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AGENDA

Pwyllgor BWYLLGOR PENSIYNAU

Dyddiad ac amser y cyfarfod DYDD MERCHER, 28 MEDI 2016, 5.00 PM

Lleoliad YSTAFELL BWYLLGORA 4 - NEUADD Y SIR

Aelodaeth Cyngorydd
Y Cynghorwyr Elsmore, Evans, Hinchey, Margaret Jones a/ac
Graham Thomas

1 Penodi Cadeirydd

2 Aelodaeth y Pwyllgor

Nodi bod y canlynol wedi eu penodi i'r Pwyllgor Pensiynau yng nghyfarfod y Cyngor ar 28 Gorffennaf 2016:

Y Cynghorwyr Elsmore, Evans a Hinchey (Llafur)

Y Cyngorydd Margaret Jones (Democrat Rhyddfrydol)

Y Cyngorydd Graham Thomas (Ceidwadol)

3 Ymddiheuriadau am absenoldeb

4 Datgan Buddiannau

I'w gwneud ar ddechrau'r eitem agenda dan sylw, yn unol â Chod Ymddygiad yr Aelodau.

5 Cylch Gorchwyl y Pwyllgor Pensiynau (*Tudalennau 1 - 2*)

Mabwysiadu'r Cylch Gorchwyl ar gyfer y Pwyllgor

6 Pwll Buddsoddi Cymru (*Tudalennau 3 - 10*)

Ystyried Memorandwm Cyd-ddealltwriaeth (MOU) ar gyfer Grŵp y Cyd-Gadeiryddion

7 Dogfennau Polisi Strategol ar gyfer y Gronfa Bensiwn (*Tudalennau 11 - 50*)

Adolygu a chymeradwyo'r canlynol:
Datganiad Cydymffurfio Llywodraethu
Datganiad Polisi Cyfathrebu
Datganiad o Egwyddorion Buddsoddi (DEB)
Dyraniad Asedau Strategol

8 Datganiad Cyfrifon ac Adroddiad Blynyddol ar gyfer 2015-16 (*Tudalennau 51 - 112*)

Adolygu'r Datganiad Cyfrifon ac Adroddiad Blynyddol

9 Dyddiad y cyfarfod nesaf

Trefnir cyfarfod nesaf y Pwyllgor Pensiynau ddydd Mercher 26 Hydref 2016 am 5.00pm yn ystafell pwyllgor 4, Neuadd y Sir, Caerdydd

Davina Fiore

Cyfarwyddwr Llywodraethu a Gwasanaethau Cyfreithiol

Dyddiad: 22 September 2016

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

This document is available in English / Mae'r ddogfen hon ar gael yn Saesneg

PENSIONS COMMITTEE – TERMS OF REFERENCE

To discharge the functions of the authority as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') as described in the Local Government Pension Scheme (LGPS) Regulations made under the Superannuation Act 1972 (sections 7,12 or 24) and Section 18(3A) of the Local Government and Housing Act 1989; and

To discharge the following specific strategic functions with regards to the Fund, taking account of advice from the Corporate Director Resources and the Fund's professional advisers:-

- a) Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
 - i) Governance – approving the Governance Policy and Compliance Statement for the Fund;
 - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, giving due consideration to the results and impact of the triennial actuarial valuation and interim reports;
 - iii) Investment strategy - approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite;
 - iv) Communications Strategy – approving the Fund's Communication Strategy;
 - v) Discretions – determining how the various administering authority discretions are operated for the Fund; and
 - vi) Internal Dispute Resolution Procedure – determining how the Scheme Member disputes are administered.
- b) Monitoring the implementation of these policies and strategies as outlined in a) above on an ongoing basis.
- c) Considering the Fund's financial statements as part of the approval process and agreeing the Fund's Annual Report. Receive internal and external audit reports on the same.
- d) Receiving ongoing reports from the Corporate Director Resources in relation to the delegated operational functions.
- e) To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.
- f) To adhere to the principles set out in the Pensions Regulator Code of Practice and undertake its duties in compliance with the obligations imposed on it.

- g) To receive regular training to enable Committee Members to make effective decisions and be fully aware of their statutory and fiduciary responsibilities and their stewardship role.
- h) Consider any pension compliance matters raised by the Fund's Local Pension Board.

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



PENSIONS COMMITTEE: 28 SEPTEMBER 2016

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 5

WALES INVESTMENT POOL

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 inform Committee Members of progress with the development of a Wales Investment Pool to manage on a collaborative basis the investment assets of the eight Local Government Pension Scheme (LGPS) funds in Wales and to seek the Committee's approval of the proposed Memorandum of Understanding (MOU) to govern the interim Joint Chairs' Group.

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 2013 the Subgroup published a report "Welsh Local Government Pension Funds: Working Together" which identified investments as the area where collaboration might yield the most significant savings. The Subgroup then commissioned Mercers Ltd to identify options for collaborative investing and in May 2015 their report recommending a Common Investment Vehicle (CIV) was issued. In September 2015 the eight funds agreed to proceed with establishing a CIV on a voluntary basis and Hymans Robertson were appointed in December 2015 to advise on the procurement of a CIV from a third party provider.
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 rather than the current arrangement whereby individual funds appoint investment managers themselves. The Welsh funds submitted an outline proposal for a Wales Investment Pool in February 2016 and detailed proposals were submitted, as required, on 15 July 2016. The proposals included letters of support from the Chairs of Pension Committees and Panels of the eight funds. A positive response was received from the Minister for Communities and Local Government to the outline proposal but no formal response has yet been received from the DCLG to the detailed proposals.
5. The Pool will not be a merger of the eight funds. Each fund will retain its distinct identity and the administering authorities will remain responsible for complying with the LGPS regulations and pensions legislation in respect of their members. Annual Statements of Accounts and triennial Actuarial Valuations will still be prepared for each individual

pension fund and each fund will determine its own funding strategy. The Pool will have a limited remit and its objectives, as set out in the submission document, will be:

- To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical).
- To achieve material cost savings for participating funds while improving or maintaining investment performance after fees.
- To put in place robust governance arrangements to oversee the Pool's activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.

Issues

6. The Wales Investment Pool proposal includes the establishment of a Joint Governance Committee comprising elected members from each administering authority, supported by an Officer Working Group. It is also proposed to appoint a Financial Conduct Authority (FCA) regulated Operator to supply the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the eight funds.
7. Work is ongoing within tight deadlines to establish the governance arrangements for the Pool including the drafting of a legally binding Inter-Authority Agreement (incorporating the Terms of Reference for the Joint Committee), the specification of the services to be provided by the Operator and the role of the Officer Working Group. Consideration is also being given to the needs of the Pool for specialist legal and investment advice.
8. It is anticipated that the Joint Committee will meet in a shadow form (i.e. without decision making powers) as a Joint Chairs' Group (JCG) during the remainder of 2016 and will be formally established early in 2017. The remit of the JCG is set out in the proposed Memorandum of Understanding (MOU) which is included as Appendix 1. The JCG will oversee the procurement process for the Operator but the formal Joint Committee will make the final recommendation to appoint the bidder who best meets the specification criteria.
9. It is proposed that the Joint Chairs' Group and the Joint Governance Committee will be made up of one representative from each of the Welsh Pension Funds and so it is necessary to appoint this Committee's representative.
10. A schedule of meetings for this Committee has been arranged to align with the project plan for the Pool.

Legal Implications

11. The current legislative framework for the pension fund investments carried out by Administering Authorities is set by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The law governing pensions is a complex and specialist area. National Government guidance indicates that the pooling of LGPS assets is permissible under current law.
12. The proposed Memorandum of Understanding, and the work of the Joint Chairs' Group, will not be legally binding upon Authorities but will prepare the way for a legally binding commitment to be entered into through an Inter-Authority Agreement. Since the Inter-Authority Agreement will include the setting up of a Joint Committee it will have to be approved by full Council in early 2017.

13. 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 taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

14. It is proposed that all pre new arrangement including governance costs of the Joint Chairs' Group be divided equally between the eight Welsh funds.

Recommendations

That Committee:

15. Note the progress in the development of the Wales Investment Pool.
16. Approve the draft Memorandum of Understanding.
17. Delegates authority to the Corporate Director Resources to approve any amendments to the MOU in consultation with the Chair.
18. Appoints one of its members to represent the Committee on the Joint Chairs Group and subsequently on the Joint Committee.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES

The following Appendices are attached:

Appendix 1 - Draft Memorandum of Understanding

Background Papers

Report to Council 30 June 2016

Wales Pool submission to the DCLG 15 July 2016

Mae'r dudalen hon yn wag yn fwriadol

Memorandum of understanding relating to the procurement of services by the administering authorities of the local government pension scheme in Wales

1. This memorandum of understanding governs the relationship of the administering authorities for the local government pension scheme in Wales under Part 1 of Schedule 3 to the Local Government Pension Scheme Regulations 2013.
2. The administering authorities who are parties to this Memorandum are the City of Cardiff Council, the City & County of Swansea Council, Flintshire County Council, Carmarthenshire County Council, Torfaen County Borough Council, Gwynedd Council, Powys County Council and Rhondda Cynon Taff County Borough Council ("the Constituent Authorities").
3. The Constituent Authorities have made a proposal to HM Government for the pooling of investment activities relating to the management of their several pension funds and that proposal has been accepted in principle by HM Government.
4. The proposal is to create a pooled investment vehicle (the "Pooled Vehicle") and to delegate the operation of the Pooled Vehicle to a third party operator holding the relevant regulatory permissions (the "Host Operator"). The Constituent Authorities may delegate additional investment related services (the "Ancillary Services") to the Host Operator or to another third party provider.
5. To further that proposal the Constituent Authorities have agreed that they will act in concert to procure the Host Operator and Ancillary Services so that the strategic investment requirements of the Constituent Authorities are being met.
6. The Constituent Authorities are committed to the development of formal joint arrangements via an Inter-Authority Agreement ("IAA") to ensure the effective operation of the services procured, such arrangements to take effect before the provision of those services commences and by no later than 31st January 2017. The target date for commencement of the new service arrangements is April 2017 with full development of those arrangements by April 2018 .
7. The Constituent Authorities will work together in accordance with this memorandum of understanding until formal joint arrangements (including a Joint Committee and legally binding Inter-Authority Agreement) are in place.
8. This memorandum of understanding does not create any legal relationship nor is it intended by the Constituent Authorities to create such a relationship. The authorities will act with good faith, openness, equality, reasonableness, respect and avoid bringing any of the others' reputations into disrepute.
9. Flintshire County Council will act as lead authority for the purpose only of undertaking the joint procurement of a Host Operator. The invitation will be issued by Flintshire CC who will formally respond to any queries and receive the bids. Flintshire will issue the decision notice but each Constituent Authority will be a co-signatory to the contract in relation to the services.
10. Costs incurred in the procurement phase (including costs of challenge) are to be allocated and recovered from each of the Authorities on the basis of equality of shares.
11. In order to act in concert the Constituent Authorities will form a shadow joint committee ("SJC") on which each Constituent Authority will be represented by one member who must be a member of that authority's pension committee or equivalent body (normally the Chairman of the Constituent Authority's LGPS pensions committee or his nominated representative) to make recommendations to their Constituent Authority. Each Constituent Authority will appoint a named substitute who must be an elected member of the same authority as the member for whom they are acting as substitute and must be a member of that authority's pension committee or equivalent body.

12. In particular the shadow joint committee will be responsible for:
 - 12.1 Making recommendations to the Constituent Authorities on the services and functions to be delivered by a Host Operator, the Ancillary Services and the method of delivery;
 - 12.2 Making recommendations to the Constituent Authorities on the evaluation methodology to be used in the appointment process;
 - 12.3 Making recommendation to the Constituent Authorities on the appointment of a Host Operator and other service providers;
 - 12.4 Making recommendations on the structure of the Pooled Vehicle (or Pooled Vehicles), the number and make up of sub-funds, and the commercial design of the Pooled Vehicle (or Pooled Vehicles);
 - 12.5 Making recommendations to the Constituent Authorities on common minimum standard policies in respect of ethical, social and governance matters and voting rights.
 - 12.6 Making recommendations to the Constituent Authorities on the role and procedures of the Joint Committee (including matters such as whether to appoint an independent chairman and advisors and whether to include non-voting observers);
 - 12.7 Any other matters which they consider to be necessary for the effective progression of the proposal.
13. In the event of any member of the SJC ceasing to be a member of the Constituent Authority which appointed them, the relevant Constituent Authority shall as soon as reasonably practicable appoint another member in their place.
14. The Chair and Vice-Chair will be appointed by the members of the SJC from amongst their own number by means of a vote.
15. In the absence of the Chair, the duties of presiding over the meeting shall fall to the Vice-Chair. In the event that neither the Chair nor Vice-Chair are present for any portion of the meeting, the SJC shall appoint from amongst themselves a substitute Chair, to preside over the meeting for that period.
16. A meeting shall be quorate when [6] members are present. No business will be transacted at a meeting unless a quorum exists at the beginning of the meeting.
17. The SJC will in the first instance seek to reach decisions through consensus. Where it is not possible to reach a consensus position a decision will be reached by majority vote. Each Constituent Authority present will have one vote and voting will be by means of a show of hands.
18. The SJC may appoint sub-committees from among its membership as required to enable it to fulfil its remit.
19. The SJC may set up working groups to advise it on matters within its remit. Such working groups may be formed of members or officers of the Constituent Authorities or any other third party as the SJC sees fit. Such working groups are advisory only and the SJC may not delegate its responsibilities to such working groups.
20. The clerk to the joint committee who will arrange for the provision of secretarial and administrative support will be an officer provided by the Welsh Local Government Association.
21. The SJC shall meet quarterly or more frequently if that is necessary for the group to execute its responsibilities.

