Draft Pension Fund Annual Report 2018/19

Powys

Contents

Chairman's Statement

Welcome to the Annual Report of the Powys Pension Fund. This report covers the year ending 31 March 2019 – a year that has seen periods of positive returns on various asset classes, together with tougher periods of poorer performance towards the end of the calendar year. It is also the year that has seen some milestones achieved in collaborative working as part of the Wales Pension Partnership (WPP).

During the year, the Powys Pension Fund has continued to work alongside the other Welsh LGPS Funds as part of the Wales Pension Partnership, with the culmination of the hard work being the transition of the first assets into the Global Equity sub-funds in January 2019.

Powys Pension Fund took part in this initial transition and successfully transitioned approximately £72.5 million of its Global Equity portfolio into the Global Growth sub-fund.

The development of this partnership between the 8 Welsh Funds to enable pooling of Welsh LGPS Fund assets, will hopefully generate improved returns and lower investment costs through the benefits of scale and the transition of the global equities marks an important step in working towards achieving this.

We look forward to continuing to work closely with our LGPS colleagues in Wales as part of this exciting collaboration and the opportunities that will come along, as we work to design sub-funds for the next set of asset classes.

Towards the end of 2017, the Powys Fund decided to move away from a fund of funds approach for the hedge fund asset class by appointing four individual hedge fund managers, each bringing differing approaches and offering what we believe is the best fit for the Powys Fund. In late 2018 subscriptions were made into the CFM Institutional Systematic Diversified Fund LP and IPM Systematic Macro Fund with investments into the Stone Milliner Macro Fund and the Man Alternative Risk Premia Fund following shortly afterwards.

Work on the next triennial valuation is due to take place during the 2019/20 year and the Powys Fund is expecting to see an improvement in the funding position from the 2016 valuation, mainly due to the excellent investment returns on equities seen since then. With that in mind and the uncertainties around Brexit together with the future performance of the equity market, the fund decided to implement an equity protection overlay strategy towards the end of the financial year, to protect against any sudden downturns in the equity market.

I trust that you will find this year's report interesting and informative. Should you have any comments on this report or any aspect of the Pension Fund or the Local Government Pension Scheme, see Appendix 3 for details of how to contact us.

Cllr Peter Lewis
Chair of the Pensions and Investment Committee

Statement of Responsibilities for the Pension Fund Accounts

The Council's Responsibilities as Administering Authority

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. For Powys County Council, that officer is the the Section 151 Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Pension Fund Accounts.

[redacted]

[redacted]

[redacted]

Section 151 Officer Responsibilities

The Section 151 Officer is responsible for the preparation of the Pension Fund's Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice"). These accounts are required to present a true and fair view of the financial position of the Fund at the accounting date and its income and expenditure for the year.

In preparing the Pension Fund Accounts, the Section 151 Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and consistent.
- Complied with the Code of Practice.

The Section 151 Officer has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Section 151 Officer on the Accounts of Powys County Council Pension Fund for 2018/19.

I certify that the accounts set out on pages 28 to 46 present a true and fair view of the financial position of Powys County Council Pension Fund as at 31 March 2019 and its income and expenditure for the year then ended.

Signature: Date

J Thomas, Head of Finance

Pension Board Report

1 Constitution, Representation and Attendance

1.1 The Powys County Council LGPS Local Pension Board ("the Board") was constituted under the Public Service Pensions Act 2013. As such, the Board is not a Committee of the Council.

1.2 It held its first meeting on 31 July 2015. It consists of two representatives of the Scheme employers, and two representatives of the Scheme members, all of whom are voting members. There is also a non-voting independent Chair. A vacancy arose at the start of the year which was filled in due course.

1.3 The Board met on three occasions during the year on the following dates in 2018: 10 July, 21 September and 30 November. Each meeting was quorate, with the overall attendance level at 80%. The planned fourth meeting was re-scheduled to the first week of the new financial year.

	10 Jul 18	21 Sep 18	30 Nov 18
Gerard Moore: Independent Chair	✓	✓	✓
John Byrne: Scheme Member representative	✓	✓	✓
Mick Hutchinson: Scheme Member representative	✓	✓	✓
Wayne Thomas: Scheme Employer representative	✓	✓	✓
Nigel Brinn: Scheme Employer representative	N/A	N/A	x

1.4 Board meetings are open to the public, other than when considering exempt items.

1.5 To facilitate the operation of the Board, the Chair is invited as an observer to meetings of the Powys County Council Pensions and Investment Committee ("the Committee").

2 Functions and Operation of the Board

2.1 The two primary functions of a Local Pension Board (LPB) are to assist the Administering Authority to:

- ensure effective and efficient governance and administration of the LGPS;
- ensure compliance with relevant laws and regulations.

2.2 It therefore has a monitor/assist/review/scrutinize purpose, rather than being a decision making body. It could be seen as being a critical but supportive friend. It sets its own agenda, and can be selective and probe particular topics in more depth than the Committee with its wider range of statutory responsibilities. As such, the general approach of the Board is to seek assurances with evidence from the Fund and external bodies that it is meeting its objectives, producing its required statements, managing its risks, etc. so as to achieve the overall objectives as set out in paragraph 2.1 above. It can and does commission its own reports, and where appropriate, makes recommendations to the Committee and to officers.

2.3 In so doing, the Board is helping manage the reputational risk of both the Fund and the Administering Authority. This is more critical now that the LGPS in England and Wales has both the Ministry of Housing, Communities and Local Government (MHCLG) and the Pensions Regulator (TPR) as its regulators. The Administering Authority, and in extreme circumstances Board members, can be fined by TPR, who also has other powers available.

2.4 The Board is supported by the Board Secretary and operates under Terms of Reference which were initially agreed by Powys County Council in January 2015. They were reviewed at the September 2018 Board meeting, at which recommendations were made for re-wording to reflect the development of the Wales Pensions Partnership. The url for current Terms of Reference is shown in paragraph 7.1.

2.5 In 2018/2019 the direct costs of operating the Board, covering travel and training expenses relating to Board members and the fees and expenses of the Independent Chair amounted to £16,471. These costs do not include any indirect costs relating to officer time nor any apportioned costs for the use of the Council's premises, systems or services recharged to the Fund by the Council. There was a specific budget of £23,021. Board members are covered by indemnity insurance. Mindful of delivering value for money, the Board endeavours to work in a cost-effective manner, as its costs are reflected in employer contribution rates.

3 Detailed Work of the Board

3.1 Overview

3.1.1 This is the fourth Annual Report produced by the Board. Since their inception, Local Pension Boards have become increasingly visible, as have the expectations of both TPR and the Scheme Advisory Board (SAB).

3.1.2 As such, Boards are in a continuous state of evolution. This has manifested itself in a number of ways. There is an increasing dialogue between Board members between formal meetings. This is especially true between the Board Chair and the Board Secretary.

3.1.3 To further improve the communication links between the Board and the Committee, the Board Chair now produces and formally presents to the Committee an Executive Summary from each Board meeting showing any specific recommendations made by the Board, with justifications, what assurances it has gained on behalf of the Committee, and any other matters considered to be relevant to the Committee.

3.1.4 The main elements of the work programme of the Board are governance, and oversight of the pensions administration function, which is run by an in-house team.

3.1.5 Paragraph 4 sets out further examples of how the Board is endeavouring to help manage the reputational risk of the Fund. Such a focus seeks assurances that the Fund is complying with its responsibilities and obligations. Where appropriate, these reviews are extended to ensure that all scheme employers are similarly complying, as their efficient, accurate and timely supply of information and data is critical to the

Fund avoiding poor key performance indicators, but more fundamentally, avoiding breaches of the law, inaccurate data, inaccurate contribution rates and inappropriate investment decisions.

3.2 Risk management

3.2.1 A separate Risk Register is produced for the Pension Fund. The detailed assessment of the likelihood of each risk occurring and its impact had been judged in the light of the existence of the Board as an additional scrutiny resource. Review of the Risk Register is a standing item at Board meetings. During the year, the Board made various recommendations regarding the Risk Register. These included making reference to advantages in succession planning for key pensions staff. The Board was assured that a staffing structure is now in place that can cope with the ever increasing demands and complexities of pension administration. Cyber security and data protection continue to receive increased focus.

3.3 The Pensions Regulator (TPR)

3.3.1 The Pensions Regulator examines the Scheme on an ongoing basis and has, for example, highlighted delays across LGPS Funds in producing Annual Benefit Statements (ABS's). The Board was pleased to note that Powys Pension Fund once again produced its ABS's by the due date but nevertheless continues to seek assurances that the next set of ABS's will once again be delivered on time.

3.3.2 A key achievement of the Board has been to commence, with the Board Secretary, a continuous review of the Fund against the standards and expectations as reflected in TPR's Code of Practice 14. The assessment identifies areas in which the Fund needs to make improvements. The Board has initially looked at the "red and amber" items but would also challenge the areas assessed as "green", so seeking assurance that the evidence supports this level.

3.3.3 The Board monitors TPR's annual review of its priorities, and reflects these in agenda setting. Powys was not in the LGPS cohort of 10 Funds visited by TPR.

3.3.4 A significant addition was made in 2018/19 to the contents of TPR's Scheme Annual Return, which is an obligatory document to be returned within a set deadline, with which Powys complied. The return shows percentages for completeness and accuracy of "common data" and "scheme specific data". Using this 2018/19 data as a baseline, TPR will be measuring and seeking annual improvements in data quality. Whilst data quality for Powys was of a high level, nevertheless a Data Improvement Plan is now in place, which the Board will continue to monitor as a key part of its Work Programme.

3.4 Reporting and Recording Breaches

3.4.1 The Board, and all associated with the Fund, other than individual scheme members, have a responsibility to report significant breaches of law to TPR. Following the improved procedures implemented in the previous year, the Board reviews any breaches of the law as a standing item on its agenda. During 2018/19, none of the recorded breaches were deemed to be of material significance to the TPR, hence no breaches were formally reported via the Administering Authority. A fast track reporting system is now in place for reporting breaches of material significance to TPR in a timely manner.

3.5 Scheme Advisory Board (SAB)

3.5.1 The Board monitors the focus and priorities of the SAB, takes them into account in setting its Work Programme, and also receives minutes of SAB meetings.

3.5.2 The SAB commissions periodic surveys of local pension boards, with the second such survey scheduled for 2019/20.

3.6 Review of Investment Issues

3.6.1 Whilst the vast majority of the Board's work programme focuses on administration and governance issues, investment issues are not ignored.

3.6.2 As expected under the relevant Investment Regulations, the Board continues to monitor the on-going consideration and development of an appropriate strategy for responsible investment, as reflected in the Fund's Investment Strategy Statement.

3.6.3 The Board continued to receive updates on progress by the Wales Pension Partnership on pooling of assets. There was been recent engagement by the host authority with the eight LPB Chairs. On behalf of the Board, the Chair responded to the informal MHCLG Guidance on Asset Pooling, with specific reference to those paragraphs which related to the role of Local Pension Boards.

3.6.4 The Board keeps a watchful eye on on-going compliance with MiFID II, particularly should there be any changes of key staff with investment expertise.

3.7 Scheme documents

3.7.1 The Board examines the range of scheme documents expected to be in place. It has reported where it found gaps or a need to update. The Board recommended expanding some of the content in the Annual Report.

3.7.2 The Board pays particular regard to those standard documents which are sent to scheme members and has made recommendations regarding their content.

4. Ensuring Compliance with Regulatory Deadlines.

4.1 An increasing component of the Board's agenda is ensuring compliance with regulatory deadlines, some of which represent an annual requirement, whilst others relate to the effective dates of new legislation and regulations. In all cases progress reports are received with the Board considering whether any recommendations are appropriate to help meet the deadlines.

4.2 Annual requirements include producing Annual Benefit Statements for active members, Pension Savings Statements and the submission of the Scheme Annual Return to the TPR. Powys Pension Fund complied with these deadlines.

4.3 Other specific deadlines included compliance with the General Data Protection Regulations (GDPR: 25 May 2018) and the Guaranteed Minimum Pension (GMP) reconciliation exercise. At the same time it is appropriate to continue to review on-going compliance of recently implemented legislation, such as GDPR and MiFID II (into effect 3 January 2018).

5. Training

5.1 Each Board member must be conversant with the details of the Scheme, which translates as having a good working knowledge. The training policy for Board members is based on an individual training needs analysis and is therefore being individually tailored. This allows use of both the CIPFA Framework and TPR Toolkit. In addition, Board members are informed of external training opportunities such as CIPFA Pensions Network events and the annual LGA/LGPS Trustees Conference.

5.2 Board members are encouraged to attend at least two LGPS-focussed seminars/conferences each year. Training is often targeted to specific events, e.g. the Triennial Valuation 2019, and the General Data Protection Regulations.

5.3 Board members are invited to training provided for Committee members. New Board members receive one to one training with the Board Chair.

6. Workplan

6.1 The work plan for 2019/20 covers the separate activity areas of:

- Pension Fund Annual Report and Accounts
- administration, including Key Performance Indicators, the Data Improvement Plan and, potentially, Value for Money studies
- audit and risk management, including the Risk Register
- governance; including conflicts of interest, recording and if appropriate reporting breaches, and compliance with TPR's Code of Practice 14
- investments, including developments with the Wales Pension Partnership: implications for Administering Authorities
- external deadlines
- training
- member communications
- participating in and learning from relevant surveys, e.g. of SAB and TPR.

6.2 There is flexibility to allow for any additional reviews and developments.

7. Public accountability

7.1 As well as being open to the public, the agendas, minutes and the Board's Terms of Reference are available on the Authority's website at the following address:

https://www.powyspensionfund.org/powys-pension-fund/about-us/forms-and-publications/

The Chair of Powys County Council's LGPS Local Pension Board wishes to thank his fellow Board members who have volunteered their time and energies in their roles. Thanks are also expressed to the Board Secretary, the Chair of the Pensions and Investments Committee, the Cabinet Manager for Legal, Scrutiny and Democratic Services, and to other support officers.

Gerard Moore
Independent Chair
Powys County Council LGPS Local Pension Board

Scheme Management and Advisors

The Pensions & Investment Committee is the principal decision-making body for the Pension Fund responsible for management, investment and administration issues. The Committee is governed by its constitution which sets out the Committee's authority, its membership and its overall mode of operation.

