and investment manager performance and selection. Quarterly investment performance reports presented to Pension Fund	Pension Fund Manager	A Davies	Continual monitoring of performance; review of asset allocation strategy, including consideration of alternative asset classes and non-market led assets.	L	M	Low	
	PEN011	01/01/2015	FSS	Pension Fund	Failure to comply with LGPS and other statutory regulations.	Payment of incorrect pension benefits; provision of incorrect benefit estimates; failure to comply with governance standards; failure to meet HMRC tax requirements. Resulting in: loss of customer satisfaction / confidence; IDRPs and Ombudsman appeals; TPR fines for non-compliance.	H	L	Medium	Rigorous checking and authorisation procedures in respect of pension benefit calculations and payments; and, regular review of governance compliance policy. Staff training and development.	Pension Fund Manager	A Davies	Closer partnership working with employer payrolls to facilitate accurate data receipts; increased compliance oversight provided by Local Pensions Board.	M	L	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN012	25/01/2016		Pensions Administration	Failure to hold scheme member's personal data securely.	Poor data quality; compromised data; fines	L	M	Low	Compliance with Powys County Council Data Protection and ICT policies.	Pension Fund Manager	A Davies	Data protection audit in conjunction with TPR data quality standards to be undertaken	L	M	Low	
	PEN013	01/04/2015	TPR	Pension Fund	Failure to maintain and hold up to date and accurate pension records.	Payment of incorrect pension benefits; late payment of benefits; assessment of incorrect liability values. Resulting in loss of customer confidence and satisfaction; IDRPs and Ombudsman appeals; and, incorrect assessment of employer contribution rates.	M	M	Medium	Pensions team work with employer payrolls to ensure data quality; data validation checks undertaken by team at each year end; validation checks carried out at each actuarial valuation (triennially) by the Fund actuary. Staff training and development.	Pension Fund Manager	A Davies	Additional data validation and quality checks to be implemented as required by the TPR code of practice.	L	M	Low	
	PEN014	25/01/2016	CIPFA	Pension Fund	Lack of expertise of Pension Fund Officers and Head of Service	Poor decision making in relation to principal functions of the Pension Fund, particularly in relation to investments.	L	H	Medium	Officers ensure that they receive appropriate training and are required to keep up to date with developments in pensions matters, as part of their periodic Individual Performance Reviews and by attending relevant conferences and seminars, by reading and through discussions with consultants and peers.	Pension Fund Manager	A Davies	Formalised Officer training via individual training plans based on the CIPFA 'Knowledge and Skills' framework, as is the the procedure for members of both Pensions & Investment Committee and the Pensions Board.	L	M	Low	
	PEN015	25/01/2016	CIPFA	Pension Fund	Over-reliance on key Officers	When senior Officers leave or are on long term sickness, large knowledge gaps remain.	M	H	Medium	In the short term, knowledge gaps can be filled by using our external colleagues from other Welsh Funds and buying in assistance from consultants.	Pension Fund Manager	A Davies	Formalise succession planning by including in Officer individual training plans for less senior Officers.	M	L	Low	
	PEN016	25/01/2016		Pensions Administration	Failure to communicate effectively with stakeholders.	Scheme members unaware of their rights under the LGPS and make poor decisions in relation to pension rights. Employers unaware of the scheme regulations, the procedures and their responsibilities, resulting in poor or inappropriate decision-making and may adversely effect the flow of pensions data to the Pension Fund.	L	M	Low	the Pensions Support Manager is tasked with responsibilities in relation to scheme and Fund communications, as part of their Job Description. In addition, the Fund has a clear communications policy as well as a regularly updated website.	Pension Fund Manager	A Davies	No further action proposed.	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN017	26/01/2016		Pensions Administration	Failure to provide the pensions service in accordance with principles of equality.	Some stakeholders may be unable to access the service fully or at all. In the worst case scenario, this could result in court action against the Fund.	M	M	Medium	The Fund maintains a Welsh Language register in respect of scheme members and employers.	Pension Fund Manager	A Davies	To utilise technology to enable access to service and information for stakeholders with disabilities, other language needs etc.	L	M	Low	
	PEN018	01/01/2015	FSS	Pension Fund	Failure to collect payments due from ceasing employers with no active members.	Failure to collect cessation payments from ceasing employers results in relevant liabilities being funded by the Powys Pension Fund and the active employers.	L	M	Low	The Fund undertakes periodic reviews of the strength of employer covenants. For existing employers, the Fund requires that a guarantor, bond or 'risk sharing agreement' is in place. For all new employers, the Fund insists on either a guarantor or a bond being in place.	Pension Fund Manager	A Davies	No further action planned.	L	M	Low	
Page 26	PEN019	25/01/2016	SAB	Pension Fund	Lack of expertise of members of Pensions & Investment Committee	Poor decision making in relation to all aspects of the Fund, particularly those in relation to investment.	M	H	Medium	The Fund adopts the CIPFA Knowledge and Skills Framework to inform its training plans for members of Pensions & Investment Committee (and the Pension Board).	Pension Fund Manager	A Davies	Rollout of individual training plans for all members. After each County Council election, specific training events are put on for new members elected to Pensions & Investment Committee.	L	H	Medium	
	PEN020	01/01/2015	FSS	Pension Fund	Pension Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Increased employer contribution rates.	L	M	Low	Only anticipate long-term returns on a relatively prudent basis to reduce the risk of under-performance. Also monitors and analyses progress every three years for each employer. In addition, the Fund receives quarterly funding updates to help monitor the position.	Pension Fund Manager	A Davies	No further action planned.	L	M	Low	
	PEN021	01/01/2015	FSS	Pension Fund	Inappropriate long-term investment strategy.	Failure to meet funding objectives.	L	H	Medium	Use of a Fund specific benchmark, as recommended by the Fund's investment consultant.	Pension Fund Manager	A Davies	Nothing further planned	L	H	Medium	
	PEN022	01/01/2015	FSS	Pension Fund	Active investment manager under-performance relative to the benchmark.	Failure to meet funding objectives.	L	M	Low	Short-term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.	Pension Fund Manager	A Davies	Nothing further planned	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN023	01/01/2015	FSS	Pension Fund	To permit deficits to be eliminated over a recovery period rather than immediately, introduces the risk that action to restore solvency is insufficient between successive measurements.	Increased employer deficit recovery payments.	L	M	Low	It is the practice to discuss every such situation with the Pension Fund actuary, for each individual employer. Moreover deficit recovery periods are generally restricted to no more than 25 years, or 40 years in very exceptional circumstances.	Pension Fund Manager	A Davies	No further action planned.	L	M	Low	
	PEN024	01/01/2015	FSS	Pension Fund	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.	Increased employer contribution rates.	L	M	Low	Each individual employer situation is discussed with the Pension Fund actuary, with stepping restricted to three years, or 6 years, in very exceptional circumstances.	Pension Fund Manager	A Davies	No further action proposed.	L	M	Low	
	PEN025	01/01/2016	FSS	Pension Fund	Pensioners living longer and, changing retirement patterns.	Increased employer contribution rates.	L	M	Low	Mortality assumptions are set with some allowance for future increases in life expectancy. The Fund actuary investigates these matters at each valuation or more frequently where appropriate. If significant demographic changes were to occur between valuations, the Pension Fund will advise employers accordingly and notify them of the likely impact on their contribution rates, reviewing bond values, as required.	Pension Fund Manager	A Davies	No further action proposed.	L	M	Low	
	PEN026	01/01/2016	FSS	Pension Fund	Deteriorating patterns of ill health or other early retirements.	Increase in employer contribution rates and deficit recovery payments.	L	M	Low	Employers are required to pay the capital costs of early retirements (pension strain), upfront for all cases. Ill health retirements and costs are monitored against Fund allowances.	Pension Fund Manager	A Davies	No further action proposed.	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN027	01/01/2015	FSS	Pension Fund	Fall in the returns on Government bonds.	Increase to the value placed on Fund liabilities.	M	M	Medium	Allowing for a risk-based approach should limit the impact of short-term changes in returns on Government bonds. Some investment in bonds also helps to mitigate this risk. Monitoring (quarterly) helps to give an early warning of significant	Pension Fund Manager	A Davies	No further action proposed.	M	M	Medium	
	PEN028	01/01/2015	FSS	Pension Fund	Pay and price inflation significantly more than anticipated.	Increased employer contribution rates and deficit recovery payments.	M	M	Medium	Employers 'pay' for their own salary awards and are reminded of the geared effect on salary-linked pension liabilities. Particularly where bias towards longer serving employees may be considered.	Pension Fund Manager	A Davies	No further action proposed.	M	M	Medium	
	PEN029	26/01/2016	SAB	Pensions Administration	Failure to reconcile all relevant active, deferred and pensioner member GMP records against the data held by DWP in respect of the cessation of contracting out.	Increase in Fund liabilities; increased employer contribution rates and deficit recovery payments; and, payment of incorrect pension benefits.	M	M	Medium	Reconciliation Complete. Work on Rectification due to be complete by June 2020	Pension Fund Manager	A Davies	Appoint external partners to a) identify scale of work required; b) bank 'quick wins' - both now completed. Complete reconciliations by July 2020.	M	L	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
Page 29	PEN030	04/03/2016	LPB	Pension Fund	Insolvency of an investment manager investing Pension Fund assets.	A reduction in the capital value of the Fund; a loss of liquidity as creditors agree on distribution of assets; the costs of legal representation; and, reputational damage.	M	C	High	Diversification of investment managers; adherence to the limits for individual investment mandates as set out in the LGPS investment regulations; regular meetings with investment managers undertaken by the Fund's investment consultant; Statement on Standards for Attestation Engagements No. 16 internal controls are monitored on an annual basis; due diligence by investment consultants to ensure that custodians are used by each investment manager; equity investment mandates are invested in pooled funds; and, only well respected and researched investment managers are selected in the first place.	Section 151 Officer	A Davies	Increased investment manager diversification may be further facilitated by pooling via the Wales Pension Partnership. As agreed by P & I Committee on 9th February 2017, when entering into new contractual arrangements with investment managers, contract documentation is to be referred to the Fund's legal advisers for review and appropriate due diligence.	L	C	Medium	
	PEN031	04/03/2016	LPB	Pension Fund	Pooling of Pension Fund assets with other LGPS Pension Funds.	Investment of Fund Officer and Committee time and other resource with unknown outcomes; front loaded costs before potential savings are realised; potential loss of local accountabilities; and, the loss of the primacy of the Fund and its strategic needs.	M	M	Medium	Due diligence on all pooling proposals; full transparency of all pool proposals and costs; full participation of the Pension Fund in all pooling development.	Pension Fund Manager	A Davies	Pooling vehicles to be structured so that each participating Fund has full representation in the pool; the pool structure enables full strategic decisions to be retained by each individual Fund; and, economies of scale (based on experience to date) indicate that savings will be made by the Fund that will exceed initial costs.	L	M	Low	