22. Meetings will be held at such times, dates and places as may be notified to the members of the SJC by the clerk. Meeting papers will be circulated five working days in advance of any meeting. Urgent items may be tabled at meetings with the agreement of the Chair.
23. Additional ad hoc meetings may be called in order to consider urgent matters of business within the remit of the SJC. Such ad hoc meetings may include virtual meetings facilitated by means of videoconferences or similar technology.
24. The SJC may invite any person, whether a member or officer of one of the Constituent Authorities or a third party to attend any meeting of the SJC and speak on any relevant matter.
25. Members must declare on appointment to the SJC, or at any subsequent point, whether they have any conflict of interest in respect of any business being conducted by the SJC. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the SJC. A conflicted member shall play no part in any portion of the meeting to which that conflict of interest relates.
26. Members of the SJC will be subject to the Member Code of Conduct as operated by their own Constituent Authority.
27. Under paragraph 20 there will be an Officer Working Group (OWG) drawn from the Constituent Authorities which supports and advises the shadow Joint Committee
28. The OWG is not a decision-making body. Its remit will be:
 - 28.1 Proposing and procuring external support requirements (e.g. legal and taxation advice);
 - 28.2 Proposals to SJC on pool governance arrangements including how the Host Operator and, where relevant, any provider of Ancillary Services, should be held to account;
 - 28.3 Proposing the specification of the scope of services required from the Host Operator and the extent of the Ancillary Services required for the purpose of a procurement exercise and proposing an appropriate procurement process;
 - 28.4 Proposals on the identity of the Host Operator and provider of the Ancillary services;
 - 28.5 Liaising with lawyers (and other advisers) to determine proposals to the SJC on:
 - 28.5.1 finalising a proposed project plan setting out the structure of the proposal, including the services required from the Host Operator and the Ancillary Services, together with a detailed timeline;
 - 28.5.2 necessary protections in the Host Operator contract and contracts with any other service providers, including in particular exit triggers, liabilities and indemnities;
 - 28.5.3 the structure of the Pooled Vehicle (or Pooled Vehicles), the number and make up of sub-funds, and the commercial design of the Pooled Vehicle (or Pooled Vehicles);
 - 28.5.4 the actions required under existing investment-related contracts entered into by the Constituent Authorities, subject to agreement with the Constituent Authorities.
 - 28.6 Planning the transition from existing mandates to the Pooled Vehicle, including proposals on the procurement of one or more transition managers, the services required, the timing of transitions and the apportionment of transaction costs.

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



PENSIONS COMMITTEE: 28 SEPTEMBER 2016

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 6

Appendix 4 of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972

STRATEGIC POLICY DOCUMENTS FOR THE PENSION FUND

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 recommends that the Committee approve policy statements which are reviewed annually or require updating as a consequence of the establishment of the Committee.

Background

3. The LGPS Regulations require each administering authority to prepare and maintain a number of statements setting out the governance arrangements for the Pension Fund:
 - A Governance Compliance Statement (Regulation 55)
 - A Funding Strategy Statement (Regulation 58)
 - A Communications Policy Statement (Regulation 61)
 - A Statement of Investment Principles (Investment Regulation 12)
4. The documents have previously been approved and published by the Corporate Director Resources on the advice of the Investment Advisory Panel. Following the establishment of the Committee, review and approval of these statements falls within the Committee's Terms of Reference.

Governance Compliance Statement

5. The Governance Compliance Statement sets out how the administering authority discharges its functions under the LGPS Regulations and must be revised following any material changes to governance arrangements.
6. A revised statement, incorporating the Terms of Reference of the Pensions Committee, and is attached at Appendix 1.

Funding Strategy Statement

7. The Funding Strategy Statement (FSS) sets out how the administering authority aims to meet the regulatory requirements to ensure that funds are available to meet pensions

liabilities as they fall due whilst keeping employer contribution rates as constant as possible.

8. The FSS is normally reviewed as part of the Triennial Valuation of the Pension Fund following consultation with the Fund's Actuary and the contributing employers. It is proposed that an updated FSS be presented to the Committee for approval early in 2017 following the consultation with employers on the contribution rates to be applied for the next three financial years and before the Valuation Report is completed by the Council's Actuary in March 2017.

Communications Policy Statement

9. The Communications Policy Statement sets out how the Fund communicates with its stakeholders. A revised statement is attached at Appendix 2.

Statement of Investment Principles

10. The Statement of Investment Principles (SIP) sets out the Fund's policy on the types of investments to be held. A revised statement is attached at Appendix 3.
11. Proposed amendments to the LGPS Investment Regulations include the replacement of the SIP with an Investment Strategy Statement. The new Regulations are expected to be published by the end of September and the implications will be reported to the next meeting of this Committee.

Strategic Asset Allocation

12. 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.
13. The Investment Advisory Panel met on 20 September 2016 with the 2016/17 Strategic Asset Allocation as an item for review. The Investment Advisory Panel Report together with the recommended allocation for 2016/17 is shown in confidential Appendix 4. The panel recommended that no changes be made to the allocation pending the Actuarial Review and the further development of the Welsh Pooling proposal.

Legal Implications

14. Relevant legal implications appear in the text of this Report and the Statements attached as appendices.
15. 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 taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

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

Recommendations

17. That the Committee approves the revised Governance Compliance Statement, Communications Policy Statement and Statement of Investment Principles.
18. That the Committee approves the Strategic Asset Allocation as recommended by the Investment Advisory Panel.

**CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES**

The following Appendices are attached:

- Appendix 1 – Governance Compliance Statement
- Appendix 2 – Communications Policy Statement
- Appendix 3 – Statement of Investment Principles
- Appendix 4 - Proposed Asset Allocation for 2016-17

Mae'r dudalen hon yn wag yn fwriadol

CARDIFF & VALE OF GLAMORGAN PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

This Statement has been prepared and published by the City of Cardiff Council as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund, in compliance with regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended) (the "LGPS Regulations").

Delegation of Functions

The City of Cardiff Council has established a Pensions Committee to discharge its functions under the LGPS Regulations and has delegated operational management of the Pension Fund to the Corporate Director Resources. The relevant sections in the Council's Constitution are:

Terms of Reference for Committees:

Pensions Committee

To discharge the functions of the authority as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund ('the Fund') as described in the Local Government Pension Scheme (LGPS) Regulations made under the Superannuation Act 1972 (sections 7,12 or 24) and Section 18(3A) of the Local Government and Housing Act 1989; and

To discharge the following specific strategic functions with regards to the Fund, taking account of advice from the Corporate Director Resources and the Fund's professional advisers:-

- a) Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
 - i) Governance – approving the Governance Policy and Compliance Statement for the Fund;
 - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, giving due consideration to the results and impact of the triennial actuarial valuation and interim reports;
 - iii) Investment strategy - approving the Fund's investment strategy, Statement of Investment Principles and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite;
 - iv) Communications Strategy – approving the Fund's Communication Strategy;

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|---|
| <p>v) Discretions – determining how the various administering authority discretions are operated for the Fund; and</p> |
| <p>vi) Internal Dispute Resolution Procedure – determining how the Scheme Member disputes are administered.</p> <p>b) Monitoring the implementation of these policies and strategies as outlined in a) above on an ongoing basis.</p> <p>c) Considering the Fund's financial statements as part of the approval process and agreeing the Fund's Annual Report. Receive internal and external audit reports on the same.</p> <p>d) Receiving ongoing reports from the Corporate Director Resources in relation to the delegated operational functions.</p> <p>e) To provide independent assurance to members of the Fund of the adequacy of the risk management and associated control environment, responsible for the Fund's financial and non-financial performance.</p> <p>f) To adhere to the principles set out in the Pensions Regulator Code of Practice and undertake its duties in compliance with the obligations imposed on it.</p> <p>g) To receive regular training to enable Committee Members to make effective decisions and be fully aware of their statutory and fiduciary responsibilities and their stewardship role.</p> <p>h) Consider any pension compliance matters raised by the Fund's Local Pension Board.</p> |

Specific Delegations to Statutory Officers:

FS28

In accordance with any policy or strategy decided by the Pensions Committee to approve decisions relating to the operational management of the pension fund and the administration of pension benefits.

FS51

To carry out functions relating to local government pensions etc pursuant to Regulations under Section 7, 12 or 24 or the Superannuation Act 1972; and functions relating to pensions, allowances and gratuities pursuant to Regulations under Section 18(3A) of the Local Government and Housing Act 1989.

The administration of the Pension Fund is carried out by the Pensions Section based in County Hall. All significant decisions e.g. the exercise of discretions granted to the administering authority under the LGPS regulations, are made and recorded in accordance with the Council's scheme for delegated decision making. As part of the Resources Directorate, the Section is subject to the Council's policies, procedures and internal controls.

The Pension Committee and Corporate Director Resources are advised on investment matters by an Investment Advisory Panel. The role of the panel is detailed in the Fund's Statement of Investment Principles.

The panel comprises:

- Corporate Director Resources
- Three elected members of City of Cardiff Council

- One elected member of Vale of Glamorgan Council as observer
- Two independent advisers

The panel normally meets four times a year to review the performance of the Fund's investments and to advise on investment strategy. The panel also considers other aspects of the administration of the LGPS which may have implications for investments e.g. the triennial actuarial valuation. The panel receives presentations from each active investment manager annually and also interviews shortlisted managers when new mandates are awarded.

An Employers' Forum is held annually to which all contributing employers of the Fund are invited. The Forum considers the Fund's Annual Report and Accounts and receives presentations on matters such as changes in regulations and actuarial valuations.

A Trade Union Forum is also held annually and considers similar issues with trade union representatives of the main employers.

Compliance with Statutory Guidance

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
Principle A – Structure			
<i>The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</i>	The Committee's Terms of Reference and Officer Delegations are clearly set out in the Council's Constitution	Yes	
<i>That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main</i>	The two main employers are represented on the Investment Advisory Panel. Other employers attend the annual Employers' Forum and are represented on the Local Pension Board Scheme members are not represented	Partial	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
<i>committee.</i>	on the Committee or Panel but are represented at the Trade Union Forum and Local Pension Board.		
<i>That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</i>	Yes	Yes	
<i>That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</i>	No – the Committee is a committee of the administering authority.		
Principle B – Representation			
<i>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-</i> <i>i) employing authorities (including non-scheme employers, eg, admitted bodies);</i> <i>ii) scheme members (including deferred and</i>	The Committee is a committee of the administering authority. The two unitary authorities employ over 85% of active members and are represented on the Panel. Other employers are not currently represented Scheme members are not currently represented	Partial	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
<p><i>pensioner scheme members);</i></p> <p><i>iii) independent professional observers; and</i></p> <p><i>iv) expert advisors (on an ad-hoc basis).</i></p>	<p>Two independent advisors attend every Panel meeting</p>		
<p><i>That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</i></p>	<p>All Committee and Panel members have the same access to papers and training opportunities.</p>	<p>Yes</p>	
Principle C - Selection and Role of Lay Members			
<p><i>That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</i></p>	<p>The functions of the Committee are set out in the Council's Constitution.</p> <p>The role of the Investment Advisory Panel is clearly set out in the SIP and other key documents</p>	<p>Yes</p>	
Principle D – Voting			
<p><i>The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body</i></p>			

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
<i>or group represented on main LGPS committees.</i>			
Principle E - Training/Facility Time/Expenses			
<i>That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</i>	Committee and Panel members are advised of training opportunities.	Yes	
<i>That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</i>	Yes	Yes	
Principle F - Meetings (frequency/quorum)			
<i>That an administering authority's main committee or committees meet at least quarterly.</i>	The Committee meets at least quarterly.	Yes	
<i>That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</i>	The Investment Advisory Panel meets quarterly	Yes	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
<i>That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</i>	Employers' Forum and Trade Union Forum are held annually	Yes	
Principle G - Access			
<i>That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</i>	Papers are circulated to all Committee and Panel members in advance of meetings.	Yes	
Principle H - Scope			
<i>That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.</i>	The Committee's role is to consider all strategic issues. The Investment Advisory Panel considers all issues relevant to investment matters. Wider issues are also discussed at the Employers' and TU Forums.	Yes	
Principle I - Publicity			
<i>That administering authorities have published details of their governance</i>	All governance documents are published on the	Yes	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
<i>arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</i>	Council's website		

Local Pension Board

The Terms of Reference for the Local Pension Board of the Cardiff & Vale of Glamorgan Pension Fund have been published on the Fund's website:
www.cardiff.gov.uk/pensions/

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
September 2016

CARDIFF AND VALE OF GLAMORGAN PENSION FUND

COMMUNICATION POLICY STATEMENT

This Statement has been prepared and published by the City of Cardiff Council as Administering Authority of the Cardiff & Vale of Glamorgan Pension Fund, in compliance with regulation 61 of the Local Government Pension Scheme Regulations 2013 (the “LGPS Regulations”).