Members of the Committee are drawn from Powys County Council as the administering authority with the addition of two further (non-voting) members representing Fund Employers and Scheme Members. The Committee receives advice and guidance from both Officers of Powys County Council and external professional advisers. From 5 May 2018 the membership of the Committee was as follows:

County Councillor P Lewis (Chair)
County Councillor E A Jones (Vice Chair)
County Councillor T Van-Rees
County Councillor J Morris
County Councillor H Williams
County Councillor A Davies
Mr A M C Weale (Fund Employers)
Vacant (Scheme Members)

Officers and Fund Advisors:

Mrs J Thomas (s.151 Officer and Head of Finance)
Mr C Hurst (Pension Fund Manager)
Mr D Paley (Financial Reporting and Policy Accountant)
Mrs R Pinder / Mr S Mayne – Aon (Investment Consultants)
Mr C Archer – Aon (Actuary)
Burges Salmon (Legal Advisers)

Link Asset Services (Wales Pension Partnership FCA Authorised Operator)

Risk Management

The Fund uses a risk register to identify, manage and monitor risks to the Fund. The risk register can be found with the following link.

https://www.powyspensionfund.org/media/4563/risk-register-revised-mar-2019.xlsx

The Investment Strategy Statement (Appendix 4) highlights the Funds approach to risk, the assessment of risks and how they are managed. The Funding Strategy Statement (Appendix 6) includes the key risks and controls in place to mitigate them.

At year end investment managers are requested to provide SSAE16/70 or equivalent type reports for review. Our Investment Advisors provide quarterly reports in line with Committee meetings to update on investment activity and performance over the period.

Financial Performance

Detailed information on the accounts of the Fund can be found later in the report. The main movements between years can be attributed to increases in the market value of the investments. The movements in non-investments assets and liabilities can be found in Note 13: Current Assets and Liabilities of the accounts.

At the last valuation it was determined that the aggregate Employer total contribution rate required to restore the funding ratio to 100% using a recovery period of 22 years from 1 April 2017 is 26.6% of pensionable pay. In 2018-19 contributions were received in timely manner.

Fund Administration Report

Scheme Details

Powys County Council is the Administering Authority for the Powys Pension Fund. The Pension Fund provides pension entitlements under the Local Government Pension Scheme ("LGPS") to all eligible employees of Powys County Council and other participating bodies. Membership of the LGPS is not mandatory and excludes teachers, police officers and fire fighters, for whom specific separate pension schemes are available. The LGPS is a statutory public service defined benefit pension scheme based on final salary for benefits accrued up to 31 March 2014 and Career Average Revalued Earnings ("CARE") for benefits accrued from 1 April 2014. Contributions payable by employees and the benefits due to them are prescribed by the Local Government Pension Scheme Regulations.

Additional Voluntary Contribution (AVC) Scheme

Since 6 April 1988, it has been a legal requirement for all pension schemes to provide members with access to an in-house AVC Scheme. The Powys Pension Fund's appointed providers are the Equitable Life Assurance Society, the Standard Life Assurance Company and Prudential plc. Members are able to pay contributions into a variety of AVC arrangements offered by the providers, to secure additional pension benefits. The AVC investments are excluded from the Pension Fund Accounts.

Changes to Scheme Rules

During 2018/19 there have been two statutory instruments issued that have changed the rules governing the LGPS.

The first was the Local Government Pension Scheme (Amendment) Regulations 2018, which came into force on 14 May 2018. These regulations clarify and amend previous regulations and introduce parity into the treatment of scheme members who fall under differing sets of regulations.

The second set of changes were contained in the Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018, which came into force on 10 January 2019. These regulations clarify a number of matters introduced in the previous set of amendment regulations.

The Pensions Regulator

In April 2015 the Pensions Regulator published the Code of Practice no. 14: Governance and Administration of Public Service Pension Schemes. The Code applies to all schemes established under the Public Service Pensions Act 2013 and is directed at scheme managers and members of pension boards of public service schemes. The Code contains four parts:

- Governing your scheme
- Managing risks
- Administration
- Resolving issues

Pension Fund officers and the Powys Pension Board will oversee and monitor the performance of the Powys Pension Fund against the Code.

The Fund is required to complete an annual return to The Pensions Regulator and include scores on the quality of the Common and Scheme Specific Data, measured against the regulator's specified criteria. In the latest return, the scores for the quality of Common Data was 93% and the Scheme Specific Data was 76%.

A data improvement plan was published in October 2018, outlining how the Fund plan to tackle the highest priority cases and improve the quality of the data that it holds and, in turn, improve the above scores for future annual returns.

Altair

Since January 2011 the Pensions Team's main administration system has been Altair. This system is used for holding membership data, the calculation of pension benefits, the generation of scheme documents and the data extracts required at each actuarial valuation. In addition, the Team also uses Civica Electronic Document Management (EDM) that provides document management and workflow monitoring facilities.

A member self-service portal is also provided for scheme members use, enabling 24/7 access for scheme members to their Powys Pension Fund pension benefits.

The address for this facility is www.mypowyspension.co.uk.

More detail on the online facility is included in the "My Powys Pension Engagement" section of this report.

Performance Standards

The Pensions Team has a number of service standards that it seeks to meet in order to ensure that it is providing an efficient and timely service to members of the LGPS. The standards are:

New Active Members

Membership Certificate: We aim to issue a Membership Certificate to a new member within one month of receiving a completed notification from the member's employer.

Transfers In: We aim to acknowledge the member's request for transfer details and calculate the estimated benefits that a transfer value will buy and issue a quotation within 10 days of receiving details from the previous scheme and any additional essential information required from Her Majesty's Revenue & Customs. We aim to request payment of the transfer value within 5 days of receiving confirmation from the member that the transfer is to proceed. We aim to confirm the actual benefits purchased by the transfer value within 10 days of receiving payment from the previous scheme.

Existing Active Members

Annual Benefit Statements: Provided pay details are received from employers promptly after the year end and provided we hold all of the relevant information, we will make available each year an Annual Benefit Statement to each member showing the estimated current value of accrued benefits, the value of prospective benefits at normal retirement age, the estimated current value of death-in-service benefits and, for tax purposes the amount of Annual Allowance used by the change in benefit value since the previous year.

Paying Extra Contributions: We aim to provide information within 10 days of receiving a request from a member wishing to pay extra contributions.

Retirements: We aim to send details of the benefits payable and pay the member's tax-free cash lump sum within 10 days of receiving all of the information required from the member's employer and/or the member.

Deaths: We aim to send details of the benefits payable within 10 days of receiving all of the information required from the late member's employer and we will pay the lump sum death grant within 10 days of receiving Grant of Probate (or other appropriate documentation) or authorisation from two delegated officers.

Early Leavers: We aim to send details of the benefit options available within 30 days of receiving all of the information required from the employer.

Refunds: We aim to pay a refund by the end of the month following receipt of the member's formal request for payment.

Transfers Out: We aim to issue a quotation, guaranteed for 3 months, within 10 days of receiving the member's request and confirmation of the member's contracted-out rights from Her Majesty's Revenue & Customs (where appropriate). We aim to pay a transfer value within five days of receiving confirmation from the member that the transfer is to be made and all of the information we require to make payment.

Deferred Members

Annual Benefit Statements: We aim to make available to each deferred member a Benefit Statement by 31 August annually, showing the current value of the member's preserved benefits.

Deferred Benefits into Payment: Provided we hold an address which has been confirmed we will write to the member setting out the benefit options available to them, at least 30 days prior to the date benefits become payable.

The Powys Pension Fund aims to deliver an excellent experience to its stakeholders and scheme members, whilst constantly reviewing process in an attempt to deliver value for money.

Communications

An effective communications strategy is vital for any organisation that strives to provide a high quality and consistent service to its customers. The complexity of pensions in general and the LGPS in particular, places communications at the heart of a high quality service provision. Communication material is produced locally and on an all Wales basis in collaboration with the seven other Welsh LGPS Pension Funds.

Powys Pension Fund communicates with all stakeholders, as defined in specific legislation. Communication is increasingly distributed via electronic means, with all documents available on www.powyspensionfund.org, whilst staff can be contacted via pensions@powys.gov.uk. A named Pension Technician is allocated to each member of the Scheme. Details of which can been found in Appendix 3.

Appropriately qualified members of staff from the Pensions Section or external experts/specialists will deliver presentations to groups of stakeholders and conduct individual meetings as required. The Pension Fund's objective in respect of communication is to comply with relevant legislation and ensure that individual members and employers receive accurate and timely information about their pension arrangements.

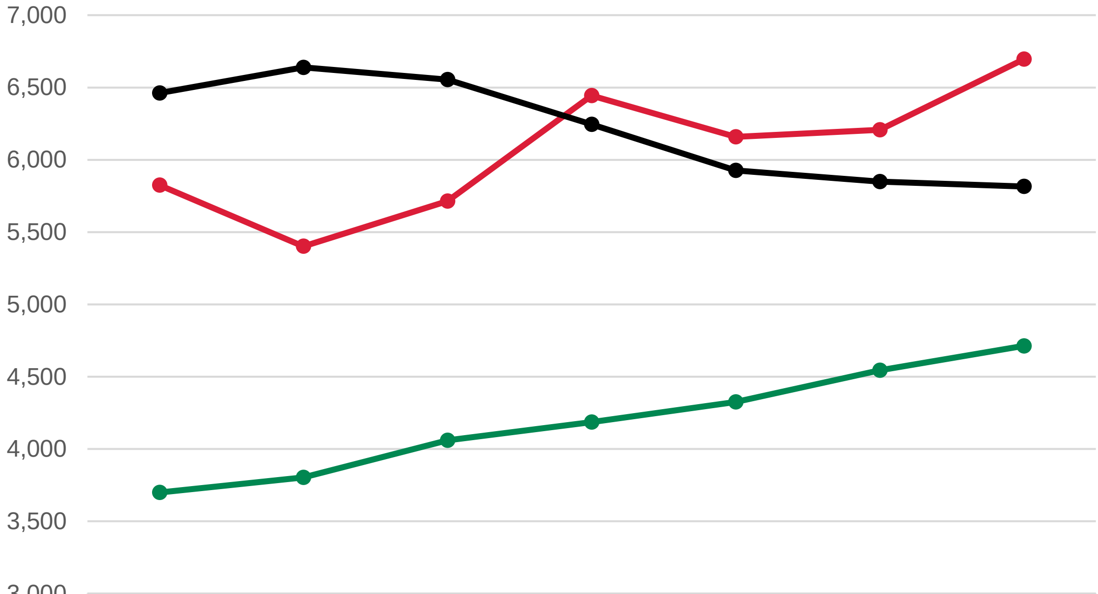
Information on policies and guidance produced is available on the Powys Fund website and the Local Government Association's here http://lgpsregs.org/resources/guidesetc.php

The Powys Pension Fund has a formal complaints procedure, which can be found here: https://www.powyspensionfund.org/powys-pension-fund/about-us/compliments-complaints-and-disputes/

Scheme Statistics and Performance

Membership Trends

The graph below shows the membership of the Fund as at 31 March. Deferred members are former employees of the contributing authorities who have yet to draw their pensions.



	2013	2014	2015	2016	2017	2018	2019
Deferred	5,824	5,401	5,713	6,443	6,158	6,206	6,695
Pensioner	3,699	3,803	4,059	4,185	4,326	4,545	4,713
Contributers	6,462	6,639	6,555	6,244	5,927	5,849	5,815

Details of new pensioners

Total Retirements in 2018-19	**271**
Ill Health	3
Early Retirements	241
Normal Retirements	27

Financial Indicators

The total number of scheme members at 31 March 2019 was 17,223.

	2018-19 Total Expenses £'000	**2018-19 Cost per member £'000**
Administration expenses	1,019	59
Investment management expenses	2,432	141
Oversight and governance costs	151	9
Total Management Expenses	3,602	209

The following data has been collected from SF3 data and compared with the other Wales Funds.

Process	2013/14	2014/15	2015/16	2016/17	2017/18	Wales 2017/18
Investment Management Expenses						
Total Cost (£'000)	2,226	2,392	2,706	2,152	2,330	73,652
Total Membership (number)	15,934	16,138	16,416	16,348	16,431	358,750
Sub Cost per Membership (£)	139.70	148.22	164.84	131.64	141.81	205.30
Administration Costs						
Total Cost (£'000)	921	866	906	1,413	1,002	9,851
Total Membership (number)	15,934	16,138	16,416	16,348	16,431	358,750
Sub Cost per Membership (£)	57.8	53.66	55.16	86.43	60.98	27.46
Oversight and Governance Costs						
Total Cost (£'000)	-	-	111	126	92	3,398
Total Membership (number)	15,394	16,138	16,416	16,348	16,431	358,750
Sub Cost per Membership (£)	-	-	6.76	7.71	5.60	9.47
Total Cost per Member	197.50	201.88	226.79	225.78	208.39	242.23

Staffing

There are 8.8 (FTE) members of staff in the Pension Administration section. Of their work 6.6 FTE equivalents would be performing purely pension administration tasks. This calculates to a ratio of 2,610 members per member of staff performing purely pension administration tasks.

Employers in the Fund

Employer Data	Active	Ceased	Total
Scheduled Bodies	11	6	17
Admitted Bodies	14	7	21
Total	25	13	38

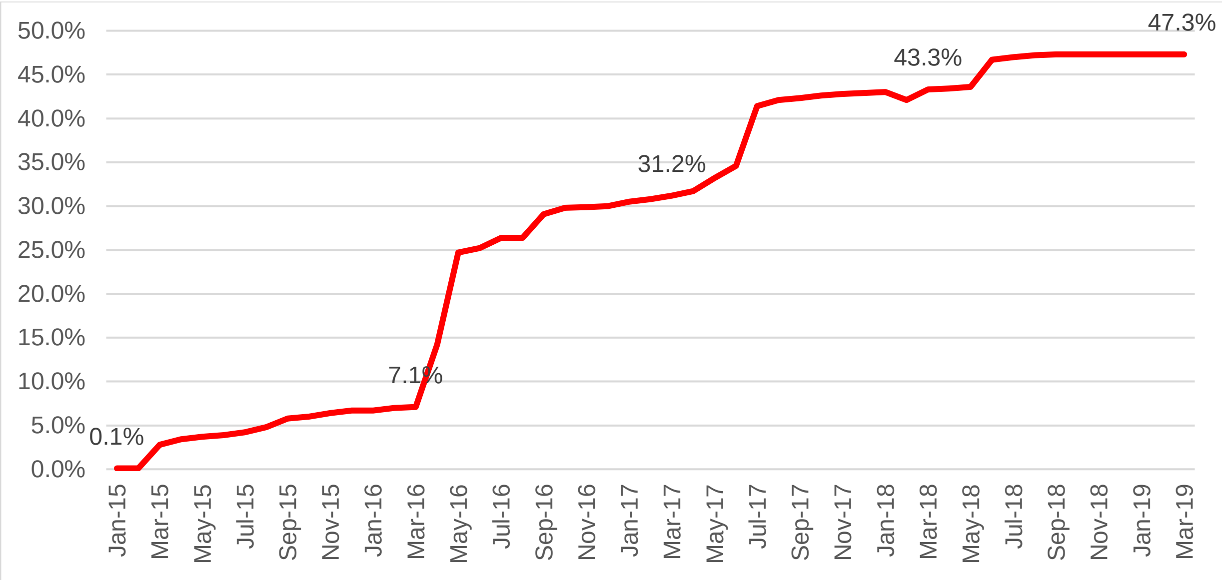
Further details of Fund Employers can be found in Appendix 3.