Risk Register

Reporting Level	Risk Reference	Date Identified	Source	Service Area	Risk Identified	Potential Consequence	Inherent Risk			Current Controls	Risk Owner	Portfolio Holder	Proposed Further Actions / Controls	Residual Risk			Notes
							P	I	Risk Rating					P	I	Risk Rating	
	PEN032	10/03/2017	LPB	Pension Fund	An admitted body ceasing to exist with insufficient funding or level of a bond available to meet all its Fund liabilities.	Unfunded pension liabilities being orphaned without sufficient funding/guarantees in place, resulting on increased liabilities falling on other Fund employers.	M	L	Low	To seek funding guarantees wherever possible, from other Scheme employers or outside bodies. To require, in all cases, a bond or other form of security to protect the Fund in the case of unexpected cessation and insolvency. Ensuring that admitted bodies are fully aware of their obligations and responsibilities to the Pension Fund and the benefits of their employees.	Pension Fund Manager	A Davies	Regular review of admitted body covenants and financial health.	M	L	Low	
	PEN033	30/11/2018	LPB	Pension Fund	Transfer of Workflow and Imaging System	Unable to deliver the Admisitration Service of the LGPS	H	H	High	Due diligence on migration exercise	Pension Fund Manager	A Davies	Constant monitoring until project completed (31st January 2020)	M	M	Medium	
	PEN034	01/10/2019	LPB	Pension Fund	MIFID II ongoing compliance	Financial implications of not being treated as a retail investor	H	H	High	Regular Review of MIFID Status	Pension Fund Manager	A Davies		M	M	Medium	



Powys Pension Fund Actuarial Valuation as at 31 March 2019

12 December 2019

Agenda



Valuation process and setting assumptions



2019 valuation hot topics



Initial 2019 results



Post-valuation date experience



Conclusions

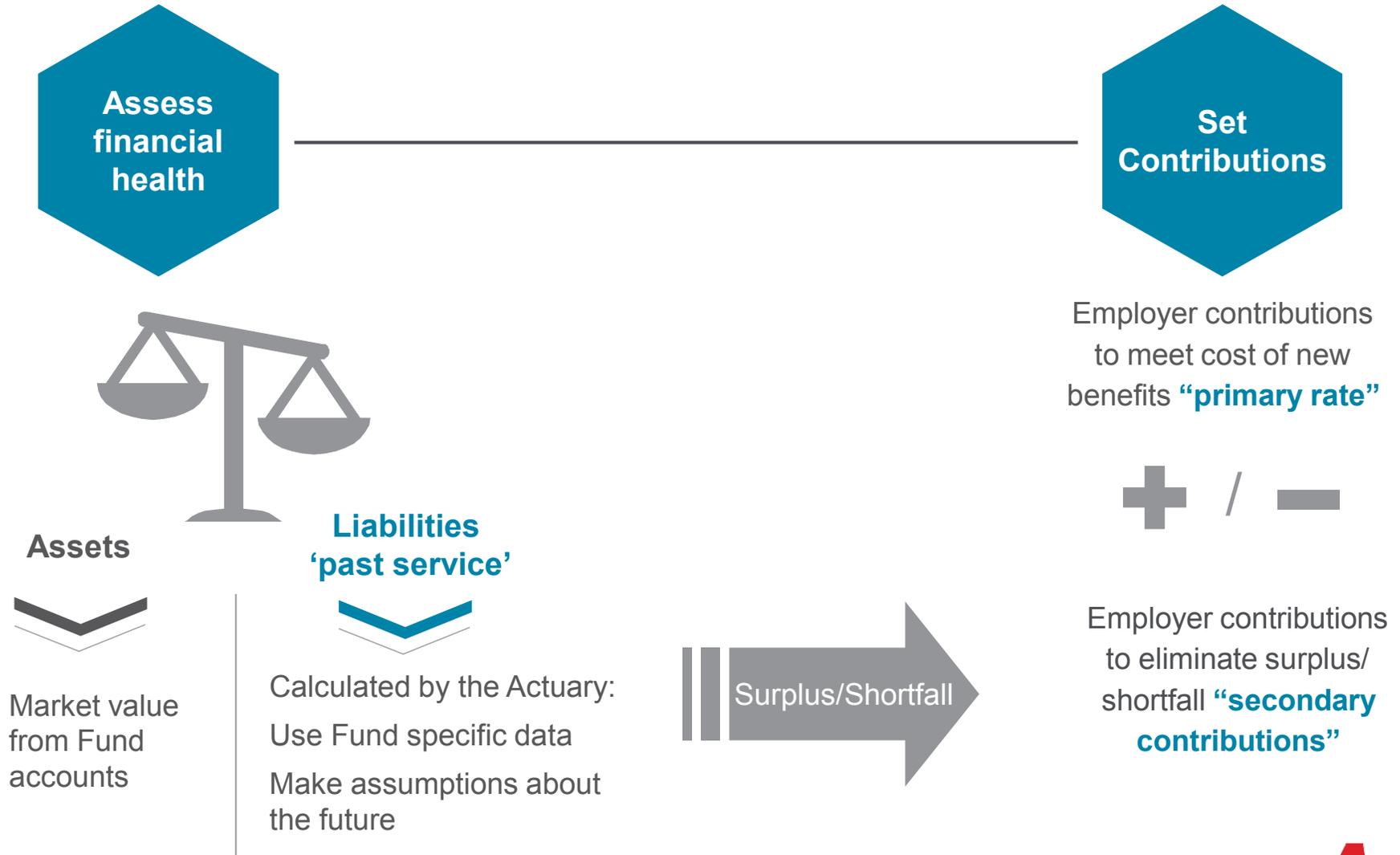
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Valuation process and setting assumptions