Objectives of the Fund’s Communication Strategy

- To improve awareness and appreciation of the benefits provided by the pension scheme
- To encourage take up of the scheme amongst new and existing employees
- To answer any queries from members on their LGPS pension entitlements
- To develop the partnership between the Pension Fund’s administration team and the employing bodies
- To liaise with a range of other groups who have an interest in the scheme

Scheme Members & Prospective Members

1. Individual members receive a range of communications from the Fund depending on their pension status i.e. active, deferred or pensioner.
2. All active and deferred members receive an annual benefits statement showing the membership data held by the Fund, the benefits earned as at the end of the previous financial year, and an estimate of the benefits to which the individual will be entitled when they reach retirement age. This is sent directly to the individual by the Fund’s administration section.
3. Deferred members will be contacted as they approach their normal pension age. Pensioners will receive an annual notice of the inflation-linked increase to the pension. Deferred members and pensioners may also need to be contacted as part of membership validation checks which include a monthly matching exercise with the national register of deaths.
4. If active scheme members have any pension related queries they should initially contact their employer. The employing body can then direct members to the pension section if necessary. The pension section will give relevant information to members regarding their LGPS benefits but they cannot give advice on state benefits or general financial advice. They cannot be responsible for any issues which are a matter for the member’s employer (e.g. correcting errors relating to length of service or deducting contributions from pay).

5. Most general communication with members is currently in paper form. The scheme aims to issue newsletters once a year to provide a summary of current issues within the LGPS. Significant changes to the scheme will also be notified to active members through their employers within 3 months of any change.
6. The City of Cardiff Council website gives basic information about the scheme for current and prospective members. Members can access the Fund's annual reports (including a two page summary) and the key governance documents. There is a link to the national LGPS website for further information. The feasibility of introducing facilities for members to access their personal data via the internet will be investigated during the next twelve months.
7. The pension section aims to deal promptly with queries from members and prospective members. The section can be contacted in writing, via e-mail or by telephone during normal office hours.

Representatives of Members

8. A Trade Union Forum is held annually. Representatives of the local trade union branches receive presentations on the Fund's annual report, the performance of its investments and other current issues.
9. The Fund's Local Pension Board was established from 1st April 2015. The Board includes three scheme member representatives who participate in the Board's role of assisting the Scheme Manager. Each Board member has received appropriate induction and training and will be kept up to date with national and local developments in the LGPS. The names and contact details of the scheme member representatives will be published on the Pension Fund web page.

Scheme Employers

10. All employers within the scheme, and their Human Resource functions, play a key role in informing the pension team of new starters, leavers, retirements etc. Employers are also responsible for providing information on the pension scheme to their employees. The pension section will supply copies of relevant forms, booklets and newsletters for employers. It is therefore important for scheme employers to nominate a principal point of contact with whom the section can liaise.
11. The Finance function of an employer must supply accurate pay and contribution data to the pension scheme, in accordance with deadlines and data formats specified by the pension section. Accuracy and timeliness of this data is more critical following the introduction of the Career Average scheme from 1st April 2014.

12. The pension section will forward a copy of the Pension Fund's annual report and accounts to employers. All employers will be invited to the annual Employers' Forum to receive updates on legislation, administration matters and actuarial valuations. Employers may also ask the pension section to give presentations to staff on topics of interest.
13. The Local Pension Board includes three employer representatives. The employer representatives receive the same induction and training as the scheme member representatives. All Fund employers will be advised of the names and contact details of the employer representatives.

Other Bodies

14. The pension section are also actively involved with various groups with an interest in the LGPS. The UK Government's Department for Communities and Local Government (DCLG) is responsible for amending the scheme regulations following consultation with local authorities and other employers. The Fund takes part in these exercises when appropriate. The pension section also liaise with bodies such as the Local Government Association (LGA) and National Association of Pension Funds (NAPF) on their own consultation exercises. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF).
15. Members of the pension section frequently liaise with officers from other LGPS funds at informal working groups and seminars. The section uses these meetings to understand the issues being faced by other funds and to ensure consistency in the interpretation of the LGPS regulations.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES
September 2016

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CARDIFF AND VALE OF GLAMORGAN PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 require administering authorities, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement of the principles governing their decisions about investments (Statement of Investment Principles or 'SIP').

The SIP must cover their policy on-

- (a) the types of investments to be held,
- (b) the balance between different types of investments,
- (c) risk,
- (d) the expected return on investments,
- (e) the realisation of investments,
- (f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments, and
- (g) the exercise of the rights (including voting rights) attaching to investments, if they have any such policy; and
- (h) stock lending.

Under the LGPS Regulations the SIP must also comply with guidance issued by the Secretary of State – currently the guidance issued by CIPFA entitled 'A Guide to the Application of the Myners Principles'.

The six Myners principles (as revised in 2008) are:

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

This statement has been prepared in consultation with the Pension Fund Investment Advisory Panel and takes into account the six principles mentioned above. An overall objective of the 2015/16 Business Plan is to maintain full compliance with the Myners principles. The SIP, along with information in the annual report, describes the Fund's system for managing investments, including how it complies with the Myners principles.

No LGPS regulations have been issued this year which relate to investment matters.

Christine Salter

Corporate Director Resources

September 2016

1. Effective decision making

1.1 Overall Responsibility

City of Cardiff Council is the designated statutory body responsible for administering the Cardiff and Vale of Glamorgan Pension Fund, on behalf of the constituent scheme employers.

The Council is responsible for setting out overall investment objectives for the Fund, appointing suitable persons to implement policy and carrying out regular reviews and monitoring of investments.

1.2 Investment Responsibilities

The Council has established a Pensions Committee to discharge its pension functions. The Pensions Committee Terms of Reference include strategic oversight of investment matters in particular approval of the Statement of Investment Principles. Christine Salter, Corporate Director Resources, has been given delegated powers for the operational management of the Pension Fund and the administration of pension benefits.

The Council has also created an Investment Advisory Panel to advise the Committee and the Corporate Director Resources on investment matters. The Panel consists of elected members, expert independent advisers and officers of the Council.

The Investment Advisory Panel is currently made up of:

- Corporate Director Resources, City of Cardiff Council
- Two independent advisers
- City of Cardiff Council, three councillors
- Vale of Glamorgan Council, one councillor (as an observer)

This arrangement reflects the fact that Cardiff Council and the Vale of Glamorgan Council account for approximately 90% of the scheme membership.

The Panel meets quarterly and where necessary reports to the Council through the Committee.

The specific roles and powers of the Panel are detailed in Annexe 1.

No allowances are paid to City of Cardiff Council members specifically for Committee or Panel duties.

1.3 Business Plan

After taking advice through the Investment Advisory Panel, the Corporate Director Resources sets and reviews the Fund Objective and targets for individual mandates. A business plan and financial estimates for the administration and investment of the Fund are prepared annually.

1.4 Administrative Support

On behalf of the Council and the Committee, the Corporate Director Resources monitors the managers' investment-related actions and provides administrative support. This includes the following specific duties:

- monitoring day-to-day investment actions of fund managers and ensuring compliance with agreed mandates;
- maintaining Fund accounting and performance records;
- recording minutes of Investment Advisory Panel and presentation of reports;
- preparing the annual report and accounts to enable them to be audited in line with the Council's accounts timetable
- preparing a summarised annual report to members
- maintaining a record of in-house managed cash balances to ensure surplus cash is invested promptly or that resources are available to cover the immediate payment of benefits and other expenses
- ensuring that the managers' cash and investment holdings are verified by comparison with the independent custodian's records
- maintaining a record of pooled fund investments controlled in-house rather than through the custodian (e.g. private equity investments)

2. Investment Objectives

2.1 Overall Fund Objective

The investment policy of the Fund is intended to ensure that all statutory payments made from the Fund are at minimal cost to employing bodies.

The 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. Investment returns are defined as the overall rates of return (capital growth and income combined). It is also recognised that investments are intended to preserve and enhance the Fund's value and that high levels of overall returns are not sustainable.

The statutory requirement is to move towards 100% funding of the Fund's accrued liabilities over a period of time. This period together with the funding level is calculated every three years and agreed with the Actuary following a review that assesses the adequacy of the Fund's assets to meet its liabilities. The Panel takes the actuarial position and funding level into account in formulating its advice.

The Fund sets its own customised benchmark to ensure that the Fund's asset allocation policy reflects its own characteristics and not the average of a peer group. A customised benchmark and Fund Objective of a 75/25 Equities/Bonds allocation was set to minimise, or at least stabilise, future employer contributions

and to aim to avoid large variations. This approach was confirmed at the last review of the Fund Objective.

The Panel also recognises that asset-liability reviews may help to develop an investment strategy which is linked to each Fund's unique risks and membership structure. The Fund used the results of an asset-liability review in 2003 to confirm the overall strategic asset allocation. The Panel will continue to regularly consider appropriate opportunities for a further asset-liability review. As there have not been any significant changes in the Fund's membership or liability structure no reviews are currently expected in the short-term.

2.2 Expected Return on Investments

The investment method is to appoint expert specialist fund managers with clear targets and maximum accountability for performance. The principles governing the use of benchmarks and performance measurement are detailed in section 7. The current targets for each mandate are as follows:

Portfolio	Portfolio Benchmark Index	Portfolio Target
Cash	L Authority 7 day	Index
Global Bonds	20% FTSE UK Gilts 30% iBoxx £ Corporate Bonds 20% Citigroup World Govt Bond (£ hedged) 20% LIBOR 3 months 10% JPM Emerging Markets Bonds (£ hedged)	Composite Index +1% p.a. over rolling 3 yr. periods
UK Equities (Active)	FTSE All Share	Various (from 2% p.a. above index, to unconstrained)
UK Equities (Passive)	FTSE All Share	Index +/- 0.25-0.3% p.a.
USA Equities (Passive)	FTSE North America	Index +/- 0.25% p.a.
Europe Equities (Active)	FTSE Europe ex UK	Index + 2%, over rolling 3 yr. periods
Japan Equities (Active)	TOPIX	Index + 3%, over rolling 3 yr. periods
Asia Pacific Equities (Active)	FT AW Asia ex-Japan	Index + 3% over rolling 3 yr. periods
Emerging Market Equities (Active)	MSCI Emerging Markets	Index + 3% p.a. over rolling 4 yr. periods
Property	Various (balanced PUT indices)	Various
Private Equity	N/A	None set *

* Though no formal target has been set, the rationale for private equity is that it should outperform quoted equities over an equivalent period.

2.3 Policy on Risk

The individual specialist fund managers manage the risk of variation from benchmarks consistent with the targets they have been given. Current risk measures/targets for the segregated active mandates, based on the industry standard risk methodology, are as follows:

Portfolio	Tracking Error
UK active equities	3 - 6%
Japan equities	Target 4%
Asia Pacific equities	3 – 6%
Emerging Market equities	Target 8%
Global Bonds	0 - 3%

Relative risk levels for active managers are reported quarterly through WM Company reports and discussed annually by the Panel. No customised risk measures or targets can be set for the pooled (including passive) investments, however the manager reports the risk of the pooled vehicle as a whole.

The Panel advises on benchmark/target risk at the time a new manager is appointed. The Panel also reviews the wider aspects of overall Fund risk (e.g. diversification, suitability, and liquidity) at the major review after the triennial actuarial valuation, and when required.