Contributions received split by employers and employees

2018/19	**No of contributors as at 31 Mar**	**Employers normal £**	**Employers additional £**	**Members normal £**	**Total £**
Scheduled Bodies					
Brecon Beacons National Park	111	446,894	34,453	161,520	642,867
Brecon Town Council	5	19,052	-	5,765	24,816
Llandrindod Wells Town Council	1	5,956	-	1,889	7,845
Llanidloes Burial Joint Committee	1	2,767	-	747	3,514
Llandidloes Town Council	1	5,269	-	1,663	6,931
Machynlleth Town Council	10	27,998	-	7,609	35,606
Newtown Town Council	10	50,391	-	16,007	66,398
Powys County Council	5,219	13,420,313	943,546	4,521,118	18,884,977
Welshpool Town Council	2	5,107	-	1,363	6,470
Ystradfellte Community Council	1	469	-	125	595
Ystradgynlais Town Council	2	11,632	3,965	17,391	32,987
Sub total	5,363	13,995,847	981,964	4,735,196	19,713,007
Admitted Bodies					
Adapt business Services	2	4,092	-	979	5,071
Aramark		3,251	-	784	4,035
BUPA	28	109,191	-	29,866	139,056
Bupa Brynhyfryd	1	4,264	-	883	5,147
Careers Wales	17	89,146	-	38,692	127,838
Elite Supported Employment Agency Ltd	-	3,333	-	745	4,078
Freedom Leisure (ex. PCC)	277	241,239	-	105,344	346,583
Freedom Leisure (Post PCC)	27	6,083	-	2,501	8,584
Heart Of Wales Property Services	72	444,582	-	117,913	562,494
Kier Facilities Services Ltd	-	13,297	-	3,156	16,453
Menter Maldwyn	4	8,183	-	4,178	12,361
Mirus-Wales Ltd	4	17,391	-	5,571	22,962
P.A.V.O. (Former P.R.C.)	3	16,778	-	4,753	21,531
Powys Dance	1	6,560	-	2,080	8,640
Solo Service Group	14	23,084	-	5,562	28,646
Theatr Brycheiniog	1	3,323	-	1,688	5,011
Ystradgynlais Miners Welfare & Com Hall Trust Ltd	1	17,781	-	5,263	23,044
Sub total	452	1,011,579	0	329,955	1,341,535
Total	5,815	15,007,426	981,964	5,065,152	21,054,541

My Powys Pension Engagement

My Powys Pension was launched at the end of February 2015 as the new way for scheme members to monitor and engage with their pension. Below is a chart which shows the percentage of scheme members (excluding councillors) who have registered to this service since it was launched.



By the end of financial year 2017/18, 43.3% of scheme members (excluding councillors) had registered to use My Powys Pension. This has grown to 47.3% by the end of financial year 2018/19.

Website traffic

The hosts of our websites are able to track how many visits they receive, including new visitors and how many webpages have been viewed. Below is a summary of their data over each financial year.

Financial Year	Visits	New Visits	Page Views	Avg. Pages per Visit
2015/16 (*)	1,973	1,103	8,555	4.34
2016/17	2,789	1,816	10,171	3.65
2017/18	1,999	1,307	6,283	3.14
2018/19	3,359	2,527	5,886	1.75

(*) Please note that figures for December 2015 were not provided. As such to facilitate a comparison between the years, it has been assumed that the figures would be similar to an average of the preceding 3 months.

Workflow Performance

As covered in Performance Standards on page 14, the below table shows the workload placed on the Pensions Team and how many of the various requests have been fulfilled. The 'Performance' percentage is calculated by dividing the number of tasks completed in the given year by those raised in the same year. As such if some of the completed tasks were originally raised in the previous year, this may exceed 100%.

	2016/17	2017/18	2018/19
Brought Forward	1,082	963	1,055
Started	9,568	8,054	7,209
Completed	9,688	7,962	6,506
Carried Forward	962	1,055	1,758
Performance	**101%**	**98.9%**	**88.25%**

The overall performance over the 2018/19 year is at 88.25%. Whilst this is below the benchmark of 100%, this primarily due to the administration service running at reduced capacity for the period 2 April 2018 to 31 December 2018, following three retirements within the period.

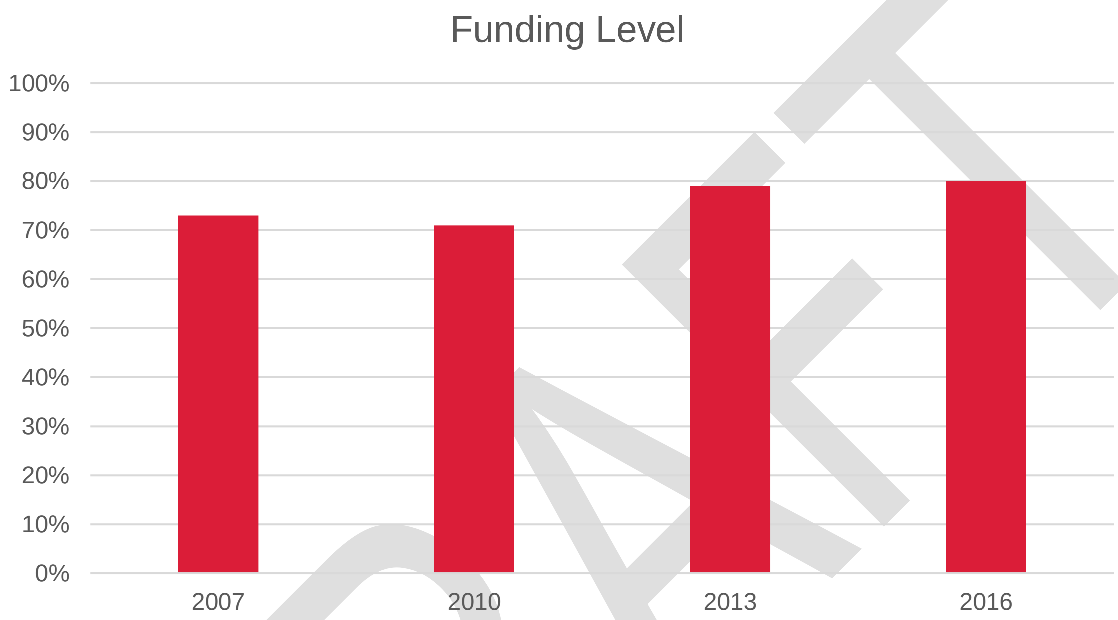
There was a slight redesign to the staffing structure during the same period to facilitate an increase in administration resource from 1 January 2019.

Process	No. cases outstanding at start of the period	No. Cases commenced in year	No. cases completed in year	No. cases outstanding at year end	% completed in year
Deaths	57	182	180	59	98.90%
Retirements	57	256	264	49	103.13%
Deferment	246	572	248	570	43.36%
Transfers in	71	206	174	103	84.47%
Transfers out	63	132	120	75	90.91%
Divorce quote	1	27	23	5	85.19%
Divorce actual	0	4	3	1	75.00%
Pensions Estimates	50	724	689	85	95.17%
Starters	0	401	392	9	97.76%
Aggregations	185	251	229	207	91.24%

Process		**Legal Requirement (from Notification)**	**%**
Death	Letter Acknowledging death of member	2 months	94%
Death	Letter notifying amount of dependant's benefits	2 months	93%
Deferment	Calculate & Notify Deferred Benefits	2 months	39%
Transfer Out	Letter detailing Transfer Out Quote	2 months	95%

Refund	Process and Pay a Refund	2 months	99%
Divorce Quote	Letter detailing cash equivalent value and other benefits	3 months	99%
Divorce Actual	Letter detailing implementation of cash equivalent value and application of pension sharing order	3 months	99%
Joiners	Send notification of joining the LGPS to scheme member	2 months	97%

Funding and Valuation



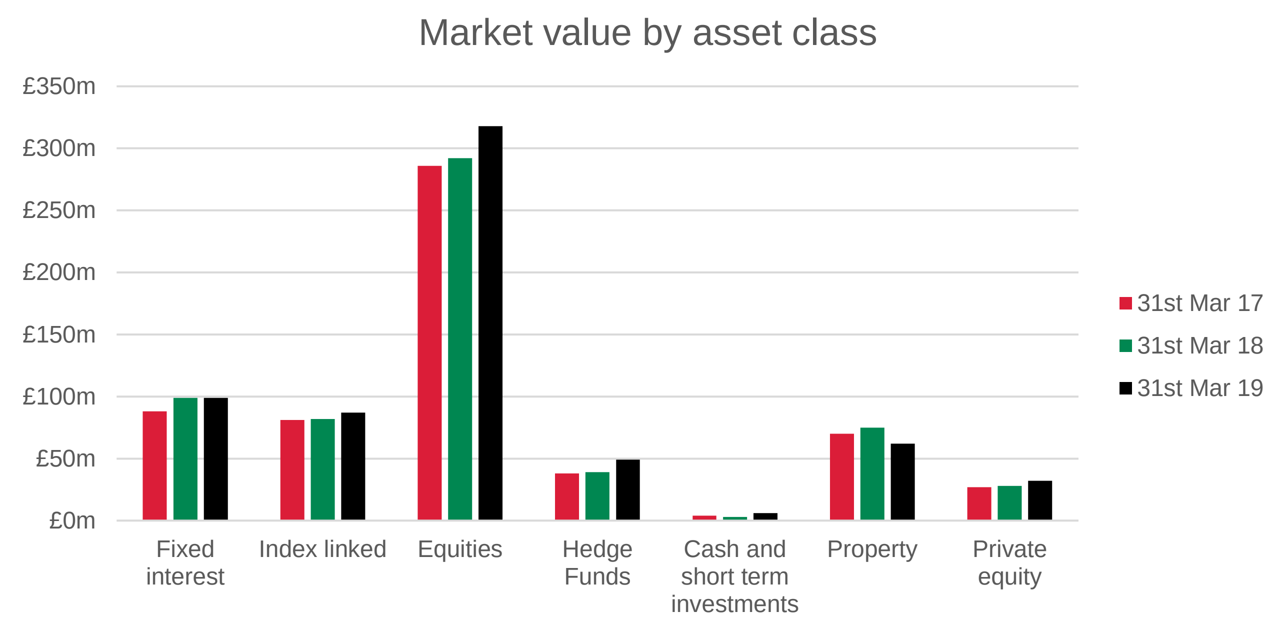
The aim of the funding is to accumulate current contributions at a level sufficient to provide known benefits at some time in the future. In short therefore, the scheme benefits are financed by contributions from employees and employers together with income from investments. Both the employees' contributions and the benefits to be provided by the scheme are fixed by the Government as set out in the Local Government Pension Scheme Regulations, leaving the employers' rate of contribution as the only element which can be deliberately adjusted.

The employers' rate of contribution is assessed by the Actuary to the Fund who reviews the future income and liabilities of the Fund. These reviews, or actuarial valuations, are required by law with a major review being undertaken every third year.

The actuarial valuation as at 31 March 2016 showed the assets held at the valuation date were sufficient to cover 80% of the accrued liabilities assessed on an ongoing basis. While this is a slight improvement on the 79% achieved as at 31 March 2013, it is the long-term goal to achieve 100% funding and efforts continue to be made to address this. The level of funding has no impact on members' benefits which are guaranteed by law.

Investment Policy and Performance

The prime requirement in managing the Fund is to ensure adequate diversification of its assets over different asset classes and different geographical areas. The right balance must be struck between the desire for enhanced returns and potential ‘risk’ of volatility in those returns i.e. the investment policy of the Fund is aimed at maximising returns within the acceptable limits of risk. There is no ideal split for any fund, so the portfolio balance needs to be regularly monitored and adjusted in line with the economic, financial and market indicators.



The investment style of the Fund is to appoint external expert fund managers with clear performance benchmarks and place accountability for performance against those benchmarks on the fund managers. The benchmarks are outlined in paragraph 6.3 of Appendix 4, The Investment Strategy Statement. The Chief Financial Officer must ensure that the management of the Fund falls within the requirements of the Local Government Pension Scheme Regulations.

During 2018/19 the Fund liquidated its Hedge Fund of Funds investments to invest in four single manager Hedge funds. Also, the transition of active equity funds to the Wales Pension Partnership pool was partially completed during the period. Of the £18.9m capital commitment (Note 18) outstanding as at 31 March 2018, £4.7m was drawn down in 2018/19.

Performance Review

	1 Year %	3 Years %	5 Years %
Powys Pension Fund Overall Return	5.4	9.6	8.7
Inflation CPI	2.3	2.1	1.5
Average Earnings Index	2.9	2.5	2.3

Given the long-term nature of the Fund, perhaps the most significant column above is that detailing the comparisons over five years. Inflation and average earning percentages are taken from the Office for National Statistics data.

The following tables include returns over 1, 3 and 5 years by asset class and current manager. The managers appointed in 2018/19 have been included for completeness although full year returns are not applicable.