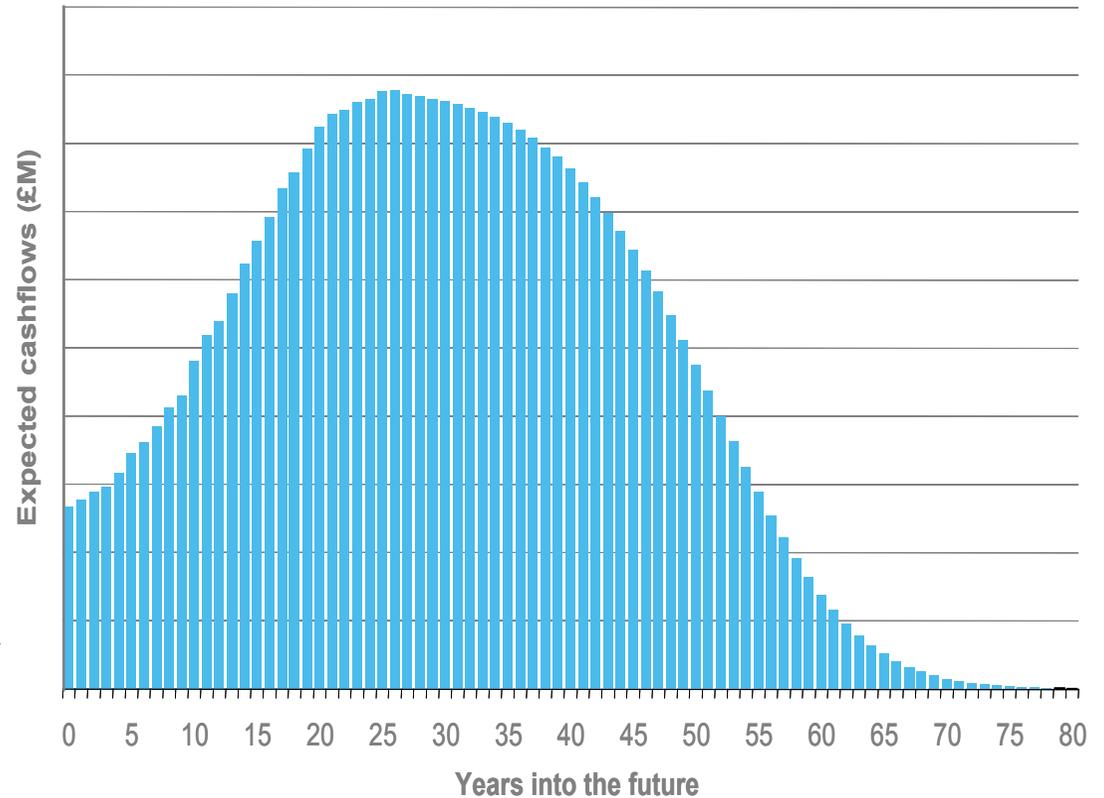
What is an actuarial valuation?

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Valuing the liabilities

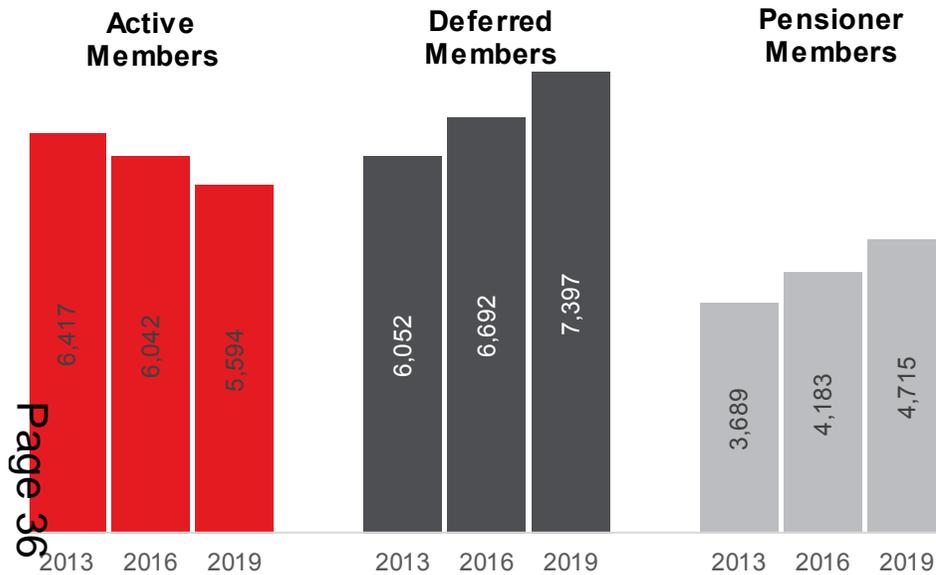
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Sample fund, accrued liabilities only

Valuation assumptions are Fund-specific

Data, experience and assumptions



Average ages (weighted by pension size)

	Actives	Deferreds	Pensioners
2013	49.7	49.2	70.3
2016	49.9	49.2	71.1
2019	50.3	50.0	71.9

	2016 assumption	2016-2019 experience	Proposed 2019 assumption
CPI increases	2.0% pa	1.0%, 3.0%, 2.4%	2.1% pa
Pay growth	3.5% pa ⁽¹⁾	c2.7% pa	3.6% pa ⁽¹⁾

(1) Plus an age-related promotional pay scale

Actual Fund returns over 2016/19 were 31.7% (9.6% p.a.)

Assumptions best estimate except discount rate

Longevity – base table

Longevity analysis using Demographic Horizons™

Scheme member data (*all members*)

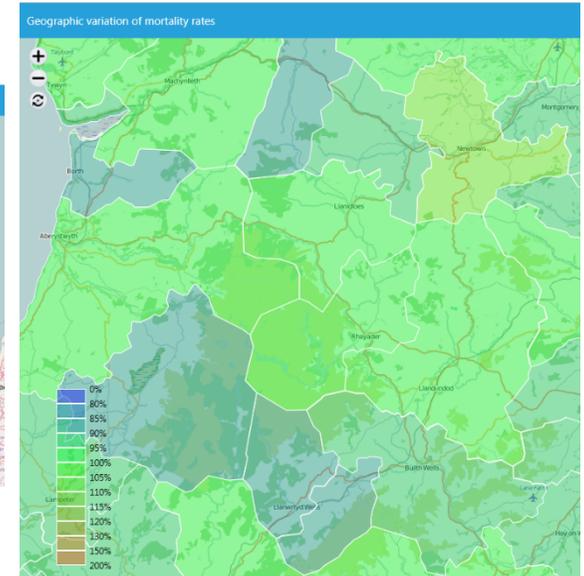
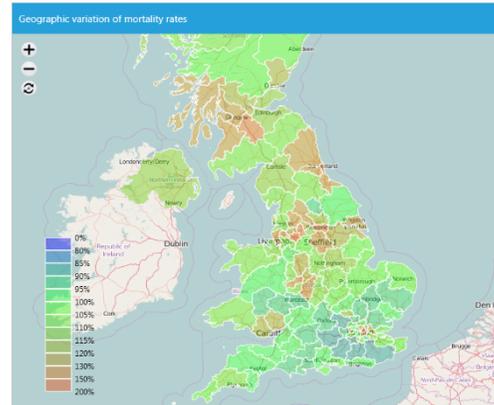
Demographic Horizons
(*2 million data points*)

Raw Demographic Horizons mortality assumptions
(*tailored to Fund population*)

Fund deaths
(*experience data*)

Weighting
(*depending on size of dataset of deaths experience*)

Demographic Horizons based mortality assumptions for Fund

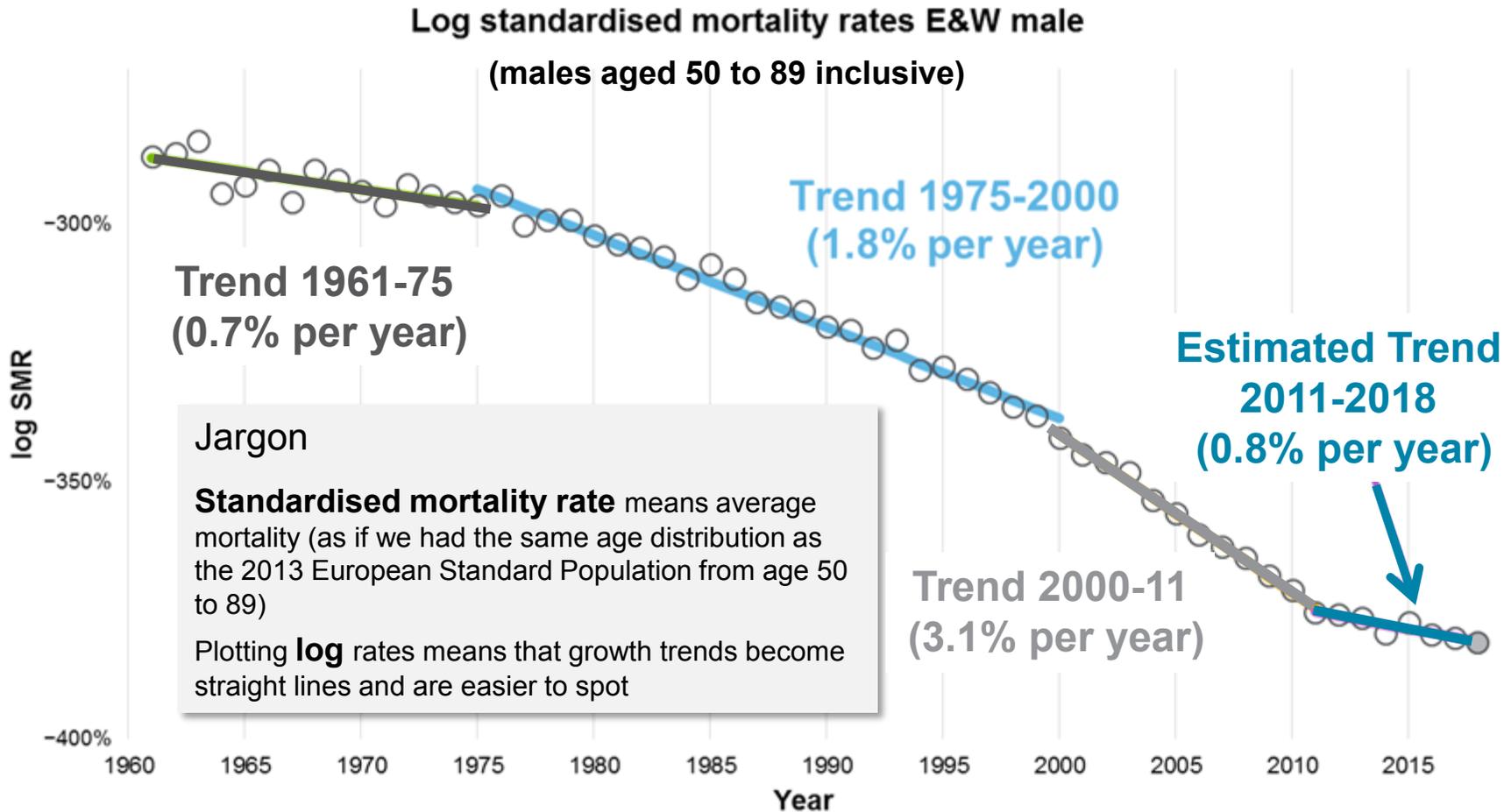


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Analysis carried out on data to 31 March 2018

