Cardiff & Vale of Glamorgan
Pension Fund

ANNUAL REPORT & ACCOUNTS 2018/19

Content

Executive Summary

- The total value of the Fund rose by 5.4% over the year and has reached £2.18 billion as at 31 March 2019, compared to the previous year end valuation of £2.07 billion.

- During 2018/19 financial markets were volatile but delivered positive returns. The Fund achieved a return on investments for the year of 5.1% (net of fees), 0.6% below the benchmark return of 5.7%.

- The Fund remains in a positive cashflow position: excluding group transfers, contributions and transfer values received exceeded benefits, refunds and transfer values paid by £6.4 million.

- Total membership of the Fund continued to rise during the year. The number of active member accounts remained steady at just over 16,000 whilst the number of pensioner accounts rose by 3.8% to over 11,500.

- At the most recent actuarial valuation, as at 31 March 2016, the funding level was 85%, an increase on the previous 2013 funding level of 82%.

- Summary statistics for the Fund are shown in the Appendix 1.

Cardiff Council is the Administering Authority for the Cardiff and Vale of Glamorgan Pension Fund (the Fund) which is itself part of the national Local Government Pension Scheme (LGPS) for England & Wales. The LGPS is the statutory occupational pension scheme for all local government employees (except teachers) and the regulations are determined by the UK Government.

The Council's responsibilities as manager of the Fund are discharged through the Pensions Committee which has oversight of the Fund's strategies and policies. Operational management of the Fund has been delegated to the Corporate Director Resources. The Local Pension Board assists the Council to secure compliance with the LGPS regulations and the requirements of the Pensions Regulator and to ensure the effective and efficient administration of the scheme.

Membership continued to increase over the year. There are now over 16,000 contributing employees and more than 11,000 pensioners and dependents receiving benefits from the Fund.

The Pension Fund's assets rose by 5.4% during 2018/19, from £2.067 billion to £2.178 billion. Investment markets were volatile over the year due to economic and political uncertainties. Investor sentiment swung from optimistic in April and May to pessimistic towards the end of 2018, and back to optimistic in the first quarter of 2019. The return for the year was 5.1% against a benchmark return of 5.7%. Over the longer term, returns on the Fund's investments have averaged around 8% per annum.

The eight LGPS fund authorities in Wales continued to make progress during the year in the development of the Wales Pension Partnership (WPP) which was established in 2017 to oversee the pooling of the funds' investments. The WPP's Authorised Contractual Scheme (ACS) was approved by the FCA in July 2018 and the first pooled funds were launched in January 2019. Cardiff did not participate in this tranche, however further funds will be launched during 2019/20. The WPP is developing a Responsible Investment Policy to address issues of shared concern but each fund will continue to be responsible for its own investment strategy and asset allocation.

During the year progress was made in the development of a Climate Change Investment Policy in response to the Council's commitment to work with the Pensions Committee to consider divesting investments from fossil fuel companies. An analysis of the carbon impact of the Fund's investments was commissioned to set a benchmark against which the impact of changes to the investment strategy can be measured. Proposals for addressing this critical issue were considered by the Pensions Committee and Local Pension Board in January 2019 and will be developed further during 2019/20.

The Fund's key objective continues to be to deliver an effective and efficient service to nearly 41,000 contributing employees, pensioners and deferred members, and to minimise the financial burden on contributing employers over the long term.

Finally, the Annual Governance Statement for Cardiff Council includes the findings of a review across all services, including Pension Fund arrangements. An Action Plan is also included to address any governance issues identified and the document is available on the Council's website at the following address:

https://www.cardiff.gov.uk/ENG/Your-Council/Council-finance/Managing-the-Councils-Finances/Pages/default.aspx

Christopher Lee
Corporate Director Resources

SCHEME MANAGEMENT AND ADVISERS

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

Pensions Committee

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

Members in the year to 31 March 2019 were:

Cllr. C. Weaver	(Chair)
Cllr. D. Ali	
Cllr. N. Howells	
Cllr. G. Thomas	
Cllr. C. Lay	(from November 2018)

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

Investment Advisory Panel

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

Members in the year to 31 March 2019 were:

Cllr C. Weaver	(Chair) Cabinet Member for Finance, Modernisation and Performance, Cardiff Council
Cllr N. Howells	Member, Cardiff Council
Cllr. G. Thomas	Member, Cardiff Council
Mr. S. Bates	Independent Adviser
Ms. C. Burton	Independent Adviser
Mrs. C. Salter	Corporate Director Resources, Cardiff Council (until 10 March 2019)
Mr. C. Lee	Corporate Director Resources, Cardiff Council (from 11 March 2019)

Local Pension Board

The Local Pension Board was established on 29 January 2015 in compliance with the Public Service Pensions Act 2013. The role of the Board is to assist the Council to secure compliance with the LGPS Regulations and to ensure the efficient governance of the Scheme.

Members from 1 April 2018 to 31 March 2019 were:

Mr. Michael Prior	Independent Chair
Employer Representatives:	
Mr. David Llewellyn	Director of Finance, Cardiff Metropolitan University
Mrs. Carys Lord	Head of Finance, Vale of Glamorgan Council
Cllr. Christine Priday	Member, Pentyrch Community Council
Scheme Member Representatives:	
Mr. Kenneth Daniels	GMB nominee
Mr. Peter King	Unison nominee
Mrs. Hilary Williams	Unison nominee

Investment Managers

Aberdeen Standard	Global Bonds
	Emerging Market Equities
	UK Property
BlackRock Investment Management	UK Equities (indexed)
	US Equities (indexed)
	UK Property
State Street Global Advisors	European (ex UK) Equities (active)
Invesco Perpetual	UK Equities (active)
JP Morgan Asset Management	UK Equities (active)
Majedie Asset Management	UK Equities (active)
Nikko Asset Management	Japanese Equities (active)
Schroders Investment Management	Asia-Pacific (ex Japan) Equities (active)
	UK Property
UBS	UK Property
CBRE	Global Property
Capital Dynamics	Private Equity
HarbourVest	Private Equity
Pantheon	Private Equity
Mesirow	Currency Management

Professional Advisers

The Fund’s professional advisers during the year were:

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

The LGPS is a Defined Benefit Scheme governed by the Superannuation Act 1972 and the various regulations issued by the MHCLG. 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 2019:

	Active	Ceased	Total
Scheduled Body	17	12	29
Admitted Body	28	26	54
Total	45	38	83

A full list of contributing employers is given in Note 21 to the accounts.

Membership of the Fund is summarised in Note 6 to the accounts. In addition to contributors, pensioners and members with deferred benefits, as at 31 March 2019 there were 3,222 undecided leavers i.e. members to whom a refund of contributions or transfer out may be due.

