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## AGENDA

**Pwyllgor** PWYLLGOR PENSIYNAU

**Dyddiad ac amser y cyfarfod** DYDD LLUN, 25 MEDI 2017, 5.15 PM

**Lleoliad** YSTAFELL BWYLLGORA 1 - NEUADD Y SIR

**Aelodaeth** Cynghorydd Weaver (Cadeirydd)  
Cynghorwyr Dilwar Ali, Howells, Sattar a/ac Graham Thomas

### 1 **Ymddiheuriadau am absenoldeb**

Derbyn ymddiheuriadau am absenoldeb.

### 2 **Datgan Buddiannau**

### 3 **Cofnodion** (*Tudalennau 1 - 4*)

Cymeradwyo cofnodion y cyfarfod a gynhaliwyd ar 15 Mawrth 2017 fel gwir gofnod.

### 4 **Partneriaeth Pensiwn Cymru** (*Tudalennau 5 - 6*)

Derbyn adroddiad cynnydd ar ddatblygiad Partneriaeth Pensiwn Cymru.

### 5 **MIFID II** (*Tudalennau 7 - 36*)

Cymeradwyo cais y Cyngor fel Awdurdod Gweinyddu CPLIL i uwchraddio i statws Buddsoddwr Proffesiynol.

### 6 **Datganiad Cyfrifon ac Adroddiad Blynyddol 2016-17** (*Tudalennau 37 - 100*)

Derbyn Adroddiad yr Archwilydd a chymeradwyo'r Adroddiad Blynyddol.

## Eithrio'r Cyhoedd

### 7 **Strategaeth Fuddsoddi a Dyranriad Asedau** (*Tudalennau 101 - 110*)

***Mae Atodiad 1 yr adroddiad hwn yn cynnwys gwybodaeth gyfrinachol, eithriedig. Os caiff yr Atodiad hwn ei drafod, bydd angen gwneud hynny mewn sesiwn gaeedig, yn unol â pharagraff 14, Rhan 4, a pharagraff 21, Rhan 5, Atodlen 12A Deddf Llywodraeth Leol 1972. Bydd angen pasio***

***penderfyniad i wahardd y Cyhoedd o'r cyfarfod ar y pwynt hwn.***

Cymeradwyo unrhyw ddiwygiadau i'r Strategaeth Fuddsoddi gan y Panel Buddsoddi Ymgynghorol.

**8 Cofnodion cyfarfodydd y Panel Buddsoddi Ymgynghorol ar 24 Chwefror a 13 Mehefin 2017 - Cyfrinachol (*Tudalennau 111 - 118*)**

***Mae'r eitem hon yn cynnwys gwybodaeth gyfrinachol, eithriedig, a chaiff ei hystyried yn unol â pharagraff 14, Rhan 4, a pharagraff 21, Rhan 5, Atodlen 12A Deddf Llywodraeth Leol 1972. Bydd angen pasio penderfyniad i wahardd y Cyhoedd o'r cyfarfod ar y pwynt hwn.***

**9 Dyddiad y cyfarfod nesaf**

**Davina Fiore**

**Cyfarwyddwr Llywodraethu a Gwasanaethau Cyfreithiol**

Dyddiad: Dydd Mawrth, 19 Medi 2017

Cyswllt: Andrea Redmond, 02920 72434, a.redmond@caerdydd.gov.uk

PWYLLGOR PENSIYNAU

DYDD MERCHER, 15 MAWRTH 2017

Present: Councillor Hinchey (Chairperson), Councillors Graham Thomas a/ac Woodman

Also

Present: Christine Salter, Gary Watkins a/ac Gareth Henson

25 : YMDDIHEURIADAU AM ABSENOLDEB

Apologies for absence were received from Councillors Elsmore and Evans.

Councillor G Thomas took the Chair.

26 : DATGAN BUDDIANNAU

There were no declarations of interest.

27 : COFNODION

The minutes of the meeting held on 15 February 2017 were agreed as a correct record subject to the inclusion of Councillor Judith Woodman's attendance. The minutes were signed by the Chairperson.

28 : PWLL BUDDSODDI NGHYMRU - DIWEDDARIAD

Members were advised that this report had been prepared to provide an update on the progress with the development of the Wales Investment Pool to manage on a collaborative basis the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales.

The Committee received an update on the development of the Wales Investment Pool at its meeting on 15 February. The Committee also considered the draft Inter Authority Agreement (IAA) setting out the powers to be delegated to the Joint Governance Committee for the Pool.

At its Full Council meeting on 23 February 2017, City of Cardiff Council approved the establishment of the Joint Governance Committee (JGC) and delegated the authority to approve and sign the finalised IAA to the Corporate Director Resources, in consultation with the Chair of this Committee and the Monitoring Officer.

The other seven LGPS administering authorities have also been asked to approve the establishment of the JGC at their Full Council meetings between 23 February and 15 March.

Until the IAA is formally signed by the eight authorities, the Joint Chairs' Group will continue to meet to oversee the project. The next meeting of the Group was scheduled to be held in Cardiff on 20 March.

The notice for the procurement of the Pool Operator was issued on 2 March. Responses to the Selection Questionnaire were required by 14 April and qualifying applicants will be invited to tender for the contracted services. The procurement process would continue during May and June until a recommendation as to the contract award can be made to the Joint Governance Committee.

Members were advised that the target timescales were still being met and it was hoped that they would still comply with the Ministers timescales to move some assets across into the Pool.

The Chairperson invited questions and comments from Members;

Members asked if Flintshire Council had been confirmed to lead the procurement exercise and were advised that they had, the procurement exercise had to be issued by one Authority.

Members noted that the Joint Governance Committee in July would consider a report and conclude on the recommended operator to be appointed, this would then be taken back to the constituent authorities in October; after which time the details such as Terms and Conditions would be determined.

Members noted that the full transfer of assets would not be concluded until around 10/15 years time.

RESOLVED To note the progress in the development of the Wales Investment Pool.

29 : DATGANIAD STRATEGAETH FUDDSODDI

Members were advised that the Terms of Reference for the Pensions Committee include the review and approval of the Fund's Investment Strategy Statement (ISS).

The LGPS (Management and Investment of Funds) Regulations 2016 ('The Investment Regulations') came into force on 1 November 2016. The Investment Regulations require each LGPS administering authority to formulate and publish an investment strategy by 1 April 2017.

The Investment Strategy Statement (ISS) replaces the Statement of Investment Principles (SIP) and must comply with guidance issued by the Secretary of State. The SIP and relevant parts of the 2009 Investment Regulations remain in force until the ISS is published.

A draft ISS was presented to the Investment Advisory Panel at its meeting on 24 February 2017. The Fund's independent advisers have recommended amendments which have been incorporated into the final version presented to Committee.

Members were advised that the ISS must include the following:

- a. a requirement to invest fund money in a wide variety of investments;
- b. the Authority's assessment of the suitability of particular investments and types of investments;

- c. the Authority's approach to risk, including the ways in which risks are to be assessed and managed;
- d. the Authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e. 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; and
- f. the Authority's policy on the exercise of the rights (including voting rights) attaching to investments.

Officers outlined each section of the ISS namely;

- Investment of money in a wide variety of investments – Members were advised of the Asset Allocation targets and variance limits agreed for 2017-18.
- Suitability of particular investments and types of investments – Members noted how the targets were set for particular fund managers and that particular fund managers were chosen specifically to aim for those targets.
- Risk – Members noted that this referred particularly to Investment Risk and how this is managed if particular targets are not met. Officers advised that more detail had been added to this section from the first draft such as tracking errors. Liquidity and Operational Risks were also outlined to Members; Members noted that specialist transition managers were used when money was moved around.
- Pooling of Investments – Members were advised that this was a new section providing a summary of how the Wales Pool would operate. The proposed structure and basis on which the Pool would operate was set out in the July 2016 submission to the Department for Communities and Local Government. The proposals were approved by the Minister for Local Government in November 2016.

Members were advised of the Council's intention to invest the Fund's assets through the Pool as and when suitable Pool investment solutions become available. The key criteria for assessment of Pool solutions would be as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool

Members were advised that the joint procurement for passive investments essentially meant that these were now pooled investments and that private equity investments would not be transitioned to the Pool.

- Structure and Governance of the Wales Investment Pool – Members noted that the Eight administering authorities would continue to retain control over setting their investment strategy and asset allocation.
- Members were advised how social, environmental or corporate governance considerations are taken into account;

- Members noted the exercise of rights (including voting rights) attaching to investments.

The Chairperson invited questions and comments from Members;

- Members asked how often the ISS would be reviewed and were advised that this would be undertaken annually unless there was a reason for changing a particular section of the document.
- Members sought clarification on whether targets would be regularly reviewed and were advised that they would be.
- Members noted that private equity investments were not targeted and asked why this was. Officers advised that they were long term investments, contracts were signed to commit a certain amount of money but this doesn't have to be placed straight away; it's called in as and when required by managers and underlying companies. Officers further explained that with private equity investments the full gains are not seen until the end when the funds are liquidated, this makes then difficult to set targets against, however fund managers provide quarterly performance reports.

RESOLVED:

- i. To approve the ISS for 2017-18 as attached at Appendix 1 to the report.
- ii. To approve the publication of the ISS on the Council's website by 1 April 2017.

The meeting terminated at Time Not Specified

***This document is available in Welsh / Mae'r ddogfen hon ar gael yn Gymraeg.***

**CITY OF CARDIFF COUNCIL  
CYNGOR DINAS CAERDYDD****PENSIONS COMMITTEE: 25 SEPTEMBER 2017****REPORT OF CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 4**

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**WALES PENSION PARTNERSHIP****Reason for this Report**

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.
2. This report has been prepared to update Committee Members of progress with the development of the Wales Pension Partnership to manage on a collaborative basis the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales.

**Background**

3. The eight LGPS funds in Wales have been working together for several years to identify areas of potential collaboration, under the direction of the Society of Welsh Treasurers (SWT) Pensions Subgroup. In September 2015 the administering authorities agreed to proceed with establishing a Common Investment Vehicle (CIV) on a voluntary basis.
4. The UK Government has issued a number of consultations on the management of LGPS investments and in 2015 announced that all LGPS funds in England and Wales must join together to form investment pools. The Welsh funds submitted proposals in 2016 for a Wales Investment Pool based on the collaboration already in progress and the proposals were approved by the Minister for Local Government in November 2016.
5. The Committee has received regular updates on the development of the Wales Investment Pool.

**Issues**

6. To enable the pooling of investments the eight fund authorities have established a Joint Governance Committee (JGC). City of Cardiff Council approved the establishment of the Joint Governance Committee (JGC) at its Full Council meeting on 23 February 2017.
7. An Inter Authority Agreement (IAA) sets out the powers delegated to the JGC and the rights and obligations of the constituent authorities. The IAA has been signed and sealed by the eight authorities with a formal commencement date of 28 June 2017.

8. Carmarthenshire County Council are the Host Authority and are providing administrative and secretarial support to the JGC. A schedule of meetings of the JGC has been prepared for the remainder of the current financial year. Meeting venues will rotate between the participating authorities but at least one meeting each year will be held in Cardiff.
9. The JGC held its first meeting in Cardiff on 29 June. All eight funds were represented. The meeting appointed a Chair and Vice-chair, noted the functions and budget of the Host Authority and approved the ongoing timetable for the appointment of the Pool Operator. The meeting approved 'Wales Pension Partnership' as the formal title of the collaboration arrangements. Papers and minutes for the meeting are available on Carmarthenshire Council's website.
10. The investment pooling arrangements will be provided by a Pool Operator regulated by the Financial Conduct Authority (FCA). The procurement is following the OJEU "restricted" procedure and a notice was issued on 2 March 2017. Interested parties were invited to complete a Selection Questionnaire and qualifying applicants were invited to tender for the contracted services on 9 June. The procurement process is ongoing. When it is complete a recommendation as to the contract award and appointment of the Operator will be made to the JGC. If the recommendation is agreed, it will be referred back to each of the eight administering authorities seeking approval through each authority's decision making process. For Cardiff this will be through the Pensions Committee and an additional meeting of the Committee may need to be called to approve the JGC's recommendation.

### **Legal Implications**

11. The recommendation is an update and no decision is sought. The body of the report confirms the procurement process for an Operator is ongoing. This procurement process is being led by Flintshire Council on behalf of the eight authorities. It should be noted that this project has the benefit of external technical and legal advisors appointed from the commencement to advise on the Wales Pension Partnership requirements and the procurement process adopted. The body of the report notes that a further report addressed to the Committee is anticipated in respect of contract award to appoint the Operator to the Committee in the future.

### **Financial Implications**

12. No financial implications arise directly from this report.

### **Recommendations**

13. That the Committee notes the establishment of the Wales Pension Partnership and the progress in the progress in the procurement of the Pool Operator.

**CHRISTINE SALTER  
CORPORATE DIRECTOR RESOURCES**



# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



**PENSIONS COMMITTEE: 25 SEPTEMBER 2017**

## **REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 5**

### **IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID II)**

#### **Reason for this Report**

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.
2. This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (MiFID II) and in particular the risk to the administering authority of becoming a retail client on 3 January 2018. It recommends that the Committee agree that applications for elected professional client status should be made on behalf of the authority immediately.

#### **Background**

3. Under the current UK regime, local authorities are automatically categorised as 'per se' professional clients in respect of non-MiFID scope business and are categorised as 'per se' professional clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt up criteria'.
4. Following the introduction of the Markets in Financial Instrument Directive 2014/65 (MiFID II) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that does not manage public debt as a 'per se' professional client or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as 'retail clients' unless they are opted-up by firms to an 'elective professional client' status.
5. Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

#### **Potential impact**

6. A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of

protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

7. Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
8. Even if the institution secures the ability to deal with retail clients the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

### **Election for professional client status**

9. MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution - the quantitative and the qualitative test.
10. The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.
11. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as **Appendix 2**.
12. The election to professional status must be completed with all financial institutions prior to the change of status on 3 January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action', which could include a termination of the relationship at a significant financial risk to the authority.
13. The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.
14. A flowchart of the process is attached as **Appendix 3** and the letter and information templates are attached as **Appendices 4 and 5**.
15. Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments

which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

16. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience or if the relationship with the authority's investment advisor was terminated.