Asset Class and Manager Performance 1 Year

Asset Class/ Manager	Fund %	Benchmark	Excess Return
Equity	7.1	9.0	(1.9)
LF WPP Global Growth Fund	n/a	n/a	n/a
Hosking	(2.3)	10.5	(12.8)
BlackRock	7.9	8.0	(0.1)
Bond	2.7	4.2	(1.5)
Insight Corporate Bond	2.8	3.7	(0.9)
BlackRock Corporate Bond	4.4	3.7	0.7
Insight Absolute Return Bond	(2.3)	0.8	(3.1)
Insight Index Linked Gilt	n/a	n/a	n/a
BlackRock Index Linked Gilt	5.8	5.7	0.1
Blackrock Gilts	3.8	3.7	0.1
Property Fund	4.9	5.1	(0.1)
Aviva	4.1	5.1	(1.0)
Hermes UK Property Fund	6.1	5.6	0.5
Schroders UK Property Fund	5.2	5.1	0.1
CBRE European Property Fund	(3.1)	2.4	(5.5)
Private Equity	15.6	11.3	4.3
Standard Life	12.8	12.6	0.2
HarbourVest	15.8	12.6	3.2
Hedge Funds	3.3	0.8	2.5
Man Alternative Risk Premia	n/a	n/a	n/a
CFM Systematic Diversified Fund	n/a	n/a	n/a
Stone Milliner Macro Fund	n/a	n/a	n/a
IPM Systematic Macro Fund	n/a	n/a	n/a

Asset Class and Manager Performance 3 Year

Asset Class/ Manager	Fund %	Benchmark	Excess Return
Equity	13.7	13.3	0.4
LF WPP Global Growth Fund	n/a	n/a	n/a
Hosking	n/a	n/a	n/a
BlackRock	14.6	14.7	(0.1)
Bond	4.3	6.0	(1.7)
Insight Corporate Bond	4.7	4.7	0.0
BlackRock Corporate Bond	5.0	4.5	0.5
Insight Absolute Return Bond	0.5	0.5	0.0
Insight Index Linked Gilt	n/a	n/a	n/a
BlackRock Index Linked Gilt	11.7	9.1	2.6

Blackrock Gilts	1.2	3.6	(2.4)
Property Fund	6.6	6.3	0.3
Aviva	5.1	6.3	(1.2)
Hermes UK Property Fund	8.0	6.8	1.2
Schroders UK Property Fund	7.5	6.3	1.2
CBRE European Property Fund	(3.4)	3.0	(6.4)
Private Equity	14.7	15.3	(0.6)
Standard Life	14.6	15.0	(0.4)
HarbourVest	14.9	15.0	(0.1)
Hedge Funds	4.1	0.5	3.5
Man Alternative Risk Premia	n/a	n/a	n/a
CFM Systematic Diversified Fund	n/a	n/a	n/a
Stone Milliner Macro Fund	n/a	n/a	n/a
IPM Systematic Macro Fund	n/a	n/a	n/a

Asset Class and Manager Performance 5 Year

Asset Class/ Manager	Fund %	Benchmark	Excess Return
Equity	11.6	11.4	0.2
LF WPP Global Growth Fund	n/a	n/a	n/a
Hosking	n/a	n/a	n/a
BlackRock	n/a	n/a	n/a
Bond	5.1	6.1	(1.0)
Insight Corporate Bond	n/a	n/a	n/a
BlackRock Corporate Bond	n/a	n/a	n/a
Insight Absolute Return Bond	0.7	0.5	0.2
Insight Index Linked Gilt	n/a	n/a	n/a
BlackRock Index Linked Gilt	n/a	n/a	n/a
Blackrock Gilts	n/a	n/a	n/a
Property Fund	7.6	9.1	(1.6)
Aviva	7.9	9.1	(1.2)
Hermes UK Property Fund	n/a	n/a	n/a
Schroders UK Property Fund	n/a	n/a	n/a
CBRE European Property Fund	n/a	n/a	n/a
Private Equity	n/a	n/a	n/a
Standard Life	n/a	n/a	n/a
HarbourVest	n/a	n/a	n/a
Hedge Funds	n/a	n/a	n/a
Man Alternative Risk Premia	n/a	n/a	n/a
CFM Systematic Diversified Fund	n/a	n/a	n/a
Stone Milliner Macro Fund	n/a	n/a	n/a
IPM Systematic Macro Fund	n/a	n/a	n/a

Investment manager structure as a percentage of fund total, as at 31 March 2019

	Manager						
	Blackrock	Hosking & Link WPP	Insight Investments	CFM, IPM, MAN, Stone Milliner	Aviva, CBRE, Schroders & Hermes	Standard Life & Harbourvest	
Asset Class	Passive %	Active %	Active %	Active %	Active %	Active %	Total %
Equities	31.3	17.4	-	-	-	-	48.7
Bonds	3.8	-	11.4	-	-	-	15.2
Index Linked	8.7	-	4.5	-	-	-	13.2
Hedge Fund	-	-	-	7.6	-	-	7.6
Property	-	-	-	-	9.5	-	9.5
Private Equity	-	-	-	-	-	4.9	4.9
Cash/ Other	0.9	-	-	-	-	-	0.9
Total	44.7	17.4	15.9	7.6	9.5	4.9	100.0

The strategic asset allocation is as follows:

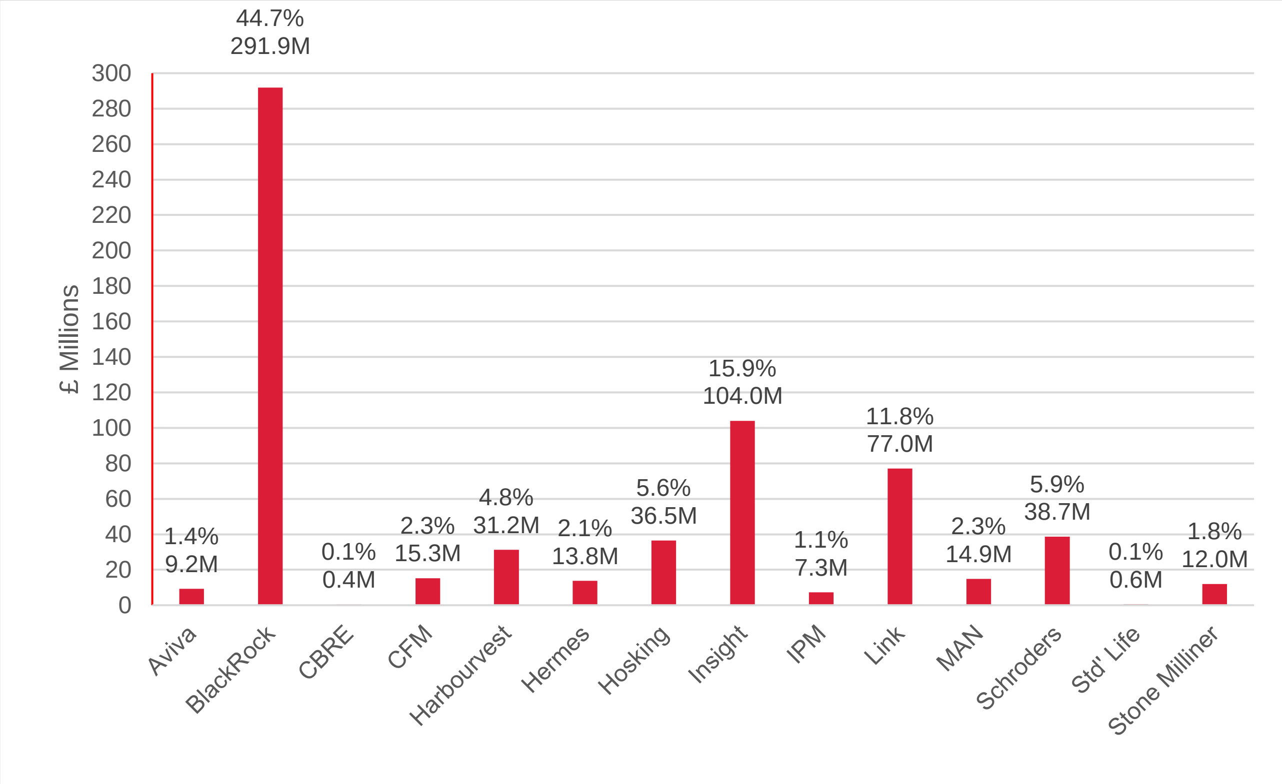
2017/18		**2018/19**
47%	Equities	47%
30%	Fixed interest and index linked securities	30%
10%	Property	10%
5%	Private equity	5%
8%	Hedge fund of funds	8%
100%	**Total**	**100%**

The current strategic asset allocation is 70% return seeking and 30% risk reducing (matching assets). This strategy was determined with the aid of the fund's Investment Advisors.

The strategic asset allocation is the ideal target and cannot be achieved until the scheme is fully funded in all areas. It does not reflect the actual investments held at the year-end. The current structure aims to have a 70:30 split between return seeking and liability matching assets.

AON Hewitt Limited currently operates a Medium Term Asset Allocation (MTAA) project for the Fund. It utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% per annum by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. The MTAA service has an artificial benchmark of 52% equity, 33% bonds and 15% alternatives.

The market value of assets spread between the fund managers as at 31 March 2019 is shown below.



Post pool reporting

In January 2019, the Fund transferred assets into the LF Wales PP Global Growth Fund, a global equity fund managed by the Wales Pension Partnership pool operator Link Asset Services. The split of investments by manager can be found in note 12b: Investments Analysed by Fund Manager, of the accounts. The value of assets transferred in the pool at 31 March 2019 is £77.06m.

2017/18 £'000	WPP Oversight and Governance Costs	2018/19 £'000
65	Set-Up Costs	73
-	Host Authority Costs	20
	WPP Investment Management Expenses	
-	Fund Manager Fees	46

Net Assets Statement

As at 31 March

2018 £'000		Note	2019 £'000
618,327	Investments	12	652,770
2,081	Current Assets	13	3,215
(1,471)	Current Liabilities	13	(1,412)
618,937	Net Asset as at 31 Mar		654,573

The accounts show cash held with the Investment Managers as investments as recommended in the Statement of Recommended Practice, Financial Reports for Pension Schemes.

Pension Fund Account

2017/18 £'000		Note	2018/19 £'000
	Contributions and benefits		
(24,248)	Contributions receivable	4	(26,545)
(1,905)	Transfers in	5	(1,851)
(37)	Other income	6	(31)
(26,190)	Total income		(28,427)
26,380	Benefits payable	7	26,218
2,512	Payments on account of leavers	8	2,664
3,424	Management expenses	9	3,602
32,316	Total expenditure		32,484
6,126	Net withdrawals from dealing with members		4,057
	Returns on investments		
(5,888)	Investment income	10	(6,153)
3	Taxes on Income	11	2
(21,036)	Changes in the market value of investments	12	(33,542)
(26,921)	Net profit on investments		(39,693)
(20,795)	Net (increase)/decrease in the fund		(35,636)
598,142	Opening net assets		618,937
618,937	Closing net assets		654,573

Notes to the Pension Accounts

Note 1: Basis of Preparation

The financial statements have been prepared in accordance with the requirements of the 2018/19 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement by the actuary included in the annual report and these financial statements should be read in conjunction with it.

Note 2: Accounting Policies

Contributions and Benefits

Contributions are accounted for on an accruals basis. Benefits payable represents the benefits entitlement up to the end of the reporting period.

Transfers to other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contribution to purchase scheme benefits are accounted for on a receipts basis and are included in Additional Contributions.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Refunds to Leavers

These are accounted for when due.

Investment Management Expenses

Each fund manager receives a fee for their services based on the market value of the assets they manage.

Investment Income

Interest income

Interest income is recognised in the fund account as it accrues.

Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Change in Market Value

Changes in market value of investments comprise reinvested investment income and all realised and unrealised profits/losses during the year.

Foreign Currency Transactions

Assets and liabilities held in a foreign currency are translated at the rate of sterling quoted at year-end. Income and expenditure arising during the year is translated into sterling at the rate quoted on the date of receipt or payment. Resulting exchange gains or losses are recognised through the revenue account.

Valuation of Assets

No property is directly held by the fund. The market value used for quoted investments is the bid market price ruling on the final day of the accounting period. Fund Managers value unquoted securities at the year-end in line with generally accepted guidelines to ascertain the fair value of the investment. Change in Market value also includes income which is reinvested in the fund, net of applicable tax. Fixed interest securities are recorded at net market value based on their current yields. Fair value for limited partnerships is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. It is not the intention of the fund to dispose of unquoted investments before maturity.

Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to cash and that are subject to minimal risk of changes in value.

Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the fund has opted to disclose the actuarial value of promised retirement benefits by way of a note to the net assets statement (note 21).

Administrative expenses

All staff costs of the pension administration team and other overheads are apportioned to the fund in accordance with Council policy.

Contingent Liabilities

Contingent liabilities are possible liabilities whose existence will only be confirmed by future events and are not recognised until the realisation of the loss is virtually certain.

Additional Voluntary Contributions (AVC's)

Members of the Pension Fund may make additional voluntary contributions (AVCs) in order to obtain improved benefits on retirement. The AVC investments are excluded from the Financial Statements of the Powys Pension Fund, in accordance with section 4(2)b of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 15).

Note 3: Critical Judgements in Applying Accounting Policies

Unquoted private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgements involving many factors. Unquoted private equity investments are valued by the investment managers using acceptable guidelines. The value of these investments at 31 March 2019 was £31.8m (31 March 2018: £28.5m).

An analysis of investments can be found later in Note 12a.

Pension Fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in the statement of the actuary. This estimate is subject to significant variances based on changes to the underlying assumptions.