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 2018/19 the contribution bands were:

Band	Pensionable Pay Range	Contribution Rate
1	Up to £14,100	5.5%
2	£14,101 to £22,000	5.8%
3	£22,001 to £35,700	6.5%
4	£35,701 to £45,200	6.8%
5	£45,201 to £63,100	8.5%
6	£63,101 to £89,400	9.9%
7	£89,401 to £105,200	10.5%
8	£105,201 to £157,800	11.4%
9	£157,801 or more	12.5%

The contribution bands for 2019/20 are:

Band	Pensionable Pay Range	Contribution Rate
1	Up to £14,400	5.5%
2	£14,401 to £22,500	5.8%
3	£22,501 to £36,500	6.5%
4	£36,501 to £46,200	6.8%
5	£46,201 to £64,600	8.5%
6	£64,601 to £91,500	9.9%
7	£91,501 to £107,700	10.5%
8	£107,701 to £161,500	11.4%
9	£161,501 or more	12.5%

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

Pension Increases

Pensions in payment are subject to annual mandatory increases determined by the increase in the Consumer Price Index (CPI) in the twelve months to the previous September. The increases are payable by the Fund and future increases are estimated at each triennial valuation. Any variations are adjusted for at subsequent valuations through the employer's contribution rate of the member's last employer before leaving employment. Increases take effect in the first full week of each financial year. The increase for 2018/19 was 3% and the increase for 2019/20 is 2.4%.

CARE benefits accrued by active Fund members since 1 April 2014 are also subject to annual CPI linked adjustments. Accounts brought forward at the start of the financial year were revalued by 3% and accounts carried forward into 2019/20 were revalued by 2.4% on 1 April 2019.

Additional Voluntary Contributions (AVCs)

Prudential Assurance continues as the AVC provider for the Fund. Prudential offer information through their web site https://www.pru.co.uk/rz/localgov/ 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 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 Powers

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

Investment Objective

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

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

The 2016 actuarial valuation was completed in March 2017. The Valuation Report is available on the Fund's website here:
https://www.cardiffandvalepensionfund.org.uk/about-the-fund/actuarial-valuation-reports/
The Funding Strategy Statement approved in March 2017 is included in this report as Appendix 2.

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

Fund Management

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

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

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

Fund management is structured on a specialist basis, with individual managers allocated particular sectors or geographical areas (see above for a list of managers and their mandates). Where possible, each manager is given a clear performance target, but generally is also given considerable freedom in how this is achieved. The Fund employs a global custodian to ensure the safekeeping of all publicly traded securities, and to manage the settlement of trades and recovery of taxation. Custody of private equity, property unit trusts and cash is managed in-house as these assets are not publicly traded.

Management fees are the main form of investment expenditure and comprise a combination of ad valorem (varying with the value of funds managed) and performance fees. Custody fees vary with the number of investment transactions made by the fund managers. Fees for the Panel's advisers rise in line with Chief Officers' pay. Revised accounting guidelines from 2015/16 onwards require all management fees to be accounted for as investment expenses regardless of whether they are charged directly or offset against investment returns. Management and Custodian fees for 2018/19 were £6.8m.

Investment Strategy Statement

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

The Investment Strategy Statement effective during 2018/19 is included in this report as Appendix 3. The current ISS is available on the Fund's website via the following link: https://www.cardiffandvalepensionfund.org.uk/about-the-fund/key-governance-documents/

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, originally 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 allocation was reviewed in September 2017 and on the advice of the Investment Advisory Panel, the Pensions Committee approved an amended strategy reallocating 9% of total assets from Equities to Bonds. The new strategy was implemented in November 2017.

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. These weightings have been maintained within the reduced allocation to Equities.

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.

During 2018/19 the overall Fund return (net of fees) was 5.1%, 0.6% below the Fund's benchmark return of 5.7%. Market sentiment swung from optimism at the start of the financial year to pessimism in the last quarter of 2018 and back to optimism at the start of 2019, reflecting uncertainties concerning the departure of the UK from the EU, changes in the direction of central bank monetary policies and tensions over US-China trade relations.

The performance of the manager portfolios during 2018/19 compared with their benchmarks and targets was as follows:

Manager	Mandate (target against benchmark)	Benchmark return (%)	Portfolio Target (%)	Portfolio Return (%)
Aberdeen Standard	Global bonds (+1%)	2.9	3.9	3.0
BlackRock	UK Equities (passive)	6.4	6.4	6.4
BlackRock	US Equities (passive)	17.7	17.7	17.9
State Street	European Equities (+2%)	2.7	4.7	-0.6
Nikko	Japanese Equities (+3%)	-1.8	1.2	-3.7
Schroders	Asia-Pacific Equities (+3%)	4.0	7.0	6.9
Aberdeen Standard	Emerging Markets Equities (+3%)	0.1	3.1	2.8
Invesco	UK Equities (unconstrained)	6.4	N/A	-4.1
JP Morgan	UK Equities (unconstrained)	6.4	N/A	1.6
Majedie	UK Equities (+2%)	6.4	8.4	3.9
Private Equity Funds (28)	Global Private Equity	6.4	6.4	16.4
UK Property Funds (4)	UK Property	4.8	4.8	3.5
CBRE	Global Property (10% absolute return)	N/A	10.0	12.7

The Fund's passive investments delivered significant positive returns, in line with their market benchmarks, but most of the Fund's active equity managers struggled to find outperformance in market environments which did not favour their stock picking strategies.

The Fund's Private Equity holdings continued to deliver significant returns. Returns from UK Property were disappointing and the performance of individual property funds varied as some managers were better positioned than others to make gains from the shift away from retail shopping centres to on line shopping.

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

Longer Term Fund Performance

The Pension Fund's overall return is best measured over the long term. Over the last ten years the Fund's total return has returned an annualised 10.5% compared with a Fund benchmark of 10.6%. Using 2018/19 as the base year, comparative returns over different periods are as follows:

	Fund % p.a.	Benchmark % p.a.
1 Year (2018/19)	3.2	2.5
3 Year average (2016/19)	9.6	10.0
5 Year average (2014/19)	7.8	8.1
10 Year average (2009/19)	10.5	10.6

Introduction

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

Actuarial Position

1. The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £1,653 million) covering 85% of the liabilities allowing, in the case of pre 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.

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

- 16.6% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),

Plus

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

This would imply an average employer contribution rate of about 23.0% of pensionable pay in total, if the membership remains broadly stable and payroll increases by 3.0% p.a.

3. In practice, each individual Employer's or group of Employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the Employers.

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

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

Discount rate for periods in service Scheduled body / subsumption funding target Orphan body funding target	 4.6% p.a. 4.6% p.a.
Discount rate for periods after leaving service Scheduled body / subsumption funding target Orphan body funding target	 4.6% p.a. 2.5% p.a.
Rate of pay increases	3.0% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

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

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

	Men	Women
Current pensioners aged 65 at the valuation date	22.4	24.8
Future pensioners aged 45 at the valuation date	23.0	25.9

The assets were valued at market value.

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

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

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

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

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

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

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

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

11. The actuarial valuation report is available on the Fund's website at the following address: https://www.cardiffandvalepensionfund.org.uk/about-the-fund/actuarial-valuation-reports/

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

Aon Hewitt Limited

May 2019

The independent auditor's statement of the Auditor General for Wales to the members of the County Council of the City and County of Cardiff as administrating authority for the Cardiff and Vale of Glamorgan Pension Fund on the Annual Report.