3. Asset Allocation and Risk

Priority is given to strategic asset allocation decisions within the Fund’s overall investment process. Current asset positions relative to the target and tolerance limits are discussed and monitored by the Panel at quarterly meetings. Allocations within agreed tolerances are set following the results of each triennial actuarial valuation. Asset allocation is then discussed annually by the panel, and reports of assets versus tolerance limits are presented at quarterly meetings. The allocation process is set out in more detail in Annexe 1, section III.

3.1 Types of Investments to be held

Strategic asset allocation decisions are based on the consideration of the full range of investment opportunities. In making asset allocation recommendations the panel have regard to the diversification and suitability of investments as well as any restriction imposed by the LGPS regulations.

Current asset classes permitted are:

- UK & Overseas Conventional & Index Linked Fixed Interest
- UK & Overseas Equities (USA, Europe, Far East, Emerging Markets)
- Private Equity (via pooled funds of funds)
- Property funds
- Active currency management (via pooled funds)
- Derivatives and other financial instruments within pre-agreed limits for specific purposes such as currency hedging

- Underwriting, provided the underlying stock is suitable on investment grounds and complies with existing investment criteria
- Stock lending

There are currently no Active Currency or Hedge Fund portfolios. Hedge funds have been reviewed regularly by the Panel but are generally still considered reliant on leverage, too undeveloped, too expensive, or lacking in transparency. Private equity investment is only undertaken via fund of funds to ensure adequate diversification in view of the higher risk inherent in this asset class.

3.2 Investment Limits

The Local Government Pension Scheme Regulations 2009 set statutory limits for different types of investments. After taking proper advice, it has been decided that, until further notice, the Fund should accept the increased maximum limits on investment in the relevant types of investment vehicle listed in Schedule 1 to the regulations.

This was recommended by the advisers in view of market realities on the use and availability of segregated funds, especially in specialist portfolios, and to provide maximum flexibility and best value in asset allocation decisions. The decision to adopt these increased limits complies with regulation 15 of the 2009 regulations.

3.3 Balance between different Types of Investments

The Council has adopted a specialist structure with a mixture of approaches: active and passive, segregated and pooled. Current portfolios are as follows:

Pooled:	Segregated:
UK Equities (Indexed and Active)	Global Bonds (including pooled holdings)
North American Equities (Indexed)	UK Equities (Active)
European Equities (Active)	Far East Equities
Private Equity	Japanese Equities
UK & Global Property	

3.3 Realisation of Investments

Apart from private equity and property, managers are required to hold only assets readily realisable at the time of purchase. Any material investment with an in-house or pooled fund, which is not readily tradable, would require specific approval.

Private equity is not normally easily realisable. Higher investment returns relative to conventional equities are expected, reflecting the greater risk inherent in this fact.

3.4 Custody

For greater security and administrative efficiency the Council has appointed The Northern Trust Co. as a global custodian. The custodian holds all investments to the account of the Council, except for the pooled property and private equity

holdings held directly by the Council. Where possible cash and asset transfers between managers are arranged through the custody accounts.

4. Performance Assessment

4.1 Explicit Mandates

Cash is managed in-house through money market funds and through a segregated sub-account of the administering authority's banking arrangements. The purchase and administration of property and private equity pooled fund holdings is also undertaken in-house, although advice is first sought from the Panel.

For all external segregated portfolios written agreements are signed to ensure that managers work within agreed frameworks as to how the investment portfolio is to be managed. Similar frameworks exist for pooled funds. These agreements cover:

- The performance target, benchmark and timeframe against which performance is to be measured and evaluated;
- The relevant regulations (or statutory investment regulations) within which the manager is required to implement the mandate;
- The manager's general approach in attempting to achieve the objective;
- How the performance will be measured;
- When reports will be provided;
- The period of notice required for termination of appointments.

Where not already done, mandates will also:

- specify the extent to which managers are allowed to deviate from the benchmark to achieve performance objectives;
- give a clear explanation where the use of financial instruments is permitted in the regulations but are excluded from or restricted in the contract.

The mandate is set out explicitly at the time proposals are invited, and any variations agreed with the manager appointed prior to incorporation of the mandate into the Investment Management Agreement (IMA).

4.2 Benchmarking and Performance Assessment

The term "benchmark" is used to describe the marker against which investment performance is measured, as set for each segregated portfolio. The structure of the benchmark, the control ranges for each element, the risk margins, and the performance target all combine to drive the management of the investment portfolio. Pooled funds have a benchmark selected by the manager.

In view of the importance of selecting appropriate benchmarks for the segregated mandates, the Corporate Director Resources will, in consultation with the advisers:

- Consider periodically, in consultation with the investment managers, whether the selected indices which compose benchmarks are appropriate;
- When setting any limits on divergence from an index, ensure that they are consistent with the index's construction and selection;
- Consider for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned;

- Where active management is considered appropriate, targets and risk controls will reflect this, giving managers the freedom to pursue genuinely active strategies.

Active portfolio managers are required to attend Panel meetings in rotation where a thorough examination of their actions is undertaken. This ensures that each manager gives an account of their stewardship at least annually. Individual manager performance is reviewed quarterly in-house and at least annually by the Panel. The Panel considers annually the overall Fund performance over the past one, three, five, and ten years as well as the performance of each asset class and each manager.

4.3 Transaction Related Costs

Whenever possible, mandates incorporate a management fee inclusive of any external research, information or transaction services acquired or used by the investment manager rather than these costs being passed to the Fund. Segregated Portfolio Managers are asked where practicable to provide periodical details of transaction related costs to facilitate monitoring of the true costs of investment activity.

The Pension Fund has also appointed a transition manager, primarily to minimise the transaction costs during any transitions of portfolios between managers.

4.4 Management Fees

Management fees comprise a combination of fixed rate, ad valorem (varying with the value of funds under management) and performance fees. The latter usually applies to higher performance portfolios, and is based on the premise that better results more than offset increased fees. Manager fees are considered carefully at the selection stage and are monitored annually relative to long-term performance.

The two advisers receive annual fees, which rise in line with Chief Officers' pay awards.

4.5 Provision of advice

To assist the Committee and the Corporate Director Resources, the Fund currently employs two independent investment advisers and a firm of actuaries. Details of the advisers' roles are shown in Annexe 1, Section IV.

4.6 Contractual arrangements

The following procedures will apply to the appointment of independent advisers and actuaries:

- Where applicable the appropriate EU tendering procedures will be followed. Where these do not apply (e.g. cost below threshold) the process of competitive comparison in selecting advisers will be subject to City of Cardiff Council Financial and Contracts Procedure Rules.
- Separate terms of reference for each appointment will specify the level of service expected, the division of responsibilities between the Corporate Director Resources, the Investment Advisory Panel and the advisers, and the basis of the fee payable.

The Fund does not currently employ external investment consultants. Should it do so the contracts for strategic asset allocation and fund manager selection advice will be open to separate competition from that for actuarial services.

5. Responsible Ownership

5.1 Activism

Where relevant, IMAs will incorporate the Institutional Shareholders Committee (ISC) principles on the responsibilities of institutional shareholders and agents to ensure managers have an explicit strategy elucidating the circumstances in which they will intervene in a company, the approach to be used, and how to measure the effectiveness of this strategy.

Currently, the passive funds and the UK active managers all use the ISC principles, including actively engaging with investee companies. The overseas managers engage via normal contacts between companies and analysts or discussions on specific concerns.

Regarding voting, all passive and active funds vote where practicable according to principles provided to the Corporate Director Resources, reporting periodically on action taken. In the case of segregated mandates, however, care will be taken to ensure that, where applicable, the Fund's policies are not overridden, negated or diluted by the general policy of a manager. In any case the Fund retains the ultimate right to override the managers' decisions at any time, and to vote according to its own wishes.

5.2 Social, Environmental and Ethical Investment

The Fund seeks to identify investment opportunities which do not conflict with its trustee duties to seek an optimum return, whilst wishing at the same time to take account of social, environmental and ethical concerns and issues. The Fund also directly supports the development of clean technology through its private equity portfolio.

Annual reports will be provided on managers' corporate governance policies and practices, and annual presentations from equity managers will include a reference to their corporate governance actions where appropriate (e.g. segregated mandates). All of the Fund's assets are held through fund managers that have adopted the UN Principles for Responsible Investing, or the equivalent UK Stewardship Code, and future equity tenders will refer to these criteria.

The Fund is a member of the Local Authorities Pension Fund Forum (LAPFF) to enable it to act collectively with other LGPS funds on corporate governance issues.

6. Transparency and Reporting

This statement of principles (SIP) summarises how decisions about investments are made. It is prepared in consultation with the Investment Advisory Panel and, where deemed appropriate, the Fund's managers. The intention is that it be revised at least annually unless earlier amendment is required. It is available to all employing bodies and members through the Council's website, along with the Annual Report, Funding Strategy Statement, Communication Policy Statement and Governance Compliance Statement.

Members are regularly kept informed of significant changes to the scheme rules through newsletters or the website. Member communication on investment matters currently takes the form of a summarised Annual Report to all contributors and pensioners. An Employer Forum is held annually to which all employers are invited. In addition there is a Trade Union Forum meeting for union representatives from the two largest employers, the Cardiff and Vale of Glamorgan Councils. Reporting at these two events includes Fund performance, the results of monitoring individual managers, a review of the SIP, any recent changes to the Fund, and where the Fund has chosen to depart from any Myners principle. Questions on any pension matters are also answered, and specialist speakers (e.g. the fund actuary) are often asked to present.

CARDIFF AND VALE OF GLAMORGAN PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

ANNEXE 1

ROLES AND POWERS OF ADVISERS AND OFFICERS OF THE INVESTMENT ADVISORY PANEL

I) OVERVIEW

- The power of removing and/or appointing administrators of local authority pension funds rests with Parliament.
- Following local government reorganisation in Wales, from 1 April 1996 City of Cardiff Council became the administering authority of the Cardiff & Vale of Glamorgan Pension Fund and effectively is the 'trustee' (although legally this is the Secretary of State).
- Under Minute 864 of the Cardiff Council Shadow Authority in 1995, the then Director of Financial Services was appointed to act as adviser to the Council in respect of its Pension Fund responsibilities (that power was subsequently delegated by the Council's Constitution to the Corporate Director Resources).
- An Investment Advisory Panel was formed at the same time to advise the then Director on investment matters.
- Under Delegation FS28 dated 3 July 2006, Christine Salter, Corporate Director Resources, has delegated powers relating to the management of the Pension Fund and the administration of pension benefits.
- In June 2016 the Council established a Pensions Committee with responsibility for strategic oversight of the Pension Fund.

II) THE INVESTMENT ADVISORY PANEL

- Meetings normally take place quarterly following the production of quarterly valuation reports.
- The composition of the Advisory Panel at present is as follows:
 - City of Cardiff Council, 3 councillors
 - Vale of Glamorgan Council, one councillor (observer)
 - Two independent investment advisers
 - Corporate Director Resources, Cardiff Council

The Pensions Manager attends to support the discussions at the meeting.

- In view of its advisory nature the Panel has no formal powers. Its roles are:

CARDIFF AND VALE OF GLAMORGAN PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

Annexe 1

1. To recommend to the Pension Committee the overall Fund Objective and to consider its attitude to risk and its relationship with the performance objective, and specifically its willingness to accept underperformance due to market conditions.
2. To review Fund performance relative to the overall Fund Objective at least once a year.
3. To monitor the Fund's individual internal and external investment management arrangements, actions and performance. To fulfil this role, the active managers are required to attend Panel meetings in rotation to explain their stewardship of the portfolios and to be questioned by the Panel. This ensures that each manager gives account of his stewardship at least annually.
4. To advise on overall investment strategy including asset allocation, as detailed below.

III) ASSET ALLOCATION

Strategic Review

- Asset Allocation is discussed and monitored by the Panel although formal responsibility lies with the Pension Committee.
- Allocations are made across the following asset sectors, taking account of the statutory requirement to have regard to the advisability of investing in a wide range of investments and to the suitability of particular types of investments. This includes the split between active and passive management if applicable and, if not, whether active or passive management would be more appropriate:
 - i) UK Equities
 - ii) Overseas Equities (including the split between different geographical regions)
 - iii) Bonds/Cash (including Index-linked)
 - iv) Property
 - v) Private Equity
 - vi) Active currency
 - vii) Other

Allocations are set within percentage tolerances and the reasons minuted.

The Process

Triennial valuations and Annual monitoring

To recommend percentage allocations for the Fund every 3 years within agreed tolerances following consideration of a report from the Corporate Director Resources outlining the views of the Advisers and of any other appropriate person or body. The results of each triennial actuarial valuation will be used when setting allocations. The

CARDIFF AND VALE OF GLAMORGAN PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

Annexe 1

investment strategy and ongoing allocations will then be discussed annually, when minor changes may be made.