### **Wales Pension Partnership Investment Pool**

17. LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.
18. In some circumstances, in particular where the pool only offers access to fund structures such as ACS the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.
19. Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

### **Next steps**

20. In order to continue to implement effectively the authority's investment strategy after 3 January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the authority has an existing or potential relationship with in relation to the investment of the pension fund.
21. This process should commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.
22. The Corporate Director Resources should be granted the necessary delegation to make applications on the authority's behalf and to determine the nature of each application on either full or single service basis.

### **Legal Implications**

23. The report makes various recommendations to Pensions Committee and the relevant legal implications appear in the text of this report and the attached appendices together with the Directive.
24. Pensions is a very specialised area and paragraph 13 of the report confirms that the Local Government Pension Scheme Advisory Board, Local Government Association, Investment Association, the British Venture Capital Association and others have developed a standard opt up process to standardize and assist authorities with this process.
25. It should be noted that Appendix 1 details the protections that the Council will lose in proceeding with the request to be treated as a Professional Client and the body of the report details the impact to the Council of not proceeding with this application.
26. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with all equalities legislation.

## **Financial Implications**

27. There are no financial implications arising directly from this report.

## **Recommendations**

28. That the Committee:
  - a. notes the potential impact on the Fund's investment strategy of becoming a retail client with effect from 3 January 2018.
  - b. agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure that it can continue to implement an effective investment strategy.
  - c. acknowledges and agrees that in electing for professional client status it will forgo the protections available to retail clients listed in **Appendix 1**.
  - d. delegates responsibility to the Corporate Director Resources for the purpose of completing the applications and determining the appropriate basis of each application as either full or single service.

**CHRISTINE SALTER  
CORPORATE DIRECTOR RESOURCES**

## **Appendices**

- Appendix 1** – Retail client protections
- Appendix 2** – Summary of FCA policy statement
- Appendix 3** – Opt up process flowchart
- Appendix 4** – Opt up letter template
- Appendix 5** – Opt up information template

Mae'r dudalen hon yn wag yn fwriadol

## **Warnings - loss of protections as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

### **2. Information about the firm, its services and remuneration**

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

- (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and
- (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;
- (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

### **3. Suitability**

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

### **4. Appropriateness**

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment

knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

**5. Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

**6. Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

**7. Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

**8. Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

**9. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

**10. Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

**11. Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.



12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

Mae'r dudalen hon yn wag yn fwriadol

## FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document <https://www.fca.org.uk/publication/policy/ps17-14.pdf>

**Highlights** (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions
2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment
3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test
4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion
5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions
6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.
7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged
8. Changed the portfolio size threshold to £10m
9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

### Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or

respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

### **Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)**

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

### **Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter**

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

### **Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position**

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term 'financial sector' in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

## Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.

2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.<sup>47</sup>

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

## Page 74 Our response on transitional arrangements

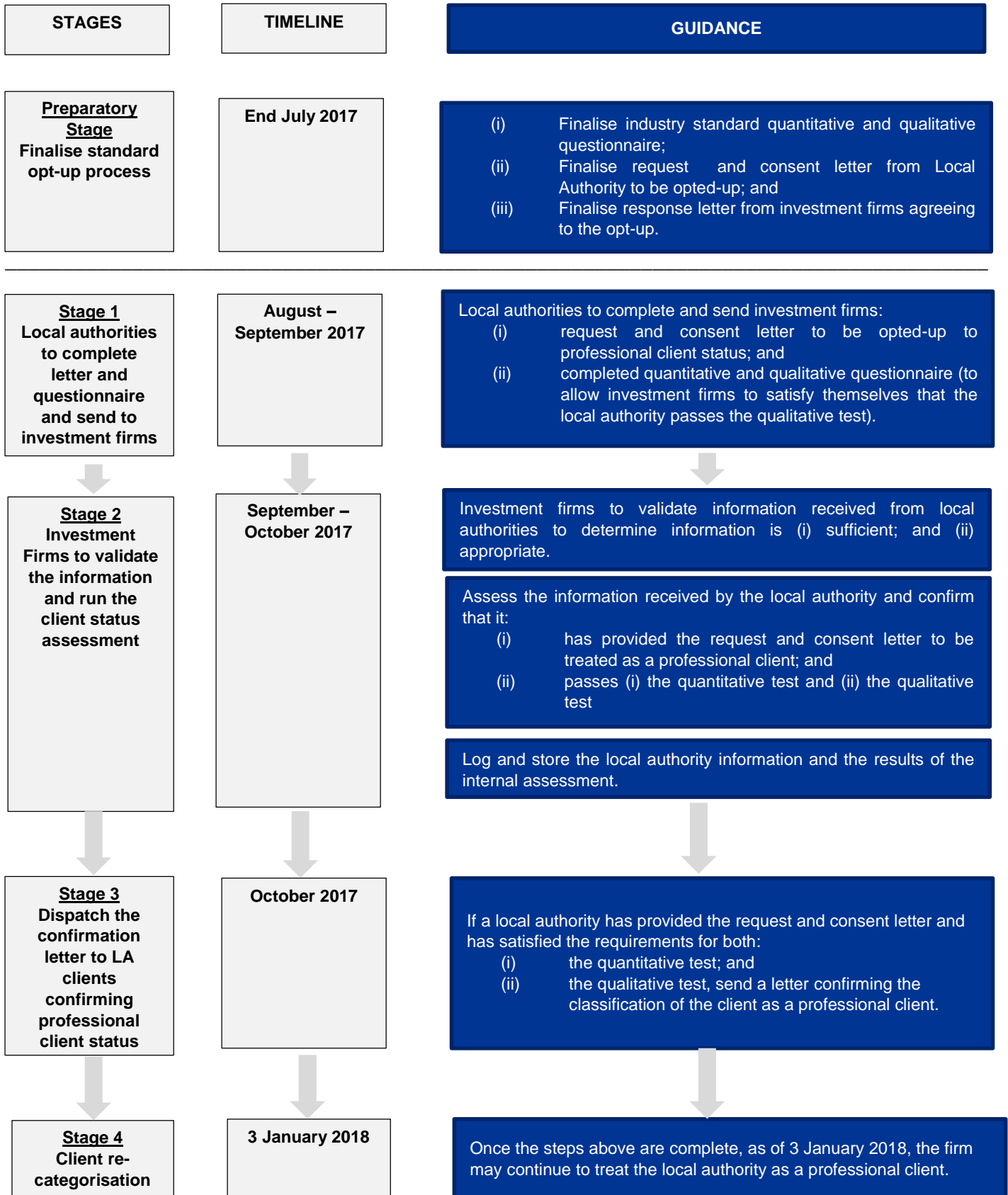
MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take "appropriate action". Neither MiFID II, nor our rules specify what 'appropriate action' is, which will depend on the facts of the case and what would be in the client's best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to

opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

**UK Local Authority Client Opt-Up Process**



Mae'r dudalen hon yn wag yn fwriadol



## Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [●]

### **Request to be treated as a professional investor**

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by **NAME OF AUTHORITY** (the “Local Authority”) to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

- (a) any and all investment service(s) which it receives from you (the “Services”); and/or
- (b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the “Fund Promotions/Investments”).

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client (“Professional Client”). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client (“Retail Client”) as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administering authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

- (a) its request to be categorised as a Professional Client, in its capacity as an administering authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.
- (b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority’s request to be categorised as a Professional Client) is true, accurate and complete.

- (c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.
- (d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.
- (e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.
- (f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

.....

**[insert name and position]** [Authority]

## Schedule 1

### Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

#### Part 1 – Loss of protections as a Professional Client when receiving Services

##### 1. **Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

##### 2. **Information about the firm, its services and remuneration**

The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

- (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;
- (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

##### 3. **Suitability**

In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

##### 4. **Appropriateness**

For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

## **Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions**

### **1. Fund promotion**

It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

### **2. Non-mainstream pooled investments**

For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an “unregulated collective investment scheme”. The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

### **3. Communicating with clients, including financial promotions**

Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

### **4. Financial Ombudsman**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client

### **5. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

Mae'r dudalen hon yn wag yn fwriadol

**Elective Professional Client - Status Assessment**

**NAME OF LOCAL AUTHORITY:** \_\_\_\_\_

**CAPACITY:** As administering authority of the local government pension scheme

**NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:** \_\_\_\_\_

**DATE:** \_\_\_\_\_

**QUANTITATIVE TEST**

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

<i>Please answer question (a) with a "Yes" / "No" answer</i>	
<p>(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme <b>exceed GBP 10,000,000</b>?</p> <p>Portfolio size _____ as at date: .....</p>	<p><input type="checkbox"/> Yes      <input type="checkbox"/> No</p>
<p>(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?</p>	<p><input type="checkbox"/> Yes      <input type="checkbox"/> No</p>
<i>If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases</i>	
<p>(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least <b>10 per quarter</b> for the <b>previous four quarters</b> (i.e. at least 40 investments on the relevant market in the last year)?</p> <p>Transaction total: .....</p>	<p><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> N/A</p>
<p>(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged?</p> <p>Details of role: .....</p>	<p><input type="checkbox"/> Yes   <input type="checkbox"/> No   <input type="checkbox"/> N/A</p>

## QUALITATIVE TEST

The “qualitative test” requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions and understanding the risks involved**<sup>1</sup>.

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

### TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

#### Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.
----	---

a	All decisions delegated to committee or sub-committee.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so)</i>	YES <input type="checkbox"/> NO <input type="checkbox"/>  Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so)</i>	YES <input type="checkbox"/> NO <input type="checkbox"/>  Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
c	All decisions delegated to an officer or officers.	YES <input type="checkbox"/> NO <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
d	Other	YES <input type="checkbox"/> NO <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed <input type="checkbox"/> Link <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
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3.	If you have selected model “d - other” above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions.  Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

<sup>1</sup> COBS 3.5.3R (1)



## Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee?  <i>(Please tick whether you have enclosed or provided a link to a copy of an example of the briefing)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
2	Are members provided with training on investment matters?  <i>(Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.		hours offered hours delivered
3	Is the attendance of members at training monitored and recorded?	YES NO	<input type="checkbox"/> <input type="checkbox"/>
4	Please state the average number of hours of training committee members have attended over the last 12 months.		hours
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.		hours
6	Are members required to complete a self-assessment with regard to their knowledge of investments?  <i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
7	Please state the number of years served on the committee (or other such investment committees) on average for each member		years
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

### Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).
---	--

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Index-linked securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Listed equities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property PIVs	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Private equity funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Exchange traded derivatives (ETDs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Over-the-counter derivatives (OTCs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commodities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Cash deposits	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commercial paper	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Floating rate notes	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Money market funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed <input type="checkbox"/>	Link <input type="checkbox"/>
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES <input type="checkbox"/>	NO <input type="checkbox"/>

#### Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	<p>Does the authority have a risk framework and/or risk management policy in place in relation to investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to a details of the framework/policy)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	
2	<p>Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?</p> <p>If yes, please provide the name of the advisor:</p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p>	
3	<p>Is the risk framework/policy reviewed on a regular basis?</p> <p>If YES please state the frequency of the review.</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the last review)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p>	
4	<p>Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments?</p> <p><i>(Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	
5	<p>Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management?</p> <p><i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p> <p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	

## Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each <u>officer providing support</u> to the committee or sub-committee please provide the following information.
----	---

Job title	Relevant qualifications	Years experience in role <sup>2</sup>

2.	For each <u>officer with delegated investment powers</u> please provide the following information (these may be the same officers as above).
----	--

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers?  <i>(Please tick whether you have enclosed or provided a link to details of the succession plan)</i>	YES NO	<input type="checkbox"/> <input type="checkbox"/>
		Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>

4.	For each individual investment advisor used by the authority please provide the following information <i>only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below</i> .
----	--

Name	Relevant qualifications	Years experience in role <sup>3</sup>

<sup>2</sup> Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

<sup>3</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

5. For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6. For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below*).

Name	Relevant qualifications	Years experience in role <sup>4</sup>

7. For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8. Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities. YES  NO

<sup>4</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

## Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment?  <i>(If yes please tick whether you have enclosed or provided a link to a details of the breach)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
2.	Please use the box below to provide any further information which may be useful in the support of your application.		

# CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



## PENSIONS COMMITTEE: 25 SEPTEMBER 2017

### REPORT OF CORPORATE DIRECTOR RESOURCES

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#### STATEMENT OF ACCOUNTS AND ANNUAL REPORT FOR 2016-17

##### Reason for this Report

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.
2. The Terms of Reference include considering the Fund's financial statements and agreeing the Annual Report.

##### Background

3. The Statement of Accounts for the City of Cardiff Council includes the accounts for the Cardiff & Vale of Glamorgan Pension Fund.
4. Draft accounts for the financial year ending 31 March 2017 were prepared and presented to the Wales Audit Office on 15 June 2017.
5. The final accounts are due to go to Council at the meeting on 28 September 2017.

##### Issues

6. The audit has now been completed and the auditor's draft 'Audit of Financial Statements Report' for the Pension Fund is attached as Appendix 1. The Auditor General intends to issue an unqualified audit report on the financial statements once they have been provided with the Letter of Representation included in Appendix 1. There are no misstatements which remain uncorrected. The report refers to the main corrections made by management.
7. WAO's Audit of Financial Statements Report also highlights a number of qualitative findings as follows:
  - We have no concerns about the qualitative aspects of your accounting practices and financial reporting.
  - We did not encounter any significant difficulties during the audit.
  - There were no significant matters discussed and corresponded upon with management which we need to report to you.

- There are no other matters significant to the oversight of the financial reporting process that we need to report to you.
  - We did not identify any material weaknesses in your internal controls.
  - There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.
8. The Statement of Accounts form the core of the Fund's Annual Report which is published annually following the completion of the audit. The draft Annual Report is attached as Appendix 2.
9. In addition to the financial statements the report includes:
- The names of the members of the Pensions Committee, the Investment Advisory Panel and the Local Pension Board
  - Details of the Fund's Investment Managers and Professional Advisers
  - A summary of the administration arrangements for the Fund
  - An Investment Management and Performance Report
  - A statement from the Fund Actuaries
  - An Appendix containing statistical data, a glossary and contact details for further information
10. An auditor's statement will be added when the audit has been completed.
11. The Annual Report will be published in English and Welsh on the Council's website by the statutory deadline of 1 December.