Statement to be provided by the Auditor

2017/18 £000		Note	2018/19 £000
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
(65,638)	From employers	7	(69,768)
(17,675)	From employees	7	(18,626)
(1,088)	Group transfers from other schemes or funds		(5,168)
(3,846)	Individual transfers from other schemes or funds		(6,719)
(2,633)	Other income (capitalised payments and interest on deficit funding)		(2,825)
(90,880)			**(103,106)**
	Benefits Payable		
62,507	Pensions	8	65,790
14,256	Lump sums, grants and other payments	8	18,134
	Payments to and on account of leavers		
114	Refunds of contributions		188
9,694	Group transfers to other schemes or funds		67
6,315	Individual transfers to other schemes or funds		7,397
92,886			**91,576**
2,006	**Net (additions)/withdrawals from dealings with members of the Fund**		**(11,530)**
7,902	Management expenses	9	8,083
9,908	**Net (additions)/withdrawals including fund management expenses**		**(3,447)**
	Returns on Investment		
(21,247)	Investment income	10	(27,498)
(53,567)	Change in market value of investments	11a	(80,299)
(74,814)	**Net returns on investments**		**(107,797)**
(64,906)	**Net (increase)/decrease in the Fund during year**		**(111,244)**
(2,001,678)	Opening net assets of the scheme		(2,066,584)
(2,066,584)	**Closing net assets of the scheme**		**(2,177,828)**

2017/18 £000		Note	2018/19 £000
2,011,844	Investments at market value	11	2,112,376
37,826	Cash (including derivatives) and investment proceeds due	11	51,029
2,049,670	**Total investments**		**2,163,405**
153	UK & overseas tax		42
4,716	Contributions due from employers and deficit funding		4,845
278	Sundry debtors		443
2,152	Pension strain costs due within one year		2,177
7,299	**Total current assets**		**7,507**
8,922	Deficit funding (former employers)		6,947
2,794	Pension strain costs due after one year		2,560
11,716	**Total non-current assets**		**9,507**
(838)	Unpaid benefits		(426)
(1,263)	Sundry creditors		(1,358)
0	Provision - death grants	19	(105)
(2,101)	**Total current liabilities**		**(1,889)**
0	Provision - death grants	19	(702)
0	**Total non-current liabilities**		**(702)**
2,066,584	**Net assets of the scheme**		**2,177,828**

1. Basis of Preparation

The Statement of Accounts summarises the transactions and net assets of the Fund for the financial year 2018/19. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, 2018/19 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.

The accounts have been prepared on a going concern basis.

2. Summary of Significant Accounting Policies

Accounting standards that have been issued but not yet adopted

At the balance sheet date, no accounting standards issued but not yet adopted have been identified.

Income and Expenditure

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 benefits in the future, which has been separately disclosed within the notes to the accounts.

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".

Valuation of Investments

Investments are included in the financial statements on a fair value basis as at the reporting date. The values of investments as shown in the net assets statement have been determined in accordance with the requirements of the Code and IFRS 13. Valuation methods employed by the fund are detailed within Note 13.3.

Foreign Currency Transactions

Overseas investments have been converted at WM/Reuters closing spot rates of exchange.

Cash and Cash Equivalents

Cash is represented by bank balances. Cash equivalents include Call Accounts repayable with under ninety days notice and Money Market Funds repayable without penalty on notice of not more than twenty four hours.

Taxation

Taxation	Treatment
UK Income Tax	The fund is an exempt approved fund able to recover UK Income Tax.
UK Capital Gains Tax	No Capital Gains Tax is Chargeable.

Value Added Tax	Accounts are shown exclusive of VAT. As the Council is the administering Authority, VAT is recoverable on all Fund activities.
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.

3. 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.

Pension Fund liability

This is calculated in accordance with IAS19 every three years by the actuary, with an annual statement in the intervening years. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary.

4. 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 £82 million. There is a risk that this investment may be under, or overstated in the accounts.
Pooled Property Funds	Valuation techniques are used to determine the carrying amount of pooled property funds.	Changes in the valuation assumptions used, together with significant changes in rental growth could affect (increase or decrease) the fair value of property-based investments.

5. 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 2019 by The Northern Trust Company for the benefit of the Council. Statements of holdings have been provided by Northern Trust.

6. Membership of the Fund

Fund membership at 31 March 2019 is as follows:

2017/18		2018/19
37	Contributing employers	45
16,128	Contributors	16,193
11,128	Pensioners	11,554
12,757	Deferred pensioners	13,040
40,013	**Total membership**	**40,787**

7. Employing Bodies – Contributions

2018/19	No. of contributors at 31/03/2019	Employers £000	Employees £000	Total £000	*Additional lump sum (memo) £000*
Administering Body:					
Cardiff Council	10,036	(42,897)	(11,316)	(54,213)	*0*
Scheduled Bodies:					
Vale of Glamorgan Council	3,969	(14,127)	(3,809)	(17,936)	*(4)*
Town and Community Councils	58	(277)	(63)	(340)	*0*
Education Bodies	1,376	(6,071)	(2,245)	(8,316)	*(1,006)*
Other Scheduled Bodies	15	(114)	(33)	(147)	*0*
Admitted Bodies:					
Admitted Bodies	739	(6,282)	(1,160)	(7,442)	*(2,420)*
Total	**16,193**	**(69,768)**	**(18,626)**	**(88,394)**	***(3,430)***

2017/18	No. of contributors at 31/03/2018	Employers £000	Employees £000	Total £000	*Additional lump sum (memo) £000*
Administering Body:					
Cardiff Council	10,121	(39,310)	(10,501)	(49,811)	*0*
Scheduled Bodies:					
Vale of Glamorgan Council	3,878	(13,837)	(3,802)	(17,639)	*(4)*
Town and Community Councils	54	(266)	(63)	(329)	*0*
Education Bodies	1,376	(5,500)	(2,125)	(7,625)	*(834)*
Other Scheduled Bodies	17	(511)	(45)	(556)	*(360)*
Admitted Bodies:					
Admitted Bodies	682	(6,214)	(1,139)	(7,353)	*(2,444)*
Total	**16,128**	**(65,638)**	**(17,675)**	**(83,313)**	***(3,642)***

Additional deficit funding

There was no additional deficit funding in 2018/19 (no additional deficit funding in 2017/18).

8. Employing Bodies - Benefits Payable

2018/19	Retirement Pensions £000	Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
Administering Body:				
Cardiff Council	41,735	8,777	1,685	442
Scheduled Bodies:				
Vale of Glamorgan Council	12,801	3,689	554	173
Town and Community Councils	228	53	0	0
Education Bodies	3,037	882	332	58
Other Scheduled Bodies	2,604	212	0	0
Admitted Bodies:				
Admitted Bodies	5,385	1,060	212	5
Total	**65,790**	**14,673**	**2,783**	**678**

2017/18	Retirement Pensions £000	Lump Sums on Retirement £000	Death Grants £000	Commutation Payments £000
Administering Body:				
Cardiff Council	39,968	6,521	561	297
Scheduled Bodies:				
Vale of Glamorgan Council	11,997	2,807	509	173
Town and Community Councils	217	29	0	0
Education Bodies	2,849	1,121	142	36
Other Scheduled Bodies	3,088	703	0	0
Admitted Bodies:				
Admitted Bodies	4,388	1,026	331	0
Total	**62,507**	**12,207**	**1,543**	**506**

9. Management Expenses

Management Expenses fully charged to the Fund are:

2017/18 £000		2018/19 £000
836	Administration costs	1,120
32	Audit fees	32
868	**Total administration costs**	**1,152**
6,774	Management fees	6,704
151	Custody fees	126
6,925	**Total investment management expenses**	**6,830**
109	Oversight and governance costs	101
7,902	**Total**	**8,083**

Note: 2017/18 has been reclassified to show split as per 2018/19.