Longevity - historical national male mortality improvements

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Calculations by Aon Hewitt using ONS and CMI data. $SMR = \frac{\sum_{x=50}^{89} \left\{ (deaths)_{xt} \times \frac{(std\ pop)_x}{(exposure)_{xt}} \right\}}{\sum_{x=50}^{89} (std\ pop)_x}$, where (std pop) is the European standard 2013 population.

Effect on assumed life expectancy

- Incorporating changes to base mortality and future improvements leads to the following life expectancies at the ages shown, at the 2016 and 2019 valuations:

Assumed Life Expectancy at age 65	Pensioner member currently aged 65		Active member currently aged 45	
	2016 Assumptions	2019 Assumptions	2016 Assumptions	2019 Assumptions
Men	22.9	21.8	24.7	23.1
Women	25.6	24.1	27.4	25.9

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Note: Normal health retirements only

Caution:
2019
experience
to date
"lighter"

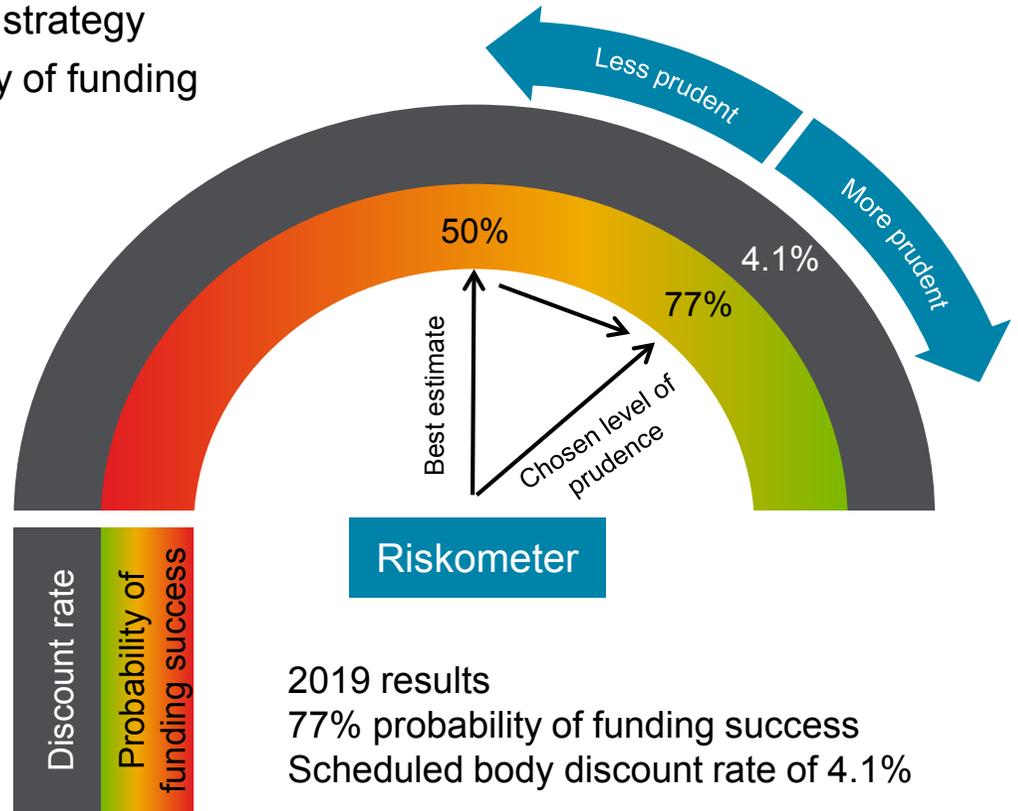
Reduces past service liabilities and future service rate

Setting the discount rate – secure long term bodies

- Expected returns based on your investment strategy
- Risk based - level of prudence - “probability of funding success”

Sensitivity to discount rate

Discount rate	Cost now of paying £100 in 20 years' time
4.6%	£41 (10% lower)
4.1%	£45
3.6%	£49 (10% higher)



Supported by Aon's Capital Market Assumptions

Summary of key assumptions

% p.a.	2016 assumption	2019 assumption (higher PoFS)
Probability of Funding Success (PoFS)	73%	77%
Discount rate	4.4%	4.1%
CPI pension increases	2.0%	2.1%
Pay growth	3.5% ⁽¹⁾	3.6% ⁽¹⁾

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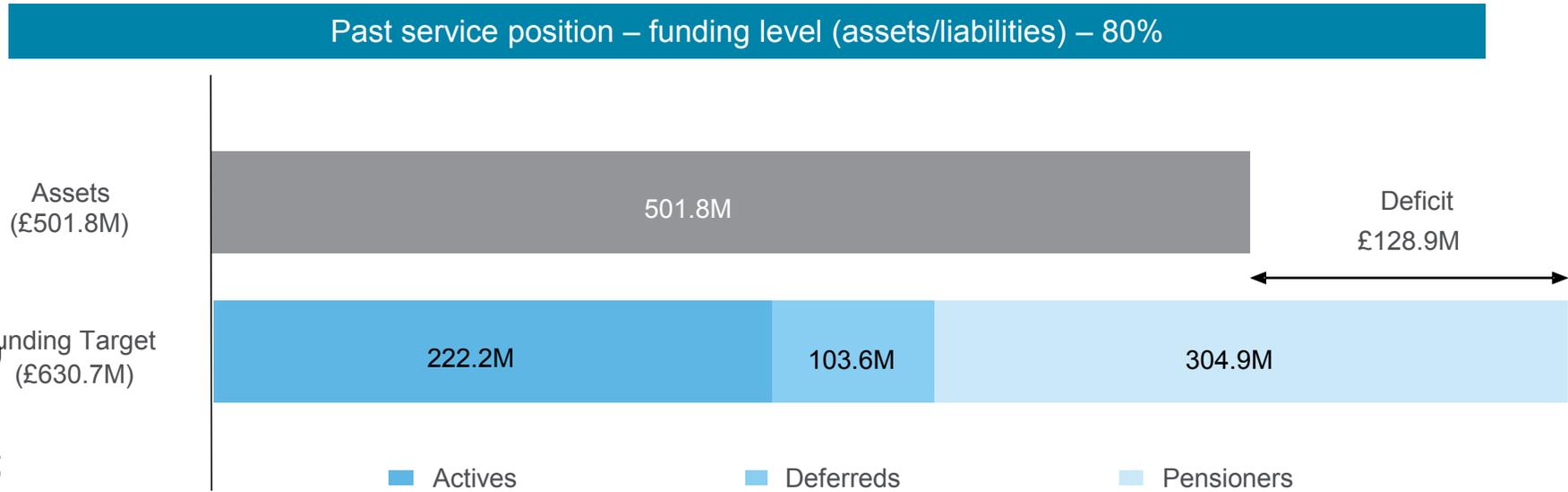
⁽¹⁾ Plus an age-related promotional pay scale.