## **Legal Implications**

12. The Statement of Accounts and Annual Report are technical documents, the contents of which Legal Services are unable to comment upon. It is understood by Legal Services that these documents are drafted with assistance from external advisors and on the basis of the information contained in the report there are no concerns raised by the Wales Audit Office. It is noted that the Annual Report is still in draft format and any changes that are made prior to publication should receive the benefit of advice from the Councils specialised advisors in this regard. The recommendation does not appear to raise any specific legal implications however the general legal advice set out below should be considered.
13. As with approval of all technical documents this decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

## **Financial Implications**

14. There are no direct financial implications arising from this report.



## **Recommendations**

15. That the Committee notes the Auditor's Report.
16. That the Committee approves the Annual Report for the Fund for 2016-17.

## **CHRISTINE SALTER CORPORATE DIRECTOR RESOURCES**

The following Appendices are attached:

Appendix 1 – Draft Auditor's Report for 2016-17

Appendix 2 – Draft Annual Report for 2016-17

Mae'r dudalen hon yn wag yn fwriadol



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Audit of Financial Statements Report – Cardiff & Vale of Glamorgan Pension Fund

Audit year: 2016-17

Date issued: September 2017

Document reference: **490A2017**

This document has been prepared as part of work performed in accordance with statutory functions.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor General for Wales and the Wales Audit Office are relevant third parties. Any enquiries regarding disclosure or re-use of this document should be sent to the Wales Audit Office at

[infoofficer@audit.wales](mailto:infoofficer@audit.wales).

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

# Contents

The Auditor General intends to issue an unqualified audit report on your financial statements. There are no issues to report to you prior to their approval.

## Summary report

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Appendix 3 – summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance	13

# Summary report

## Introduction

- 1 The Auditor General is responsible for providing an opinion on whether the financial statements give a true and fair view of the financial position of the Cardiff & Vale of Glamorgan Pension Fund (the Pension Fund) at 31 March 2017 and its income and expenditure for the year then ended.
- 2 We do not try to obtain absolute assurance that the financial statements are correctly stated, but adopt the concept of materiality. In planning and conducting the audit, we seek to identify material misstatements in your financial statements, namely, those that might result in a reader of the accounts being misled.
- 3 The quantitative level at which we judge such misstatements to be material for the Pension Fund is £19.98 million. Whether an item is judged to be material can also be affected by certain qualitative issues such as legal and regulatory requirements and political sensitivity.
- 4 International Standard on Auditing (ISA) 260 requires us to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
- 5 This report sets out for consideration the matters arising from the audit of the financial statements of the Pension Fund, for 2016-17, that require reporting under ISA 260.

## Status of the audit

- 6 We received the draft financial statements for the year ended 31 March 2017 on 15 June 2017 in line with the agreed deadline, and have now substantially completed the audit work.
- 7 We are reporting to you the more significant issues arising from the audit, which we believe you must consider prior to approval of the financial statements. The audit team has already discussed these issues with officers.

## Proposed audit report

- 8 It is the Auditor General's intention to issue an unqualified audit report on the financial statements once you have provided us with a Letter of Representation based on that set out in [Appendix 1](#).
- 9 The proposed audit report is set out in [Appendix 2](#).

## Significant issues arising from the audit

### Uncorrected misstatements

- 10 There are no misstatements identified in the financial statements, which remain uncorrected.

### Corrected misstatements

- 11 There are misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process. They are set out with explanations in [Appendix 3](#).

### Other significant issues arising from the audit

- 12 In the course of the audit, we consider a number of matters both qualitative and quantitative relating to the accounts and report any significant issues arising to you. There were no issues arising in these areas this year:
- **We have no concerns about the qualitative aspects of your accounting practices and financial reporting.** We found the information provided to be relevant, reliable, comparable, material and generally easy to understand. We concluded that accounting policies and estimates are appropriate and financial statement disclosures unbiased, fair and clear.
  - **We did not encounter any significant difficulties during the audit.** We received information in a timely and helpful manner and were not restricted in our work. We will continue to work with officers to make further improvements to the quality of working papers supporting the accounts and audit process, as well as the accounts closure timetable for 2017-18.
  - **There were no significant matters discussed and corresponded upon with management which we need to report to you.**
  - **There are no other matters significant to the oversight of the financial reporting process that we need to report to you.**
  - **We did not identify any material weaknesses in your internal controls that have not been reported to you already.**
  - **There are not any other matters specifically required by auditing standards to be communicated to those charged with governance.**

## Independence and objectivity

- 13 As part of the finalisation process, we are required to provide you with representations concerning our independence.
- 14 We have complied with ethical standards and in our professional judgment, we are independent and our objectivity is not compromised. There are no relationships between the Wales Audit Office and Cardiff & Vale of Glamorgan Pension Fund that we consider to bear on our objectivity and independence.



# Appendix 1

## Final Letter of Representation

[Audited body's letterhead]

Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

[Date]

### Representations regarding the 2016-17 financial statements

This letter is provided in connection with your audit of the financial statements of Cardiff & Vale of Glamorgan Pension Fund for the year ended 31 March 2017 for the purpose of expressing an opinion on their truth and fairness and their proper preparation.

I confirm that to the best of my knowledge and belief, having made enquiries as I consider sufficient, I can make the following representations to you.

### Management representations

#### Responsibilities

I have fulfilled my responsibilities for:

- The preparation of the financial statements in accordance with legislative requirements and the 2016-17 Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.
- The design, implementation, maintenance and review of internal control to prevent and detect fraud and error.

#### Information provided

We have provided you with:

- Full access to:
  - all information of which we are aware that is relevant to the preparation of the financial statements such as books of account and supporting documentation, minutes of meetings and other matters;
  - additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to staff from whom you determined it necessary to obtain audit evidence.
- The results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Our knowledge of fraud or suspected fraud that we are aware of and that affects Cardiff & Vale of Glamorgan Pension Fund and involves:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- Our knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, regulators or others.
- Our knowledge of all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- The identity of all related parties and all the related party relationships and transactions of which we are aware.

## Financial statement representations

All transactions, assets and liabilities have been recorded in the accounting records and are reflected in the financial statements.

Significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

Related party relationships and transactions have been appropriately accounted for and disclosed.

All events occurring subsequent to the reporting date which require adjustment or disclosure have been adjusted for or disclosed.

All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

The financial statements are free of material misstatements, including omissions. There were no uncorrected misstatements.

## Representations by those charged with governance

We acknowledge that the representations made by management, above, have been discussed with us.

We acknowledge our responsibility for the preparation of true and fair financial statements in accordance with the applicable financial reporting framework. The financial statements were approved by County Council of the City and County of Cardiff on XX September 2017.

We confirm that we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to you. We confirm that, as far as we are aware, there is no relevant audit information of which you are unaware.

Signed by:

[Officer who signs on behalf of management]

Date:

Signed by:

[Officer or Member who signs on behalf of those charged with governance]

Date:

# Appendix 2

## Proposed audit report of the Auditor General to the Members of the County Council of the City and County of Cardiff

I have audited the accounting statements and related notes of:

- The County Council of the City and County of Cardiff;
- The County Council of the City and County of Cardiff Group; and
- The Cardiff and Vale of Glamorgan Pension Fund

for the year ended 31 March 2017 under the Public Audit (Wales) Act 2004.

The County Council of the City and County of Cardiff's accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Movement on the Housing Revenue Account Statement and the Housing Revenue Account Income and Expenditure Statement.

The County Council of the City and County of Cardiff's Group accounting statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement.

The Cardiff and Vale of Glamorgan Pension Fund's accounting statements comprise the Fund Account and the Net Assets Statement.

The financial reporting framework that has been applied in their preparation is applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 based on International Financial Reporting Standards (IFRSs).

### **Respective responsibilities of the responsible financial officer and the Auditor General for Wales**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page XX, the responsible financial officer is responsible for the preparation of the statement of accounts, including the County Council of the City and County of Cardiff's Group accounting statements and the Cardiff and Vale of Glamorgan Pension Fund's accounting statements, which gives a true and fair view.

My responsibility is to audit the accounting statements and related notes in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

### **Scope of the audit of the accounting statements**

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements and related notes sufficient to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the County Council of the City and County of Cardiff; the County Council of the City and County of Cardiff Group and the Cardiff and Vale of Glamorgan Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the responsible financial officer and the overall presentation of the accounting statements and related notes.

In addition, I read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited accounting statements and related notes and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

### **Opinion on the accounting statements of the County Council of the City and County of Cardiff**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the County Council of the City and County of Cardiff as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

### **Opinion on the accounting statements of the County Council of the City and County of Cardiff Group**

In my opinion the accounting statements and related notes:

- give a true and fair view of the financial position of the County Council of the City and County of Cardiff Group as at 31 March 2017 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

### **Opinion on the accounting statements of Cardiff and Vale of Glamorgan Pension Fund**

In my opinion, the pension fund accounts and related notes:

- give a true and fair view of the financial transactions of Cardiff and Vale of Glamorgan Pension Fund during the year ended 31 March 2017 and of the amount and disposition of the fund's assets and liabilities as at that date, other than liabilities to pay pensions and benefits after the end of the scheme year; and

- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

**Opinion on other matters**

In my opinion, the information contained in the Narrative Report is consistent with the accounting statements and related notes.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters, which I report to you, if, in my opinion:

- adequate accounting records have not been kept;
- the accounting statements are not in agreement with the accounting records and returns;
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement does not reflect compliance with guidance.

**Certificate of completion of audit**

I certify that I have completed the audit of the accounts of the County Council of the City and County of Cardiff in accordance with the requirements of the Public Audit (Wales) Act 2004 and the Auditor General for Wales' Code of Audit Practice.

For and on behalf of

Huw Vaughan Thomas

Auditor General for Wales

[Date]

24 Cathedral Road

Cardiff

CF11 9LJ

*The maintenance and integrity of the County Council of the City and County of Cardiff's website is the responsibility of the Accounting Officer/Client officer; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.*

# Appendix 3

## Summary of corrections made to the draft financial statements which should be drawn to the attention of those charged with governance

During our audit we identified the following misstatements that have been corrected by management, but which we consider should be drawn to your attention due to their relevance to your responsibilities over the financial reporting process.

### Exhibit 1: summary of corrections made to the draft financial statements

Value of correction	Nature of correction	Reason for correction
£3,808,000	Net Asset Statement – Investments at market value	Correction to accurately reflect market values of two investments from the valuer's report.
£1,239,000	Fund Account – other income	Inclusion of capitalised payments originally omitted in error from draft accounts.
£588,000	Net Asset Statement – Current Liabilities: Unpaid Benefits	To reflect accurate reversal of unpaid benefits accrual brought forward from 2015-16.
£63,000	Fund Account – transfers out	Correction of a transposition error.
Various	A number of amendments to narratives and notes to the financial statements have been made to correct transposition errors, cross referencing etc.	To ensure that notes are accurate and cross reference within the body of the financial statements.

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**THE  
CARDIFF  
AND  
VALE OF GLAMORGAN  
PENSION FUND**

**ANNUAL REPORT  
&  
ACCOUNTS**

**2016/2017**

## **EXECUTIVE SUMMARY**

- The total value of the Fund rose by 21.1% over the year and has reached £2.00 billion as at 31 March 2017, compared to the previous year end valuation of £1.65 billion.
- Despite short periods of volatility during the year, equity markets made significant gains and the Fund achieved a return on investments for 2016/17 of 21.2% (net of fees), 0.1% below the benchmark return of 21.3%.
- The Fund remains in a positive cashflow position in terms of contributions received and benefits paid, with a net addition of £2.9 million.
- The number of active members in the fund remained steady at just over 15,000 whilst the number of pensioners rose by 2.1%.
- At the most recent actuarial valuation, as at 31 March 2016, the funding level was 85%, an increase on the previous 2013 funding level of 82%.
- Summary statistics for the Fund are shown in the Appendix.

## **FOREWORD**

The City of Cardiff Council is the Administering Authority for the Cardiff & Vale of Glamorgan Pension Fund which is itself part of the national Local Government Pension Scheme (LGPS) for England & Wales. The regulations for the Scheme are determined by the UK Government.

The Pension Fund's assets rose by 21.1% during 2016/17, from £1.653 billion to £2.002 billion. The Fund's overseas investments saw returns of over 30% in sterling terms as a consequence of the fall in the value of the pound following the Referendum on the UK's membership of the EU. Over the longer term returns on the Fund's investments have averaged over 10% per annum.

The triennial actuarial valuation of the Fund as at 31 March 2016 was completed in March 2017. The funding ratio improved from 82% to 85%, largely due to the growth in Fund assets over the three years. An increase in liabilities due to changes in financial assumptions was offset by a reduction due to revised demographic assumptions. The overall funding deficit was £299m and employer contributions have been set for the next three years with the aim of recovering deficits within 19-20 years.

The eight LGPS funds in Wales continued to develop their proposals for a Wales Investment Pool during the year following the positive response from the DCLG in March 2016 to the outline proposal submitted in February. Detailed proposals were submitted in July and approval to proceed was received in November. The Welsh funds are establishing a Joint Governance Committee to oversee the Pool and City of Cardiff Council approved the governance proposals at its Full Council meeting in February 2017. The assets of the Pool will be managed by a regulated Pool Operator. The Pool will be established during 2017/18 so that the funds can begin transferring assets by the DCLG deadline of 1 April 2018. Individual funds will continue to set their own investment strategies and asset allocations in accordance with their funding positions and liability profiles.

In order to participate fully in the pooling arrangements, City of Cardiff Council established its Pensions Committee in June 2016 and the Committee met four times during the year. The Committee has strategic oversight of the Fund and is responsible for reviewing the Fund's policy statements. Operational management of the Fund continues to be delegated to the Corporate Director Resources. The Chair of the Committee will be the Council's representative on the Joint Governance Committee for the Wales Pool.