10. Investment Income

2017/18 £000		2018/19 £000
(5,964)	UK fixed interest securities	(10,167)
(2,570)	Overseas fixed interest securities	(4,209)
(3,960)	UK equities and private equity funds	(4,638)
(1,715)	Pooled investments	(1,650)
(4,652)	Overseas equities	(4,615)
(2,207)	Pooled Property Unit Trust Income	(1,922)
(83)	Interest on UK cash	(196)
(96)	Securities lending	(101)
(21,247)	**Total**	**(27,498)**

11. Investments at Market Value

2017/18 £000		2018/19 £000
76,907	UK public sector fixed interest securities	92,014
332,432	UK other (pooled) fixed interest securities	286,132
143,580	Overseas public sector (pooled)	186,911
552,919	**Total fixed interest**	**565,057**
116,033	UK quoted equities & convertibles	119,317
178,074	Overseas quoted equities	179,868
294,107	**Total quoted equities**	**299,185**
403,603	UK unitised insurance policies (pooled)	425,357
95,505	UK other managed funds	96,964
377,472	Overseas unitised insurance policies (pooled)	411,205
74,759	Overseas other managed funds	76,440
951,339	**Total pooled funds**	**1,009,966**
134,177	Pooled property unit trusts (UK & Global)	155,944
79,302	Private equity	82,224
2,011,844	**Subtotal**	**2,112,376**
1,237	Derivatives: Forward currency contracts	(1,243)
1,237	**Total derivatives**	**(1,243)**
7,683	Fund manager's cash	15,214
26,729	Internal/custodian cash	34,355
2,177	Net investment proceeds due	2,703
36,589	**Total cash**	**52,272**
2,049,670	**Total**	**2,163,405**

Note: 2017/18 cash and pooled funds have been reclassified to show split as per 2018/19.

11.1. Reconciliation in movement in investments

2018/19	Value at 31/03/18 £000	Purchase at cost £000	Sale proceeds £000	Change in market value £000	Value at 31/03/19 £000
Fixed interest securities	552,919	294,150	(292,012)	10,000	565,057
Equities	294,107	54,983	(47,302)	(2,603)	299,185
Pooled funds	951,339	920	0	57,707	1,009,966
Pooled property unit trusts	134,177	14,633	0	7,134	155,944
Private equity	79,302	7,268	(18,214)	13,868	82,224
Sub-total	**2,011,844**	**371,954**	**(357,528)**	**86,106**	**2,112,376**
Derivatives	1,237	2,813,437	(2,813,426)	(2,491)	(1,243)
Total derivatives	**1,237**	**2,813,437**	**(2,813,426)**	**(2,491)**	**(1,243)**
Managers' cash	7,683				15,214
Internal/custodian cash	26,729			(3,316)	34,355
Net investment proceeds due	2,177				2,703
Total cash	**36,589**			**(3,316)**	**52,272**
Total	**2,049,670**			**80,299**	**2,163,405**

2017/18	Value at 31/03/17 £000	Purchase at cost £000	Sale proceeds £000	Change in market value £000	Value at 31/03/18 £000
Fixed interest securities	278,714	591,905	(308,876)	(8,824)	552,919
Equities	329,083	70,577	(117,480)	11,927	294,107
Pooled funds	1,114,705	956	(190,000)	25,678	951,339
Pooled property unit trusts	126,298	857	0	7,022	134,177
Private equity	88,328	7,802	(25,933)	9,105	79,302
Sub-total	**1,937,128**	**672,097**	**(642,289)**	**44,908**	**2,011,844**
Derivatives	933	2,315,248	(2,321,678)	6,734	1,237
Total derivatives	**933**	**2,315,248**	**(2,321,678)**	**6,734**	**1,237**
Managers' cash	11,698				7,683
Internal/custodian cash	30,237			1,925	26,729
Debtors	1,993				2,177
Total cash	**43,928**			**1,925**	**36,589**
Total	**1,981,989**			**53,567**	**2,049,670**

Analysis of derivatives
Objectives and policies for holding derivatives
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 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 dollar, Yen and Euro currencies.

12. Summary of manager's portfolio values

2017/18			2018/19	
£000	% of Fund	Fund Manager	£000	% of Fund
555,569	27.1	Aberdeen Asset Management	571,700	26.4
74,758	3.6	Aberdeen Emerging Markets	76,440	3.5
510,767	24.9	Blackrock Investment Management	565,841	26.2
95,505	4.7	Invesco Perpetual	96,964	4.5
87,414	4.3	JP Morgan	88,835	4.1
121,052	5.9	Majedie	125,788	5.8
95,323	4.7	Nikko	91,782	4.2
86,144	4.2	Schroder Investment Managers	91,989	4.3
182,895	8.9	State Street Global Advisers (SSGA)	181,886	8.4
134,177	6.5	Property	155,944	7.2
79,302	3.9	Private Equity Managers	82,224	3.8
2,090	0.1	Mesirow currency overlay & cash with custodian	2,644	0.1
24,674	1.2	Internally managed (Cash)	31,368	1.5
2,049,670	**100.0**	**Total**	**2,163,405**	**100.0**

12.1. Investments exceeding 5% of net assets

The following investments represent more than 5% of the net assets available to pay benefits.

2017/18		Fund Manager	2018/19	
£000	% of net assets		£000	% of net assets
316,190	15.4	BlackRock Aquila Life UK Equities Indexed Fund	336,522	15.5
194,577	9.5	BlackRock Aquila Life US Equities Indexed Fund	229,320	10.5
182,895	8.9	SSGA MPF Europe ex UK Equities Active Fund	181,886	8.4
165,743	8.1	Aberdeen Corporate Bond Fund	174,416	8.0
111,342	5.4	Aberdeen Target Return Bond Fund	111,716	5.1
110,313	5.4	Aberdeen Global Government Bond Fund	107,749	4.9

13. Financial Instruments

13.1. Classification of financial instruments

Value at 31/03/18				Value at 31/03/19		
Fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised costs £000		Fair value through profit and loss £000	Amortised Cost £000	Financial liabilities at amortised costs £000
552,919	0	0	Fixed interest securities	565,057	0	0
294,107	0	0	Equities	299,185	0	0
951,339	0	0	Pooled funds	1,009,966	0	0
134,177	0	0	Pooled property trusts	155,944	0	0
79,302	0	0	Private equity	82,224	0	0
147,144	0	0	Derivatives	137,741	0	0
0	36,589	0	Cash	0	52,272	0
1,237	0	0	Other investments	0	0	0
0	19,015	0	Debtors	0	17,014	0
2,160,225	**55,604**	**0**	**Total financial assets**	**2,250,117**	**69,286**	**0**
(145,805)	0	0	Derivatives	(138,984)	0	0
0	0	(2,101)	Creditors	0	0	(1,784)
(145,805)	**0**	**(2,101)**	**Total financial liabilities**	**(138,984)**	**0**	**(1,784)**
2,014,420	**55,604**	**(2,101)**	**Net financial assets**	**2,111,133**	**69,286**	**(1,784)**