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STATEMENT OF INVESTMENT PRINCIPLES

Annexe 1

Quarterly

To review the actual allocations against the Panel's allocation in the light of the report of the Corporate Director Resources on the quarterly valuation, and taking into account the views of the Advisers and of any other appropriate person or body.

Urgent Matters

When significant events necessitate urgent action the Corporate Director Resources will carry out her functions delegated by the Council following discussions with the Advisers. The Chairs of the Committee and the Panel would be informed of any action taken as soon as practicable and a report submitted to the next meeting.

IV) INDEPENDENT ADVISERS

- The Investment Advisers' main role is to offer independent strategic advice to assist with the investment of Fund portfolios with the sole interest of the Fund in mind.
- Some of the detailed implications of this are as follows:
 1. To advise on the preparation of reports to the Investment Advisory Panel
 2. To attend each meeting of the Panel, advising on all matters
 3. To be available for ad hoc meetings and/or discussions with officers regarding issues arising between Panel meetings
 4. To advise the Corporate Director Resources and Panel on overall investment policy, including the distribution of assets between the main investment markets, to include email or telephone calls in matters requiring a quick response.
 5. To monitor the Fund's portfolios and consider and advise upon the desirability of retaining or changing particular classes.
 6. To provide advice on the appointment (incl. advertisement, short list, questionnaires etc) and dismissal of Fund Managers and other Advisers, and attend interviews.
- The appointment is subject to review at five yearly intervals. The Council may terminate the appointment at any time by giving written notice to the Adviser, to be effective upon actual receipt of the notice. The Adviser may terminate the appointment at any time by giving three month's notice in writing.

V) OFFICER RESPONSIBILITY IN RELATIONSHIP TO THE PANEL

Corporate Director Resources: Formal responsibility for all functions relating to the administration of the Pension Fund including the operational management of investments.

CARDIFF AND VALE OF GLAMORGAN PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

Annexe 1

Pensions Manager: Overall day-to-day Managerial Responsibility for Pension Fund matters, including monitoring fund managers, reviewing reports, administering asset allocation issues, and advising on all relationships with the fund managers and custodian.

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 they review the assets and liabilities of the Fund and reports 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.

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.

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. A segregated fund which invests in other segregated funds is called a manager of managers.

Hedge Funds

A hedge fund is an unregulated investment tool that may invest in a range of assets through a range of trading strategies. Because they are free from regulatory and disclosure requirements they can be extremely flexible in their investment options.

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 / decrease in market value. Usually expressed as an annual return.

Scheme Employers

Local authorities and similar bodies whose employees are entitled automatically to be members of the Fund; and Admission Bodies (formerly Non Scheme Employers) 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.

By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

Mae'r dudalen hon yn wag yn fwriadol

By virtue of paragraph(s) 14, 21 of Part(s) 4 and 5 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

Mae'r dudalen hon yn wag yn fwriadol

CITY OF CARDIFF COUNCIL CYNGOR DINAS CAERDYDD



PENSIONS COMMITTEE: 28 SEPTEMBER 2016

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 7

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 2016 were prepared and presented to the Wales Audit Office on 15 June 2016.
5. The Council's Audit Committee considered the Accounts and Auditor's report at its meeting on 19 September and was content with the comments therein.
6. The final accounts are due to go to Council at the meeting on 29 September 2016.

Issues

7. 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. WAO intend 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.
8. 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 no 'other' matters specifically required by auditing standards to be communicated to those charged with governance.
9. 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.
10. In addition to the financial statements the report includes:
- The names of the members of 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
11. An auditor's statement will be added when the audit has been completed.

Legal Implications

12. There are no direct legal implications arising from this report.

Financial Implications

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

Recommendations

14. That the Committee notes the Auditor's Report.
15. That the Committee approves the Annual Report for the Fund.

CHRISTINE SALTER
CORPORATE DIRECTOR RESOURCES

The following Appendices are attached:

Appendix 1 – Auditor's Report for 2015-16
Appendix 2 – Draft Annual Report for 2015-16



Audit of Financial Statements Report and Management Letter

Cardiff & Vale of Glamorgan Pension Fund

Audit year: 2015-16

Issued: September 2016

Document reference: 496A2016

Status of report

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 info.officer@audit.wales.

Contents

This document summarises the conclusions on the 2015-16 audit including our recommendations for the year. The Auditor General intends to issue an unqualified audit report on your financial statements.

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Summary report

Introduction

1. The purpose of this report is twofold:
 - to set out for consideration the matters arising from the audit of the financial statements of Cardiff & Vale of Glamorgan Pension fund (the Pension Fund), for 2015-16, that require reporting to those charged with governance, in time to enable appropriate action; and
 - to formally communicate the completion of our audit and capture the recommendations arising from our audit work for the year.
2. The Auditor General's responsibilities were set out in our Audit Plan along with your responsibilities as those charged with governance; we do not repeat them in detail again here.
3. We confirm we have undertaken the audit as planned and our performance against the agreed measures are reported in [Appendix 4](#). We have no other issues to report to you other than in this report.
4. We are particularly grateful to the Pension Fund and staff for their assistance, good quality working papers and draft accounts provided during the course of our audit.
5. 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 Cardiff and Vale of Glamorgan Pension Fund at 31 March 2016 and its income and expenditure for the year then ended.
6. 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.
7. The quantitative level at which we judge such misstatements to be material is £16.5 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.

Status of the audit

8. We received the draft financial statements for the year ended 31 March 2016 on 15 June in line with our agreed deadline, and have now substantially completed the audit work.
9. 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

10. 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](#).
11. The proposed audit report is set out in [Appendix 2](#).

Significant issues arising from the audit

Uncorrected misstatements

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

Corrected misstatements

13. 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

14. 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 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.
 - **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 no 'other' matters specifically required by auditing standards to be communicated to those charged with governance.**

Recommendations arising from our 2015-16 audit work

15. The recommendations arising from our audit work are set in [Appendix 5](#). Management has responded to them and we will follow up progress on them during next year's audit. Where any actions are outstanding, we will continue to monitor progress and report it to you in next year's report.

Independence and objectivity

16. As part of the finalisation process, we are required to provide you with representations concerning our independence.
17. 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 Auditor General, Wales Audit Office and Cardiff and Vale of Glamorgan Pension Fund that we consider to bear on our objectivity and independence.

Appendix 1

Final Letter of Representation

Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ

[Date]

Representations regarding the 2015-16 financial statements

This letter is provided in connection with your audit of the financial statements of Cardiff and Vale of Glamorgan Pension Fund for the year ended 31 March 2016 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 2015-16 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 and 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 2016.

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

for the year ended 31 March 2016 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 2015-16 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 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 2016 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 2015-16.

Opinion on the accounting statements of 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 2016 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 2015-16.

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 the Cardiff and Vale of Glamorgan Pension Fund during the year ended 31 March 2016 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 2015-16.

Opinion on other matters

In my opinion, the information contained in the Foreword 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; or
- I have not received all the information and explanations I require for my audit;
- the 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

24 Cathedral Road

CARDIFF

CF11 9LJ

30 September 2016

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.

	Value of correction	Nature of correction	Reason for correction
1	£529,000	A decrease in the market value of investments at 31 March, and an equivalent decrease in the Change in market value of investments. The amendments affect the Fund Account for the year and the Net Asset Statement, as well as Notes 10, 11, 12 and 13.	Incorrect prices had been applied in the valuations of two investments.
2	£1,511,000	An increase in the market value of Investments at 31 March and an equivalent increase in the Change in market value of investments. The amendments affect the Fund Account for the year and the Net Asset statement, as well as Notes 10, 11, 12 and 13.	The original valuation was based on 31 December 2015 data; at time of audit, the year end valuation was available.
3	£523,292	An increase in the value of lump sum benefits payable at 31 March and an equivalent increase in Unpaid benefits. The amendments affect the Fund Account for the year and the Net Asset statement, as well as Note 6.	To include lump sum payments not accrued for previously.
4	various	The inclusion of 2014-15 comparative figures in Notes 5 and 6.	Comparative figures are a financial reporting requirement.
5	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.

Appendix 4

Wales Audit Office performance measures

We have agreed a range of targets for the delivery of our work and I have summarised our assessment of achievements against these targets below:

Planned output	Target	Outcome
2016 Audit Plan	March 2016	February 2016
Financial accounts work: <ul style="list-style-type: none">• Audit of Financial Statement• Opinion on Financial Statements	September 2016	September 2016

Appendix 5

Recommendations arising from our 2015-16 audit work

We set out all the recommendations arising from our audit with management's response to them. We will follow up these next year and include any outstanding issues in next year's audit report:

Matter arising 1 – Regular reconciliation of SAP ledger to pensions payroll needs to be introduced.	
Findings	For Benefits payable it was identified that the monthly reconciliation between the SAP ledger and the pensions payroll had not been completed during the year.
Priority	Medium.
Recommendation	A quarterly reconciliation between the SAP pensions payroll/ledger and Altair pensioner accounts should be undertaken.
Benefits of implementing the recommendation	Completion of such a reconciliation will ensure the accuracy of the ledger account.
Accepted in full by management	Yes.
Management response	The reconciliation process was developed towards the end of the 2015-16 financial year and implemented early in 2016-17
Implementation date	31 August 2016

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

**ANNUAL REPORT
&
ACCOUNTS**

2015/2016

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EXECUTIVE SUMMARY

- The total value of the Fund fell slightly over the year and was £1.65 billion as at 31 March 2016.
- Financial markets were volatile over the past twelve months and the Fund achieved a return on investments for 2015/16 of -1.7% (net of fees), -0.6% below the benchmark return of -1.1%.
- The Fund's cashflow position in terms of contributions received and benefits paid was marginally positive over the year.
- The number of active members in the fund rose by 3.0% to over 15,000 whilst the number of pensioners rose by 3.4%.
- At the most recent actuarial valuation, as at 31 March 2013, the funding level was 82%. The 2016 valuation is currently taking place.
- Summary statistics for the Fund are shown in the Appendix 1.

FOREWORD

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 fell by 1.6% during 2015/16, from £1.68 billion to £1.65 billion mainly as a result of 2015/16 having been a difficult one for global equity markets, with periods of significant volatility during the year. Over the longer term the Fund's assets have grown, averaging 6.5% per annum over the past three years, but the continuing low interest rates and expectations of lower investment returns in the future are likely to result in increased liabilities at this year's triennial valuation.

In July 2015 the UK Government announced that all LGPS funds in England and Wales must join together to form investment pools. The eight funds in Wales have been working together for several years and had already made significant progress towards collaborative investing. An outline proposal was submitted in February 2016 for a Wales Investment Pool with assets of around £13 billion. The Department for Communities and Local Government (DCLG) have responded positively to the submission and detailed proposals will be submitted in July this year. The pooling arrangement will have a significant impact on how investments are managed in the future but each individual LGPS fund will continue to set its own investment strategy in the light of its specific funding position and liability profile. New investment regulations are expected towards the end of this year.

The Fund's Local Pension Board was established in 2015. The Board comprises three employer representatives, three scheme member representatives and an independent (non-voting) chair. The Board's role is to assist the Council in securing compliance with the LGPS regulations and related legislation. Members were appointed from 1 July 2015 and the Board held its first meeting on 30 July. The Board will meet at least three times a year.

The Fund's key objectives continue to be to deliver an effective and efficient service to the 38,000 contributing employees, pensioners and deferred members, and to minimise the financial burden on contributing employers over the long term.

Christine Salter
Corporate Director Resources
29 September 2016

MANAGEMENT & 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 City of Cardiff and the Vale of Glamorgan.

Investment Advisory Panel

Responsibility for management of the Fund has been delegated by the Council to the Corporate Director Resources. She is advised on investment matters by the Investment Advisory Panel.

Members in the year to 31 March 2016 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 July 2015 to 31 March 2016 were:

Mr. Michael Prior	Independent Chair
Employer Representatives:	
Mr. David Llewellyn	Director of Finance, Cardiff Metropolitan University
Cllr. Anthony Ernest	Member, Penarth Town Council
Mr. John Williams	Chair of Trustees, Children in Wales (resigned 13 January 2016)
Scheme Member Representatives:	
Mr. Kenneth Daniels	GMB nominee
Mr. Peter King	Unison nominee
Mrs. Hilary Williams	Unison nominee

Investment Managers

Aberdeen Asset Management	Global Bonds
	Emerging Market Equities
BlackRock Investment Management	UK Equities (indexed)
	UK Property
State Street Global Advisors	UK Equities (indexed)
	North American Equities (indexed)
	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)

MANAGEMENT & ADMINISTRATION REPORT

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
Performance Reporting	State Street Global Services
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 2016:

	Active	Ceased	Total
Scheduled Body	17	12	29
Admitted Body	19	24	43
Total	36	36	72

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 2015/16 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	£21,200 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%

There will be no change to the contribution bands for 2016/17.