The Fund's key objectives continue to be to deliver an effective and efficient service to the 39,000 contributing employees, pensioners and deferred members, and to minimise the financial burden on contributing employers over the long term.

**Christine Salter**  
**Corporate Director Resources**  
**June 2017**

# MANAGEMENT AND ADMINISTRATION REPORT

## SCHEME MANAGEMENT AND ADVISERS

The County Council of the City and County of Cardiff is named in the LGPS Regulations as the Scheme Manager and Administering Authority for the Cardiff & Vale of Glamorgan Pension Fund, the LGPS fund covering the geographical areas of the City of Cardiff and the Vale of Glamorgan.

### Pensions Committee

The Pensions Committee was established by the Council on 30 June 2016 to discharge the Council's functions as Administering Authority. The Committee's role is to provide strategic oversight of the Fund including reviewing its statutory policy statements.

Members in the year to 31 March 2017 were:

Cllr. G. Hinchey	(Chair)
Cllr. J. Evans	
Cllr. S. Elsmore	
Cllr. G. Thomas	
Cllr. M. Thomas	(to 31 December 2016)
Cllr. J. Woodman	(from 1 January 2017)

Operational management of the Fund continues to be the responsibility of the Corporate Director Resources under the Council's scheme of delegations.

### Investment Advisory Panel

The Committee and the Corporate Director Resources are advised on investment matters by the Investment Advisory Panel.

Members in the year to 31 March 2017 were:

Cllr G. Hinchey	(Chair) Cabinet Member for Corporate Services and Performance, City of Cardiff Council
Cllr J. Evans	Member, City of Cardiff Council
Cllr. R. McKerlich	Member, City of Cardiff Council
Cllr. F. Johnson	Member, Vale of Glamorgan Council (Observer)
Mr. S. Bates	Independent Adviser
Ms. C. Burton	Independent Adviser
Mrs. C. Salter	Corporate Director Resources, City of Cardiff Council

### Local Pension Board

The Local Pension Board was established on 29 January 2015 in compliance with the Public Service Pensions Act 2013. Members from 1 April 2016 to 31 March 2017 were:

Mr. Michael Prior      Independent Chair

Employer Representatives:

Mr. David Llewellyn      Director of Finance, Cardiff Metropolitan University  
Cllr. Anthony Ernest      Member, Penarth Town Council  
Cllr. Nic Hodges      Member, Barry Town Council

Scheme Member Representatives:

Mr. Kenneth Daniels      GMB nominee  
Mr. Peter King      Unison nominee

### Investment Managers

Aberdeen Asset Management	Global Bonds
	Emerging Market Equities
BlackRock Investment Management	UK Equities (indexed)
	US Equities (indexed) from 1 December 2016
	UK Property
State Street Global Advisors	UK Equities (indexed) until 30 November 2016
	North American Equities (indexed)
	until 30 November 2016
	European Equities (active)
Invesco Perpetual	UK Equities (active)
JP Morgan Asset Management	UK Equities (active)
Majedie Asset Management	UK Equities (active)
Nikko Asset Management	Japanese Equities (active)
Schroders Investment Management	Asia-Pacific (ex Japan) Equities (active)
	UK Property
Standard Life	UK Property
UBS	UK Property
CB Richard Ellis	Global Property
Capital Dynamics	Private Equity
HarbourVest	Private Equity
Pantheon	Private Equity
Mesirow	Currency Management

### Professional Advisers

The Fund's professional advisers during the year were:

Actuaries	AON Hewitt Limited
Auditor	Auditor General for Wales
Bankers	Lloyds Bank plc
Custodian	Northern Trust
Legal Advisers	Chief Legal Services Officer, City of Cardiff Council
	Sacker and Partners
Investment Advisers	Mr. S. Bates and Ms. C. Burton
Scheme Administration	Corporate Director Resources, City of Cardiff Council
AVC Provider	Prudential Assurance

## FUND ADMINISTRATION

The LGPS is a Defined Benefit Scheme governed by the Superannuation Act 1972 and the various regulations issued by the DCLG. The Scheme is open to all employees of local authorities except teachers and the Regulations specify that employees of certain other bodies have the same rights of membership as local authority employees. The Regulations also give administering authorities the power to enter into admission agreements with other bodies which provide public services.

The table below summarises the number of active and ceased employers in the Fund as at 31 March 2017:

	Active	Ceased	Total
Scheduled Body	17		
Admitted Body	19		
Total	36		

A full list of contributing employers and the amount of contributions received from each during the year is given in Note 5 to the accounts.

Fund income arises from investment earnings and contributions by employers and employees. Employee rates are set nationally and depend on a member's pensionable pay. During 2016/17 the contribution bands were:

Band	Pensionable Pay Range	Contribution Rate
1	Up to £13,600	5.5%
2	£13,601 to £21,200	5.8%
3	£21,201 to £34,400	6.5%
4	£34,401 to £43,500	6.8%
5	£43,501 to £60,700	8.5%
6	£60,701 to £86,000	9.9%
7	£86,001 to £101,200	10.5%
8	£101,201 to £151,800	11.4%
9	£151,801 or more	12.5%

The contribution bands for 2017/18 are:

Band	Pensionable Pay Range	Contribution Rate
1	Up to £13,700	5.5%
2	£13,701 to £21,400	5.8%
3	£21,401 to £34,700	6.5%
4	£34,701 to £43,900	6.8%
5	£43,901 to £61,300	8.5%
6	£61,301 to £86,800	9.9%
7	£86,801 to £102,200	10.5%
8	£102,201 to £153,300	11.4%
9	£153,301 or more	12.5%

Employers' rates are calculated by the scheme actuary at each triennial valuation. In addition to contributions calculated as a percentage of pensionable pay, for some employers the actuary has also specified cash amounts to be paid during each financial year.

### Pension Increases

Pensions in payment are subject to annual mandatory increases determined by the increase in the Consumer Price Index (CPI) in the twelve months to the previous September. The increases are payable by the Fund and future increases are estimated at each triennial valuation. Any variations are adjusted for at subsequent valuations through the employer's contribution rate of the member's last employer before leaving employment. Increases take effect in the first full week of each

financial year. There was no increase in 2016/17 as CPI in September 2015 was negative at -0.1%. The increase for 2017/18 was 1%.

CARE benefits accrued by active Fund members since 1 April 2014 are also subject to annual CPI linked adjustments. Unlike pensions already being paid, active CARE account balances can be reduced when inflation is negative and pension accounts brought forward from 2015/16 were revalued by -0.1% on 1 April 2016. Accounts carried forward into 2017/18 were revalued by 1% on 1 April 2017.

### **Additional Voluntary Contributions (AVCs)**

Prudential Assurance continues as the AVC provider for the Fund. Prudential offer information through their web site [www.pru.co.uk/content/schemes/localgovavc](http://www.pru.co.uk/content/schemes/localgovavc) and from time to time offer retirement planning workshops free of charge to Fund members.

### **Administration**

The administration of the Fund is carried out by the Pensions Section of City of Cardiff Council, based in County Hall, Cardiff.

Member records are held on the Altair system provided and hosted by Aquila Heywood. Monthly pensions are paid through the Council's SAP payroll system.

# INVESTMENT POLICY AND PERFORMANCE REPORT

## INVESTMENT POWERS

The principal investment powers of the Fund are found in the Local Government Pension Scheme (Management & Investment of Funds) Regulations. During the year the 2009 Investment Regulations were replaced by the amended 2016 Regulations. The Regulations give the power for administering authorities to delegate investment decisions to external managers conditional upon proper consideration of a reasonable and sufficient diversification of managers. Periodic reviews of the appointment of, and investments made by, managers are also obligatory. Proper advice is required in determining suitable types of investment.

## INVESTMENT OBJECTIVE

The Fund's overall investment objective is to maximise investment returns and to minimise or at least stabilise future employer contributions over the long term within an acceptable level of risk.

The Fund prudently seeks to fulfil the regulatory requirement to secure the solvency of the Fund over a period of time (i.e. for the value of the Fund's assets to be equal to or greater than its accrued liabilities measured using 'ongoing' actuarial methods and assumptions.) This period together with the funding level is calculated every three years by the actuary following a review of the adequacy of the Fund's assets to meet its liabilities. The Pensions Committee takes the actuarial position and funding level into account in reviewing the Fund's investment strategy.

The 2016 actuarial valuation was completed in March 2017. The Valuation Report and Funding Strategy Statement are available on City of Cardiff Council's website [www.cardiff.gov.uk/pensions](http://www.cardiff.gov.uk/pensions).

The funding ratio of assets against liabilities was calculated as 85%, an increase on the 2013 ratio of 82%. An increase in the Fund's liabilities due to financial factors was offset by a reduction due to revised demographic factors and higher than projected returns on investments. Assets were also boosted by deficit contributions from Fund employers. The Fund Actuary has advised on suitable employer contribution rates, effective from 1 April 2017, with the aim of recovering the deficit over appropriate contribution periods not exceeding 20 years.

## FUND MANAGEMENT

The Investment Advisory Panel aims to meet each manager with an actively managed portfolio at least annually. It also considers at its quarterly meetings:

- The overall Fund Objective and the level of investment risk
- Overall Fund and individual manager performance
- The Fund's investment management arrangements
- Strategic asset allocation over the major market sectors and geographical areas, including the split between passive and active management

The Pensions Committee reviews and approves the Fund's strategic investment documents and the formal responsibility for operational investment decisions lies with Christine Salter, Corporate Director Resources.

Fund management is structured on a specialist basis, with individual managers allocated particular sectors or geographical areas (see above for a list of managers and their mandates). Where possible, each manager is given a clear performance target, but generally is also given considerable freedom in how this is achieved. The Fund employs a global custodian to ensure the safekeeping of all publicly traded securities, and to manage the settlement of trades and recovery of taxation.



Custody of private equity, property unit trusts and cash is managed in-house as these assets are not publicly traded.

Management fees are the main form of investment expenditure and comprise a combination of ad valorem (varying with the value of funds managed) and performance fees. Custody fees vary with the number of investment transactions made by the fund managers. Fees for the Panel's advisers rise in line with Chief Officers' pay. Revised accounting guidelines from 2015/16 onwards require all management fees to be accounted for as investment expenses regardless of whether they are charged directly or offset against investment returns. Management and Custodian fees for 2016/17 were £12.3m (£11.5m in 2015/16).

## **STATEMENT OF INVESTMENT PRINCIPLES AND INVESTMENT STRATEGY STATEMENT**

The LGPS (Management and Investment of Funds) Regulations 2009 required all LGPS funds to prepare and publish a Statement of Investment Principles (SIP). The SIP summarised the Fund's investment objectives and the policies it uses to manage investments. Under the revised Regulations issued during 2016/17 the SIP has been replaced by an Investment Strategy Statement (ISS). The Fund's ISS was approved by the Pensions Committee on 15 March 2017 and published on 31 March.

Copies of the Statement of Investment Principles in force during 2016/17 and the Investment Strategy Statement effective from 1 April 2017 are available on Cardiff Council's website via the following link: [www.cardiff.gov.uk/pensions](http://www.cardiff.gov.uk/pensions)

The Fund's investment philosophy is also summarised in the 'Core Investment Beliefs' document which is available on the website.

## **FUND BENCHMARK AND STRATEGIC ASSET ALLOCATION**

The Fund has agreed its own customised benchmark and Fund Objective, based around a 75/25 Equities/Bonds asset allocation split. This was set to ensure that the Fund's asset allocation policy reflected its own liability characteristics and not the average of a peer group. It is also designed to minimise, or at least stabilise, future employer contributions and to avoid large variations. The Fund's actual asset allocation is therefore maintained close to this benchmark allocation.

Within Equities, the Investment Advisory Panel decided in 2011 to gradually shift the ratio of UK to overseas holdings from a 60/40 split to a more equally weighted position. In 2015 the Panel also agreed to equalise the passive and active equity target allocations, reflecting the expected long term outperformance from the active managers.

A breakdown of the investment portfolio over the last five years is set out in Appendix 1. Changes in market values reflect both changes in investment policy and the relative performance of different markets.

## INVESTMENT PERFORMANCE

During 2016/17 the overall Fund return (net of fees) was 21.2%, 0.1% below the Fund's benchmark return of 21.3%. 2016/17 was notable for the impact of political events on investment and currency markets, in particular the result of the referendum on the UK's membership of the EU in June 2016 and the election of Donald Trump as US president in November. Within the UK markets, shares in multinational companies saw significant increases in value over the year whilst the values of shares of smaller domestic facing companies have been more variable. The fall in the value of sterling relative to other major currencies increased the value of the Fund's overseas investments.

The performance of the manager portfolios during 2016/17 compared with their benchmarks and targets was as follows:

Manager	Mandate (target against benchmark)	Benchmark return (%)	Portfolio Target (%)	Portfolio Return (%)
Aberdeen	Global bonds (+1%)	5.1	6.1	6.8
BlackRock	UK Equities (passive)	22.0	22.0	22.1
BlackRock	US Equities (passive)	35.2	35.2	35.1
State Street	European equities (+2%)	28.0	30.0	31.3
Nikko	Japanese equities (+3%)	33.0	36.0	40.2
Schroders	Asia-Pacific equities (+3%)	36.8	39.8	37.2
Aberdeen	Emerging markets equities (+3%)	35.2	38.2	33.9
Invesco	UK equities (unconstrained)	22.0	N/A	11.5
JP Morgan	UK equities (unconstrained)	22.0	N/A	20.7
Majedie	UK equities (+2%)	22.0	24.0	25.7
Private Equity Funds (28)	Global Private Equity	22.0	22.0	25.1
UK Property Funds (4)	UK property	3.7	3.7	1.0
CBRE	Global property (10% absolute return)	N/A	10.0	20.8

The Fund's passive investments were consolidated under a single manager, BlackRock, from December 2016 following the procurement exercise carried out jointly with the other LGPS funds in Wales. The passive investments delivered significant gains in value over the year in line with the market movements for UK and US listed equities.

As in previous years, differences in style amongst the Fund's active equity managers resulted in varying returns relative to benchmarks. Only one manager, Invesco, underperformed significantly against its benchmark due to its weighting towards UK stocks which do not have multinational earnings.