13.2. Net gains and losses on financial instruments

31/03/18 £000		31/03/19 £000
65,682	Fair value through profit and loss	86,803
65,682	**Total financial assets**	**86,803**
(12,228)	Fair value through profit and loss	(6,821)
113	Amortised cost	317
(12,115)	**Total financial liabilities**	**(6,504)**
53,567	**Net financial assets**	**80,299**

13.3. Fair value – Basis of valuation

Investment	Valuation Method	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Level 1 Quoted prices for similar instruments.			
Quoted Bonds (Fixed Interest Securities)	Market value based on current yields	Not required	Not required
Market Quoted Investments	Published bid market price at close of business on the final working day of the accounting period	Not required	Not required
Level 2 Traded in a market which is not considered to be active, or where valuation techniques are used to determine fair value which use inputs that are based significantly on observable market data.			
Pooled Investments - Quoted Equity	Closing bid price where bid and offer prices are published. Closing single price where single price published	Net Asset Value (NAV) based pricing set on a forward pricing basis	Not required
Derivatives - Forward Currency Contracts	Market forward exchange rates at the year-end date	Exchange rate risk	Not required
Level 3 Inputs not based on observable market data			
Private Equity Funds	Valuations provided by the general partners to the private equity funds in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Earnings before interest, tax, depreciation and amortisation (EBITDA) multiple, revenue multiple, discount for lack of marketability and control premium	Valuations may be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date (although updated to reflect calls/distributions made during this period), changes to expected cash flows and any differences between unaudited and audited accounts
Pooled Investments - Property Funds	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations may be affected by post balance sheet events, changes to expected cash flows and any differences between unaudited and audited accounts

13.4. Fair Value Hierarchy

As detailed above, investments have been classified into three levels according to the quality and reliability of the information used to determine fair values. The following table provides an analysis of the assets and liabilities of the Pension Fund based on the level at which the fair value is observable.

Value at 31/03/19	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value	864,242	1,147,707	238,168	2,250,117
Amortised Cost	69,286	0	0	69,286
Total financial assets	**933,528**	**1,147,707**	**238,168**	**2,319,403**
Financial liabilities at fair value	0	(138,984)	0	(138,984)
Financial liabilities at amortised cost	(1,784)	0	0	(1,784)
Total financial liabilities	**(1,784)**	**(138,984)**	**0**	**(140,768)**
Net financial assets	**931,744**	**1,008,723**	**238,168**	**2,178,635**

Value at 31/03/18	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value	1,029,921	768,444	361,860	2,160,225
Loans and receivables	55,604	0	0	55,604
Total financial assets	**1,085,525**	**768,444**	**361,860**	**2,215,829**
Financial liabilities at fair value	0	0	(145,805)	(145,805)
Financial liabilities at amortised cost	(2,101)	0	0	(2,101)
Total financial liabilities	**(2,101)**	**0**	**(145,805)**	**(147,906)**
Net financial assets	**1,083,424**	**768,444**	**216,055**	**2,067,923**

13.5. Reconciliation of fair value measurements within Level 3

2018/19	Market Value at 31/03/18	Transfers into level 3	Transfers out of level 3	Purchases	Sales	Unrealised gains/(losses)	Realised gains/(losses)	Market Value at 31/03/19
	£000	£000	£000	£000	£000	£000	£000	£000
Private equity	79,302	0	0	7,268	(18,214)	13,868	0	82,224
Pooled property unit trusts	134,177	0	0	14,633	0	7,134	0	155,944
Derivatives	1,339	0	(1,339)	0	0	0	0	0
Total	**214,818**	**0**	**(1,339)**	**21,901**	**(18,214)**	**21,002**	**0**	**238,168**

a) Transferred from level 3 to level 2 due to an improvement in observable market data.
b) All transfers between levels are recognised at the end of the reporting period.

13.6. Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends, and consulted with independent investment advisors (Pensions and Investments Research Consultants Ltd (PIRC)), the fund has determined that the valuations methods described above for Level 3 investments are likely to be accurate to within the following ranges, and has set out the consequential impact below:

	Assessed valuation range (%)	Value at 31/03/19 £000	Value on increase £000	Value on decrease £000
Private Equity	10.5	82,224	90,841	73,607
Pooled Property Trusts	4.1	155,944	162,369	149,519
Total		**238,168**	**253,210**	**223,126**

14. Nature and extent of risks arising from financial instruments

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

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities and will be unable to pay the promised benefits to members. The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

The management of risk is a key objective of the Pension Fund. A policy of diversification of its asset classes and investment managers helps the Pension Fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures which are put in place in order to manage risk.

Market risk is the risk that the fair value or future cash flows 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 Asset Management, 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 31/03/19	Change to the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash and cash equivalents	51,029	510	(510)
Fixed interest securities	565,057	5,651	(5,651)
Total	**616,086**	**6,161**	**(6,161)**

Asset Type	Carrying Amount as at 31/03/18	Change to the net assets available to pay benefits	
		+ 100bps	- 100bps
	£000	£000	£000
Cash	37,826	378	(378)
Fixed interest securities	552,919	5,529	(5,529)
Total	**590,745**	**5,907**	**(5,907)**

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.

Following analysis of historical data and consulted with independent investment advisors Pensions and Investments Research Consultants Ltd (PIRC), the Fund's aggregate currency change has been calculated as 6.10%. A 6.10% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure – asset type	Asset Value as at 31/03/19	Change to net assets available to pay benefits	
		+ 6.1%	- 6.1%
	£000	£000	£000
Overseas quoted securities	179,868	190,840	168,896
Overseas pooled funds	487,645	517,391	457,899
Overseas pooled property	52,325	55,517	49,133
Total change in assets available	**719,838**	**763,748**	**675,928**

Currency exposure – asset type	Asset Value as at 31/03/18	Change to net assets available to pay benefits	
		+ 9.3%	- 9.3%
	£000	£000	£000
Overseas quoted securities	644,105	704,007	584,203
Total change in assets available	**644,105**	**704,007**	**584,203**

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.