- Age at retirement
- Rates of withdrawal (leavers with a deferred pension)
- Rates of ill-health early retirement
- Commutation rates (exchange of pension for cash at retirement)
- Family statistics

Reminder - 2016 whole fund results

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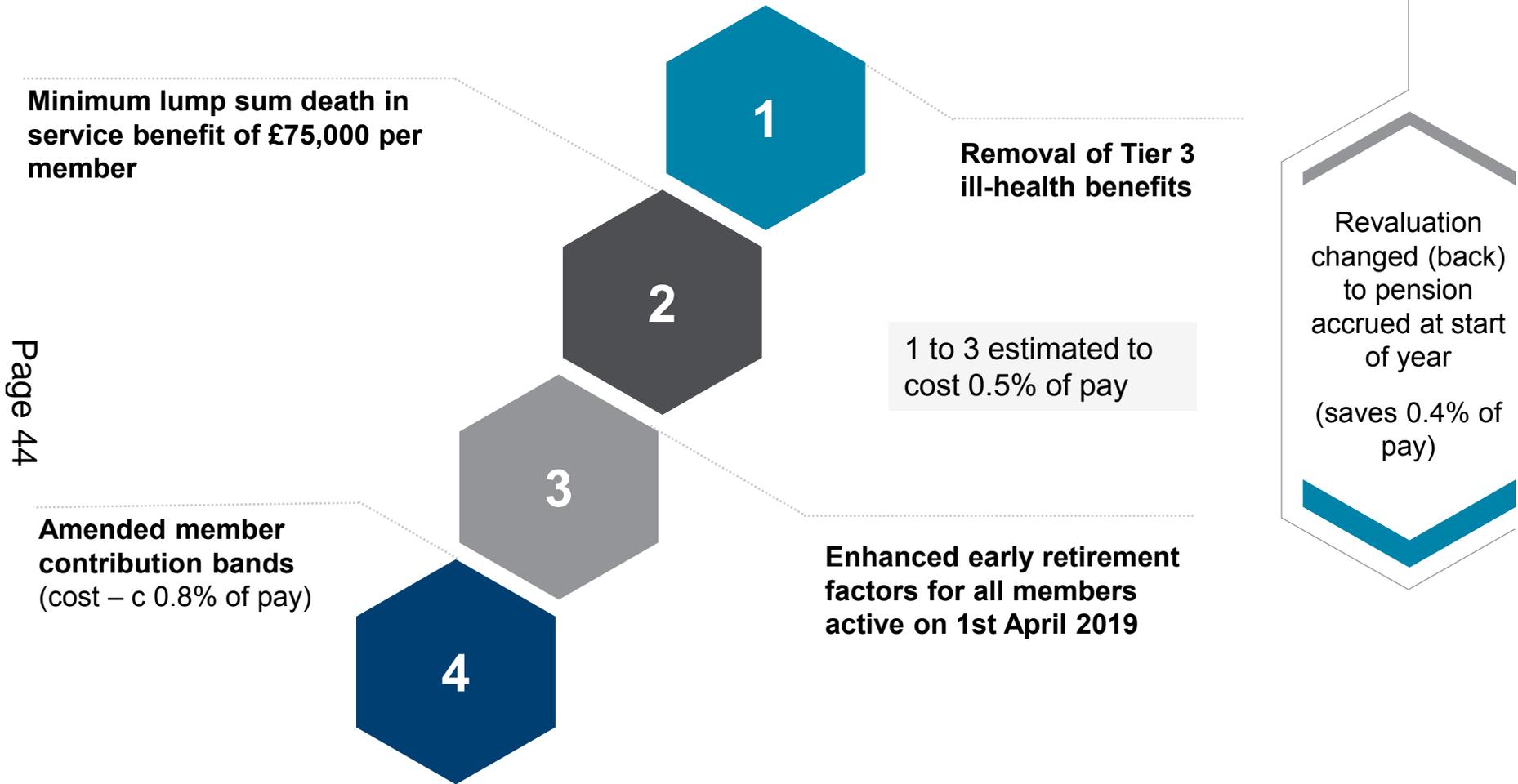


Contributions % of pay (whole of Fund)	2016	Certified contributions		
	(theoretical)	2017/18	2018/19	2019/20
Employer share of future service cost (primary rate)	18.6%	18.6%	18.6%	18.6%
Past service / deficit recovery contributions (22 years)	8.0%			
Total employer contribution rate	26.6%			
Secondary contributions certified (£M)		£4.7M	£5.5M	£6.2M



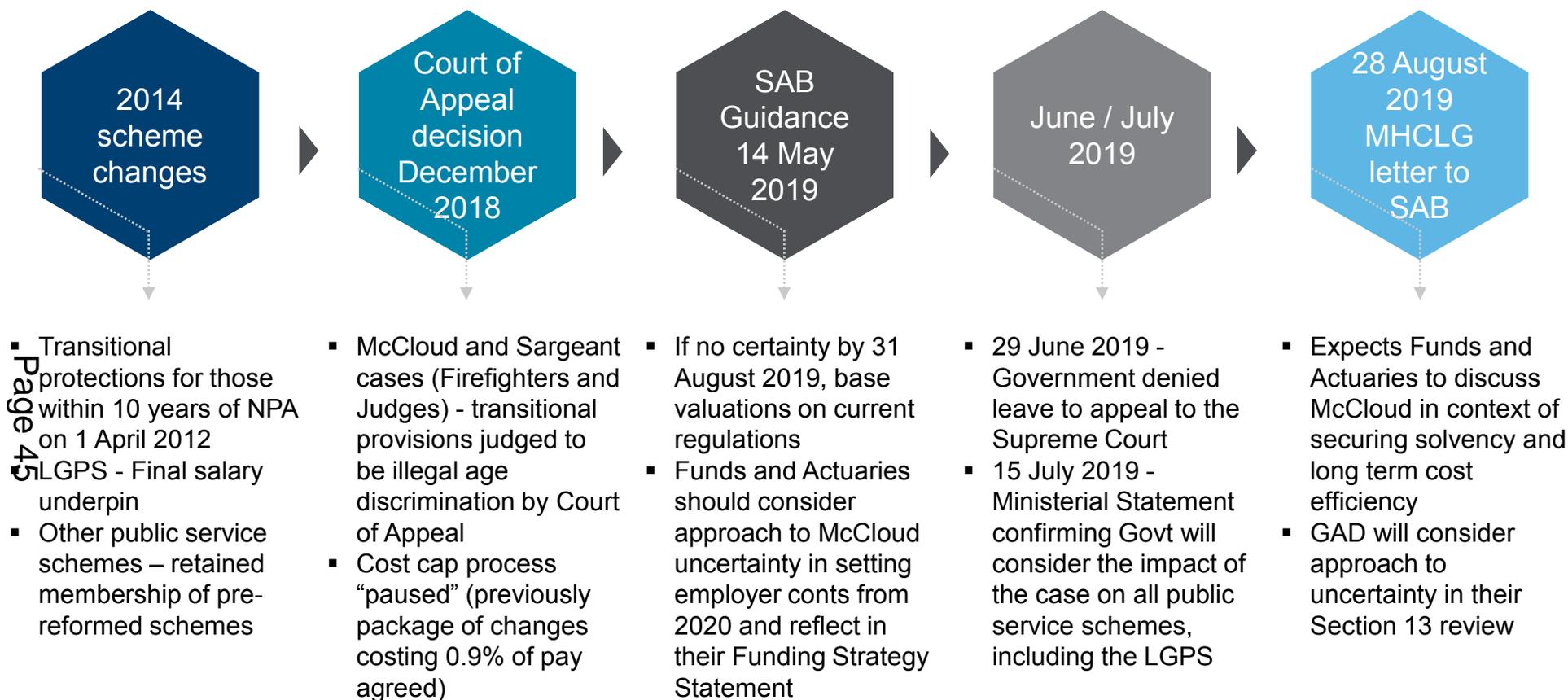
2019 valuation hot topics – Cost Cap & McCloud

Previously agreed SAB cost cap package



Process “paused” due to McCloud

McCloud/Sargeant judgement (and cost cap)



Uncertainty BUT Expectation that Funds make some allowance

Proposed approach to McCloud/Sargeant/cost cap uncertainties

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GAD
McCloud
figures

- “worst case” scenario - included post 2014 joiners
- calculated using assumptions for employer accounting
- average cost for LGPS – 3.2% of active liabilities and 3% of pay for future service (for pay growth = CPI + 1.5% p.a.)