The Fund's Private Equity holdings continued to deliver significant returns but the year was disappointing for UK Property funds after their outperformance against other asset classes in 2015/16.

Although it is useful to compare the performance of managers over the past year, the Investment Advisory Panel's reviews focus on the average performance of active managers over three to five years to ensure that market fluctuations are taken into account.

### Longer Term Fund Performance

The Pension Fund's overall return is best measured over the long term. Over the last ten years the Fund's total return has returned an annualised 7.2% compared with rises of 2.3 % in the Consumer Price Index

(CPI) and 1.9% in the Index of Average Weekly Earnings (AWE). Using 2016/17 as the base year, comparative returns over different periods are as follows:

	<b>Fund % p.a.</b>	<b>CPI % p.a.</b>	<b>AWE % p.a.</b>
1 Year (2016/17)	21.2	2.3	2.4
3 Year average (2014/17)	10.3	0.9	2.9
5 Year average (2012/17)	10.9	1.4	1.9
10 Year average (2007/17)	7.2	2.3	1.9

**AUDITOR'S STATEMENT**

(to be inserted on completion of the audit)

## ACTUARIAL STATEMENT

### Cardiff and Vale of Glamorgan Pension Fund

#### 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 Cardiff and Vale of Glamorgan Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme 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 £1,653.0M) covering 85% 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 aggregate level of contributions to be paid to the Fund by participating employers with effect from 1 April 2017 was:
  - 16.6% of pensionable pay. This was the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate)

#### Plus

- Contributions to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 20 years from 1 April 2017 (the secondary rate), equivalent to 6.4% of pensionable pay (or £17.4M in 2017/18, and increasing by 3.0% p.a. thereafter), before any phasing in or 'stepping' of contribution increases.

This would imply an average employer contribution rate of about 23.0% of pensionable pay in total, if the membership remains broadly stable and payroll increases by 2.8% p.a.

3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon Hewitt's report dated 31 March 2017 (the actuarial valuation report). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
4. The funding plan adopted in assessing the contributions for each individual employer or group was in accordance with the Funding Strategy Statement in force at that time. The approach adopted, and the recovery period used for each employer, was agreed with the administering authority reflecting the employers' circumstances.
5. The actuarial valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	
Scheduled Bodies	4.6% p.a.
Admission Bodies	4.6% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	4.6% p.a.
Admission Bodies	2.5% p.a.
Rate of pay increases	3.0% 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 orphaned liabilities (i.e. employers with no active members and where there is no scheme employer responsible for funding the non-active liabilities) was 2.1% p.a. in-service and left-service.*

The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2N mortality tables with appropriate scaling factors applied based on the mortality experience of members within the Fund and included an allowance for improvements based on the Continuous Mortality Investigation (CMI) 2014 Core Projections with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting assumed life expectancies at age 65 were:

	Men	Women
Current pensioners aged 65 at the valuation date	22.9	25.6
Future pensioners aged 45 at the valuation date	23.9	27.0

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.
7. The formal actuarial valuation report and the Rates and Adjustment certificate setting out the employer contribution rates for the period from 1 April 2017 to 31 March 2020 were signed on 31 March 2017. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
8. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of City and County of Cardiff. It provides a summary of the results of the 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 Hewitt Limited does not accept any responsibility or liability to any party other than our client, City and County of Cardiff, in respect of this statement.

9. The report on the actuarial valuation as at 31 March 2016 is available on the Fund's website at the following address:

<https://www.cardiff.gov.uk/ENG/Your-Council/Council-finance/Pensions/Documents/Actuarial%20valuation%20as%20at%2031%20March%202016%20%28Final%29.pdf>

**STATEMENT OF ACCOUNTS**  
**FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2017**

2015/16 Restated £000		2016/17 £000
	<b>CONTRIBUTIONS AND BENEFITS</b>	
	<b>Contributions receivable</b>	
60,370	from employers (note 5)	61,674
16,360	from employees (note 5)	16,862
5,034	Transfers in	3,241
2,134	Other Income (Capitalised Payments and interest on deficit funding)	1,460
<b>83,898</b>		<b>83,237</b>
	<b>Benefits Payable</b>	
(59,118)	Pensions (note 6)	(60,659)
(16,910)	Lump Sums (note 6)	(13,468)
	Payments to and on account of leavers	
(136)	Refunds of contributions	(117)
(8,220)	Transfers out	(4,807)
<b>(84,384)</b>		<b>(79,051)</b>
	Net Additions/(Withdrawals) from	
<b>(486)</b>	dealings with Members of the Fund	<b>4,186</b>
	<b>RETURNS ON INVESTMENT</b>	
18,176	Investment Income (note 9)	19,115
(31,716)	Change in market value of investments (note 10)	338,888
(12,520)	Management expenses (note 8)	(13,370)
<b>(26,060)</b>	Net Returns on Investments	<b>344,633</b>
<b>(26,546)</b>	Net Increase/(Decrease) in the Fund During Year	<b>348,819</b>
1,679,405	Opening Net Assets of the Scheme	1,652,859
<b>1,652,859</b>	<b>Closing Net Assets of the Scheme</b>	<b>2,001,678</b>

## NET ASSET STATEMENT AS AT 31 MARCH 2017

2015/16 Restated £000		2016/17 £000
1,599,878	Investments at market value (note 10)	1,937,128
29,002	Cash & investment proceeds due (note 10)	44,861
<b>1,628,880</b>		<b>1,981,989</b>
	<b>Current assets</b>	
128	UK & Overseas Tax	147
4,533	Contributions due from Employers and deficit funding	4,588
602	Sundry Debtors (note 14)	986
2,886	Pension Strain costs due within one year	1,806
<b>8,149</b>		<b>7,527</b>
	<b>Non-current assets</b>	
13,386	Deficit funding (former employers)	11,154
4,891	Pension strain costs due after one year	3,222
<b>18,277</b>		<b>14,376</b>
	<b>Current liabilities</b>	
(1,536)	Unpaid Benefits	(1,053)
(911)	Sundry Creditors (note 14)	(1,161)
<b>(2,447)</b>		<b>(2,214)</b>
<b>1,652,859</b>	<b>Net Assets of the Scheme</b>	<b>2,001,678</b>



## NOTES TO THE ACCOUNTS

1. The Statement of Accounts summarises the transactions and net assets of the Pension Fund for the financial year 2016/17. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the scheme and deal with the net assets at the disposal of the administering Authority. They do not take account of obligations to pay pensions and benefits which fall due after the year end. Under IAS26 the Fund is required to disclose the "actuarial present value of the promised retirement benefits". This figure has been calculated by the Actuary as at 31 March 2016 as £2,273.6 million, with a comparator value as at the 31 March 2013 valuation of £2,028.8 million.

The actuarial position is summarised in the Actuarial Statement which is included on pages 104 and 105. This shows that the overall funding level as at 31 March 2016 is 85%.

### 2. Accounting Policies

#### (a) Basis of Preparation

Bond and dividend income has been taken into account on the contractual payment date. Property and private equity income is credited on receipt. The Fund does not account for any benefits payable or receivable in respect of members wishing to transfer from one scheme to another until assets (either cash investments or other form) have been received by the receiving scheme. All other income and expenditure has been accounted for on an accruals basis, except the liability to pay pensions and other benefits in the future. As per IAS 26, a disclosure has been made of the Fund's pension liability i.e. the actuarial present value of promised retirement benefits

#### (b) Valuation of Investments

Quoted bond and equity investments are valued at bid market value at close of business on the last working day in March 2017 (bid market value is the price at which an investment can be sold at a given date). Private Equity Fund investments are valued at fair value, as determined by the administrators of the Fund, based on valuations provided by the general partners of the underlying investments. Where this is a publicly traded investment the valuation is based upon the closing market prices at the balance sheet date of the Fund. If the investment is not publicly traded, the general partner will consider the operational results of the company or any recent transactions in the company. If the company's year end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end. Pooled vehicles are normally valued at bid prices where available. Overseas investments have been converted at WM/Reuters closing spot rates of exchange. Official SETS prices have been used for FTSE100 securities (plus the reserve list). Derivatives are stated at market value. The value of futures contracts is determined using exchange prices at the reporting date. The future value of forward currency contracts is based on market forward exchange rates at the year end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

#### (c) Critical judgements in applying accounting policies

Unquoted private equity investments - These are inherently based on forward looking estimates and judgements valued by the investment managers using two main sets of valuation guidelines that apply to private equity; the Private Equity Valuation Guidelines (PEVG) in the US and the International Private

Equity and Venture Capital Valuation Guidelines (IPEVCG) outside the US. The value of unquoted private equities at 31 March 2017 was £88 million (£83 million at 31 March 2016).

Pension fund liability -This is calculated by the actuary every three years with an annual statement in the intervening years. This is calculated in accordance with IAS19 and the main assumptions used in the calculation are summarised in the actuary’s statement on page 104 and 105. This estimate is based on significant variances based on changes to the underlying assumptions.

**(d) Assumptions made about the future and other major sources of estimation uncertainty.**

The Statement of Accounts contains estimated figures based on assumptions made taking into account historical experience, current trends and other factors. As balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actual present value of promised retirement benefits</b>	Estimations of the liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries increase, changes in mortality rates and expected returns on pension fund assets. The actuary provides the fund with advice regarding the assumptions to be used.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability. An increase in assumed earnings inflation or assumed life expectancy would increase the value of the liabilities.
<b>Private Equity Valuations</b>	Private equity investments are valued at fair value in accordance with international accounting standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £88 million. There is a risk that this investment may be under, or overstated in the accounts.

**(e) Acquisition costs of Investments**

Acquisition costs are included with the original book cost at the time of purchase. At the year end, however, investments on the balance sheet are valued at market value. The difference is recorded in the Accounts as “Change in Market Value of Investments”.

**3. Taxation**

**(a) UK Income, Capital Gains Taxes**

The Fund is an exempt approved fund able to recover UK income tax. No Capital Gains Tax is chargeable.

**(b) Value Added Tax**

The accounts are shown exclusive of VAT. As the County Council is the administering Authority, VAT is recoverable on all Fund activities.

**(c) Overseas Withholding Tax**

Foreign investment income usually suffers withholding tax in the country of origin, some of which may be recoverable. Irrecoverable tax is netted off against income.

**4. Titles of Ownership**

Evidences of ownership for the property unit trusts and private equity holdings are held at County Hall. All other evidences of ownership were held at 31 March 2017 by The Northern Trust Company for the benefit of the Council. Statements of holdings have been provided by Northern Trust.

## 5. Employing Bodies – Contributions

2016/17	No. of contributors at 31.03.17	Contribution rates (% of pensionable pay)	Employers	Employees	Total	Additional lump sum (memo)
			£000	£000	£000	£000
<b>SCHEDULED BODIES:</b>						
Barry Town Council	18	27.0%	84	20	104	0
Cardiff and Vale College	415	13.6%	1,343	519	1,862	238
Cardiff City Transport	21	25.4%	661	48	709	480
City of Cardiff Council	9,271	22.9%	36,470	9,950	46,420	0
Cardiff Metropolitan University	756	13.6%	3,437	1,454	4,891	527
Cowbridge Town Council	4	27.0%	160	43	203	0
Dinas Powys Community Council	1	27.0%	7	2	9	0
Lisvane Community Council	1	27.0%	3	1	4	0
Llantwit Major Town Council	5	27.0%	20	5	25	0
Penarth Town Council	14	27.0%	101	21	122	0
Penllyn Community Council	1	27.0%	1	0	1	0
Pentyrch Community Council	3	27.0%	3	1	4	0
Public Services Ombudsman for Wales	1	32.3%	294	4	298	279
Radyr & Morganstown Community Council	0	27.0%	4	1	5	0
St Davids Sixth Form College	37	13.6%	125	52	177	14
Stanwell School	79	16.4%	178	59	237	13
Vale Of Glamorgan Council	3,702	22.7%	13,211	3,672	16,883	0
Wenvoe Community Council	1	27.0%	3	1	4	0
<b>Sub-total</b>	<b>14,330</b>		<b>56,105</b>	<b>15,853</b>	<b>71,958</b>	
<b>ADMITTED BODIES:</b>						
Adult Learning Wales (formerly Workers Education Association)	50	22.3%	268	77	345	6
APP Clean UK	3	21.5%	5	1	6	0
Cardiff Business Technology Centre	6	28.7%	32	7	39	0

Cardiff University	47	27.3%	1,637	78	1,715	1,300
Careers Wales (Cardiff & Vale)	75	18.1%	378	136	514	0
Children In Wales	33	27.3%	219	48	267	0
Colleges Wales	6	19.8%	56	23	79	0
Design Commission for Wales	4	20.3%	36	14	50	0
Glen Cleaning	3	27.0%	8	1	9	0
GLL	288	18.0%	221	75	296	0
Mirus Wales	6	23.4%	289	23	312	231
National Trust	8	20.7%	27	8	35	0
One Voice	2	19.4%	26	8	34	9
Play Wales	5	24.0%	60	14	74	13
Royal National Eisteddfod	16	25.5%	160	38	198	32
Sport Wales	137	20.2%	1,546	307	1,853	670
Supacleen	1	22.9%	1	0	1	0
Wales & West Housing	1	20.6%	137	16	153	109
Welsh Council For Voluntary Action	69	21.4%	463	135	598	42
<b>Sub-total</b>	<b>760</b>		<b>5,569</b>	<b>1,009</b>	<b>6,578</b>	
<b>Total</b>	<b>15,090</b>		<b>61,674</b>	<b>16,862</b>	<b>78,536</b>	

### Additional deficit funding

There was no additional deficit funding in 2016/17.