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 below for total assets 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 at 31/03/19 £000	Percentage change %	Value on increase £000	Value on Decrease £000
UK Equities	641,638	8.95	699,065	584,211
Overseas Equities	667,513	10.13	735,132	599,894
Fixed Interest (Bonds)	565,057	3.64	585,625	544,489
Cash and Cash Equivalents	51,029	0.13	51,095	50,963
Private Equity	82,224	10.48	90,841	73,607
Property	155,944	4.12	162,369	149,519
Total Assets	**2,163,405**	**6.09**	**2,295,156**	**2,031,654**

Asset type	Value at 31/03/18 £000	Percentage change %	Value on increase £000	Value on Decrease £000
UK Equities	620,161	8.70	674,115	566,207
Overseas Equities	633,697	10.50	700,235	567,159
Fixed Interest (Bonds)	555,569	4.70	581,681	529,457
Cash	26,764	0.10	26,791	26,737
Private Equity	79,302	9.00	86,439	72,165
Property	134,177	3.90	139,410	128,944
Total Assets	**2,049,670**	**6.80**	**2,189,048**	**1,910,292**

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 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 internally managed cash holding under its treasury management arrangements is held with the following institutions:

	Fitch Rating	31/03/18 £000	31/03/19 £000
Money market funds			
Aberdeen Standard Liquidity - Sterling Fund	AAA	12,025	12,000
Blackrock ICS Sterling Liquidity Fund	AAA	11,925	12,000
Deutsche Global Liquidity - Sterling Fund	AAA	0	7,650
Bank current account			
Lloyds Bank	A	723	(282)
Total		**24,673**	**31,368**

The Pension Fund has experienced no defaults from fund managers, brokers or bank accounts over the past ten years, therefore no expected credit loss provision is required.

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 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.

15. Actuarial Present Value of Promised Retirement Benefits

CIPFA's Code of Practice requires the disclosure of the actuarial present value of promised retirement benefits calculated on an IAS 19 basis, as set out in IAS 26.

Therefore, in addition to the triennial funding valuation, the Fund's actuary undertakes a valuation of the Pension Fund liabilities on an IAS 19 basis at the same date. The IAS 19 valuation is carried out using updated actuarial assumptions from those used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The most recent actuarial valuation based on IAS 19 is shown below:

31/03/2013 £m		31/03/2016 £m
2,029	Actuarial Present Value of Promised Retirement Benefits	2,274

The estimated future Pension Fund liabilities will also be subject to the consideration of the McCloud judgement and GMP equalisation. The impact will be considered by the actuary within the valuation taking place in 2019. This is currently estimated as an additional £17.1m relating to the McCloud judgement based on 0.75% of the present value of benefits and £6.8m GMP equalisation based on 0.3% of the present value of estimates, as suggested by the actuary.

16. Additional Voluntary Contributions (AVC)

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 in accordance with section 4(2)b of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093). However, as the administering authority, we oversee the following AVC arrangements:

2017/18 £000		2018/19 £000
721	AVC paid during the year	648
3,700	Market Value of separately invested AVC's	3,902

17. Contractual Commitments

As at 31 March 2019 the Fund had outstanding private equity commitments of a maximum of £44.264 million (£47.137 million at 31 March 2018).
As at 31 March 2019 the Fund had forward currency contracts amounting to £137.741 million of purchases and £138.984 million of sales, showing an unrealised loss of £1.243 million.

18. Securities Lending

At the year end the value of quoted equities on loan was £68.619 million (£108.126 million at March 2018) in exchange for which the custodian held collateral of £72.760 million (£114.020 million at March 2018). For the year ending 31 March 2019, the Fund received income of £101,000 from the lending of stock.

19. Provisions and Contingent Liabilities

A number of death grants have been identified where the Fund has been unable to trace the next of kin meaning no payment has been made to date. Where contact has been made it is expected that these cases will be resolved within the year, whilst cases where no contact has been made successfully are expected to exceed a year.

Due to the uncertainty surrounding the timing of these payments and final amounts payable, a provision for £0.807 million has been created during 2018/19, which consists of £0.105 million short term, £0.558 million long term and £0.144 million of estimated interest.

The Fund has no material contingent liabilities.

20. Related Party Transactions

The Cardiff and Vale of Glamorgan Pension Fund is administered by Cardiff Council. The related party transactions with the Council are:

- Cash invested internally by the Council (for working capital purposes) – see Note 12
- Administration expenses charged to the Fund by the Council are shown in Note **Error! Reference source not found.**
- 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 Cardiff Council Statement of Accounts.

Three members of the pension fund committee and three members of the pension fund board are active members of the Pension Fund. One of the active members on the pension fund board was also in receipt of pension fund benefits from the Cardiff and Vale of Glamorgan Pension Fund.

21. Contributing Employers

The active contributing employers as at 31 March 2019 are detailed below:

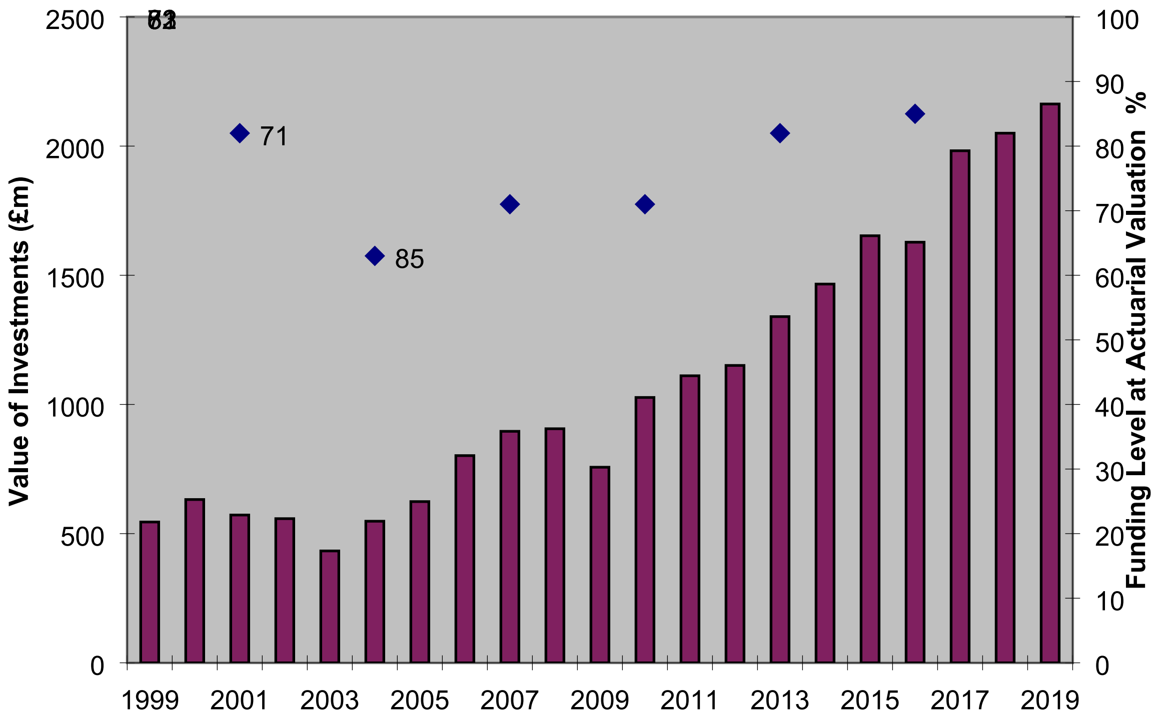
Administering Body	
Cardiff Council	
Scheduled Bodies	
Councils	**Town and Community Councils**
Vale of Glamorgan Council	Barry Town Council
Education Bodies	Cowbridge Town Council
Cardiff And Vale College	Lisvane Community Council
Cardiff Metropolitan University	Llantwit Major Council
St David's Sixth Form College	Penarth Town Council
Stanwell Comprehensive	Penllyn Community Council
Other Scheduled Bodies	Pentyrch Community Council
Cardiff Bus	Radyr & Morganstown Community Council
Public Services Ombudsman For Wales	Wenvoe Community Council
Admitted Bodies	
A and R Cleaning Gabalfa*	Eisteddfod Genedlaethol Cymru
A and R Cleaning Greenway*	Glen Cleaning (Barry Comprehensive)
A and R Cleaning Lansdowne	Glen Cleaning (Eastern High)*
A and R Cleaning Trowbridge*	Glen Cleaning (Gladstone Primary)*
A and R Cleaning Whitchurch*	Glen Cleaning (Llandough)
Adult Learning Wales	Greenwich Leisure Limited (GLL)
Cardiff Business Technology Centre	Grangetown Primary Cleaning (APP)
Cardiff University	Mirus Wales
Careers Wales (Cardiff And Vale)	National Trust (Dyffryn)
Children In Wales	One Voice Wales
Circle IT (Cowbridge Comprehensive)*	Play Wales
Circle IT (Eastern High)*	Sports Council for Wales
Colegau Cymru - Colleges Wales	St Teilos Cleaning (APP)
Design Commission For Wales	Wales Council For Voluntary Action