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. The increase in 2015/16 was 1.2%. There will be no increase in 2016/17 as CPI in September 2015 was negative at -0.1%

CARE benefits accrued by active Fund members since 1 April 2014 are also subject to annual CPI linked adjustments. Pension accounts brought forward from 2014/15 were revalued by 1.2% on 1 April 2015. Unlike pensions already being paid, active CARE account balances can be reduced when inflation is negative and benefits accrued to 31 March 2016 were revalued by -0.1% on 1 April.

FUND ADMINISTRATION

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 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 MANAGEMENT

INVESTMENT POWERS

The principal investment powers of the Fund are found in the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009. 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 Panel takes the actuarial position and funding level into account in formulating its strategic investment advice.

The 2013 actuarial valuation was completed in March 2014. The Valuation Report and Funding Strategy Statement are available on City of Cardiff Council's website www.cardiff.gov.uk/pensions .

The results of the 2016 valuation will be available early in 2017 and the Fund's investment strategy will take into account the latest funding position. The Actuary will advise the Fund on suitable employer contribution rates which will recover funding deficits over reasonable periods and the new rates will be applied from 1 April 2014.

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 formal responsibility for investment decisions lies with Christine Salter, Corporate Director Resources, under powers delegated by the Council.

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 for 2015/16 require all management fees to be accounted for as investment expenses regardless of whether they are charged directly or offset against investment

INVESTMENT MANAGEMENT

returns. Management fees for 2015/16 were £11.5m (£10.0m in 2014/15 – restated). Custodian fees for the year amounted to £124,000 (£124,000 in 2014/15).

During 2015/16 the Fund employed State Street Global Services (formerly the WM Company) to measure the performance of the investment managers and the Fund as a whole. The results were reported to the Investment Advisory Panel and are discussed below in the section on Investment Performance. The effectiveness of panel decisions can be seen by any outperformance through asset allocation and manager selection, whereas the managers also influence performance through stock selection. The Investment Advisory Panel assesses the performance of the investment managers and decides whether any action is required such as amendments to the performance and risk targets or the termination of a manager's mandate.

STATEMENT OF INVESTMENT PRINCIPLES

A copy of the current Statement of Investment Principles (SIP) is available on Cardiff Council's website via the following link: www.cardiff.gov.uk/pensions

All LGPS funds are required to produce a SIP under the LGPS (Management and Investment of Funds) Regulations 2009. The SIP summarises the Fund's investment objectives and the policies it uses to manage investments. The regulations also require that the SIP is prepared in a format which complies with guidance issued by DCLG. This guidance currently comes from the CIPFA pension panel, which itself incorporates the six Myners principles. The SIP complies with these requirements and the Fund is compliant with each of the Myners principles.

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 2015/16 the overall Fund return was -1.7%, 0.6% below the Fund's benchmark return of -1.1%. Market volatility increased during the year and all equity markets, with the exception of North America, produced negative returns. UK equities fell by 4% whilst overseas, Asia Pacific and Emerging Markets were the worst performing regions, losing around 8% of their value in sterling terms. Fixed income performance was subdued with returns ranging from 4% overseas bonds to marginally negative from UK corporate bonds.

The Fund's medium long term returns remain positive both in absolute terms and relative to the benchmark, averaging 6.4% per annum over three years (benchmark average 5.6%) and 7.3% per annum over five years (benchmark 6.6%).

The performance of the manager portfolios during 2015/16 compared with their benchmarks and targets was as follows:

Manager	Mandate (target against benchmark)	Benchmark return (%)	Portfolio Target (%)	Portfolio Return (%)
Aberdeen	Global bonds (+1%)	2.3	3.3	1.3
BlackRock	UK Equities (passive)	-3.9	-3.9	-3.9
State Street	UK Equities (passive)	-3.9	-3.9	-3.7
State Street	North American Equities (passive)	3.6	3.6	3.6
State Street	European equities (+2%)	-4.2	-2.2	-2.0
Nikko	Japanese equities (+3%)	-2.3	0.7	-6.9
Schroders	Asia-Pacific equities (+3%)	-7.8	-4.8	-9.8
Aberdeen	Emerging markets equities (+3%)	-8.8	-5.8	-7.0
Invesco	UK equities (unconstrained)	-3.9	N/A	-2.0
JP Morgan	UK equities (unconstrained)	-3.9	N/A	-1.0
Majedie	UK equities (+2%)	-3.9	-1.9	-7.1
Private Equity Funds (28)	Global Private Equity	-3.9	-3.9	10.7
UK Property Funds (4)	UK property	10.6	10.6	10.3
CBRE	Global property (10% absolute return)	N/A	10.0	12.1

The year was a challenging one for active managers and differences in manager style resulted in varying returns relative to benchmarks. Some managers were successful in mitigating the market losses whilst others underperformed as markets reversed the gains seen in 2014/15.

The Fund's Private Equity and Property holdings all resulted in significant positive returns, averaging over 10% for each asset class, demonstrating the value of these diversifying elements of the strategic asset allocation.

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.

INVESTMENT PERFORMANCE

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 6.1% compared with rises of 3.0 % in the Retail Prices Index (RPI) and 2.2% in the Index of Average Weekly Earnings (AWE). Using 2015/16 as the base year, comparative returns over different periods are as follows:

	Fund % p.a.	RPI % p.a.	AWE % p.a.
1 Year (2015/16)	-1.7	1.6	1.9
3 Years (2013/16)	6.4	1.6	2.4
5 Years (2011/16)	7.3	2.3	1.7
10 Years (2006/16)	6.1	3.0	2.2

AUDITOR'S STATEMENT

To be inserted on completion of the audit.

ACTUARIAL STATEMENT

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 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

Actuarial Position

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had improved since the previous valuation, with the market value of the Fund's assets at that date (of £1,369M) covering 82% of the liabilities in respect of service prior to the valuation date allowing, in the case of 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 2014 was:
 - 15.4% 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.
Plus
 - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 23 years from 1 April 2014, amounting to £16.9M in 2014/15, and increasing by 3.4% p.a. thereafter, before any phasing in or 'stepping' of contribution increases.
This would imply an average employer contribution rate of about 22.2% of pensionable pay in total, if the membership remains broadly stable and payroll increases by 3.4% p.a.
3. In practice, each individual employer's position is assessed separately and contributions are set out in Aon Hewitt's report dated 28 March 2014 (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 was in accordance with the Funding Strategy Statement in force at that time. The approach adopted, and the recovery period used for each employer, is set out in the actuarial valuation report.
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	5.6% p.a.
Admission Bodies	5.2% p.a.
Discount rate for periods after leaving service	
Scheduled Bodies	5.6% p.a.
Admission Bodies	3.9% p.a.
Rate of pay increases	3.4% p.a.
Rate of increase to pension accounts	2.4% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% p.a.

The assets were valued at market value.

ACTUARIAL STATEMENT

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 2013. 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 2014 to 31 March 2017 were signed on 28 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund due as at 31 March 2016 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013. The actuarial valuation of the Fund as at 31 March 2016 is currently underway and the Regulations require the formal report of the valuation and the Rates and Adjustment Certificate setting out employer contributions for the period from 1 April 2017 to 31 March 2020 to be signed off by 31 March 2017.
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 2013. 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.

The report on the actuarial valuation as at 31 March 2013 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%20Report%20-%2031%20March%202013.pdf>

Aon Hewitt Limited
June 2016

STATEMENT OF ACCOUNTS

FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2016

2014/15 Restated £000		2015/16 £000
	CONTRIBUTIONS AND BENEFITS	
	Contributions receivable	
58,471	from employers (note 5)	60,370
16,026	from employees (note 5)	16,360
2,978	Transfers in	5,034
5,134	Other Income (Capitalised Payments and interest on deficit funding)	2,134
82,609		83,898
	Benefits Payable	
(55,983)	Pensions (note 6)	(59,118)
(19,439)	Lump Sums (note 6)	(16,910)
	Payments to and on account of leavers	
(76)	Refunds of contributions	(136)
(3,204)	Transfers out	(8,220)
(78,702)		(84,384)
	Net Additions/(Withdrawals) from dealings with Members of the Fund	
3,907		(486)
	RETURNS ON INVESTMENT	
17,388	Investment Income (note 9)	18,176
176,648	Change in market value of investments (note 10)	(31,716)
(10,929)	Management expenses (note 8)	(12,520)
183,107	Net Returns on Investments	(26,060)
187,014	Net Increase/(Decrease) in the Fund During Year	(26,546)
1,492,503	Opening Net Assets of the Scheme	1,679,517
1,679,517	Closing Net Assets of the Scheme	1,652,971

STATEMENT OF ACCOUNTS

NET ASSET STATEMENT AS AT 31 MARCH 2016

2014/15 £000		2015/16 £000
1,616,090	Investments at market value (note 10)	1,599,878
37,061	Cash & investment proceeds due (note 10)	29,002
1,653,151		1,628,880
	Current assets	
121	UK & Overseas Tax	128
4,488	Contributions due from Employers and deficit funding	4,533
793	Sundry Debtors (note 14)	602
3,078	Pension Strain costs due within one year	2,886
8,480		8,149
	Non-current assets	
15,618	Deficit funding (former employers)	13,386
6,253	Pension strain costs due after one year	4,891
21,871		18,277
	Current liabilities	
(3,055)	Unpaid Benefits	(1,550)
(930)	Sundry Creditors (note 14)	(785)
(3,985)		(2,335)
1,679,517	Net Assets of the Scheme	1,652,971

NOTES TO THE ACCOUNTS

NOTES TO THE ACCOUNTS

1. The Statement of Accounts summarises the transactions and net assets of the Pension Fund for the financial year 2015/16. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, 2015/16 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 2013 as £2,028.8 million, with a comparator value as at the 31 March 2010 valuation of £1,950.4 million.

The actuarial position is summarised in the Actuarial Statement which is included on pages 105 and 106. This shows that the overall funding level as at 31 March 2013 is 82%.

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 2016 (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 2016 was **£83 million** (£87 million at 31 March 2015).

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 105 and 106. This estimate is based on significant variances based on changes to the underlying assumptions.

NOTES TO THE ACCOUNTS

(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
Actual present value of promised retirement benefits	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.
Private Equity Valuations	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 £83 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 2016 by The Northern Trust Company for the benefit of the Council. Statements of holdings have been provided by Northern Trust.

NOTES TO THE ACCOUNTS

5. Employing Bodies – Contributions

	No. of contributors at 31.03.16	Contribution rates (% of pensionable pay)	Additional lump sum (memo) £000	Employers £000	Employees £000	Total £000
SCHEDULED BODIES:						
Barry Town Council	13	27.0%	0	75	18	93
Cardiff and Vale College	374	13.6%	260	1,293	484	1,777
Cardiff City Transport	27	25.4%	480	689	55	744
City of Cardiff Council	9,987	22.9%	0	35,625	9,714	45,339
Cardiff Metropolitan University	743	13.6%	527	3,299	1,390	4,689
Cowbridge Town Council	4	27.0%	0	18	4	22
Dinas Powys Community Council	1	27.0%	0	7	2	9
Lisvane Community Council	1	27.0%	0	3	1	4
Llantwit Major Town Council	4	27.0%	0	18	4	22
Penarth Town Council	14	27.0%	0	78	18	96
Penllyn Community Council	1	27.0%	0	1	0	1
Public Services Ombudsman for Wales	1	32.3%	266	290	6	296
Radyr & Morganstown Community Council	1	27.0%	0	7	1	8
St Davids Sixth Form College	39	13.6%	14	126	51	177
Stanwell School	78	16.4%	13	171	56	227
Vale Of Glamorgan Council	3,317	22.7%	0	13,258	3,672	16,930
Wenvoe Community Council	1	27.0%	0	2	0	2
Sub-total	14,606			54,960	15,476	70,436
ADMITTED BODIES:						
APP Clean UK	5	21.5%	0	6	2	8
Cardiff Business Technology Centre	4	28.7%	0	22	5	27
Cardiff Gypsy & Traveller Project	0	23.4%	0	1	0	1
Cardiff Institute For The Blind	2	20.6%	59	68	3	71
Cardiff University	54	27.3%	1,300	1,654	82	1,736
Careers Wales (Cardiff & Vale)	78	18.1%	0	389	138	527
Children In Wales	25	27.3%	0	153	36	189
Civic Trust For Wales	0	23.4%	8	8	0	8
Colleges Wales	6	19.8%	9	57	19	76
Design Commission for Wales	4	20.3%	0	34	13	47
Mirus Wales	6	23.4%	0	58	22	80
National Trust	9	20.7%	0	34	10	44
One Voice	2	19.4%	6	23	7	30
Play Wales	6	24.0%	8	54	14	68

NOTES TO THE ACCOUNTS

	No. of contributors at 31.03.16	Contribution rates (% of pensionable pay)	Additional lump sum (memo) £000	Employers £000	Employees £000	Total £000
Royal National Eisteddfod	13	25.5%	32	150	36	186
Sport Wales	129	20.2%	1,050	1,866	281	2,147
Wales & West Housing	1	20.6%	105	133	15	148
Welsh Council For Voluntary Action	59	21.4%	36	455	131	586
Workers Education Association	52	22.3%	6	245	70	315
Sub-total	455			5,410	884	6,294
Total	15,061			60,370	16,360	76,730

Additional deficit funding

There was no additional deficit funding in 2015/16.