Suggested
approach
for
valuation

- calculate Fund-specific McCloud cost using your valuation assumptions
- avoid worst case scenario, e.g. pre-2014 joiners only
- if McCloud cost less than 0.9% of pay, cost cap likely to be “unpaused” so set contribution adjustment to a minimum of 0.9% of pay

Caveats

- remedy is not yet known (and may not be for some years)
- effect of extending the underpin heavily dependent on membership profile, pay growth, withdrawal assumption and funding target

Balance prudence with pragmatism – propose 1.1% of pay allowance for most employers



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Initial 2019 results

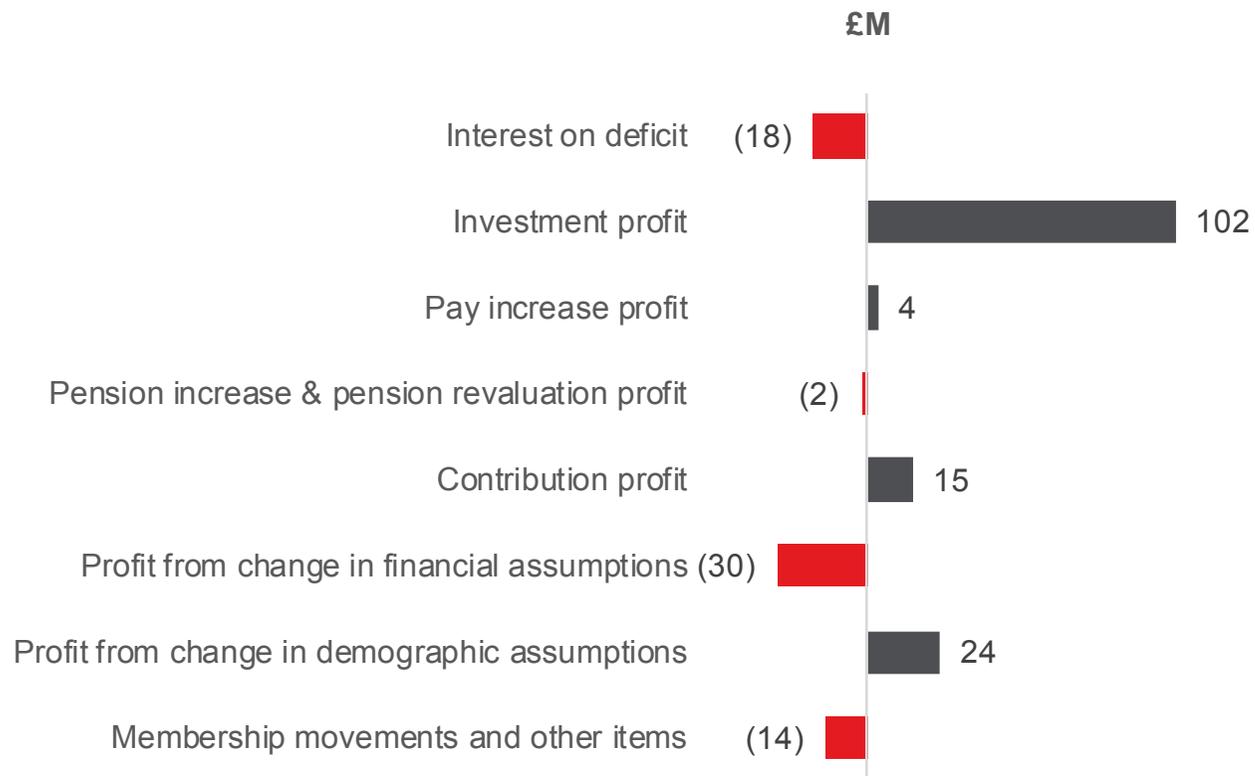
Initial 2019 whole fund past service position

	2016 valuation (£M)	2019 results (£M)
Probability of funding success	73%	77%
Value of past service benefits for:		
Actives	222.2	232.6
Deferreds	103.6	129.9
Pensioners	304.9	339.7
Value of liabilities (current Regulations)	630.7	702.2
Value of assets	501.8	654.6
Past service surplus/(deficit)	(128.9)	(47.6)
Funding ratio	80%	93%

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The 2019 whole of Fund results may change as we work through the individual employer results if there are changes to the data

Change in funding position (2016 to 2019)



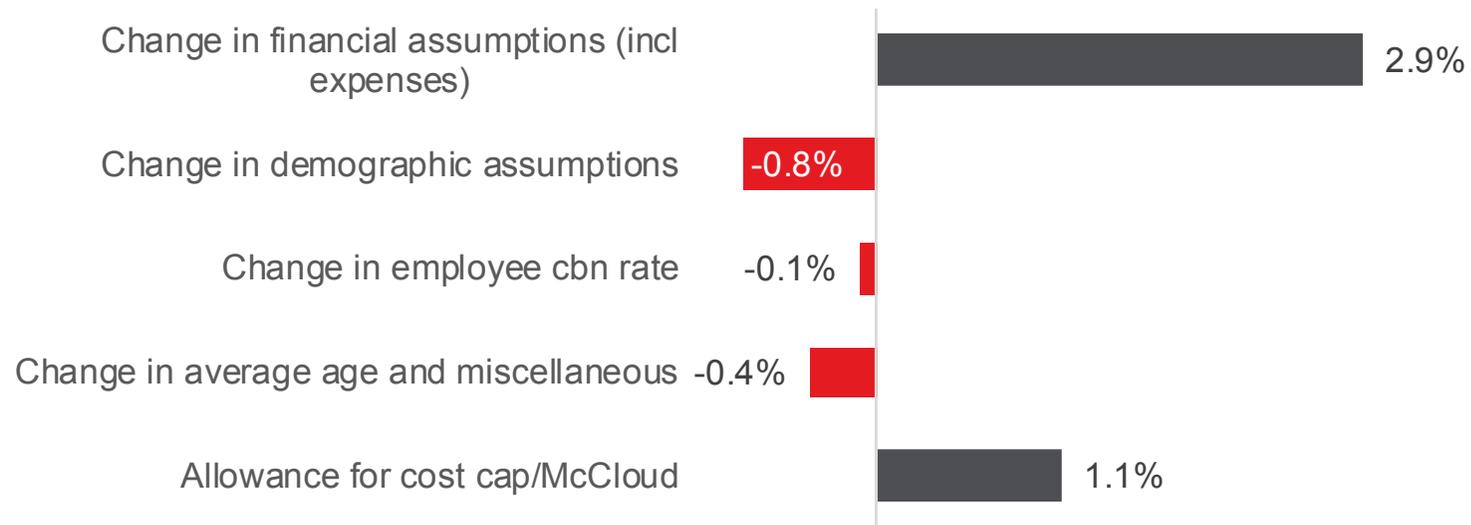
Initial 2019 whole fund employer contributions

% of Pensionable Pay	2016 valuation	2019 results
Probability of funding success	73%	77%
Value of benefits accruing (including DISLS and expenses)	24.7%	26.8%
Member contributions	(6.1%)	(6.2%)
Employer future service cost (Primary rate)	18.6%	20.6%
Deficit Spreading Period	22 years	16 years
Secondary contributions (as % of pay)	8.0%	3.6%
Allowance for McCloud (% of pay)	n/a	1.1%
Total contribution rate	26.6%	25.3%

The 2019 whole of Fund results may change as we work through the individual employer results if there are changes to the data or employer funding targets

Change in future service (“primary”) rate 2016 to 2019 (incl. Cost Cap / McCloud)

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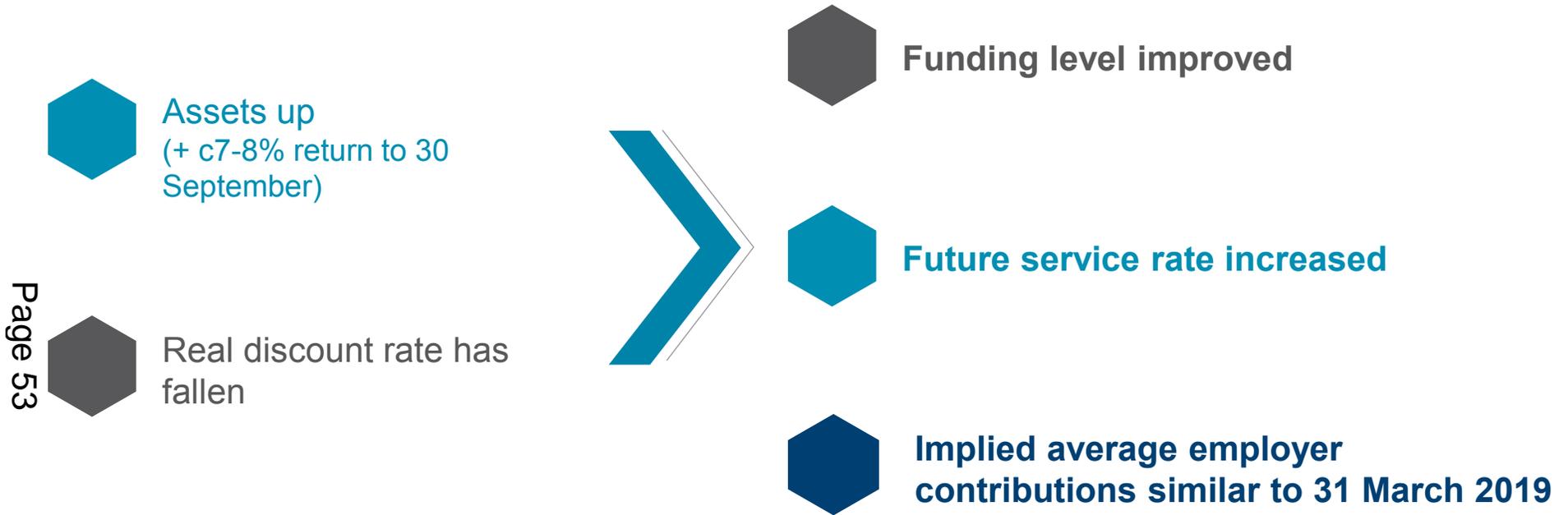




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Post-valuation date experience