*Employers contributing to the Fund in 2018/19 that were not contributing to the Fund in 2017/18.

22. Events After the Reporting Period
There are no events after the reporting period to report.

23. Date of Authorisation of the Accounts for Issue
This Statement of Accounts was authorised for issue on 12 September 2019 by the Corporate Director Resources. Post balance sheet events have been considered up to this date.

20 YEAR INVESTMENT MARKET VALUES



INVESTMENT ASSET ALLOCATION (BY ASSET CLASS)

Year Ended 31 March		2015	2016	2017	2018	2019
UK Equities	£m	588.4	568.5	685.8	620.2	**648.1**
	%	*35.6*	*34.9*	*34.6*	*30.3*	***30.0***
Overseas Equities	£m	602.9	588.8	771.1	633.8	**671.4**
	%	*36.5*	*36.2*	*38.9*	*30.9*	***31.0***
Global Bonds	£m	244.1	247.9	279.7	555.6	**571.7**
	%	*14.8*	*15.2*	*14.1*	*27.1*	***26.4***
Private Equity	£m	87.4	83.1	88.3	79.3	**82.2**
	%	*5.3*	*5.1*	*4.5*	*3.9*	***3.8***
Property	£m	99.2	116.2	126.1	134.2	**155.9**
	%	*6.0*	*7.1*	*6.4*	*6.5*	***7.2***
Cash	£m	31.2	22.9	30.8	26.8	**34.0**
	%	*1.9*	*1.4*	*1.6*	*1.3*	***1.6***
Total Value	**£m**	**1653.2**	**1627.4**	**1982.0**	**2049.7**	**2163.4**
	%	***100***	***100***	***100***	***100***	***100***

TEN LARGEST HOLDINGS BY MARKET VALUE AS AT 31 MARCH 2019

	Country	Value £m	% of the Fund
EQUITIES (DIRECTLY OWNED)			
BP	UK	9.8	0.4
Royal Dutch Shell	UK	9.3	0.4
Tesco	UK	6.6	0.3
GlaxoSmithKline	UK	5.6	0.3
Tencent Holdings	China	5.4	0.2
Samsung Electronics	South Korea	4.7	0.2
Taiwan Semiconductor Manufacturing Co	Taiwan	4.3	0.2
AIA Group	Hong Kong	4.2	0.2
HSBC Holdings	UK & Hong Kong	3.7	0.2
Orange	France	3.6	0.2
POOLED FUNDS			
BlackRock Aquila Life UK Equities Indexed	UK	336.5	15.5
BlackRock Aquila Life US Equities Indexed	USA	229.3	10.5
SSGA MPF Europe ex UK Equities Active	Europe ex UK	181.9	8.4
Aberdeen Corporate Bond Fund	UK	174.4	8.0
Aberdeen Target Return Bond Fund	Global	111.7	5.1
Aberdeen Global Government Bond Fund	Global	107.7	4.9
Invesco Perpetual Income Fund	UK	97.0	4.5
JP Morgan Dynamic Life Fund	UK	88.8	4.1
Aberdeen Emerging Markets Equities Fund	Global	76.4	3.5
Aberdeen Emerging Markets Bond Fund	Global	64.2	3.0

THE CARDIFF & VALE OF GLAMORGAN PENSION FUND

FUNDING STRATEGY STATEMENT

FEBRUARY 2017

Introduction

Overview
This Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations). It describes City and County of Cardiff's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the Cardiff and Vale of Glamorgan Pension Fund (the Fund).

As required by Regulation 58(4)(a), the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in September 2016.

Consultation
In accordance with Regulation 58(3), all appropriate persons (including Fund employers) have been consulted on the contents of this Statement and their views have been considered in formulating it. However, the Statement describes a single strategy for the Fund as a whole.

The Fund Actuary, Aon Hewitt Limited, has also been consulted on the content of this Statement.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles / Investment Strategy Statement (ISS) published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Investment Regulations).

Purpose of this Statement
The purposes of this Funding Strategy Statement are to set out the processes by which the Administering Authority:

- Establishes a clear and transparent funding strategy, specific to the Fund, to meet employer's pension liabilities going forward.
- Aims to meet the regulatory requirement in relation to the desirability of maintaining as nearly constant a primary contribution rate as possible.
- Ensures the regulatory requirement to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met.
- Takes a prudent longer-term view of funding the Fund's liabilities.

noting that whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the Funding Strategy Statement its focus should at all times be on those actions which are in the best long term interests of the Fund.

Well-being of Future Generations (Wales) Act 2015
The Well-being of Future Generations (Wales) Act 2015 requires each public body (including local authorities) in Wales to act "in accordance with the sustainable development principle". This means acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. The obligations under the Act of City of Cardiff Council, Vale of Glamorgan Council and the other scheme employers to which the Act applies have been recognised in this statement by giving priority to the long-term cost efficiency of the Fund.

Link to investment policy set out in the Statement of Investment Principles / Investment Strategy Statement
The Statement of Investment Principles (SIP) / Investment Strategy Statement (ISS) is a statement of the principles governing the Fund's investment decisions. Among other things, it covers policy on the types of investments to be held, the balance between different types of investments, risk and the expected return on investments.

In keeping with the contents of this Statement, the SIP / ISS states that the policy of the Fund is to ensure that all payments made are at minimal cost to employing bodies. The investment objective is to maximise returns and minimise or at least stabilise employer contributions over the long term within an acceptable level of risk.

The Administering Authority has produced this Statement having taken an overall view of the level of risk inherent in the investment policy set out in the SIP / ISS and the funding strategy set out in this Statement. The assets that most closely match the cashflows of the Fund are fixed interest and index-linked Government bonds of appropriate term relative to the liabilities. The Fund's asset allocation as set out in the SIP / ISS invests a significant proportion of the Fund in assets such as equities which are expected, but not guaranteed, to produce higher returns than Government bonds in the long term. The Administering Authority has agreed with the Fund Actuary that the Funding Target on the ongoing basis will be set after making some allowance for this higher anticipated return. However, the Administering Authority recognises that outperformance is not guaranteed and that, in the absence of any other effects, if the higher expected returns are not achieved, the solvency position of the Fund may deteriorate, particularly where the liabilities are being measured by reference to prevailing gilt yields, as is the case for orphan liabilities

The investment returns required to meet the funding strategy are compatible with the investment policy set out in the SIP / ISS.