Comparative note for 2014/15

	No. of contributors at 31.03.15	Contribution rates (% of pensionable pay)	Additional lump sum (memo) £000	Employers £000	Employees £000	Total £000
SCHEDULED BODIES:						
Barry Town Council	13	27.0%	0	74	18	92
Cardiff and Vale College	392	13.6%	259	1,254	464	1,718
Cardiff City Transport	30	25.4%	480	729	65	794
City of Cardiff Council	9,519	22.9%	0	35,608	9,791	45,399
Cardiff Metropolitan University	790	13.6%	527	3,108	1,288	4,396
Cowbridge Town Council	4	27.0%	0	18	4	22
Dinas Powys Community Council	1	27.0%	0	7	1	8
Lisvane Community Council	1	27.0%	0	1	0	1
Llantwit Major Town Council	4	27.0%	0	18	4	22
Penarth Town Council	14	27.0%	0	73	17	90
Penllyn Community Council	1	27.0%	0	1	0	1
Public Services Ombudsman for Wales	3	32.3%	254	290	9	299
Radyr & Morganstown Community Council	1	27.0%	0	6	1	7
St David's Sixth Form College	39	13.6%	14	114	47	161

NOTES TO THE ACCOUNTS

	No. of contributors at 31.03.15	Contribution rates (% of pensionable pay)	Additional lump sum (memo)	Employers	Employees	Total
Stanwell School	76	16.4%	13	167	55	222
Vale Of Glamorgan Council	3,253	22.7%	0	12,037	3,332	15,369
Wenvoe Community Council	1	27.0%	0	2	0	2
Sub-total	14,142			53,507	15,096	68,603
ADMITTED BODIES:						
Cardiff Business Technology Centre	3	28.7%	0	14	3	17
Cardiff Gypsy & Traveller Project	1	23.4%	3	8	1	9
Cardiff Institute For The Blind	2	20.6%	57	66	3	69
Cardiff University	57	27.3%	1,300	1,684	89	1,773
Careers Wales (Cardiff & Vale)	83	18.1%	0	397	138	535
Children In Wales	22	24.7%	0	142	38	180
Civic Trust For Wales	0	23.4%	4	4	0	4
Colleges Wales	6	19.8%	9	67	23	90
Design Commission for Wales	4	20.3%	0	30	12	42
Memorial Hall	5	17.8%	0	17	6	23
Mirus Wales	6	23.4%	0	56	20	76
National Trust	11	20.7%	0	43	13	56
One Voice	2	19.4%	3	19	8	27
Play Wales	5	24.0%	4	57	17	74
Royal National Eisteddfod	12	25.5%	32	142	33	175
Sport Wales	130	20.2%	500	1,323	286	1,609
Wales & West Housing	1	20.6%	102	139	16	155
Welsh Council For Voluntary Action	74	21.4%	43	500	149	649
Workers Education Association	50	22.3%	5	256	75	331
Sub-total	474			4,964	930	5,894
Total	14,616			58,471	16,026	74,497

Additional deficit funding

There was no additional deficit funding in 2014/15

NOTES TO THE ACCOUNTS

6. Employing Bodies - Benefits Paid

	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
SCHEDULED BODIES:				
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 David's Sixth Form College	69	23	0	0
Stanwell School	57	37	0	0
Vale of Glamorgan Council	10,979	4,028	37	99
Sub-total	54,886	13,892	1,454	548
ADMITTED BODIES:				
Cardiff Bay Arts Trust	11	3	0	0
Cardiff Bay Development 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 Housing Assoc	58	0	0	0

NOTES TO THE ACCOUNTS

	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
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
Sub-total	4,232	937	65	14
TOTAL	59,118	14,829	1,519	562

Comparative note for 2014/15

	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
SCHEDULED BODIES:				
Barry Town Council	77	14	0	0
Cardiff City Transport	2,228	1,012	8	0
City of Cardiff Council	36,222	11,070	1,147	337
Cardiff and Vale College	562	211	0	0
Cardiff Metropolitan University	1,373	657	0	0
Cowbridge Town Council	11	0	0	0
Dinas Powys Town Council	9	0	0	0
Llantwit Major Town Council	18	0	0	0
Mary Immaculate High School	14	0	0	0
Penarth Town Council	42	5	0	0
Probation Service	250	8	0	0
Public Services Ombudsman for Wales	182	75	0	0
Radyr & Morganstown Community Council	17	0	0	0
Royal Welsh College of Music & Drama	76	0	0	0
S Wales Magistrates Courts	316	348	0	34

NOTES TO THE ACCOUNTS

	Retirement Pensions	Lump Sums on Retirement	Death Grants	Commutation Payments
	£000	£000	£000	£000
St Cyres School	47	14	0	0
St David's Sixth Form College	63	32	0	0
Stanwell School	43	102	0	17
Vale of Glamorgan Council	10,497	3,066	319	97
Sub-total	52,047	16,614	1,474	485
ADMITTED BODIES:				
Cardiff Bay Arts Trust	11	0	0	0
Cardiff Bay Development Corp	489	15	0	0
Cardiff Business Technology Centre	12	0	0	0
Cardiff Gypsy & Traveller Project	11	0	0	0
Cardiff Institute for Blind	71	0	0	0
Cardiff University	1,014	156	61	10
Careers Wales (Cardiff & Vale)	293	87	0	0
Catholic Children's Society	2	0	0	0
Channel View Centre	5	0	0	0
Children in Wales	13	0	0	0
Citizens Advice Bureau (Cardiff)	13	0	0	0
Citizens Advice Bureau (Vale)	10	11	0	0
Civic Trust for Wales	16	33	0	0
Colleges Wales	49	180	0	0
Design Commission for Wales	3	0	0	0
Dimensions	9	0	0	0
Glam & Gwent Housing Assoc	58	0	0	0
Glamorgan Holiday Hotel	54	0	0	0
Higher Ed Development Wales	3	0	0	0
Housing for Wales	196	0	0	0
Intervol	22	0	0	0
Land Authority for Wales	318	22	0	0
National Eisteddfod	76	3	0	0
National Trust				
Memorial Hall	3	75	0	0
Mirus Wales (Opportunity Housing Trust)	22	0	0	0
Play Wales	20	0	0	0
S E Wales Com Trust	7	0	0	0
Sport Wales	757	163	3	6
STAR	7	0	0	0
Wales & West Housing	139	7	0	0
Wales Youth Agency	55	0	0	0
Welsh Council for Voluntary Action	164	27	7	0
Workers Education Association	14	0	0	0
Sub-total	3,936	779	71	16
TOTAL	55,983	17,393	1,545	501

NOTES TO THE ACCOUNTS

7. Membership of the Fund

Fund membership at 31 March 2016 is as follows:

	2014/15 (Restated)	2015/16
Contributing Employers	33	36
Contributors	14,616	15,061
Pensioners	10,281	10,626
Deferred pensioners	12,073	12,308
Total membership	36,970	37,995

8. Management Expenses

Management Expenses fully charged to the Fund are:

	2014/15 Restated £000	2015/16 £000
Administration Costs	789	912
Investment Management Expenses	10,016	11,484
Oversight & Governance Costs	124	124
TOTAL	10,929	12,520

9. Investment Income

	2014/15 £000	2015/16 £000
UK Fixed Interest Securities	5,277	5,098
Overseas Fixed Interest Securities	2,345	2,663
UK Equities & Private Equity Funds	3,105	3,209
Pooled investments	1,278	1,432
Overseas Equities (net of irrecoverable tax)	3,682	3,817
Property Unit Trust Income	1,529	1,700
Interest on UK cash	75	132
Securities Lending	97	125
TOTAL	17,388	18,176

NOTES TO THE ACCOUNTS

10. Investments at Market Value

2014/15 £000		2015/16 £000
	UK Fixed Interest:	
53,976	Public Sector	66,966
129,201	Other (Pooled)	93,423
183,177		160,389
	Overseas Fixed Interest:	
61,913	Public Sector (Pooled)	86,645
61,913		86,645
101,886	UK quoted Equities & Convertibles	95,636
174,678	Foreign quoted Equities	161,746
276,564		257,382
99,211	UK & Global Property (Pooled)	118,632
87,433	Private Equity	83,101
	Pooled Funds	
484,258	UK	470,172
423,534	Overseas	423,557
907,792		893,729
(2,209)	Derivatives: Forward Currency Contracts	(2,273)
(2,209)		(2,273)
	Cash:	
24,110	UK	24,267
13,559	Overseas	5,059
1,601	Net investment proceeds due	1,949
39,270		31,275
1,653,151	TOTAL	1,628,880

Gross purchases in the year (excluding cash and forward currency) were £178.949 million, whilst sales were £177.987 million. From these a net realised loss was accrued to the Fund of £798,000. Profits and losses are calculated on historical costs. When only part of a holding is sold, the average cost method is used.

The managing companies of all the pooled managed Funds are UK registered. Private Equity Funds are not quoted on recognised stock exchanges and may not be realisable as readily as quoted investments. Other than pooled funds, no single investment accounted for more than 5% of the Fund's assets.

NOTES TO THE ACCOUNTS

	Value at 31/03/15	Purchase at cost	Sale Proceeds	Change in Market Value	Value at 31/03/16
	£000's	£000's	£000's	£000's	£000's
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
Sub total	1,616,090	178,949	(177,987)	(17,174)	1,599,878
Forward Currency	(2,209)	2,709,754	(2,695,045)	(14,773)	(2,273)
Futures	0	0	0	0	0
Total Derivatives	(2,209)	2,709,754	(2,695,045)	(14,773)	(2,273)
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
Total Cash	39,270			231	31,275
Total Cash and Investment Proceeds Due	37,061			(14,542)	29,002
Total	1,653,151			(31,716)	1,628,880

Comparative data for 2014/15:

	Value at 31/03/14	Purchase at cost Restated	Sale Proceeds	Change in Market Value Restated	Value at 31/03/15
	£000's	£000's	£000's	£000's	£000's
Fixed Interest Securities	220,062	65,699	(57,319)	16,648	245,090
Equities	235,397	66,497	(59,102)	33,772	276,564
Pooled Funds	814,008	784	0	93,000	907,792
Property unit trusts	79,897	5,779	0	13,535	99,211
Private equity	92,925	2,686	(24,878)	16,700	87,433
Sub total	1,442,289	141,445	(141,299)	173,655	1,616,090
Forward Currency	884	2,089,769	(2,098,490)	5,628	(2,209)
Futures	0	286,496	(286,496)	0	0
Total Derivatives	884	2,376,265	(2,384,986)	5,628	(2,209)
Debtors	812				1,742
Creditors	0				(141)
Managers' Cash	9,049				7,700
Internal Cash	12,625				24,110
Currency Overlay	466				5,859
Total Cash	22,952			(2,635)	39,270
Total Cash and Investment Proceeds Due	23,836			2,993	37,061
Total	1,466,125			176,648	1,653,151

NOTES TO THE ACCOUNTS

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year amounted to £258,473. In addition, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

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 2016

	£000	% of Fund
Aberdeen Asset Management	247,805	15.2
Aberdeen Emerging Markets	54,952	3.4
Blackrock Investment Management	181,088	11.1
Invesco Perpetual	91,944	5.6
J P Morgan	67,666	4.2
Majedie	98,197	6.0
Nikko	88,371	5.4
Schroder Investment Managers	76,851	4.7
State Street Global Advisers	498,078	30.6
Property	118,632	7.3
Private Equity Managers	83,101	5.1
Mesirow currency overlay & cash with custodian	(2,072)	(0.1)
Internally managed (Cash)	24,267	1.5
Total	1,628,880	100