Note 4: Contributions Receivable

2017/18 £'000	By Category	2018/19 £'000
19,505	Employers	21,480
4,743	Employees	5,065
24,248		26,545

2017/18 £'000	By Authority	2018/19 £'000
21,946	Powys County Council (administering body)	24,225
875	Scheduled bodies	956
1,427	Admitted bodies	1,364
24,248		26,545

2017/18 £'000	By Type	2018/19 £'000
14,244	Employers normal contributions	15,008
4,743	Employees normal contributions	5,065
406	Employers additional contributions	982
4,855	Employers deficit reduction contributions	5,490
24,248		26,545

Note 5: Transfers In

2017/18 £'000		2018/19 £'000
1,905	Individual transfers from other schemes	1,851

Note 6: Other Income

2017/18 £'000		2018/19 £'000
17	Administrative fees received	10
20	Additional allowances recovered	21
37		31

Note 7: Benefit Payable

2017/18 £'000		2018/19 £'000
21,000	Pensions	22,103
4,898	Commutations and lump sum retirement benefits	3,594
482	Lump sum death benefits	521
26,380		26,218

Benefits can be further analysed as follows:

2017/18 £'000		2018/19 £'000
22,366	Powys County Council (administering authority)	22,368
2,580	Scheduled bodies	2,546
1,434	Admitted bodies	1,304
26,380		26,218

Note 8: Payments to and on Account of Leavers

2017/18 £'000		2018/19 £'000
47	Refunds to members leaving service	55
4	Payments to members joining state scheme	-
2,461	Individual transfers to other schemes	2,609
2,512		2,664

Note 9: Management Expenses

2017/18 £'000		2018/19 £'000
1,002	Administration expenses	1,019
2,330	Investment management expenses (see Note 9a)	2,432
92	Oversight and governance costs	151
3,424		3,602

Note 9a: Investment Management Expenses

2017/18 £'000		2018/19 £'000
2,075	Management fees	2,058
223	Investment advice	345
32	Custody fees	29
2,330		2,432

Note 10: Investment Income

2017/18 £'000		2018/19 £'000
(2)	Interest on cash deposits	(25)
(783)	Income from bonds	(752)
(1,691)	Pooled property investments	(1632)
(3,407)	Private equity income	(3,737)
(5)	Other investment income	(7)
(5,888)		(6,153)

Note 11: Taxes on Income

2017/18 £'000		2018/19 £'000
3	Foreign tax on investment	2
3		2

Note 12: Investments

	Value as at 1 Apr 18	Purchases at Cost	Sales Proceeds	Fees included in NAV	Cash Movement	Change in Market Value	Value as at 31 Mar 19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bonds	99,294	4,000	(4,752)	(76)	752	(210)	99,008
Index linked Securities	81,959	37,620	(38,200)	-	-	5,039	86,418
Equities (pooled funds)	291,722	95,689	(91,709)	(459)	-	22,906	318,149
Property (pooled funds)	74,542	1,151	(16,071)	(452)	522	2,412	62,104
Private Equity	28,465	4,696	(6,264)	(558)	3,695	1,745	31,779
Hedge Fund of Funds	39,599	48,600	(40,128)	(255)	-	1,549	49,365
Cash & Short Term Investments	2,746	51,600	(48,500)	-	-	101	5,947
	618,327	243,356	(245,623)	(1,801)	4,969	33,542	652,770

	Value as at 1 Apr 17	Purchases at Cost	Sales Proceeds	Fees included in NAV	Cash Movement	Change in Market Value	Value as at 31 Mar 18
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bonds	87,810	11,300	(783)	(81)	783	265	99,294
Index linked Securities	81,265	-	-	-	-	694	81,959
Equities (pooled funds)	285,268	52,498	(58,298)	(454)	-	12,708	291,722
Property (pooled funds)	69,856	1,184	(2,582)	(459)	507	6,036	74,542
Private Equity	27,361	5,107	(6,578)	(313)	3,407	(519)	28,465
Hedge Fund of Funds	38,162	12,328	(12,335)	(403)	-	1,847	39,599
Cash & Short Term Investments	4,441	5,800	(7,500)	-	-	5	2,746
	594,163	88,217	(88,076)	(1,710)	4,697	21,036	618,327

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Some transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees.

These transaction costs incurred in the year are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme. All equity investments held by the fund are in unitised funds.

Note 12a: Analysis of Investments

2017/18 £'000		2018/19 £'000
	Bonds	
99,294	UK unit trusts quoted	99,008
	Index linked securities	
81,959	UK quoted	86,418
	Equities	
16,543	UK unit trusts quoted	13,043
275,179	Overseas unit trusts quoted	305,106
	Hedge Funds	
39,599	UK	49,365
	Private Equity	
28,465	Overseas unquoted	31,779
	Property	
73,482	UK unit trusts quoted	61,692
1,060	Overseas unquoted	412
120	**Cash**	121
2,626	**Liquidity Funds**	5,826
618,327		652,770

Note 12b: Investments Analysed by Fund Manager

31 Mar 18			31 Mar 19	
Market Value £'000	%		Market Value £'000	%
23,350	3.8	Aviva Investors Pensions Ltd	9,151	1.4
293,733	47.3	BlackRock Global Investors Ltd	291,885	44.7
26,477	4.3	Carnegie	-	-
1,060	0.2	CBRE Ltd	412	0.1
-	-	CFM	15,280	2.3
39,600	6.4	Goldman Sachs Asset Management Ltd	-	-
27,558	4.5	HarbourVest Partners LLC	31,184	4.8
13,335	2.2	Hermes Fund Managers Ltd	13,799	2.1
36,165	5.9	Hosking	36,528	5.6
75,815	12.3	Insight Investment Ltd	104,053	15.9
-	-	IPM	7,257	1.1
-	-	Link WPP	77,056	11.8
-	-	MAN	14,874	2.3
43,531	7.0	MFS International Ltd	-	-
36,797	6.0	Schroders Investment Management Ltd	38,742	5.9
906	0.1	Standard Life Investments Ltd	596	0.1
-	-	Stone Milliner	11,953	1.8
618,327			652,770	

The following investments represent more than 5% of the net assets of the scheme:

31 Mar 18 Market Value £'000	%	Security	31 Mar 19 Market Value £'000	%
61,763	10.0	Blackrock Aquila Life Currency Hedged US Equity Index Fund	72,939	11.2
81,960	13.3	Blackrock Aquila Life Over 5Yr Uk Idx Lkd	56,809	8.7
38,697	6.3	Blackrock Aquila Life Currency Hedged MSCI World Index Fund	41,187	6.3
39,600	6.4	Goldman Sachs Hedge Fund Opportunities Ltd	-	-
36,165	5.9	Hosking Partners	36,528	5.6
48,205	7.8	Insight Bonds Plus fund	47,097	7.2
-	-	Link WPP	77,056	11.8
43,531	7.0	MFS Global Equity Fund	-	-
36,797	6.0	Schroder UK Real Estate Fund	38,742	5.9

Note 13: Current Assets and Liabilities

2017/18 £'000		2018/19 £'000
	Current Assets	
179	Contributions due from employers and members	167
1,375	Cash balances	2,557
527	Sundry debtors	491
2,081		3,215
	Current Liabilities	
(437)	Benefits payable	(269)
(1,034)	Sundry creditors	(1,143)
(1,471)		(1,412)

Amounts unpaid at the year end are subsequently paid within a reasonable time frame, i.e. the majority of the balances are paid within a 3 month period.

Note 14: Related Party Transactions

Details of Members and officers of the Council represented on the Pensions and Investment Committee are shown in Appendix 1. Their combined contributions into the scheme totalled £19.2k in 2018/19 (£18k in 2017/18).

The Fund is administered by Powys County Council. Consequently, there is a relationship between the Authority and the Fund.

The Authority incurred costs of £916k in 2018/19 (2017/18: £894k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund.

The Authority is also the single largest employer of members in the Fund and contributed £18,761k to the Fund in 2018/19 (2017/18: £17,388k) in employers contributions and deficit recovery payments.

Governance

The makeup of the Pensions and Investment Committee can be seen in Appendix 1.

The role of Section 151 Officer for the Authority, plays a key role in the financial management of the Fund and is also an active member of the Fund.

Councillors are required to declare their interest at each meeting.

The Committee members and Section 151 Officer accrue their benefits in line with the regulations encompassing councillors and employees of the employing bodies of the Fund.

For the full Governance Statement please see Appendix 5.

Note 15: Additional Voluntary Contributions (AVC)

Members of the Pension Fund may make additional voluntary contributions (AVCs) in order to obtain improved benefits on retirement. The AVC investments are excluded from the Financial Statements of the Powys Pension Fund, in accordance with section 4(2)b of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 (SI 2009/3093). However, as administering authority we oversee the following AVC arrangements:

2018/19 Contributions received	Standard Life £'000	Prudential £'000	Equitable Life £'000	Total £'000
Powys County Council	46	275	2	323
BBNP	-	19	-	19

Fund Value	Standard Life £'000	Prudential £'000	Equitable Life £'000	Total £'000
As at 31 Mar 19	1,055	1,214	71	2,340

Note 16: Contingent Liabilities

No contingent liabilities were known to exist at the Balance Sheet date.

Note 17. Post Balance Sheet Events

The accounts outlined in these financial statements represent the financial position of the Fund as at 31 March 2019. Since this date, the performance of the global markets may have affected the financial value of Pension Fund investments.

Note 18: Capital Commitments

2017/18 £'000	Private Equity and Property mandate	2018/19 £'000
904	Standard Life (Private Equity)	937
17,990	Harbourvest (Private Equity)	29,920
18,894		30,857

The Pension Fund has committed to guaranteed investments in private equity that the asset managers can draw down upon as and when required. The Capital Commitments figure above, represents the level of investment guaranteed but not yet drawn down at the year end.

Note 19: Stock Lending

Section 12.1 of the Investment Strategy Statement (Appendix 4) sets out the fund's policy on stock lending.

Note 20: Financial Instruments

Note 20A: Classification of financial instruments & liabilities

31 Mar 18			31 Mar 19	
Amortised cost **£'000**	**Fair value through profit and loss** **£'000**		**Amortised cost** **£'000**	**Fair value through profit and loss** **£'000**
		Financial Assets		
	99,293	Fixed interest securities		128,617
	81,960	Index linked securities		56,809
	291,722	Equities (pooled funds)		318,149
	74,543	Property (pooled funds)		62,104
	28,465	Private equity		31,779
	39,600	Hedge fund of funds		49,365
2,746		Cash & short term investments	5,947	
2,081		Current assets	3,215	
4,827	615,583	Total financial assets	9,162	646,823
		Financial Liabilities		
(1,471)		Current liabilities	(1,412)	
(1,471)			(1,412)	

Note 20B: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The private equity values are based on valuations provided by the general partners to the private equity funds in which the Powys Pension Fund has invested.

The hedge fund values are based on the net asset value provided by the fund manager.

The tables below show the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Value as at 31 Mar 19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	432,466	139,160	81,144	652,770
Current assets	3,215	-	-	3,215
Current liabilities	(1,412)	-	-	(1,412)
Net financial assets	434,269	139,160	81,144	654,573

Value as at 31 Mar 18	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments	475,721	74,543	68,063	618,327
Current assets	2,081	-	-	2,081
Current liabilities	(1,470)	-	-	(1,470)
Net financial assets	476,332	74,543	68,063	618,938

Reconciliation of Level 3 movements

Level 3 asset	Value as at 31 Mar 18 £'000	Purchases, sales & transfers £'000	Change in market value £'000	Value as at 31 Mar 19 £'000
Hedge funds	39,599	8,472	1,294	49,365
Private equity	28,465	(1,568)	4,882	31,779
Total	68,064	6,904	6,176	81,144

Note 21: Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice requires the disclosure for the year ending 31 March 2016 of the actuarial valuation of promised retirement benefits as set out in IAS 26. The actuarial present value should be calculated on an IAS 19 basis. IAS 26 is the accounting standard that sets out the requirements for accounting and reporting in respect of retirement and the requirements for accounting and reporting of promised retirement benefit plans following the move to financial reporting of the Pension Fund Accounts under the IFRS.

The actuarial present value of the promised retirement benefits were as follows

31 March 2013 £'000	31 March 2016 £'000
632,400	724,600

Assumptions used

	31 March 2013 %	31 March 2016 %
Discount rate	4.4	3.4
Inflation (CPI)	2.4	1.8
Salary increase rate	3.9	3.3

Note 22: Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members.) Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme. Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other Price Risk

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

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

The Fund’s investment managers mitigate this price risk through diversification.

Other Price Risk – Sensitivity Analysis

The following movements in market price risk are considered reasonably possible for 2018/19. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain unchanged.

Asset Type	**Value as at 31 Mar 19**	**Percentage Change**	**Value on Increase**	**Value on Decrease**
	£’000	**%**	**£’000**	**£’000**
Active Equity	113,584	9.85	124,773	102,395
Passive Equity	204,565	10.04	225,113	184,016
UK Corporate Bonds	38,579	5.27	40,613	36,544
Absolute Bonds	47,097	1.97	48,026	46,168
Index Linked	86,418	15.10	99,467	73,369
Government Bonds	13,332	4.23	13,896	12,768
Property	62,104	2.18	63,459	60,750
Private Equity	31,779	10.45	35,101	28,457
Hedge Funds	49,365	2.32	50,512	48,218
Cash & short term investments	5,947	0.17	5,958	5,937
Total Assets	652,770	5.83	706,918	598,622

Interest Rate Risk

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

The Fund's interest rate and return are monitored by the Council and its investment advisors as part of the monthly and quarterly reporting and assessment of interest rate return against benchmark.

A 0.75% volatility associated with interest rates is considered likely, based on the Authorities Treasury Management advisors latest advice. The Fund's exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below.

As at 31 Mar 18 £'000	Asset Type	As at 31 Mar 19 £'000
2,746	Cash Instruments	5,947
1,374	Cash balances	2,557
99,294	Bonds	128,617
103,414	Total	137,121

Currency Risk

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

The fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management, including monitoring the range of exposure to currency fluctuations.

The fund’s currency exposure as at 31 March 2017 and 31 March 2018 is set out below.

As at 31 Mar 18 £’000		As at 31 Mar 19 £’000
28,465	Private equity	31,779
36,165	Equities (Pooled Funds)	36,528
64,630	Total	68,307

A 10% volatility associated with exchange rates is considered likely, based on analysis of historical movements.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 10% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset Type	Value as at 31 Mar 19 £’000	Value on Increase £’000	Value on Decrease £’000
Private equity	31,779	34,957	28,601
Equities (Pooled Funds)	36,528	40,181	32,875
Total	68,307	75,138	61,476

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund’s financial assets and liabilities.

In essence the fund’s entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the council’s credit criteria. The council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The table below shows the funds cash holding as at 31 March 2018 and 31 March 2019.

	Rating	As at 31 Mar 18 £'000	As at 31 Mar 19 £'000
Bank Current Account			
HSBC	AA-	3	91
Bank Deposit Account			
HSBC	AA-	1,372	2,466

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for meeting the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its pension fund cash holdings.

The fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2019 the value of illiquid assets was £143.2m, which represented 21.9% of the total fund assets - (31 March 2018 - £142.6m, which represented 23.1% of the total fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund's investment strategy.

All financial liabilities at 31 March 2019 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Note 23: Accounting Standards That Have Been Issued but Have Not Yet Been Adopted.