### Comparative note for 2015/16

<b>2015/16</b>	<b>No. of contributors at 31.03.16</b>	<b>Contribution rates (% of pensionable pay)</b>	<b>Employers £000</b>	<b>Employees £000</b>	<b>Total £000</b>	<b>Additional lump sum (memo) £000</b>
<b>SCHEDULED BODIES:</b>						
Barry Town Council	13	27.0%	75	18	93	0

Cardiff and Vale College	374	13.6%	1,293	484	1,777	260
Cardiff City Transport	27	25.4%	689	55	744	480
City of Cardiff Council	9,987	22.9%	35,625	9,714	45,339	0
Cardiff Metropolitan University	743	13.6%	3,299	1,390	4,689	527
Cowbridge Town Council	4	27.0%	18	4	22	0
Dinas Powys Community Council	1	27.0%	7	2	9	0
Lisvane Community Council	1	27.0%	3	1	4	0
Llantwit Major Town Council	4	27.0%	18	4	22	0
Penarth Town Council	14	27.0%	78	18	96	0
Penllyn Community Council	1	27.0%	1	0	1	0
Public Services Ombudsman for Wales	1	32.3%	290	6	296	266
Radyr & Morganstown Community Council	1	27.0%	7	1	8	0
St Davids Sixth Form College	39	13.6%	126	51	177	14
Stanwell School	78	16.4%	171	56	227	13
Vale Of Glamorgan Council	3,317	22.7%	13,258	3,672	16,930	0
Wenvoe Community Council	1	27.0%	2	0	2	0
<b>Sub-total</b>	<b>14,606</b>		<b>54,960</b>	<b>15,476</b>	<b>70,436</b>	
<b>ADMITTED BODIES:</b>						
APP Clean UK	5	21.5%	6	2	8	0
Cardiff Business Technology Centre	4	28.7%	22	5	27	0
Cardiff Gypsy & Traveller Project	0	23.4%	1	0	1	0
Cardiff Institute For The Blind	2	20.6%	68	3	71	59
Cardiff University	54	27.3%	1,654	82	1,736	1,300
Careers Wales (Cardiff & Vale)	78	18.1%	389	138	527	0
Children In Wales	25	27.3%	153	36	189	0
Civic Trust For Wales	0	23.4%	8	0	8	8
Colleges Wales	6	19.8%	57	19	76	9
Design Commission for Wales	4	20.3%	34	13	47	0
Mirus Wales	6	23.4%	58	22	80	0
National Trust	9	20.7%	34	10	44	0
One Voice	2	19.4%	23	7	30	6
Play Wales	6	24.0%	54	14	68	8

Royal National Eisteddfod	13	25.5%	150	36	186	32
Sport Wales	129	20.2%	1,866	281	2,147	1,050
Wales & West Housing	1	20.6%	133	15	148	105
Welsh Council For Voluntary Action	59	21.4%	455	131	586	36
Workers Education Association	52	22.3%	245	70	315	6
<b>Sub-total</b>	<b>455</b>		<b>5,410</b>	<b>884</b>	<b>6,294</b>	
<b>Total</b>	<b>15,061</b>		<b>60,370</b>	<b>16,360</b>	<b>76,730</b>	

### **Additional deficit funding**

There was no additional deficit funding in 2015/16.

## 6. Employing Bodies - Benefits Paid

2016/17	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
<b>SCHEDULED BODIES:</b>				
Barry Town Council	102	0	0	0
Cardiff City Transport	2,284	438	45	0
City of Cardiff Council	38,977	6,037	1,209	314
Cardiff and Vale College	622	227	0	22
Cardiff Metropolitan University	1,718	161	412	0
Cowbridge Town Council	15	0	0	0
Dinas Powys Town Council	8	0	0	0
Llantwit Major Town Council	18	0	0	0
Mary Immaculate High School	8	0	0	0
Penarth Town Council	61	16	0	0
Public Services Ombudsman for Wales	18	0	0	0
Royal Welsh College of Music & Drama	77	0	0	0
S Wales Magistrates Courts	486	398	0	0
St Cyres School	55	10	0	0
St Davids Sixth Form Coll	70	19	0	0
Stanwell School	65	40	0	0
Vale of Glamorgan Council	11,559	2,625	607	85
<b>Sub-total</b>	<b>56,143</b>	<b>9,971</b>	<b>2,273</b>	<b>421</b>
<b>ADMITTED BODIES:</b>				
Adult Learning Wales (formerly Workers Education Association)	38	36	0	0
Barry College	3	3	0	0
Cardiff Bay Arts Trust	12	0	0	0
Cardiff Bay Devt Corp	499	5	106	0
Cardiff Business Technology Centre	13	0	0	0
Cardiff & Co	15	0	0	0
Cardiff Gypsy & Traveller Project	13	0	0	0
Cardiff Institute for Blind	67	0	2	0



Cardiff University	1,036	158	0	0
Careers Wales (Cardiff & Vale)	351	2	0	0
Catholic Children's Society	2	0	0	0
Channel View Centre	5	0	0	0
Children in Wales	28	43	0	0
Citizens Advice Bureau (Cardiff)	13	0	0	0
Citizens Advice Bureau (Vale)	12	0	0	0
Civic Trust for Wales	18	0	0	0
Colleges Wales	0	0	0	0
Community Relations	1	0	0	0
Council For Admin In Wales	212	0	0	0
Design Commission for Wales	3	0	0	0
Dimensions	8	0	0	0
Fforwm	75	0	0	0
Glam & Gwent Hsg Assoc	59	45	0	0
Higher Ed Development Wales	3	0	0	0
Housing for Wales	216	46	0	0
Intervol	22	0	0	0
Land Authority for Wales	332	22	0	0
Memorial Hall	12	0	0	0
Mirus Wales (Opportunity Housing Trust)	20	0	0	0
National Eisteddfod	63	0	13	0
National Trust	19	0	0	0
New Theatre	5	0	0	0
Play Wales	20	0	0	0
Porthcawl Holiday Home	62	0	0	0
S E Wales Com Trust	7	0	0	0
Sport Wales	862	103	104	0
STAR	7	0	0	0
Wales & West Housing	126	50	0	0
Wales Youth Agency	56	0	0	0
Welsh Council for Voluntary Action	201	26	39	0
<b>Sub-total</b>	<b>4,516</b>	<b>539</b>	<b>264</b>	<b>0</b>
<b>TOTAL</b>	<b>60,659</b>	<b>10,510</b>	<b>2,537</b>	<b>421</b>

**Comparative note for 2015/16**

2015/16	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
<b>SCHEDULED BODIES:</b>				
Barry Town Council	84	160	0	0
Cardiff City Transport	2,307	224	0	11
City of Cardiff Council	38,348	7,735	1,220	395
Cardiff and Vale College	640	213	55	2
Cardiff Metropolitan University	1,549	1,124	85	18
Cowbridge Town Council	11	10	0	0
Dinas Powys Town Council	9	0	0	0
Llantwit Major Town Council	18	0	0	0
Mary Immaculate High School	8	0	0	0
Penarth Town Council	43	114	0	0
Probation Service	39	0	0	0
Public Services Ombudsman for Wales	227	35	0	0
Royal Welsh College of Music & Drama	77	0	0	0
S Wales Magistrates Courts	373	173	1	23
St Cyres School	48	16	56	0
St Davids Sixth Form Coll	69	23	0	0
Stanwell School	57	37	0	0
Vale of Glamorgan Council	10,979	4,028	37	99
<b>Sub-total</b>	<b>54,886</b>	<b>13,892</b>	<b>1,454</b>	<b>548</b>
<b>ADMITTED BODIES:</b>				
Cardiff Bay Arts Trust	11	3	0	0
Cardiff Bay Devt Corp	502	46	0	0
Cardiff Business Technology Centre	13	0	0	0

Cardiff Gypsy & Traveller Project	11	0	0	0
Cardiff Institute for Blind	71	0	0	0
Cardiff University	1,076	211	0	(9)
Careers Wales (Cardiff & Vale)	348	136	65	0
Catholic Children's Society	2	0	0	0
Channel View Centre	5	0	0	0
Children in Wales	14	0	0	0
Citizens Advice Bureau (Cardiff)	13	0	0	0
Citizens Advice Bureau (Vale)	12	0	0	0
Civic Trust for Wales	18	0	0	0
Colleges Wales	74	0	0	0
Community Relations	2	2	0	0
Design Commission for Wales	3	0	0	0
Dimensions	10	0	0	0
Glam & Gwent Hsg Assoc	58	0	0	0
Glamorgan Holiday Hotel	60	47	0	0
Higher Ed Development Wales	3	0	0	0
Housing for Wales	202	30	0	0
Intervol	22	0	0	0
Land Authority for Wales	304	0	0	0
National Eisteddfod	71	0	0	0
National Trust	10	91	0	0
Memorial Hall	12	0	0	0
Mirus Wales (Opportunity Housing Trust)	20	0	0	0
Play Wales	20	0	0	0
S E Wales Com Trust	7	0	0	0
Sport Wales	839	64	0	23
STAR	7	0	0	0
Wales & West Housing	139	(7)	0	0
Wales Youth Agency	56	0	0	0
Welsh Council for Voluntary Action	189	173	0	0
Workers Education Association	28	141	0	0
<b>Sub-total</b>	<b>4,232</b>	<b>937</b>	<b>65</b>	<b>14</b>
<b>TOTAL</b>	<b>59,118</b>	<b>14,829</b>	<b>1,519</b>	<b>562</b>

## 7. Membership of the Fund

Fund membership at 31 March 2017 is as follows:

	2015/16	2016/17
Contributing Employers	36	37
Contributors	15,061	15,090
Pensioners	10,626	10,846
Deferred pensioners	12,308	12,697
<b>TOTAL MEMBERSHIP</b>	<b>37,995</b>	<b>38,633</b>

## 8. Management Expenses

Management Expenses fully charged to the Fund are:

	2015/16	2016/17
	£000	£000
Administration Costs	912	945
Investment Management Expenses	11,484	12,297
Oversight & Governance Costs	124	128
<b>TOTAL</b>	<b>12,520</b>	<b>13,370</b>

## 9. Investment Income

	2015/16	2016/17
	£000	£000
UK Fixed Interest Securities	5,098	5,325
Overseas Fixed Interest Securities	2,663	1,546
UK Equities & Private Equity Funds	3,209	3,808
Pooled investments	1,432	1,588
Overseas Equities (net of irrecoverable tax)	3,817	4,567
Property Unit Trust Income	1,700	2,113
Interest on UK cash	132	76
Securities Lending	125	92
<b>TOTAL</b>	<b>18,176</b>	<b>19,115</b>

## 10. Investments at Market Value

2015/16 £000		2016/17 £000
	UK Fixed Interest:	
66,966	Public Sector	41,541
93,423	Other (Pooled)	140,330
<b>160,389</b>		<b>181,871</b>
	Overseas Fixed Interest:	
86,645	Public Sector (Pooled)	96,843
<b>86,645</b>		<b>96,843</b>
95,636	UK quoted Equities & Convertibles	116,358
161,746	Foreign quoted Equities	212,725
<b>257,382</b>		<b>329,083</b>
<b>118,632</b>	UK & Global Property (Pooled)	<b>126,298</b>
<b>83,101</b>	Private Equity	<b>88,328</b>
	Pooled Funds	
470,172	UK	562,509
423,557	Overseas	552,195
<b>893,729</b>		<b>1,114,704</b>
(2,273)	Derivatives: Forward Currency contracts	933
<b>(2,273)</b>		<b>933</b>
	Cash:	
24,267	UK	22,863
5,059	Overseas	19,073
1,949	Net investment proceeds due	1,993
<b>31,275</b>		<b>43,929</b>
<b>1,628,880</b>	<b>TOTAL</b>	<b>1,981,989</b>

2016/17	Value at 31/03/16	Purchase at cost	Sale Proceeds	Change in Market Value	Value at 31/03/17
	£000's	£000's	£000's	£000's	£000's
Fixed Interest Securities	247,034	224,136	(210,599)	18,143	278,714
Equities	257,382	73,299	(81,827)	80,229	329,083
Pooled Funds	893,729	144,934	(243,495)	319,537	1,114,705
Property unit trusts	118,632	763	0	6,903	126,298
Private equity	83,101	2,735	(24,619)	27,111	88,328
<b>Sub total</b>	<b>1,599,878</b>	<b>445,867</b>	<b>(560,540)</b>	<b>451,923</b>	<b>1,937,128</b>
Forward Currency	(2,273)	2,573,915	(2,546,860)	(23,849)	933
Futures	0	0	0	0	0
<b>Total Derivatives</b>	<b>(2,273)</b>	<b>2,573,915</b>	<b>(2,546,860)</b>	<b>(23,849)</b>	<b>933</b>
Debtors	1,949				1,993
Creditors	0				0
Managers' Cash	5,004				11,698
Internal Cash	24,267				22,863
Currency Overlay	55				7,374
<b>Total Cash</b>	<b>31,275</b>			<b>(89,186)</b>	<b>43,928</b>
<b>Total Cash and Investment Proceeds Due</b>	<b>29,002</b>			<b>(113,035)</b>	<b>44,861</b>
<b>Total</b>	<b>1,628,880</b>			<b>(338,888)</b>	<b>1,981,989</b>

Comparative data for 2015/16:

<b>2015/16</b>	<b>Value at 31/03/15</b>	<b>Purchase at cost</b>	<b>Sale Proceeds</b>	<b>Change in Market Value</b>	<b>Value at 31/03/16</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Fixed Interest Securities	245,090	101,156	(98,590)	(622)	247,034
Equities	276,564	63,341	(55,312)	(27,211)	257,382
Pooled Funds	907,792	878	0	(14,941)	893,729
Property unit trusts	99,211	10,305	0	9,116	118,632
Private equity	87,433	3,269	(24,085)	16,484	83,101
<b>Sub total</b>	<b>1,616,090</b>	<b>178,949</b>	<b>(177,987)</b>	<b>(17,174)</b>	<b>1,599,878</b>
Forward Currency	(2,209)	2,709,754	(2,695,045)	(14,773)	(2,273)
Futures	0	0	0	0	0
<b>Total Derivatives</b>	<b>(2,209)</b>	<b>2,709,754</b>	<b>(2,695,045)</b>	<b>(14,773)</b>	<b>(2,273)</b>
Debtors	1,742				1,949
Creditors	(141)				0
Managers' Cash	7,700				5,004
Internal Cash	24,110				24,267
Currency Overlay	5,859				55
<b>Total Cash</b>	<b>39,270</b>			<b>(231)</b>	<b>31,275</b>
<b>Total Cash and Investment Proceeds Due</b>	<b>37,061</b>			<b>(14,542)</b>	<b>29,002</b>
<b>Total</b>	<b>1,653,151</b>			<b>(31,716)</b>	<b>1,628,880</b>

## Analysis of derivatives

### Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the fund. The use of derivatives is managed in line with the investment management agreement between the fund and the various investment managers.

### Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a proportion of the fund's quoted equity portfolio is in overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the fund has a currency management overlay in place managed by Mesirow, which hedges significant long term currency movements to limit losses. The portfolio covers US dollars, Yen and Euro currencies.

## 11. Summary of Manager's Portfolio Values at 31 March 2017

	£000	% of Fund
Aberdeen Asset Management	279,696	14.1
Aberdeen Emerging Markets	74,215	3.7
Blackrock Investment Management	626,980	31.6
Invesco Perpetual	101,741	5.1
J P Morgan	81,838	4.1
Majedie	123,283	6.2
Nikko	113,335	5.7
Schroder Investment Managers	105,524	5.3
State Street Global Advisers	229,929	11.6
Property	126,298	6.4
Private Equity Managers	88,328	4.5
Mesirow currency overlay & cash with custodian	7,960	0.4
Internally managed (Cash)	22,862	1.2
<b>Total</b>	<b>1,981,989</b>	<b>100</b>



## 12. Financial Instruments

### a) Classification of financial instruments

31/03/2016				31/03/2017		
Fair Value through profit and loss	Loans and Receivables	Financial Liabilities at Amortised Costs		Fair Value through profit and loss	Loans and Receivables	Financial Liabilities at Amortised Costs
£000	£000	£000		£000	£000	£000
			<b>Financial assets</b>			
247,034	0	0	Fixed Interest Securities	278,714	0	0
257,382	0	0	Equities	329,083	0	0
893,729	0	0	Pooled Funds	1,114,705	0	0
118,632	0	0	Property Unit Trusts	126,298	0	0
83,101	0	0	Private Equity	88,328	0	0
168,982	0	0	Derivatives	158,033	0	0
0	29,326	0	Cash	0	41,935	0
1,949	0	0	Other Investments	1,993	0	0
0	26,426	0	Debtors	0	21,903	0
<b>1,770,809</b>	<b>55,752</b>	<b>0</b>		<b>2,097,154</b>	<b>63,838</b>	<b>0</b>
			<b>Financial liabilities</b>			
(171,255)	0	0	Derivatives	(158,033)	0	0
0	0	0	Other Investments	0	0	0
0	0	(1,812)	Creditors	0	0	(2,214)
0	0	0	Borrowings	0	0	0
<b>(171,255)</b>	<b>0</b>	<b>(1,812)</b>		<b>(158,033)</b>	<b>0</b>	<b>(2,214)</b>
<b>1,599,554</b>	<b>55,752</b>	<b>(1,812)</b>		<b>1,939,121</b>	<b>63,838</b>	<b>(2,214)</b>

### b) Net gains and losses on financial instruments

31/03/2016		31/03/2017
£000	Financial Assets	£000
(21,259)	Fair value through profit and loss	350,452
0	Loans and receivables	0

	<b>Financial liabilities</b>	
(12,630)	Fair value through profit and loss	(13,222)
2,173	Loans and receivables	(402)
<b>(31,716)</b>	<b>Total</b>	<b>338,888</b>

### c) Valuation of financial instruments carried at fair value

Level 1 - Quoted prices for similar instruments. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2 - Directly observable market inputs other than Level 1 inputs. Where an instrument is traded in a market which 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 - Inputs not based on observable market data. The values of investment in private equity are based on valuations provided by the general partners to the private equity funds. If the company's year end does not coincide with the Pension Fund's year end, the valuation is updated with regard to the calls and distributions made between the Private Equity Fund's audited account date and the Pension Fund's year end.

Values as at 31 March 2017	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
<b>Financial assets</b>				
Financial assets at fair value	837,726	884,776	374,652	2,097,154
Loans and receivables	63,838	0	0	63,838
<b>Total financial assets</b>	<b>901,564</b>	<b>884,776</b>	<b>374,652</b>	<b>2,160,992</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value	0	0	(158,033)	(158,033)
Financial liabilities at amortised cost	(2,214)	0	0	(2,214)
<b>Total financial liabilities</b>	<b>(2,214)</b>	<b>0</b>	<b>(158,033)</b>	<b>(160,247)</b>
<b>Net financial assets</b>	<b>899,350</b>	<b>884,776</b>	<b>216,619</b>	<b>2,000,745</b>

### 13. Nature and extent of risks arising from financial instruments

The fund maintains positions in a variety of instruments, as dictated by the Statement of Investment principles (SIP), and is consequently exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risks.

The Fund's primary long-term risk is that the fund's assets will fall short of its liabilities and will be unable to pay the promised benefits to members. 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 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 management of risk is a key objective of the Pension Fund. A policy of diversification of its asset classes and investment managers helps the Pension fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures which are put in place in order to manage risk.

#### Market Risk

Market risk is the risk that the fair value or future cashflows of an institution will fluctuate because of a change in market price.

In order to manage risk, the Fund invests in a diversified pool of assets, split between a number of managers with different performance targets and investment strategies. In order to mitigate risk, the Fund regularly reviews the pension fund investment strategy together with regular monitoring of asset allocation and investment performance.

**Interest rate risk** is the risk to which the Pension Fund is exposed to fluctuations in interest rates and mainly relates to changes in bonds.

To mitigate the risk, the Fund holds a fixed interest portfolio managed by Aberdeen, the appointed active bond manager.

Interest Rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. The analysis below shows the effect of a 100 basis point (1%) movement in interest rates on the net assets available to pay benefits

Asset Type	Carrying amount as at 31.03.2017	Change in year in the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	44,861	449	(449)
Fixed interest securities	278,714	2,787	(2,787)
<b>Total</b>	<b>323,575</b>	<b>3,236</b>	<b>(3,236)</b>

2015/16 Comparative:

Asset Type	Carrying amount as at 31.03.2016	Change in year in the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	29,002	290	(290)
Fixed interest securities	247,034	2,470	(2,470)
<b>Total</b>	<b>276,036</b>	<b>2,760</b>	<b>(2,760)</b>

**Currency risk** is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates.

The Fund's Global Bonds and North American, European and Japanese Equities portfolios are covered by currency hedging arrangements. Fund managers will also take account of currency risk in their investment decisions.

#### Currency risk – sensitivity analysis

Following analysis of historical data, the fund's aggregate currency change has been calculated as 6.36%. A 6.36% 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:

Currency exposure – asset type	Asset value as at 31.03.2017	Change to net assets available to pay benefits	
		6.36%	6.36%
	£000	£000	£000
Overseas quoted securities	771,053	820,092	722,014
<b>Total change in assets available</b>	<b>771,053</b>	<b>820,092</b>	<b>722,014</b>

Currency exposure – asset type	Asset value as at 31.03.2016	Change to net assets available to pay benefits	
		6.35%	6.35%
	£000	£000	£000
Overseas quoted securities	602,722	640,995	564,449

<b>Total change in assets available</b>	<b>602,722</b>	<b>640,995</b>	<b>564,449</b>
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**Price risk** is the risk of losses associated with the movement in prices of the underlying assets. By diversifying investments across asset classes and managers, the Pension Fund aims to reduce the exposure to price risk. Diversification of asset classes seeks to reduce correlation of price movements, whilst employing specialist managers enables the Fund to benefit from investment expertise.

### Price risk sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of assets over the last three years, applied to the period end asset mix. The total volatility shown for Total Currency incorporates the impact of correlation across currencies, which dampens volatility, therefore the Value on Increase and Value on Decrease figures for the currencies will not sum to the total figure.

<b>Asset type</b>	<b>Value as at 31.03.2017 £000</b>	<b>Percentage change %</b>	<b>Value on increase £000</b>	<b>Value on Decrease £000</b>
<b>Total Assets</b>	<b>1,981,989</b>	<b>7.34%</b>	<b>2,127,467</b>	<b>1,836,511</b>
UK Equities	685,792	9.99%	754,303	617,281
Overseas Equities	771,053	10.05%	848,544	693,562
Total Bonds	279,696	4.74%	292,954	266,438
Cash	30,822	0.01%	30,825	30,819
Alternatives	88,328	2.12%	90,201	86,455
Property	126,298	3.18%	130,314	122,282

<b>Asset type</b>	<b>Value as at 31.03.2016 £000</b>	<b>Percentage change %</b>	<b>Value on increase £000</b>	<b>Value on Decrease £000</b>
<b>Total Assets</b>	<b>1,628,880</b>	<b>7.34%</b>	<b>1,748,440</b>	<b>1,509,320</b>
UK Equities	565,808	9.99%	622,332	509,284
Overseas Equities	585,303	10.05%	644,126	526,480
Total Bonds	247,034	4.74%	258,743	235,325
Cash	29,002	0.01%	29,005	28,999
Alternatives	83,101	3.18%	85,744	80,458
Property	118,632	2.12%	121,147	116,117

### Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The Fund reviews its exposure to credit and counterparty risk through its external investment managers. The Fund is also exposed to credit risk through its securities lending programme. This is run by the Fund's custodian, Northern Trust who manages and monitors the counterparty risk, collateral risk and the overall lending programme.

The Pension Fund's bank account is held with the Lloyds bank. Surplus cash is not invested with Lloyds but is placed with a selection of AAA Money Market institutions. The Fund's cash holding under its treasury management arrangements as at 31.03.2017 was £22.2 million (£24.8 million at 31.03.2016). This was held with the following institutions:

	Rating	Balance at 31.03.2016 £000	Balance at 31.03.2017 £000
<b>Money market funds</b>			
Ignis	AAA	12,000	12,000
Deutsche	AAA	920	0
Blackrock	AAA	11,950	10,170
<b>Bank current account</b>			
Lloyds Bank	A	(80)	74
<b>Total</b>		<b>24,790</b>	<b>22,244</b>

### Liquidity Risk

Liquidity risk represents the possibility that the Fund may not have funds available to meet its financial obligations. The current position of the fund is that it is cash positive, which reflects the fact that contributions into the Fund exceed benefits being paid out. The Pension Fund's cash is kept in a separate bank account and the cash position is monitored on a daily basis. Surplus funds are deposited in money market funds on a short term basis. At an investment level, the Funds' investments are substantially made up of listed securities which are considered readily realisable.

### 14. Sundry Debtors & Creditors

	2015/16 £000	2016/17 £000
<b>Debtors</b>		
Pensions Administration	0	0
Miscellaneous	602	986
	<b>602</b>	<b>986</b>

<b>Creditors</b>		
Management & Custody Fees	(911)	(1,161)
Miscellaneous	0	0
	<b>(911)</b>	<b>(1,161)</b>
<b>Total</b>	<b>(309)</b>	<b>(175)</b>

#### 15. Additional Voluntary Contributions

Scheme members may elect to make additional voluntary contributions to enhance their pension benefits. Contributions are made directly from scheme members to the AVC provider and are therefore not represented in these accounts.

The amount of AVC contributions paid during the year amounted to £508,000 and the market value of separately invested AVC's as at 31 March 2017 was £3.620 million.

#### 16. Commitments

As at 31 March 2017 the Fund had outstanding private equity commitments of a maximum of £43.62 million (£38.64 million at 31 March 2016).

As at 31 March 2017 the Fund had forward currency contracts amounting to £158.968 million of purchases and £158.033 million of sales, showing an unrealised gain of £935,000.

#### 17. Securities Lending

At the year end the value of quoted equities on loan was £44.66 million (£40.42 million at March 2016) in exchange for which the custodian held collateral of £48.26 million (£42.54 million at March 2016). For the year ending 31 March 2017, the Fund received income of £93,000 from the lending of stock.

#### 18. Contingent Liabilities

The Fund has no contingent liabilities.

#### 19. Related Party Transactions

The relationship between the employers and the Pension Fund is, by its very nature, close, therefore, each participating employer is considered a related party as shown in notes 5 and 6.

Other related party transactions with the Council are:

- Cash invested internally by the Council (for working capital purposes) - see note 9;
- Administration expenses charged to the Fund by the Council are shown in note 8.
- Paragraph 3.9.4.3 of the Code of Practice exempts local Authorities from the key management personnel disclosure requirements of IAS24 on the basis that requirements for officer remuneration and members' allowances is detailed in section 3.4 of the Code and can be found in the main accounts of The County Council of the City and County of Cardiff.

#### 20. Post Balance Sheet Events

There are no post balance sheet events to report.