Estimated position as at 30 September 2019



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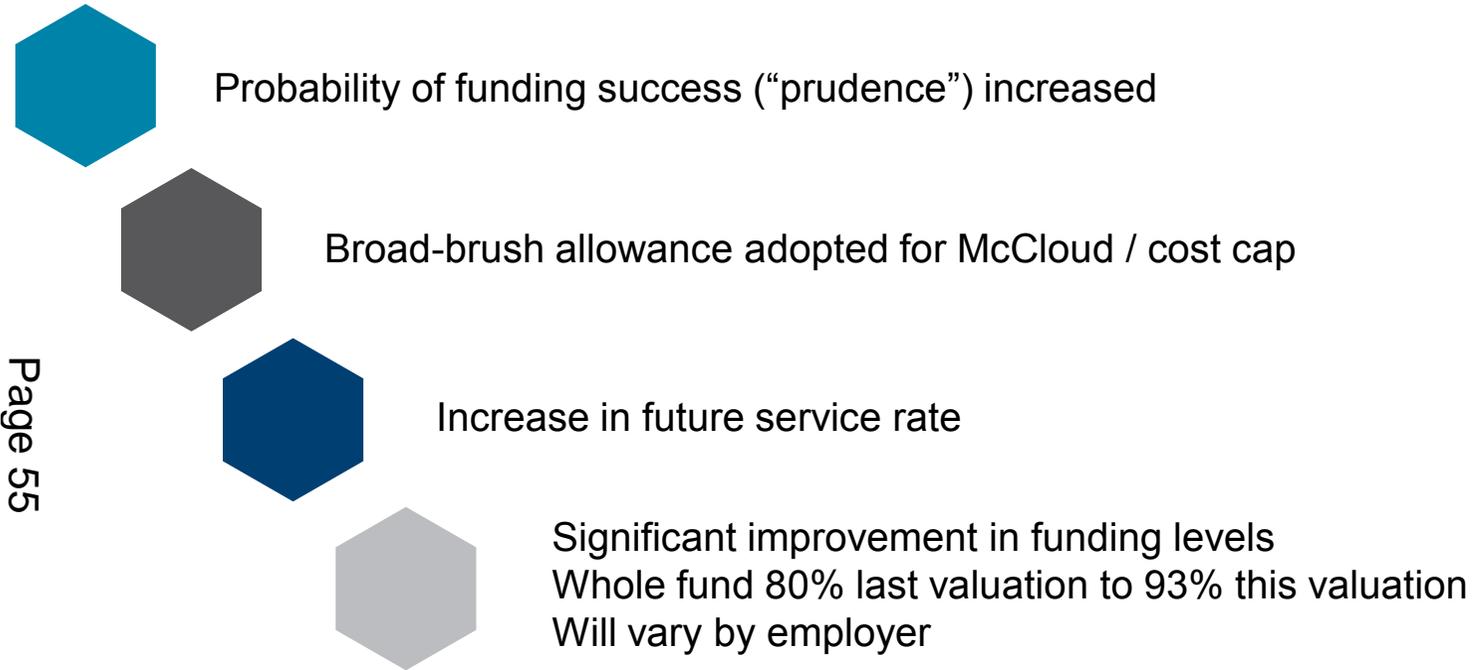
Lots of uncertainty – McCloud / Cost Cap / Brexit



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Conclusions

Summary of funding strategy changes and results



Employers are starting to receive results. Valuation finalised by 31 March 2020



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Questions?

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CYNGOR SIR POWYS COUNTY COUNCIL**Pensions and Investment Committee
12th December 2019****REPORT BY: Head of Finance****SUBJECT: Wales Pension Partnership Update**

REPORT FOR: Information

1 Introduction

- 1.1 This report aims to provide Committee with an update on the work undertaken on behalf of the Wales Pension Partnership (WPP), with regard to pooling investments in Wales.
- 1.2 At the time of writing this report, the next Joint Governance Committee (JGC) meeting will be held in Carmarthen on the 9th of December 2019 and a link to the agenda available here:
- <http://democracy.carmarthenshire.gov.wales/ieListDocuments.aspx?Clid=234&Mid=3030&Ver=4>
- 1.3 The Pension Fund Manager and Financial Reporting & Policy Accountant continue to assist the Host Authority (Carmarthenshire County Council) and the WPP adviser Hymans Robertson with their respective roles, as well as representing the interests of the Powys Pension Fund on the Officer Working Group (OWG).

2 Summary of progress and ongoing work

- 2.1 The OWG and WPP adviser have been developing, together with the JGC, a number of governance related items which will be finalised at the next JGC:
- Beliefs policy
 - Communications plan
 - Governance Matrix
 - Training Plan
- 2.2 The second Pension Boards' Chairs' Engagement day has taken place in Cardiff. Gerard Moore attended that meeting representing the Powys Pension Board.

- 2.3 A sub-group of the OWG has met for the second time to discuss the approach of pooling illiquid assets e.g. private equity and infrastructure. Further meetings will be required to reach a consensus and work is ongoing.
- 2.4 The project plan for the transition of the fixed income mandates has been agreed by the OWG. A transition adviser and transition manager have now been appointed. The actual transition of assets is planned for early 2020 and the transition manager is currently in direct discussion with existing fund managers.
- 2.5 The current advisor to the WPP, Hymans Robertson, were appointed as technical advisers and project managers in December 2015, to assist with the initial implementation of the WPP. It is now an appropriate time to appoint an oversight advisor for on-going monitoring and further development of the WPP. The Pension Fund Manager has been involved throughout the procurement process, from determining the specification to the final interviews. The appointment will be approved at the next JGC with the commencement of the new contract from 2nd January 2020. The appointment will enhance the governance arrangements of the WPP by providing:
- Oversight of the Operator and services provided by parties appointed by the Operator.
 - WPP/JGC/OWG Governance support and;
 - Strategic Investment Adviser to the JGC/OWG, and;
 - Project management and ad hoc consultancy support.

3 Recommendation

- 3.1 To note the contents of this report.

Recommendation:		Reason for Recommendation:	
<ul style="list-style-type: none"> • To note contents of the report and any accompanying papers and provide comment or feedback accordingly 		For information	
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:
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Powys Pension Fund

Prepared for The Committee
 Prepared by Jennifer O'Neill
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Responsible Investment Policy

Introduction and Purpose

The Powys Pension Fund ('Fund') is a long-term investor. The Fund's aim is to deliver financially sustainable returns to meet the future pension benefits of our members, by allocating across investment types whilst retaining an appropriate level of diversification and level of risk.

As the Committee, we have a fiduciary duty to act in the best interest of the Fund's members. We acknowledge that this includes managing Environmental, Social and Governance ('ESG') issues that may be financially material to the Fund.

The Fund defines **Responsible Investment (RI)** as the integration of ESG issues into its investment processes and ownership practices in the belief this can positively impact financial performance. The Committee recognises that, as a long-term investor, the Fund should manage ESG risks that can be both long-term and short-term in nature. In addition, the Fund seeks to identify investment opportunities aligned with its long-term objectives. This includes taking appropriate expert advice from its appointed Investment Consultant.

The Fund is exploring how asset pooling can enhance its approach to RI. The Fund is proactively engaging throughout the pooling process to ensure that its objectives and approach to RI are expressed via the Wales Pension Partnership (WPP) pooling arrangement.

The Fund seeks to integrate RI across its investment decision-making process for the entire portfolio, considering the appropriate nuances and differences which apply to differing asset types. The Fund adopts a flexible approach to managing its investment strategy and asset allocation in order to ensure the strategy is robust from a risk and return perspective.

In developing its approach to RI, the Fund seeks to understand and manage ESG and reputational risks to which the Fund is exposed. This policy sets out the Fund's approach to RI and details the actions the Fund, and its external providers, take on behalf of the Fund's members and other stakeholders, to protect the Fund from ESG and reputational risks.

Responsible Investment Beliefs and Principles

The Committee have discussed and reviewed their beliefs relating to RI. These consensus beliefs and principles form the basis of the Fund's policy.

The Fund's **RI Beliefs and Principles** are set out below:

- The Fund is a long-term investor, with liabilities stretching out for decades to come, and seeks to deliver long-term sustainable returns. There is an opportunity to generate better expected returns by making decisions with a long-term outlook.
- The Fund recognises that ESG considerations are relevant to the setting of investment objectives, ongoing monitoring, and assessment of future risks. The identification and management of

ESG risks that may be financially material is consistent with our fiduciary duty to our members.