The Code of Practice requires that the Authority discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2019 for 2019/20). None of the standards introduced in the 2019/20 code are expected to have a material impact on the financial statements.

The independent auditor's statement of the Auditor General for Wales to the members of Powys Pension Fund on the Annual Report

This page is reserved for Wales Audit Office.

Statement of the Actuary for the Year Ended 31 March

Introduction

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

Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £501.8M) covering 80% of the liabilities allowing, in the case of
pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

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

- 18.6% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

Plus

- Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 22 years from 1 April 2017 (the secondary rate), equivalent to approximately 8.0% of pensionable pay (or £6.6M in 2017/18, and increasing by 3.5% p.a. thereafter).

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers. Due to stepping in of contributions, the actual contributions paid from 1 April 2017 to 31 March 2020 are likely to be lower than those set out in 2 above.

4. The funding plan adopted in assessing the contributions for each individual employer or group is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods were agreed with the Administering Authority reflecting the employers' circumstances.

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

Discount rate	4.4% p.a.
Rate of pay increases	3.5% p.a.
Rate of increase to pension accounts	2.0% p.a.

Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

In addition the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

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

8. Since the date the valuation report was signed, there have been a number of developments in respect of the Local Government Pension Scheme (LGPS):

- **Increases to GMPs:**
  HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, announced an extension of the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off in advance of this announcement, but the increase in liability is not expected to be material. In addition, on 26 October 2018 the High Court ruled in the Lloyds Banking Group case that schemes are required to equalise male and female members' benefit for the effect of unequal GMPs. Our understanding is that this will not alter HM Treasury's approach to GMP equalisation in the LGPS.
- **Cost Management Process and McCloud judgement:**
  Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that benefit improvements / member contribution reductions would be required. However, the cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sergeant) were age discriminatory; these cases could have knock on implications for the LGPS (potentially increasing the liabilities) which also had transitional arrangements when the new scheme was introduced with effect from April 2014.

9. The actuarial valuation of the Fund as at 31 March 2019 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions commencing from 1 April 2020 to be signed off by 31 March 2020. Asset values have increased in value since 2016, on its own leading to an improvement in the funding level due to higher than assumed investment returns. Liability values and employer contributions, as well as being affected by the items listed in paragraph 8 above, will depend upon membership factors, changes to expectations of future returns and other assumptions (including allowance for the slow-down in longevity improvements) and any changes to funding strategy made as part of the 2019 valuation.

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

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

Aon does not accept any responsibility or liability to any party other than our client, Powys County Council, the Administering Authority of the Fund, in respect of this Statement.

11. The actuarial valuation report is available on the Fund's website at the following address: http://www.powyspensionfund.org/media/2717/powys-pension-fund-valuation-report-31-march-2016.pdf

Aon Hewitt Limited

May 2019

Appendix 1: Pensions and Investment Committee

Over the year the Committee met on 6 occasions, Member attendance is shown in the following table:

	13/07/2018	06/09/2018	19/10/2018	13/12/2018	28/01/2019	08/03/2019	Overall %
P Lewis	✓	✓	✓	✓	✓	✓	**100%**
T Van-Rees	✓	✓	✓	✓	✓	✓	**100%**
J Morris	✓	✓		✓		✓	**67%**
EA Jones	✓	✓		✓		✓	**67%**
H Williams	✓	✓	✓	✓	✓	✓	**100%**
A Davies	✓		✓	✓	✓	✓	**83%**
AMC Weale	✓			✓		✓	**50%**
Attendance	**100%**	**71%**	**57%**	**100%**	**57%**	**100%**	

Members of the Committee have also taken part in Pension Fund training and attended relevant seminars and conferences as detailed below:

Date/Seminar	P Lewis	E A Jones	J Morris	T Van-Rees	H Williams	A Davies	A M C Weale	Attendance
11/05/2018 Aon Investment Training	✓							14%
14/06/2018 P&I Induction					✓			14%
21/06/2018 Pension Fund Training Day LA Forum	✓	✓	✓	✓	✓		✓	86%
13/07/2018 CEM Performance Management	✓	✓	✓	✓	✓	✓	✓	100%
13/07/2018 Hedge Fund MAN Group	✓	✓	✓	✓	✓	✓	✓	100%
05/09/2018 Investment Manager Engagement Day	✓							14%
08/11/2018 Pension Fund Training Day LA Forum			✓	✓	✓	✓	✓	71%
14/11/2018 Russell Investment Summit	✓							14%
13/12/2018 Securities Lending	✓	✓	✓	✓	✓	✓	✓	100%
28/01/2019 Equity Protection	✓	✓			✓	✓		57%
08/03/2019 Responsible Investment	✓	✓	✓	✓	✓	✓	✓	100%
Attendance	82%	55%	55%	55%	73%	55%	55%	

Appendix 2: Pension Board

The Pension Board is the local pension board for the Pension Fund responsible for the oversight, scrutiny and where appropriate, assisting the Pensions & Investment Committee. The Board was established with effect from 1 April 2015 in accordance with the requirements of the Public Service Pensions Act 2013. The Board is governed on a day-to-day basis by its Terms of Reference which sets out the Board's remit and its membership requirements.

The Board has an independent Chair (who regularly attends Pensions & Investment Committee as an observer) together with two representatives each of Fund Employers and Scheme Members. The Board receives support and advice from Officers of Powys County Council and may seek advice and information from external professional advisers. During 2018/19 the membership of the Board was as follows:

Mr G Moore (Independent Chair)
Cllr W Thomas (Fund Employer Representative)
Mr N Brinn (Fund Employer Representative)
Mr J Byrne (Scheme Member Representative)
Mr M Hutchison (Scheme Member Representative)

Over the year the Board met on 3 occasions: the 10 July 2018, 21 September 2018 and 30 of November 2018. The meeting of the 5 of March 2019, was re-scheduled and took place on the 3 of April 2019. The attendance of these meetings is as detailed in the Pension Board report (page 6).

Throughout the year, members of the Board have also taken part in Pension Fund training and attended relevant seminars and conferences as detailed below:

Date/Seminar	**G Moore**	**W Thomas**	**N Brinn**	**J Bryrne**	**M Hutchinson**	**Attendance**
27/06/2018 CIPFA – Intro to LGPS	✓	✓			✓	**60%**
10/07/2018 Data Quality Training	✓	✓		✓	✓	**80%**
13/07/2018 Performance Management Training	✓					**20%**
13/07/2018 Hedge Fund Training	✓					**20%**
10/10/2018 CIPFA LGPS Seminar	✓	✓				**40%**
08/11/2018 Pension Fund Training Day		✓	✓			**40%**
11/01/2019 New Board member Induction	✓		✓			**40%**
28/01/2019 Equity Protection	✓					**20%**
08/03/2019 Responsible Investment	✓					**20%**
20/03/2019 LGPS Pension Board Event	✓					**20%**
Attendance	**90%**	**40%**	**20%**	**10%**	**20%**	

Appendix 3: Fund Employers

Powys County Council administers the scheme for employees and ex-employees of the following bodies:

Scheduled Bodies	Admitted Bodies
Brecon Beacons National Park Authority, Brecon Town Council, Knighton Town Council, Llandrindod Wells Town Council, Llanidloes Burial Joint Committee, Llanidloes Town Council, Machynlleth Town Council, Newtown and Llanllwchaiarn Town Council, Powys County Council, Powys Magistrates Courts' Committee, Welshpool Town Council, Ystradfellte Community Council, Ystradgynlais Town Council	Adapt Business Services Agoriad Aramark Ltd BUPA Care Homes, Camping & Caravanning Club, Careers Wales Powys, Development Board for Rural Wales, Elite Supported employment Agency, Freedom Leisure, Heart of Wales Property Services Ltd Kier Facilities Services Ltd. MENCAP, Menter Maldwyn, Mirus Wales, Powys Association of Voluntary Organisations, Powys Dance, Powys Valuation Panel, Presteigne Shire Hall Museum Trust, Solo Service Group, Theatr Brycheiniog, Wales European Centre, Ystradgynlais Miners Welfare & Community Hall Trust Ltd

Community Councils and various other statutory bodies have the right to be included in the Fund. Other bodies can be admitted at the discretion of the County Council.

Contact List and Communications

A copy of this report is available to anyone on demand, subject to a small administration charge. A full copy of the report can be viewed at www.powyspensionfund.org. Should you have any comments on the financial statement or any other pension matter please contact the appropriate officer in the following list:

Pension Scheme, Fund Governance & Other Matters

Pension Fund Manager	Mr C Hurst	01597 827640
Pensions Administration Manager	Mrs M Price	01597 827642

Accounts & Investment

Pension Fund Accounts	Mr D Paley	01597 826042

Appendix 4: Investment Strategy Statement

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

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

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

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

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

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

2. Overall Responsibility

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

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

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

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

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

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

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

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

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

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

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

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

2.13 Investment Committee

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

2.13.2 The Committee is responsible in respect of investment matters:

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

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

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

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

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

2.14 Investment Managers

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

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

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

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

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

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

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

2.15 Investment Consultant

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

a. Review of the Investment Strategy Statement.

b. Presentation and interpretation of investment performance measurement results.

c. The Potential impact of:

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

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

e. Benchmark adjustments;

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

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

h. Ad-hoc project work as required.

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

2.16 Pensions Board

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

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

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

3. Investment Objectives

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

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

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

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

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

4. The Balance Between Different Types of Investments

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

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

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

4.4 The current strategic benchmark is as follows:

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

*50% of currency risk from overseas equities is hedged back to Sterling. An equity protection strategy was implemented on 2 and 3 April 2019 to cover the currency hedged overseas equities. More information can be found in section 5.7.

4.5 There is also an agreement to invest 10% of assets allocated to equities in infrastructure when suitable opportunities for investment are available.

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

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

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

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

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

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

5.4 The operational risk to the Fund is minimised by:

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

5.5 The investment risks to the Fund are managed by:

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

5.6 In order to reduce the risk of assets increasing beyond agreed ranges there is also a Medium Term Asset Allocation (MTAA) project. This project utilises all of the Fund's assets excluding Private Equity. The MTAA service has the target of increasing the return achieved by these assets by 0.5% p.a. by deliberately allocating assets away from the strategic allocation to take advantage of market over/under valuations during the medium term. This service has run from 2009. The Pensions & Investment Committee has recently decided to extend the project period, with regular reviews as they see fit. The MTAA service has an artificial benchmark of 49.5% equity / 32% bond / 18.5% alternatives. It operates within tolerance bands so the difference between the actual allocation and the strategic allocation will not deviate beyond these set limits. For further information on the MTAA project, please see Appendix B.

5.7 The Fund has a 47% allocation to equities, which poses a significant risk to the investment returns (especially in a turbulent market which may be followed by a recession). An equity protection strategy was put in place on 2 and 3 April 2019 protecting £155.7m (as at 27 March 2019) of passively managed, currency hedged non-UK, and UK, equities against total return losses between 3% and 23%. The protection uses two zero premium collars each with notional of £77.85m and expiring in December 2019 and March 2020. The initial objective of the equity protection strategy is to protect the value of part of the Fund's equities until the 2019 actuarial valuation is concluded and the future employer rates finalised. The equity protection strategy may be extended to achieve other objectives at that time (or earlier).

6. The expected return on investments

6.1 The wider strategy has been set to target 5.8% pa over the long term with a volatility of 10.8% pa. This is based on assumptions at 30 September 2016 and will be subject to change depending on changes in market conditions.

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

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

Investment Manager	Mandate	Benchmark	Objective
Link WPP	Global Equity	MSCI AC World (NDR)	To achieve long-term capital appreciation and outperform the benchmark by 2% p.a. gross of fees
Hosking	Global Equity	MSCI AC World (NDR)	To outperform the benchmark by 3-5% p.a. (gross of fees) over a typical market cycle
BlackRock	Balanced	Composite benchmark	To track the benchmark
Aviva Investors	UK Property	IPD/PPFI All Balanced Funds Medium Index	To outperform the benchmark by 1% p.a. over rolling 3 year periods.
Hermes Fund Managers	UK Property	IPD Other Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling three year basis
Schroders	UK Property	IPD UK All Balanced Funds Index	To outperform the benchmark by 0.5% p.a. on a rolling three year basis
CB Richard Ellis	European Property	UK Retails Price Index (The IPD UK Pooled Property Index will also be used for comparison purposes)	Provide investors with a return of 8-10% p.a., net of fees and expenses.
Insight Asset Management	UK Corporate Bonds	iBoxx Sterling Non-Gilt All Maturities Index	To outperform the benchmark by 0.75% p.a., net of fees
Insight Asset Management	Absolute Return Bonds	3 month GBP LIBOR	To outperform the benchmark by 2% gross of fees
Insight Asset Management	Index-Linked Gilts	N/A	Collateral for equity protection strategy
Standard Life Investment	Private Equity (European)	MSCI World	To outperform the benchmark by 5% pa over a rolling three year period.
HarbourVest Partners	Private Equity (US)	MSCI World	No stated objective, just to produce returns which place HarbourVest in the top quartile in the industry
Man Group	Alternative Risk Premia	3 Month GBP LIBOR	To provide returns in a cost-effective manner by allocating capital to affiliated portfolio managers through funds that implement risk premia investment strategies with a volatility target of 8% p.a.
Capital Fund Management	Alternative Risk Premia	3 Month GBP LIBOR	To achieve long-term capital appreciation through returns that seek to be uncorrelated with traditional asset classes with a volatility target of 6% p.a..
Stone Milliner	Discretionary Macro	3 Month GBP LIBOR	To seek absolute returns for investors over the medium to long term, primarily through pursuing a global macro investment strategy with a return target of 10% p.a. net of fees.
Informed Portfolio Management	Systematic Macro	3 Month GBP LIBOR	To seek to preserve capital and generate consistent absolute returns with a targeted level of volatility of 15% p.a.

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

7. The realisation of investments

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

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

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

8. Pooling

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

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

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

9. Socially Responsible Investment

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

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

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

10. The exercise of the rights attaching to investments

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

11. Corporate Governance

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

11.2 The County Council is aware of the UK Stewardship code and understands that, within the 2016 Investment regulations, there is a requirement that administering authorities should formally become signatories to the Code.

11.3 Whilst not having formally signed up to the Code, the Fund aims to abide by the principles and recognises the importance of the investments being managed in accordance within these principles. The Fund, therefore, ensures that where appropriate its investment managers are themselves signed up to the code and thus manage the investments in accordance with the seven code principles.