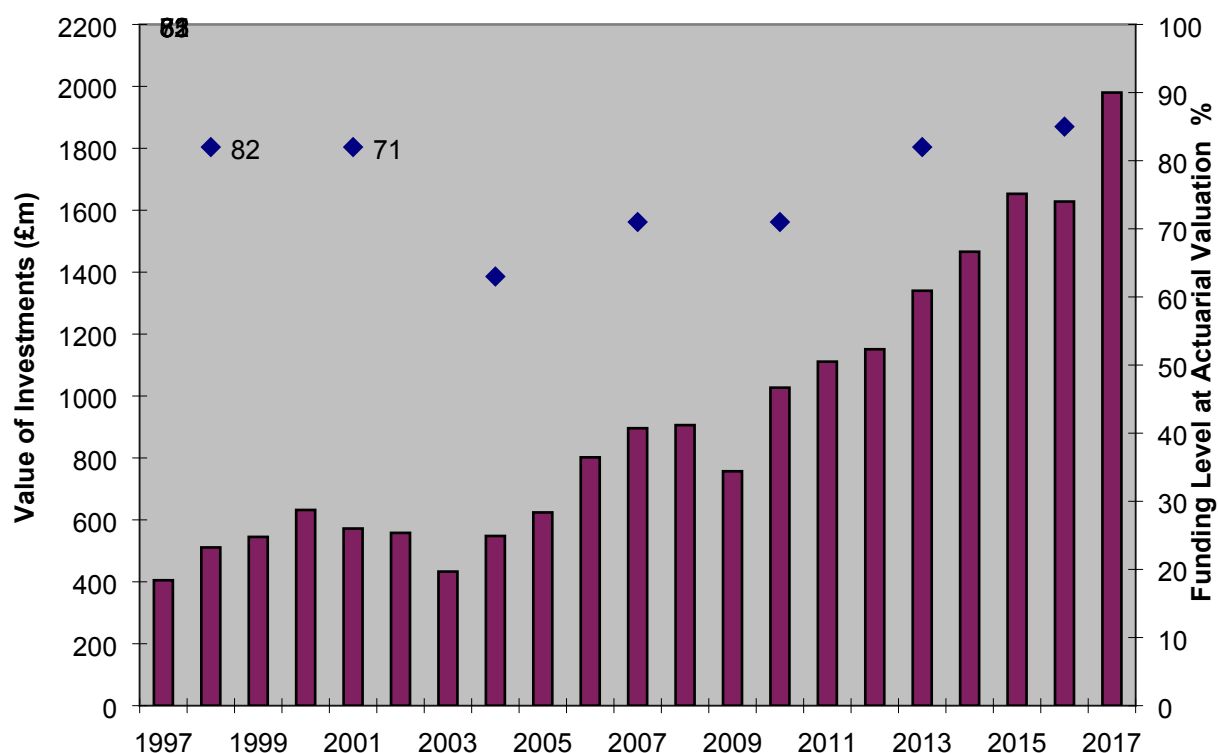
## APPENDIX

### SUMMARY STATISTICS FOR THE PAST FIVE YEARS

Year End 31st March	2013	2014	2015	2016	2017
<b>MEMBERSHIP</b>					
Contributors	13,402	13,922	14,616	15,061	<b>15,090</b>
Pensioners	9,552	9,866	10,281	10,626	<b>10,846</b>
Deferred Members	10,658	11,335	12,073	12,308	<b>12,697</b>
<b>FINANCIAL DATA</b>					
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross Income (excl Profits on Sales)	92.9	119.2	100.0	102.1	<b>102.4</b>
Gross Expenditure	70.4	78.8	84.5	96.9	<b>92.4</b>
Net New Money	22.5	40.4	15.5	5.2	<b>10.0</b>
Market Value of Investments	1,339.9	1,466.1	1,653.2	1,628.9	<b>1,982.0</b>
<b>INVESTMENT PERFORMANCE</b>					
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Returns on investments					
1 Year	14.9	8.9	12.6	-1.7	<b>21.2</b>
3 Year Average	8.4	8.7	12.1	6.4	<b>10.3</b>
5 Year Average	7.1	13.2	9.3	7.3	<b>10.9</b>
10 Year Average	10.0	8.6	8.7	6.1	<b>7.2</b>
Annual Pension Increase (applied the following April)	2.2	2.7	1.2	0.0	<b>1.0</b>



## 20 YEAR INVESTMENT MARKET VALUES



<b>INVESTMENT ASSET ALLOCATION (BY ASSET CLASS)</b>						
Year Ended 31 March		2013	2014	2015	2016	2017
UK Equities	£m	468.7	539.4	588.4	568.5	<b>685.8</b>
	%	35.0	36.8	35.6	34.9	<b>34.6</b>
Overseas Equities	£m	450.4	510.0	602.9	588.8	<b>771.1</b>
	%	33.6	34.8	36.5	36.2	<b>38.9</b>
Global Bonds	£m	220.0	220.1	244.1	247.9	<b>279.7</b>
	%	16.4	15.0	14.8	15.2	<b>14.1</b>
Private Equity	£m	93.0	92.9	87.4	83.1	<b>88.3</b>
	%	6.9	6.3	5.3	5.1	<b>4.5</b>
Property	£m	75.2	79.9	99.2	116.2	<b>126.1</b>
	%	5.6	5.5	6.0	7.1	<b>6.4</b>
Cash	£m	33.2	23.8	31.2	22.9	<b>30.8</b>
	%	2.5	1.6	1.9	1.4	<b>1.6</b>
<b>Total Value</b>	£m	<b>1340.5</b>	<b>1466.1</b>	<b>1653.2</b>	<b>1627.4</b>	<b>1981.8</b>
	%	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**TEN LARGEST HOLDINGS BY MARKET VALUE AS AT 31 MARCH 2017**

	Country	Value £m	% of the Fund
<b>EQUITIES (DIRECTLY OWNED)</b>			
Royal Dutch Shell	UK	8.7	0.4
HSBC Holdings	UK & Hong Kong	8.4	0.4
BP	UK	7.3	0.4
Taiwan Semiconductor Manufacturing Co	Taiwan	5.4	0.3
Tencent Holdings	China	5.2	0.3
Samsung Electronics	South Korea	5.2	0.3
Tesco	UK	4.5	0.2
GlaxoSmithKline	UK	4.2	0.2
Sony Corporation	Japan	4.1	0.2
Vodafone Group	UK	4.0	0.2
<b>POOLED FUNDS</b>			
BlackRock Aquila Life UK Equities Indexed	UK	378.9	18.9
BlackRock Aquila Life US Equities Indexed	USA	248.0	12.4
SSGA MPF Europe ex UK Equities Active	Europe ex UK	229.9	11.5
Invesco Perpetual Income Fund	UK	101.7	5.1
Aberdeen Corporate Bond Fund	UK	84.3	4.2
JP Morgan UK Dynamic Fund	UK	81.8	4.1
Aberdeen Global Emerging Markets Equities	Emerging Markets	74.2	3.7
Aberdeen Absolute Return Bond Fund	Global	56.0	2.8
Aberdeen Global Government Bond Fund	Global	55.4	2.8
CB Richard Ellis Global Alpha Fund	Global	44.7	2.2

## **GLOSSARY**

### **Active / Passive Management**

Active management is the traditional form of investment management involving a series of individual investment decisions that seek to maximise returns by exploiting price inefficiencies i.e. 'beat the market'.

Passive management is a low cost alternative where managers normally hold stocks in line with a published index, such as the FTSE All-Share, not seeking to outperform but to keep pace with the index being tracked.

### **Actuary**

An independent consultant who advises on the long-term viability of the Fund. Every three years the Fund actuaries review the assets and liabilities of the Fund and report to the Council on the financial position and recommended employer contribution rates. This is known as the actuarial valuation.

### **Asset Allocation**

Apportionment of investment funds among categories of assets, such as Bonds, Equities, Cash, Property, Derivatives, and Private Equity. Asset allocation affects both risk and return.

### **CIPFA**

The Chartered Institute of Public Finance and Accountancy, the professional accountancy body for public services in the UK.

### **Custodian**

Bank or other financial institution that keeps custody of stock certificates and other assets of a client, collects dividends and tax refunds due, and settles any purchases and sales.

### **DCLG**

The Department for Communities and Local Government, the department of the UK Government responsible for the LGPS in England and Wales.

### **Derivative**

A derivative instrument is a contract whose value is based on the performance of an underlying financial asset, index, or other investment.

### **Emerging Markets**

Relatively new and immature stock markets for equities or bonds. Settlement and liquidity can be less reliable than in the more established 'developed' markets, and they tend to be more volatile.

### **Equities**

Ordinary shares in UK and overseas companies traded on a recognised stock exchange. Shareholders have an interest in the profits of the company and may normally vote at shareholders' meetings.

### **Fixed Interest Securities/Bonds**

Investments, especially in government stocks, with a guaranteed rate of interest. *Conventional* bonds have fixed rates, whilst *Index Linked* vary with inflation. They represent loans repayable at a stated future date, and which can be traded on a stock exchange in the meantime.

### **Fund of Funds**

A pooled fund that invests in other pooled funds. They are able to move money between the best funds in the industry, and thereby aim to lower stakeholder risk with greater diversification than is offered by a single fund.

### **ISS**

The Investment Strategy Statement which each LGPS fund is required to prepare and keep under review.

### **LGPS**

The Local Government Pension Scheme, governed by regulations issued by the Department for Communities and Local Government

### **Myners Principles**

The six principles which a LGPS Fund must comply with in its SIP:

1. Effective decision making
2. Clear objectives
3. Risk and liabilities
4. Performance assessment
5. Responsible ownership
6. Transparency and reporting

### **Pooled Funds**

Pooled investment vehicles issue units to a range of investors. Units prices moves in response to changes in the value of the underlying portfolio, and investors do not own directly the assets in the fund. The main types are: unit trusts, open-ended investment companies (OEICs), insurance linked vehicles and investment trusts.

### **Portfolio**

A collective term for all the investments held in a fund, market or sector. A *segregated portfolio* is a portfolio of investments of a specific type held directly in the name of the investor e.g. Global Bonds, or a specific market e.g. UK Equities, Far East Equities.

**Private Equity**

Investments made by specialist managers in all types of unlisted companies rather than through publicly tradable shares.

**Return**

The total gain from holding an investment, including both income and any increase or decrease in market value. Returns over periods longer than a year are usually expressed as an average annual return.

**Scheme Employers**

Local authorities and bodies specified in the LGPS Regulations, whose employees are entitled automatically to be members of the Fund, and Admission Bodies including voluntary, charitable and similar bodies, carrying out work of a public nature, whose staff can become members of the Fund by virtue of an admission agreement with the Council.

## FURTHER INFORMATION

Details of membership of the LGPS are provided by individual employers to all relevant employees on appointment. Further information regarding the scheme can also be found on the LGPS website ([www.lgps.org.uk](http://www.lgps.org.uk)). Any significant changes to the scheme are communicated to members by newsletter.

A statement of each individual's benefits is currently provided automatically on retirement. Annual benefit statements are sent to all active and deferred Fund members based on the benefits accrued to 31 March each year.

Copies of this report are sent to all employers and recognised Trade Unions, and are available to all interested parties on request. Copies of the rules currently governing local government pension funds may also be inspected on request.

The Fund's Annual Report, Statement of Investment Principles, Funding Strategy Statement and Communication and Governance Statement are published on Cardiff Council's website [www.cardiff.gov.uk/pensions](http://www.cardiff.gov.uk/pensions). Paper copies are available on request.

Further information on the Pension Fund or any pension matters may be obtained from:

Corporate Director Resources  
Cardiff Council  
County Hall  
Atlantic Wharf  
Cardiff  
CF10 4UW

E-mail enquiries should be sent to: [Pensions@cardiff.gov.uk](mailto:Pensions@cardiff.gov.uk)

Telephone enquiries should be directed as follows:

Scheme Management & Investments	(029) 2087 2975	Gareth Henson	(Pensions Manager)
Pensions Administration	(029) 2087 2330	Karen O'Donoghue-Harris	(Principal Pensions Officer)
	(029) 2087 2343	Nicola Cumper	(Senior Pensions Officer)
	(029) 2087 2338	Wendy Herbert	(Senior Pensions Officer)
Fund Accounting	(029) 2087 2290	Nicola Greenwood	(Group Accountant)

**CITY OF CARDIFF COUNCIL  
CYNGOR DINAS CAERDYDD****PENSIONS COMMITTEE: 25 SEPTEMBER 2017****REPORT OF CORPORATE DIRECTOR RESOURCES****AGENDA ITEM: 7**

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**INVESTMENT STRATEGY & ASSET ALLOCATION****Reason for this Report**

1. The Pension Committee Terms of Reference set out the Committee's responsibility for the strategic governance of the Cardiff & Vale of Glamorgan Pension Fund.
2. This report has been prepared to request that the Committee approve the Strategic Asset Allocation recommended by the Investment Advisory Panel for 2017-18.

**Issues**

3. The Investment Advisory Panel reviews the Fund's Strategic Asset Allocation annually. A fundamental review is carried out following each Triennial Valuation and minor changes may be made following interim reviews in other years. Formal approval of the Asset Allocation now falls within the Committee's remit.
4. The Investment Advisory Panel met on 19 September 2017 with the Strategic Asset Allocation as an item for review. The Panel report is attached as confidential Appendix 1. The Panel considered the implications of the significant increase in the Fund's assets over the 2016-17 financial year and the projected impact on the funding position. The independent advisors recommended reallocating 9% of assets from equities to fixed income, subject to the Fund actuaries confirming that this is consistent with the Fund's funding strategy. The recommended allocation for 2017-18 is shown in Appendix 2.

**Legal Implications**

5. The Strategic Asset Allocation is a technical document, the contents of which Legal Services are unable to comment upon. It is understood by Legal Services that this is drafted and prepared with assistance from appropriate external advisors and is recommended for approval by the Pensions Advisory Panel and it is understood this is an annual review rather than a fundamental review. The recommendation does not appear to raise any specific legal implications however the general legal advice set out below should be considered.
6. As with approval of all technical documents this decision must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the

Council eg. standing orders and financial regulations; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its tax payers; and (h) be reasonable and proper in all the circumstances and comply with any equalities legislation.

### **Financial Implications**

7. There are no direct financial implications arising from this report.

### **Recommendations**

8. That the Committee approves the Strategic Asset Allocation recommended by the Investment Advisory Panel, subject to advice from the Fund Actuaries.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**

The following Appendices are attached:

Appendix 1 – Report to Investment Advisory Panel 19 September 2017 CONFIDENTIAL  
Appendix 2 - Proposed Asset Allocation for 2017-18



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o Ddeddf Llywodraeth Leol 1972.

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# CARDIFF & VALE OF GLAMORGAN PENSION FUND

## Strategic Asset Allocation for 2017-18

ASSET CLASS	Panel meeting of 19/09/17	
	%	%
<b>EQUITIES</b>		
<b>UK</b>		
<i>Passive</i>	15, +/- 5	
<i>Active</i>	15, +/- 5	
<b>Total UK</b>		30, +/- 5
<b>OVERSEAS</b>		
<i>N America</i>	9, +/- 4	
<i>Europe</i>	9, +/- 4	
<i>Japan</i>	4, +/- 2.5	
<i>Asia-Pacific</i>	4, +/- 2.5	
<i>Emerging Markets</i>	4, +/- 2.5	
<b>Total Overseas</b>		30, +/- 5
<b>Total Equities</b>		60, +/- 10
<b>BONDS &amp; CASH</b>		27.5, +/- 5
<b>PROPERTY</b>		7.5, +/- 5
<b>PRIVATE EQUITY</b>		5, +/- 2.5
		<b>100%</b>

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