NOTES TO THE ACCOUNTS

12. Financial Instruments

a) Classification of financial instruments

31/03/2015				31/03/2016		
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
			Financial assets			
245,090	0	0	Fixed Interest Securities	247,034	0	0
276,564	0	0	Equities	257,382	0	0
907,792	0	0	Pooled Funds	893,729	0	0
99,211	0	0	Property Unit Trusts	118,632	0	0
87,433	0	0	Private Equity	83,101	0	0
156,416	0	0	Derivatives	168,982	0	0
0	37,669	0	Cash	0	29,326	0
1,601	0	0	Other investments	1,949	0	0
0	30,351	0	Debtors	0	26,426	0
1,774,107	68,020	0		1,770,809	55,752	0
			Financial liabilities			
(158,625)	0	0	Derivatives	(171,255)	0	0
0	0	0	Other investments	0	0	0
0	0	(3,985)	Creditors	0	0	(1,812)
0	0	0	Borrowings	0	0	0
(158,625)	0	(3,985)		(171,255)	0	(1,812)
1,615,482	68,020	(3,985)		1,599,554	55,752	(1,812)

b) Net gains and losses on financial instruments

31/03/2015		31/03/2016
£000	Financial Assets	£000
294,432	Fair value through profit and loss	(21,259)
0	Loans and receivables	0
	Financial liabilities	
(117,769)	Fair value through profit and loss	(12,630)
(15)	Loans and receivables	2,173
176,648	Total	(31,716)

NOTES TO THE ACCOUNTS

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 31st March 2016	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value	679,529	718,616	372,664	1,770,809
Loans and receivables	55,752	0	0	55,752
Total financial assets	735,281	718,616	372,664	1,826,561
Financial liabilities				
Financial liabilities at fair value	0	0	(171,255)	(171,255)
Financial liabilities at amortised cost	(1,812)	0	0	(1,812)
Total financial liabilities	(1,812)	0	(171,255)	(173,067)
Net financial assets	733,469	718,616	201,409	1,653,494

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.

NOTES TO THE ACCOUNTS

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 31.03.2016	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)
Total	276,036	2,760	(2,760)

2014/15 Comparative:

Asset Type	Carrying amount as at 31.03.2015	Change in year in the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	37,061	371	(371)
Fixed interest securities	245,090	2,451	(2,451)
Total	282,151	2,822	(2,822)

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 6.35%. A 6.35% 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:

NOTES TO THE ACCOUNTS

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

	Asset value as at 31.03.2015	Change to net assets available to pay benefits	
Currency exposure – asset type		3.49%	-3.49%
	£000	£000	£000
Overseas quoted securities	616,984	638,493	595,476
Total change in assets available	616,984	638,493	595,476

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.

Asset type	Value as at 31.03.2016 £000	Percentage change %	Value on increase £000	Value on Decrease £000
Total Assets	1,628,880	7.34%	1,748,440	1,509,320
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

Asset type	Value as at 31.03.2015 £000	Percentage change %	Value on increase £000	Value on Decrease £000
Total Assets	1,653,151	6.65%	1,763,086	1,543,216
UK Equities	586,144	9.73%	643,176	529,112
Overseas Equities	598,212	9.68%	656,119	540,305
Total Bonds	245,090	3.78%	254,354	235,826
Cash	37,061	0.01%	37,065	37,057
Alternatives	87,433	3.35%	90,362	84,504
Property	99,211	2.25%	101,443	96,979

NOTES TO THE ACCOUNTS

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 31.03.2016 was £24.8 million (£24.6 million at 31.03.2015). This was held with the following institutions:

	Rating	Balance at 31.03.2015 £000	Balance at 31.03.2016 £000
Money market funds			
Ignis	AAA	12,000	12,000
Deutsche	AAA	12,000	920
Blackrock	AAA	650	11,950
Bank current account			
Lloyds Bank	A	6	(80)
Total		24,656	24,790

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

	2014/15 £000	2015/16 £000
Debtors		
Pensions Administration	26	0
Miscellaneous	767	602
	793	602
Creditors		
Management & Custody Fees	(899)	(785)
Miscellaneous	(31)	0
	(930)	(785)
Total	(137)	(183)

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.

NOTES TO THE ACCOUNTS

The amount of AVC contributions paid during the year amounted to £416,000 and the market value of separately invested AVC's as at 31 March 2016 was £3.225 million.

16. Commitments

As at 31 March 2016 the Fund had outstanding private equity commitments of a maximum of £38.64 million (£40.57 million at 31 March 2015).

As at 31 March 2016 the Fund had forward currency contracts amounting to £168.98 million of purchases and £171.26 million of sales, showing an unrealised loss of £2.27 million.

17. Securities Lending

At the year end the value of quoted equities on loan was £40.42 million (£38.00 million at March 2015) in exchange for which the custodian held collateral of £42.54 million (£40.35 million at March 2015). For the year ending 31 March 2016, the Fund received income of £120,991 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

The United Kingdom held a referendum on 23 June 2016 on future membership of the European Union and the result was a 52% majority in favour of leaving the EU. The result had an immediate impact on financial markets but the long term impact is still unknown. Markets have continued to be volatile in response to the ongoing political and economic uncertainty. The pound has lost value against other major currencies resulting in an increase in the value of overseas investments held by UK investors. The total market value of the Cardiff & Vale of Glamorgan Pension Fund's investment assets has increased since the referendum result but no adjustments have been made to valuations as at 31 March 2016 to reflect this increase.

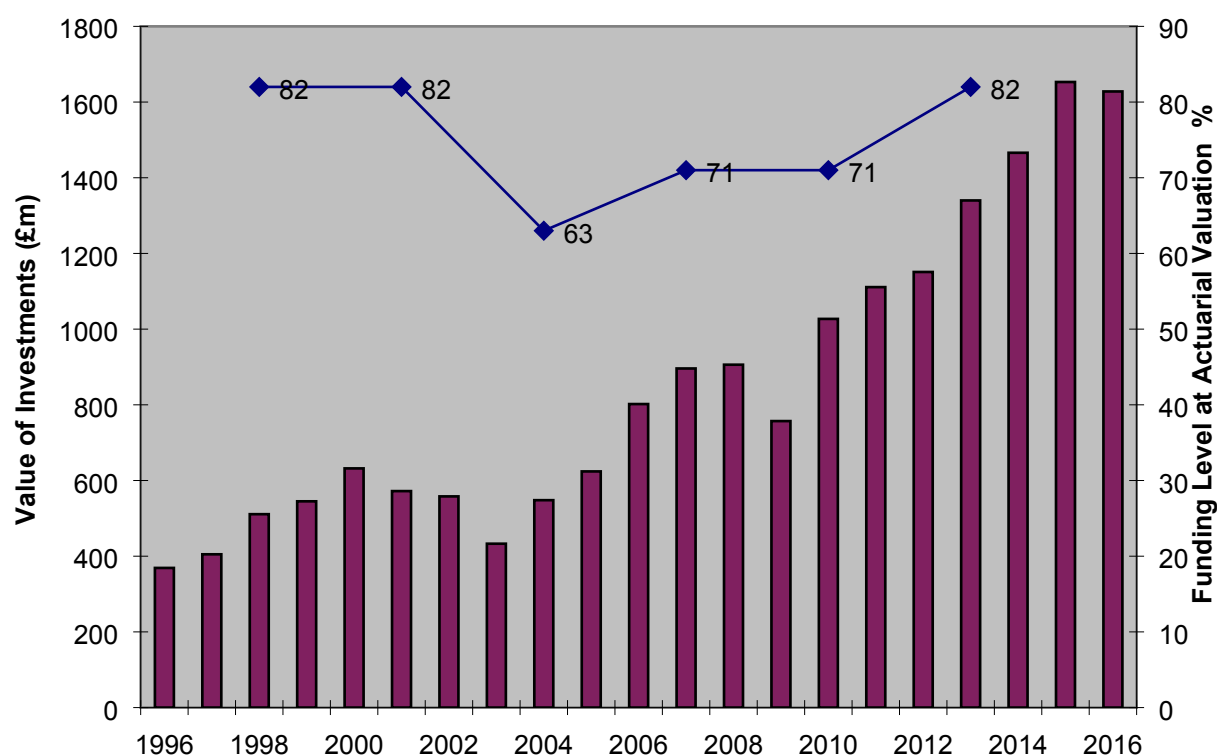
APPENDIX 1: INVESTMENT DATA

SUMMARY STATISTICS FOR THE PAST FIVE YEARS

Year End 31st March	2012	2013	2014	2015	2016
MEMBERSHIP					
Contributors	13,343	13,402	13,922	14,616	15,061
Pensioners	9,293	9,552	9,866	10,281	10,626
Deferred Members	10,040	10,658	11,335	12,073	12,308
FINANCIAL DATA					
	£m	£m	£m	£m	£m
Gross Income (excl Profits on Sales)	95.4	92.9	119.2	100.0	102.1
Gross Expenditure	68.3	70.4	78.8	89.6	96.9
Net New Money	27.1	22.5	40.4	10.4	5.2
Market Value of Investments	1,150.5	1,339.9	1,466.1	1,653.2	1,628.9
INVESTMENT PERFORMANCE					
	%	%	%	%	%
Return on Investments – 1 Year	2.4	14.9	8.9	12.6	-1.7
Return on Investments – 3 Year	14.0	8.4	8.7	12.1	6.4
Return on Investments – 5 Year	3.5	7.1	13.2	9.3	7.3
Return on Investments – 10 Year	5.6	10.0	8.6	8.7	6.1
Increase/Decrease in Average Earnings	1.3	-0.4	1.7	4.4	1.4
Annual Pension Increase (applied the following April)	5.2	2.2	2.7	1.2	0.0

APPENDIX 1: INVESTMENT DATA

20 YEAR INVESTMENT MARKET VALUES



Year Ended 31 March		2012	2013	2014	2015	2016
UK Equities	£m	401.3	468.7	539.4	588.4	568.1
	%	34.9	35.0	36.8	35.6	34.9
Overseas Equities	£m	342.4	450.4	510.0	602.9	588.8
	%	29.7	33.6	34.8	36.5	36.1
Global Bonds	£m	191.5	220.0	220.1	244.1	247.9
	%	16.6	16.4	15.0	14.8	15.2
Private Equity	£m	82.4	93.0	92.9	87.4	83.1
	%	7.2	6.9	6.3	5.3	5.1
Property	£m	73.1	75.2	79.9	99.2	118.6
	%	6.4	5.6	5.5	6.0	7.3
Cash	£m	20.4	33.2	23.8	31.2	22.4
	%	1.8	2.5	1.6	1.9	1.4
Active Currency	£m	39.4	0.0	0.0	0.0	0.0
	%	3.4	0.0	0.0	0.0	0.0
Total Value	£m	1,150.5	1,340.5	1,466.1	1,653.2	1,628.9
	%	100	100	100	100	100

APPENDIX 1: INVESTMENT DATA

TEN LARGEST HOLDINGS BY MARKET VALUE AS AT 31 MARCH 2016			
	Country	Value £m	% of the Fund
EQUITIES (DIRECTLY OWNED)			
HSBC Holdings	UK	6.0	0.4
BP	UK	5.8	0.4
Royal Dutch Shell	UK	5.6	0.3
Vodafone Group	UK	4.9	0.3
Orange	France	3.7	0.2
Taiwan Semiconductor Manufacturing Co	Taiwan	3.5	0.2
Tesco	UK	3.4	0.2
Sony Corporation	Japan	3.1	0.2
Toyota Motor Corporation	Japan	3.1	0.2
GlaxoSmithKline	UK	2.8	0.2
POOLED FUNDS			
SSGA MPF North American Equities Indexed	USA/Canada	193.5	11.7
BlackRock Aquila Life UK Equities Indexed	UK	181.1	11.0
SSGA MPF Europe ex UK Equities Active	Europe ex UK	175.1	10.6
SSGA MPF UK Equities Indexed	UK	129.5	7.8
Aberdeen Sterling Credit Bonds	UK	93.3	5.6
Invesco Perpetual Income Fund	UK	91.9	5.6
JP Morgan UK Dynamic Fund	UK	68.0	4.1
Aberdeen Global Government Bonds	Global	60.7	3.7
Aberdeen Global Emerging Markets Equities	Emerging Markets	55.0	3.3
CB Richard Ellis Global Alpha Fund	Global	38.2	2.3

GLOSSARY

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.

GLOSSARY

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.

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.

GLOSSARY

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.

SIP

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

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). 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. 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

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)
Fund Accounting:	(029) 2087 2290	Nicola Greenwood	(Group Accountant)