11.4 The Fund does already act on some of the principles of the UK Stewardship Code at a Fund level, one being via its membership of the Local Authority Pension Fund

Forum (LAPFF), a collection organisation of LGPS who engage fund managers and investee companies to promote responsible investor/ownership practices.

11.5 In addition to the requirement to become a signatory in its own right, the Fund will also expect both the Wales Pool and any directly appointed fund managers, to comply with the UK Stewardship Code.

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

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

12. Stock Lending

12.1 The Fund only currently invests in pooled vehicles so cannot undertake any stock lending. The stock lending policy on pooled funds is determined by the individual investment managers. Any income not retained by the fund manager and / or the lending agent is incorporated in the net asset values of each pooled fund.

13. Monitoring and Implementing of Investment Policy

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

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

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

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

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

13.6 The Committee will assess, on an ongoing basis, the impact that investment through the Wales Pension Partnership has on monitoring and implementing of investment policy.

Appendix A: Principles for Institutional Investment Decision Making

Compliance with CIPFA Principles for Investment Decision Making in LGPS

Principle 1 – Effective Decision Making

Administering authorities should ensure that:

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

Powys County Council is the Administering Authority with overall responsibility for Powys Pension Fund (PPF), which it delegates to its Pensions & Investment Committee and the Section 151 Officer. This Committee consists of 6 voting members; 1 non-voting member representing Pension Fund employers (elected by those Pension Fund employers); and, 1 non-voting member representing pension scheme members (nominated by the recognised trade unions).

The governance arrangements of the County Council (including the Constitution, Financial Regulations and Contract Standing Orders) apply to the management of the Pension Fund. In addition the, the administering authority is assisted by the Powys Pensions Board which was established under the Public Service Pensions Act 2013.

Members of the Pensions & Investment Committee are required to undertake training and demonstrate competency in accordance with the Knowledge & Skills Framework Policy.

The Committee receives what it considers to be proper advice from Fund officers and, in addition, has appointed an external consultant to provide advice on its investment strategy.

The Investment Advisor and Actuary have contracts which are regularly reviewed. The Investment Advisor was tendered in 2016/17, actuarial services are scheduled for 2020/21.

Principle 2 – Clear Objectives

> *Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisors and investment managers.*

The Fund's objectives are set out in the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS). Both documents are available on the Fund's website. The aims of the Fund in relation to the FSS are set out in 2.2 of that document. To view the Fund's Investment objectives view 3 Investment Objective in the ISS.

The approach to risk, the assessment of risks and how they are managed are stated in section 5 of the ISS.

The Fund, in accordance with regulatory requirements, has an objective of keeping the employers' contribution rate as level as possible while maintaining its solvency.

The investment manager(s) have been given specific performance targets measured. These are displayed in section 6 of the ISS.

The Fund monitors each of the participating LGPS employers and admitted bodies.

Principle 3 – Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members.) Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme. Responsibility for the Fund's risk management strategy rests with the Pensions & Investment Committee.

The Triennial Valuation exercise looks in detail at each participating employer's liability and is used to inform the setting of employers' contribution rates, as well as informing the investment strategy and objectives of the Fund.

The strength of the covenant of participating employers is also considered as part of the exercise establishing contribution rates.

A risk register is monitored monthly and maintained. Pensions and Investment Committee review the Risk Register every 12 months.

Regular internal audit on the adequacy and effectiveness of risk management and internal control is undertaken and outcomes reported to the Pensions & Investment Committee and Pension Board.

The Annual Report and Accounts of the Powys Pension Fund are subject to a separate external audit and an independent audit opinion is given.

Within the FSS, point 6 Key Risks and Controls, summarises the risks and controls under the following headings, investment, solvency, liability, regulatory, employer.

Principle 4 – Performance Assessment

> *Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.*

Advisors provide buy – qualified – sell – quarterly ratings on current managers to the Committee.

Investment Managers are measured against their targets shown in the ISS. The Fund's advisors report formally on a quarterly basis to the Pensions and Investment Committee their ratings of the incumbent managers. Significant developments between meetings are also communicated by the advisors.

Investment Managers are invited to attend the Pensions and Investment Committee at behest of the Committee.

The Fund maintains a Governance Statement which is available from the Fund's website.

Pensions & Investment Committee attendance and training is monitored and reviewed on a quarterly basis.

Advisors are selected competitively, based on performance, price and other factors.

All active and deferred scheme members receive the 'Your Pension' publication along with their Annual Benefit Statements which includes information on the Fund's activity and a summary of the accounts; all retired members receive an annual newsletter with information on Fund developments and a summary of the accounts.

The Fund produces a detailed annual report covering all aspects of its performance which is published on the website.

Principle 5 – Responsible Ownership

> *Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.*

The Fund's Socially Responsible Investment intention is laid out in section 9 of the ISS.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which considers responsible investment on a collaborative basis.

Principle 6 – Transparency and Reporting

> *Trustees 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. Trustees should provide regular communication to members in the form they consider most appropriate.*

Details of the Fund's Communications Policy and all other key reports – ISS, Annual Report, FSS and Governance Policy Statement are all published on the Fund's website. A newsletter is also published periodically. There is employer and employee representation on the Committee ensuring transparency.

The Fund actively manages risks. Pensions & Investment Committee reviews the risk register on a regular basis.

Pensions & Investment Committee meetings are open to the public. Agendas, papers and minutes are available on Powys County Councils website.

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

Principles of the UK Stewardship Code

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

Appendix B: Background to Medium Term Asset Allocation

Philosophy

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

Process

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

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

Risk management

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

Appendix 5: Governance Statement

Governance Policy Statement for the Powys County Council Pension Fund

1. Constitutional Arrangements.

1.1 The Powys Pension Fund is a local government pension fund. The primary legal frameworks are the Superannuation Act 1972 and the Public Service Pensions Act 2013, with operational matters being set out in regulations made thereunder.

1.2 Powys County Council is the administering authority for the Powys Pension Fund. The governance arrangements of the County Council (including the Constitution, Financial Regulations and Contract Standing Orders) apply to the management of the Pension Fund. In addition, the administering authority is assisted by the Powys Pensions Board which was established under the Public Service Pensions Act 2013.

2. Scheme of Delegation.

2.1 Powys County Council delegates its functions in relation to maintaining the Pension Fund to the Pensions & Investment Committee and the Section 151 Officer, in accordance with Appendices A and B to this Statement.

2.2 Day-to-day decisions in respect of the management of the Pension Fund and investment decisions that are required to be taken before the next Committee, are delegated to the Section 151 Officer, in consultation with the Chair and Vice Chair of Pensions & Investment Committee.

2.3.1 Powys County Council will appoint the voting members of the Pensions & Investment Committee. The Committee will consist of 6 voting members (1 of which will be the Portfolio Holder for Finance); 1 non-voting member representing Pension Fund employers (elected by those Pension Fund employers); and, 1 non-voting member representing pension scheme members (nominated by the recognised trade unions).

2.3.2 The Pensions & Investment Committee will meet quarterly with special meetings and training workshops as necessary.

2.3.3 The Pensions & Investment Committee will be advised by the Council's Section 151 Officer, the Pension Fund's Investment Adviser (currently Aon Hewitt) and the Pension Fund's Actuary (currently Aon Hewitt).

2.3.4 Members of the Pensions & Investment Committee will be required to undertake training and demonstrate competency in accordance with the Knowledge & Skills Framework Policy (Appendix C).

2.3.5 The minutes of the Pensions & Investment Committee will be reported to the County Council.

(cont.)

3. Powys Pensions Board.

3.1 Powys County Council established a local pension board on 21st January 2015 in accordance with the requirements of the Public Service Pensions Act 2013.

3.2 Powys County Council will appoint the independent chair of the Pensions Board. The Board will consist of 4 voting members in addition to the independent chair; 2 members representing Pension Fund employers (nominated by those Pension Fund employers); and, 2 members representing pension scheme members (nominated by the recognised trade unions).

3.3 The Pensions Board will meet quarterly (after each meeting of the Pensions & Investment Committee), with special meetings and training workshops as necessary. Pension Board meetings are open to the public.

3.4 The Pensions Board will be advised by the Section 151 Officer and any other Council Officers and professional Advisers and Consultants, as may be required.

3.5 Members of the Pensions Board will be required to undertake training and demonstrate competency in accordance with the Knowledge & Skills Framework Policy (Appendix C).

3.6 The minutes of the Pensions Board will be reported to the Pensions & Investment Committee and published on the Pension Fund's website.

4. Consultation

4.1 The Pensions & Investment Committee will engage with stakeholders (including Pension Fund employers and trade unions) through the following:

- An annual general meeting for the main stakeholders.
- A triennial meeting between Pension Fund employers and the actuary to discuss the results of the actuarial valuation.

5. Review of this Statement

5.1 In accordance with the requirements of regulation 55(2) of the Local Government Pension Scheme Regulations 2013 (as amended), this Statement will be reviewed and published by Powys Pension Fund following any material changes.

6. Contacts

6.1 Any questions, queries or observations on this Statement should be addressed to:

Chris Hurst
Pension Fund Manager
Powys County Council,
County Hall,
Llandrindod Wells,
Powys
LD1 5LG

6.2 Further information about the Powys Pension Fund and the Local Government Pension Scheme, can be found on the Fund's website: www.powyspensionfund.org

Appendix A Functions Delegated to Pensions & Investment Committee

Pension Administration Functions

To appoint the Pension Fund's Actuary;

To receive the triennial actuarial valuation and such other valuations that may arise from time to time and set employers' contribution rates arising therefrom.

To monitor and review the overall arrangements for the administration of the Local Government Pension Scheme (LGPS).

To respond to consultations in respect of the LGPS.

To undertake the following functions of the LGPS:

- To act as Scheme Trustees in relation to the Powys County Council Additional Voluntary Contributions (AVC) Scheme
- To exercise the discretionary powers available to an administering authority under the provisions of the LGPS regulations
- To develop, publish and review policies as required by the LGPS regulations.

Investment Functions

To determine long-term investment policy.

To approve the Council's Funding Strategy Statement and Statement of Investment Principles (this latter document is replaced from 1st April 2017 by the Investment Strategy Statement).

To review the Pension Fund's investment structure at least triennially, having regard to the Fund's liabilities and the advice of the Fund's Investment Adviser and the Section 151 Officer.

To appoint and dismiss investment managers, consultants and advisers.

To review investment performance at least once every 3 months.

To appoint the Fund's custodian for its assets and to periodically review custody arrangements.

To appoint the Performance Measurement Service for the Fund.

General

To approve the annual business plan.

To receive the annual accounts of the Pension Fund and any external audit comments related thereto;

To approve the Pension Fund Annual Report.

To receive internal audit reports on Pension Fund matters.

Appendix B Functions Delegated to Section 151 Officer

Pension Administration Functions

To manage the administration of LGPS.

To undertake the following functions of the LGPS:

- Award of Death Grants in accordance with the Council's agreed policy.
- Ensure compliance with the Pensions Act 1995
- Ensure compliance with relevant Finance Acts, in particular the meeting of HMRC Reporting Requirements
- Ensure compliance with the Public Service Pensions Act 2013.
- Ensure compliance with the statutory requirements imposed by The Pensions Regulator.

Investment Functions

To undertake regular monitoring and reconciliation of investments and to report matters of significance to the Pensions & Investment Committee.

To undertake tendering exercises for Fund services and Investment Managers in accordance with the Council's overall governance arrangements and the Pensions & Investment Committee's instructions and to present the Committee with shortlists for appointment.

General

To produce the Fund's Annual Report & Accounts in accordance with proper practice.

To authorise, within limits, expenditure from the Fund.

To authorise cash or asset movements between the Council, the Fund, custodian and investment managers.

When necessary, the exercise of the Fund's voting rights by instruction to the investment managers and custodian, after consultation with the Chairman and Vice-Chairman of the Pensions & Investment Committee. The Pensions & Investment Committee has delegated the use of the voting rights attached to its shareholdings to the investment managers but retains a right to exercise those rights on its own account in exceptional circumstances.

The Section 151 Officer may authorise Officers in their service to exercise, on his behalf, functions delegated to him. Any decisions taken under this authority shall remain the responsibility of the Section 151 Officer and must be taken in his name and he shall remain accountable and responsible for such decisions.

Appendix C

Knowledge and Skills Framework Policy

1 Introduction

1.1 This document sets out the policy of the Powys Pension Fund in relation to the knowledge and skills requirements that it places upon those serving as members of either:

- The Powys County Council Pensions & Investment Committee (being the principal decision-making and management body for the Powys Pension Fund), or
- The Powys Pension Board

1.2 Commitment to this policy is an obligation placed upon those concerned as part of the discharge of their duties; as a matter of best practice and good governance.

2 Knowledge and Skills Framework

2.1 The Powys Pension Fund has adopted the CIPFA Knowledge and Skills Framework, as set out in the Code of Practice on pensions, in partnership with the Pensions Regulator. The Framework provides a roadmap to the knowledge and skills that should be held by those involved in the management and governance of the Powys Pension Fund, who are not themselves pension professionals. Whilst the Regulator provides access to relevant study and training materials.

2.2 All relevant Members will be assessed against the criteria set out in the Framework, as soon as possible following their appointment. This will be done by the completion of a Member Training Needs Self-Assessment Form.

2.3 On completion of the self-assessment form, the Section 151 Officer will assess the Member against the Framework criteria and determined what training is required to be completed and within what time period.

2.4 In total there are 6 areas of knowledge and skills that CIPFA have identified as the core technical requirements:

- pensions legislative and governance context
- pensions accounting and auditing standards
- financial services procurement and relationship management
- investment performance and risk management
- financial markets and products knowledge
- actuarial methods, statements and practices.

3 Meeting Knowledge and Skills Needs

3.1 Identified knowledge and skills needs may be met by a variety of methods that will include, but are not restricted to:

- completion of specific modules in the e-Learning Public Service toolkit provided free online by the Pensions Regulator
- attendance at external training events for pension trustees and/or board members
- attendance at internal training events facilitated by Powys Pension Fund or Powys County Council
- attendance at pension conferences, seminars and workshops that cover fund investment, scheme administration, fund governance, actuarial matters or other relevant areas.