- The Fund seeks to integrate ESG issues throughout the Fund's investment decision-making process, from setting investment strategy to monitoring the Fund's investment managers. Accordingly, input is sought from the Fund's appointed investment consultant on these matters.
- The Fund recognises that climate change is one of the material ESG factors that pose a potential financial risk over our timescale, and that as institutional investors, there is an ability to help tackle the challenges posed by climate change. Climate change related considerations have been the subject of multiple discussions held by the Committee, including the approach taken to retaining or divesting from the Fund's exposure to fossil fuels. Further details are provided in the next section of this policy.
- Where suitable and appropriate within the context of the Wales Pension Partnership's pooling arrangements, the Fund seeks advice from its appointed investment consultant to identify sustainable and responsible investment opportunities in keeping with its investment objectives.
- The Fund recognises the importance of responsible ownership, and has a duty to exercise its stewardship and active ownership responsibilities (such as use of proxy voting rights and encouraging its appointed investment managers to actively engage with investee companies) effectively by using its influence as a long-term investor to encourage positive behaviour.
- The Fund recognises that our members are likely to have an interest in how the Fund's RI objectives are enshrined through its investment strategy.
- The Fund aims to be transparent and accountable by disclosing its RI policy.

Responsible Investment Implementation Approach

In setting and implementing its investment strategy, the Fund takes advice from its appointed investment consultant. This advice is contextualised by the fact that the Fund's assets are managed by third-party investment managers responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Fund.

- The Fund expects its investment consultant to proactively consider and integrate ESG issues when providing investment advice
- The Fund considers ESG issues as they relate to its strategic asset allocation, including taking advice on the impact of ESG matters on differing asset types
- The Fund considers ESG integration and active ownership when selecting and monitoring investment managers.

When monitoring external investment managers, the Fund:

- Requires its investment managers to provide a statement setting out the extent to which they take ESG considerations into account in their investment processes, along with the impact that this has had.

- Seeks input from its appointed investment consultant regarding ESG issues that could have a material impact on the value of the Fund's assets and the funds in which the Fund invests.
- Monitors the active ownership activities of its investment managers by seeking their reporting and examples of engagement activity undertaken.

With respect to the Fund's exposure to climate change risks, the Committee has discussed the Fund's desired approach to this topic. This has included several discussions regarding divestment from fossil fuels. This has included receiving details of the approach taken by other LGPS Constituent Authorities and pooling arrangements, along with noting the stance taken by the Local Authority Pension Fund Forum (LAPFF) of which the Fund is a member.

The Fund recognises that exposure to fossil fuel investments is one component of overall exposure to climate change risks, and acknowledges the importance of considering climate change risk holistically.

Throughout this process, the Committee has sought to take an approach which is appropriate in the context of the Fund's long-term investment objectives, and has explored the availability of investment options within the WPP pooled framework.

The Committee has agreed that it supports the LAPFF stance with regard to engagement with investment managers on issues regarding climate-related risks to which the Fund and its members may be exposed, and in particular the transition to a low-carbon economy. The Committee considers that pursuing an engagement-led approach allows the Fund, through the actions of its appointed investment managers, to be an active participant in supporting the transition to a low-carbon environment and encouraging the companies in which it invests to transform and adapt to meet the needs of a changing world. This approach does not prohibit the Fund from divestment from fossil fuel exposure to manage the perceived financial risks associated with climate change should this be felt appropriate.

The Committee will monitor this area as it develops, and seek to mitigate climate change risks as they apply to the Fund and its members and beneficiaries.

Stewardship – Voting and Engagement

The Fund recognises that, alongside rights, it has responsibilities as a shareholder as regards the stewardship of assets on behalf of its members and beneficiaries. Appropriate stewardship is a cornerstone of good governance: accordingly, the Committee will consider and review the UK Stewardship Code (which takes effect 1 January 2020) to determine the alignment of the Fund with the principles of the Code.

Consequently, the Fund recognises the importance of active ownership, i.e. the proactive use of engagement and asset stewardship activity. Further, the Fund recognises that engagement activities undertaken alongside other investors – such as the LAPFF and WPP as a pooled entity – have potential to have significant impact on corporate behaviours and drive improvements in actions and disclosures.

The Fund seeks to exercise its voice through engagement with its investment managers (and consequently portfolio companies) as part of its stewardship duties to its beneficiaries.

Whilst the Fund delegates voting and engagement to its investment managers, the Committee will seek comment from its investment consultant, where relevant and available, regarding how the Fund's managers exercise voting rights on its behalf.

Initiative and Industry Collaboration

The Fund recognises that collaboration with other investors is a powerful tool to keep abreast of developments in this area, and gives the potential for collective action to influence the behaviour of companies, policy makers and other industry stakeholders. The Fund seeks to work with and support the initiatives of relevant bodies.

- The Fund takes its role in the Local Authority Pension Fund Forum (LAPFF) seriously, recognising that this contributes to the effective exercise of its influence through collaboration.
 - Members of the Committee have joined Aon's Responsible Investment Network, a forum for pension fund investors to interact and discuss objectives and implementation.
 - The Fund regularly reviews its participation in collaborative initiatives such as LAPFF, including the benefits of participation.
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Disclosure and Reporting

The Fund recognises that transparency and disclosure is an important aspect of being a responsible investor.

The Fund will:

- Make the Fund's RI policy available to members, and incorporate this fully into the way the Fund communicates and interacts with its members
 - Make the Fund's policy available to the public online
 - Report on the Fund's progress and developments in the way it approaches RI matters
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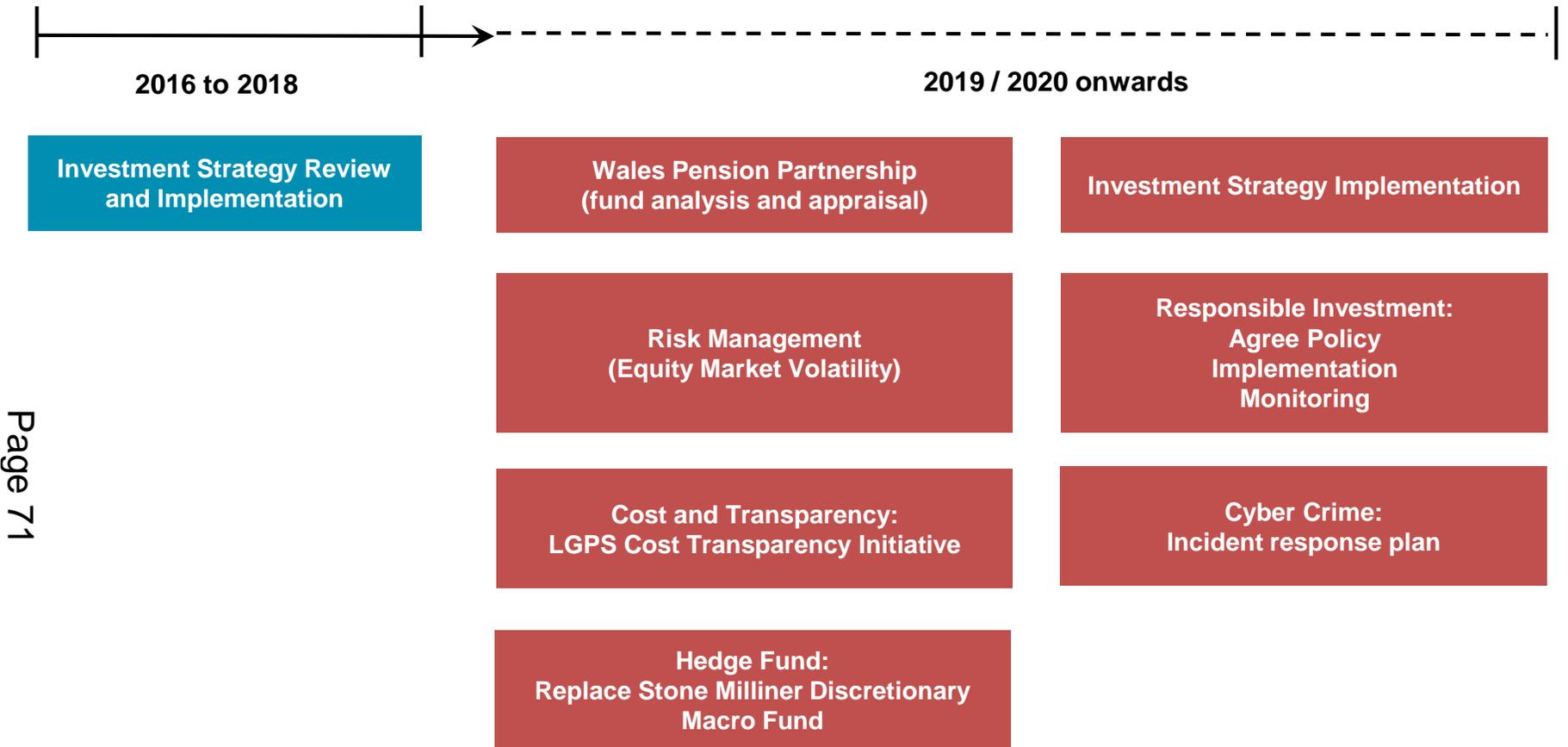
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Powys County Council Pension Fund – Forward Looking Business Plan



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

- Performance monitoring (quarterly basis). This requirement will diminish with the creation of the Wales Pension Partnership.
- Discussions with the Pensions Board Chair

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