4 Continuing Development

4.1 Pension fund matters do not stand still. Therefore, there will be a requirement to undertake continual development to remain up to date with general pensions and LGPS specific issues. The requirement is for all relevant Members, regardless of professional background, to undertake a minimum of 4 days continuing development in each scheme year (ending 31st March).

4.2 Completion of this requirement may be achieved by a range of attendances at, for example, LGPS Trustees Conference or LAPFF seminars.

5 Accountability and Transparency

5.1 Accountability and transparency are principles of good governance and best practice. Therefore, knowledge and skills needs, training and development undertaken and continuing development, will be monitored and recorded and published annually.

5.2 Failure by a Member to meet their obligations under this policy, may result in them being barred from serving on either the Pensions & Investment Committee or the Powys Pension Board, as applicable, and as determined by the Section 151 Officer.

Appendix D Governance Compliance Statement

Principle A – Structure

		Level of Compliance	
		Non*	Full
a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.		✓
b)	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.		✓
c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.		
d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.		
* Reason for non-compliance: None			
Notes and explanations on the ratings given above: c) There is no secondary Committee. d) There is no secondary Committee.			

Principle B – Representation

		Level of Compliance	
		Non*	Full
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These Include:			
e)	Fund employers		✓
f)	Scheme members		✓
g)	Independent professional observers (where appropriate)	✓	
h)	Expert advisers	✓	
i)	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.		✓
* Reason for non-compliance: g) & h) These are not considered to be appropriate nor statutory requirements. However, professional expert advisers to the Pension Fund whilst not members, attend Pensions & Investment Committee.			
Notes and explanations on the ratings given above: None			

Principle C – Selection and role of lay members

		Level of Compliance	
		Non*	Full
j)	That committee members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.		✓
k)	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.		✓
* Reason for non-compliance: None			
Notes and explanations on the ratings given above: None			

Principle D – Voting

		Level of Compliance	
		Non*	Full
l)	The policy on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		✓
* Reason for non-compliance: None			
Notes and explanations on the ratings given above: There are no voting rights for either the employer or member representative on the Fund's Pensions & Investment Committee. Powys County Council takes the view that it is inappropriate for members of the Pensions & Investment Committee who are not elected members of the County Council to have decision-making powers in respect of a function for which the County Council, as the administering authority, is responsible.			

Principle E – Training / Facility Time / Expenses

		Level of Compliance	
		Non*	Full
m)	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.		✓
n)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.		✓
o)	That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.		✓
* Reason for non-compliance: None			
Notes and explanations on the ratings given above: None			

Principle F – Meetings (Frequency / Quorum)

	Level of Compliance	
	Non*	Full
p) That an administering authority's main committee or committees meet at least quarterly.		✓
q) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.		
r) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		
* Reason for non-compliance: None		
Notes and explanations on the ratings given above: q) There is no secondary committee. r) Such interests are represented on the Pensions & Investment Committee.		

Principle G – Access

	Level of Compliance	
	Non*	Full
s) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.		✓
* Reason for non-compliance: None		
Notes and explanations on the ratings given above: None		

Principle H – Scope

	Level of Compliance	
	Non*	Full
t) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.		✓
* Reason for non-compliance: None		
Notes and explanations on the ratings given above: None		

Principle I – Publicity

	Level of Compliance	
	Non*	Full
u) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.		✓
* Reason for non-compliance: None		
Notes and explanations on the ratings given above: None		

Appendix 6: Funding Strategy Statement

1. Introduction

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

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

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

1.1 Regulatory Framework

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

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

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

(cont.)

1.2 Purpose of this Funding Strategy Statement

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

- establishes a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- supports the regulatory framework to maintain as nearly constant primary contribution rates as possible;
- enable overall employer contributions to be kept as constant as possible and (subject to the Administering Authority not taking undue risks and ensuring that the regulatory requirements are met) at reasonable cost to the taxpayers, scheduled, designating, and admitted bodies
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met
- takes a prudent longer-term view of funding the Fund's liabilities.

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

1.3 Reviews of FSS

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

1.4 Links to Investment Strategy

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

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

2. Purpose and Aims of the Fund

2.1 Purpose of the Fund

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

2.2 Aims of the Fund

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

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

3. Responsibilities of Key Parties

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

3.1 The Administering Authority should:-

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

3.2 Individual Employers should:-

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

3.3 The Fund Actuary should:-

- prepare valuations including the setting of employers' contribution rates at a level to ensure solvency and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to the FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters, on exit valuations on cessation of admission agreements or when an employer ceases to employ any active members, and in connection with bonds and other forms of security against employers default.

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

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

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

4 Funding Strategy

4.1 Risk Based Approach

The Fund utilises a risk based approach to funding strategy.

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

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

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

These three terms are considered in more detail below.

4.2 Solvency Target

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

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

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

(cont.)

4.2.1 Scheduled Bodies and Admission Bodies with guarantors agreeing to subsume assets and liabilities following exit

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

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

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

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

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

4.2.3 Orphan Liabilities

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

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

4.3 Probability of Funding Success

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

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

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

The trajectory period is set to be 25 years.

4.4 Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. It is a product of the triennial actuarial valuation exercise and is not necessarily the same as the Solvency Target. It is instead the product of the data, chosen assumptions, and valuation method.

The valuation method including the components of Funding Target, future service contributions and any adjustment for the surplus or deficiency simply serve to set the level of contributions payable, which in turn dictates the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below). The Funding Target will be the same as the Solvency Target only when the methods and assumptions used to set the Funding Target are the same as the appropriate funding methods and assumptions used to set the Solvency Target (see above).

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

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

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

4.5 Full Funding and Solvency

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

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

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

4.6 Recovery Periods

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

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

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

4.7 Long term cost efficiency

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

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

4.8 Phasing in of Contribution Rates

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

4.9 Grouping

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

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

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

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

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

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

4.10 Asset shares notionally allocated to employers

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

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

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

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

(cont.)

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

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

4.11 Fund Maturity

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

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

5. Special Circumstances related to certain employers

5.1 Interim Reviews

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

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

(cont.)

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

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

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

5.2 Guarantors

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

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

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

5.3 Bonds and other securitization

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

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

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

- In the case of Admission Bodies admitted under paragraph 1(d) and other Admission Bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the admission body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will be pleased to supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.
- In the case of Admission Bodies admitted under paragraph 1(e), or under paragraph 1(d) where the Administering Authority does not judge the Relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.
- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover regularly, at least once a year.

5.4 Subsumed Liabilities

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

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

5.5 Orphan Liabilities

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

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

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

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

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

5.6 Exit Valuations

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

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

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

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

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

6. Key Risks & Controls

6.1 Types of Risk

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

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

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

6.2 Investment Risks

Risk	Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term
Control	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Analyse progress at three yearly valuations for all employers. The Administering Authority will request quarterly funding updates between the completion of the valuation report and the date of the next valuation to monitor the position.
Risk	Inappropriate long-term investment strategy
Control	Set Fund-specific benchmark in accordance with appropriate advice.

Risk Active investment manager underperformance relative to benchmark

Control Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark. The Fund Actuary will be asked to evaluate the implications if there is significant underperformance.

Risk Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies

Control Seek feedback from employers on scope to absorb short-term contribution rises.

Mitigate impact through deficit spreading and phasing in of contribution rises.

Consult employers on possibility of paying more (extra administration and Risk Control higher regular contributions) to enable employer-specific investment strategies to give greater certainty of cost.

Risk Potential cashflow implications of increasing maturity of the Fund, for example as a result of reduced numbers of staff working in local government or through outsourcing

Control Regularly review position including communication with employers about their plans.

Plan investments to ensure sufficient liquidity.

6.3 Solvency Risks

Risk Permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements.

Control It is policy to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 25 years in the vast majority of circumstances, and no longer than 40 years under any circumstances.

Risk 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.

Control The risks inherent in each situation are discussed with the Fund Actuary and to limit the number of permitted steps to three annual steps or, at the Administering Authority's discretion, to six annual steps.

6.4 Liability Risks

Risk	Pensioners living longer and changing retirement patterns.
Control	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary investigates these matters at each valuation or if appropriate more frequently and will report on developments. If significant demographic changes become apparent between valuations, the administering Authority will notify all participating employers on the anticipated costs that will emerge at the next valuation and will review the bonds that are in place for the Transferee Admitted Bodies.
Risk	Deteriorating patterns of ill health and other early retirements
Control	Employers are charged the extra capital cost of non ill health early retirements following each individual decision. Ill health retirements will be monitored.
Risk	Demographic experience differing from the assumptions used by the actuary
Control	The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation, or more frequently if appropriate.
Risk	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities
Control	Allowing for a risk-based approach should limit the impact of short term changes in returns on Government bonds on the liabilities. Some investment in bonds also helps to mitigate this risk. Inter-valuation monitoring, as set out above, gives early warning of changing liability values.
Risk	Pay and price inflation significantly more than anticipated
Control	Employers pay for their own salary awards and are reminded of the geared effect on salary-linked pension liabilities of any bias in pensionable pay rises towards longer-serving employees.

6.5 Regulatory Risk

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

6.6 Employer Risk

Risk Administering Authority being unaware of structural changes in an employer's membership (e.g. large fall in employee members or a large number of retirements).

Control The Administering Authority monitors membership movements on an annual basis, via a report from the administrator to the Pension Fund Committee.

The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 64(4) or 64(7) of the LGPS 2013 Regulations between triennial valuations.

Risk The risk of being unable to collect contributions from employers with no contributing members (e.g.risk associated with employers with a small number of declining contributing members).

Control The Administering Authority monitors membership movements on an annual basis as set out above.

The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions under Regulation 64(4) of the LGPS 2013 Regulations between triennial valuations.

Risk Administering Authority failing to commission the Fund Actuary to carry out an exit valuation for a departing employer and losing the opportunity to call in a debt.

Control In addition to the Administering Authority monitoring membership movements on an annual basis, it requires employers to inform it of forthcoming changes

Risk An employer ceasing to exist with insufficient funding or adequacy of a bond.

Control The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:

Seeking a funding guarantee from another scheme employer, or external body, wherever possible.

Requiring a bond or some other security to protect the scheme from the existing deficit and the extra cost of early retirements on redundancy if the employer failed.

Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.

Vetting prospective employers before admission.

Appendix

Grouped employers

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

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

Risk sharing

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

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

Appendix 7: Communications Policy

1. Introduction

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

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

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

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

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

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

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

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

2. Principles Underpinning this Strategy

2.1 The drivers for communicating that underpin this strategy are:

a) to inform and educate stakeholders and interested parties about the Powys Pension Fund and the Local Government Pension Scheme in an open and transparent manner;

b) to better facilitate accountability;

c) to promote the engagement of scheme members and employers.

2.2 Wherever possible the Pension Fund seeks to make its communications as open and as accessible as are needed by stakeholders. This includes:

a) the provision of information through the medium of Welsh;

b) the provision of information in other languages if required;

c) where possible, providing communications in alternative forms for example in large print, via audio etc.

d) the increasing use of social media.

2.3 In the context of the LGPS, deciding on when to communicate is largely determined by the statutory requirements imposed upon the Pension Fund. The Pension Fund aims to provide communications to stakeholders within statutory timelines and, for non-statutory information, as and when required.

3. Pension Fund Trustees and local Pension Board Members

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

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

4. Scheme Members

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Prospective Scheme Members

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

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

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

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

6. Scheme Employers

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

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

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

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

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

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

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

7. Pension Fund Officers and Staff

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

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

7.3 Intranet and Internet – All staff have been enabled to use the corporate

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

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

8. Other Stakeholders

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

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

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

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

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

9. Contacts

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

Mr C Hurst
Pension Fund Manager
Powys County Council
County Hall
Llandrindod Wells
Powys
LD1 5LG

Tel: 01597 827641

Email: chris.hurst@powys.gov.uk

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

Mrs M Price
Pensions Support Manager
Powys County Council
County Hall
Llandrindod Wells
Powys
LD1 5LG

Tel: 01597 827640

Email: megan.price@powys.gov.uk

9.3 All other enquiries should be addressed to:

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

Email: pensions@powys.gov.uk

Glossary of Terms

Accrual
An accrual is a sum (provision) shown in the accounts to cover income or expenditure for the accounting period but which was not actually paid or received as at the date of the Balance Sheet.

Actuary
An actuary is a person who works out insurance and pension premiums, taking into account factors such as life expectancy.

Actuarial Valuation
This is when an actuary checks what the pension scheme assets are worth and compares them with the scheme's liabilities. They then work out how much the contributions from employers and members must be so that there will be enough money in the scheme when people receive their pensions.

Additional Voluntary Contributions
An option to secure additional pension benefits by making regular payments in addition to the % of basic earnings payable.

Admitted Bodies
Voluntary and Charitable bodies that fulfil certain conditions can apply to allow their employees to become members of the Local Government Pension Scheme.

Audit
An audit is an independent examination of the Council's activities.

Balance Sheet
This is a statement of our assets, liabilities and other balances at the date of the Balance Sheet.

Contingent Liabilities
Contingent liabilities exist where it is probable that a future event will result in a material cost to the Council and can be estimated with reasonable accuracy.

Creditor
A Creditor is someone we owed money to at the date of the Balance Sheet for work done, goods received or services rendered.

Current Asset
These are short-term assets that are available for use in the following accounting year.

Current Liabilities
These are short-term liabilities that are due for payment by the Council in the following accounting year.

Current Service Costs (Pension)
The increase in the liability of a defined benefit pensions scheme as a result of employee's service in the current period.

Debtor
A debtor is an organisation/individual that owes the Council money at the Balance Sheet date.

Equities - Pooled
The Pension Fund invests in equities through unit Trusts. It has no direct investments in equities.

Financial Reporting Standards (FRS's)
Financial regulations to be followed as set by the Accounting Standards Board.

Financial Year
This is the accounting period. For local authorities it starts on 01 April and ends on the 31 March in the following year.

Gilt Edged Stocks
These are investments in government or local Authority stocks. They are regarded as risk-free.

Liability
A liability is an amount payable at some time in the future.

Past Service Costs (Pension)
For a defined benefit pension scheme, this is the extra cost resulting from changes or improvements to the proportion of retirement benefit that relates to an employees past service.

Post Balance Sheet Events
Post Balance Sheet events are items that have arisen after the Balance Sheet date. The items did not occur at the time the Balance Sheet was prepared but have subsequently been discovered. To give a fair representation they may need to be disclosed.

Securities
These are investments such as stocks and bonds.