An Investment Advisory Panel reviews overall Fund risk. Priority is given to strategic asset allocation based on consideration of the full range of investment opportunities, and having regard to the diversification and suitability of investments. Within individual asset classes the Panel has adopted a specialist structure with a mixture of management approaches. Managers have clear targets and maximum accountability for performance.

The Fund's solvency objective is thus embedded in its strategic asset allocation policy and linked directly to the SIP / ISS, and the risks of different strategies. The Administering Authority has produced this Statement having taken an overall view of the level of risk inherent in the investment policy set out in the SIP / ISS and the funding strategy set out in this Statement.

The funding strategy recognises the investment targets and the inherent volatility arising from the investment strategy, by being based on financial assumptions which are consistent with the expected return on the investments held by the Fund, and by including measures that can be used to smooth out the impact of such volatility.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, commissioning asset liability modelling or other analysis techniques.

Review of this Statement

The Administering Authority undertook its latest substantive review of this Statement in February 2017.

The Administering Authority plans to formally review this Statement as part of each triennial valuation of the Fund unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between actuarial valuations and will discuss with the Fund Actuary whether any significant changes have arisen that require action.

Aims and Purpose of the Fund

The main aims of the Fund in relation to the funding strategy are:

1. To manage employers' liabilities effectively

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by:

- seeking regular actuarial advice
- ensuring that employers are properly informed and consulted
- through regular monitoring of the funding position and the outlook for employers' contributions, and
- appropriate segregation of employers for funding purposes.

2. To ensure that sufficient resources are available to meet all liabilities as they fall due

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position monthly to ensure that all cash requirements can be met.

3. Enable primary contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the Administering Authority and employers alike.

Producing low volatility in employer contribution rates may require investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise fixed interest and index linked gilt edged investments, where the liabilities are being measured by reference to prevailing gilt yields as is the case for orphan liabilities.

Other classes of assets, such as shares and property, are perceived to offer higher long term rates of return, on average, and consistent with the aim to seek returns from investments within reasonable risk parameters, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods, and a failure to deliver the anticipated returns in the long term.

This short term volatility in returns can produce volatility in the measured funding position of the Fund at successive actuarial valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant stability of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position would be potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

4. To seek returns from investments within reasonable risk parameters

The Administering Authority recognises the desirability of seeking investment returns within reasonable risk parameters through investment in unmatched investments. Investment returns higher than those available on Government stocks are sought through investment in other asset classes such as equities and property. The Administering Authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations
- limiting default risk by restricting investment to asset classes generally recognised as appropriate for UK pension funds
- analysing the volatility and absolute return risks represented by those asset classes in collaboration with the Investment Adviser and Fund Managers, and ensuring that they remain consistent with the risk and return profiles anticipated in the funding strategy
- limiting concentration risk by developing a diversified investment strategy, and
- monitoring the mis-matching risk: that the investments do not move in line with the Fund's liabilities.

Purpose of the Fund

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the individual employers and the Fund Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority's key responsibilities are:

1. *To operate a pension fund*

2. *To collect investment income and other amounts due to the Fund as set out in the Regulations including employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date*

   Individual employers must pay contributions in accordance with Regulations 67 to 71. The Administering Authority will ensure that all employers are aware of these requirements and also the requirements of the Pensions Act 1995.

   The Administering Authority will monitor the receipt of contributions to ensure they are received in accordance with agreed arrangements. The Administering Authority also has an absolute discretion on the timing of payments relating to bulk transfers or early retirements. Where employers are not adhering to any arrangements this will be brought to their attention. Outstanding contributions or other monies not received by due date may be charged interest in accordance with the Regulations at Base Rate + 1%.

The Administering Authority will ensure, where appropriate, that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased (and from other employers whose participation in the Fund has ceased) by

- requesting that the Fund Actuary calculates any deficiency at the date of exit from the Fund
- notifying the body that it must meet any deficiency at exit. The Administering Authority's policy is set out later in this Statement.

3. *Invest surplus monies in accordance with the Regulations*
   The Administering Authority will comply with the Investment Regulations.

4. *Pay from the Fund the relevant entitlements as set out by the Regulations.*

5. *Ensure that cash is available to meet liabilities as and when they fall due*
   The Administering Authority discharges this duty in the manner set out in the Aims of the Fund above.

6. *Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default…*

7. *Manage the valuation process in consultation with the Fund Actuary*
   The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and of valuation results
- ensure provision of data of suitable accuracy
- ensure that the Fund Actuary is clear about the content of the Funding Strategy Statement
- ensure that participating employers receive appropriate communication throughout the process
- ensure that reports are made available as required by relevant Guidance and Regulations

8. *Prepare and maintain a SIP / ISS and a Funding Strategy Statement after due consultation with interested parties*
   The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

9. *Monitor all aspects of the Fund's performance and funding, and amend these two documents if required*
   The Administering Authority monitors investment performance and the funding position of the Fund quarterly. The SIP / ISS will be formally reviewed annually, and the Funding Strategy Statement every three years, as part of the valuation cycle, unless circumstances dictate earlier amendment.

10. *Effectively manage any potential conflicts of interest arising from its dual role as both Administering Authority and as a Scheme Employer.*

11. *Enable the local pension board to review the valuation process as set out in their terms of reference.*

Individual Employers
The individual employers will:

- Deduct contributions from employees' pay
- Pay all ongoing members' and employer's contributions (both percentage of pay and monetary shortfall recovery contributions which are due) as determined by the Fund Actuary, promptly by the 19th day of the month
- Develop a policy on certain discretions and exercise discretions within the regulatory framework, ensuring that the Administering Authority has copies of current policies covering those discretions
- Pay for additional membership or pension, augmentation, early release of benefits or other one off strain costs in accordance with agreed arrangements
- Notify the Administering Authority promptly of all changes to membership, or other changes which affect future funding
- Note and if desired respond to any consultation regarding the Funding Strategy Statement, the SIP / ISS, or other policies
- Pay any exit payments on ceasing participation in the Fund

The Fund Actuary
The Fund Actuary will prepare advice and calculations and provide advice on:

- Funding strategy and the preparation of the Funding Strategy Statement and will prepare actuarial valuations, including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency and issue of a Rates and Adjustments Certificate, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement.
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years cost, etc.
- Assist the Administering Authority in assessing whether employer contributions need to be revised between valuation as permitted or required by the Regulations
- Provide advice and valuations on the exiting of employers from the Fund.
- Provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- Ensure that the Administering Authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the Fund.

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

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

Funding Strategy

Risk based approach
The Fund utilises a risk based approach to funding strategy.

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

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

These three choices, supported by complex risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, , by extension, the appropriate employer contributions payable. Together they measure the riskiness of the funding strategy.

Further details of these three terms are set out in Appendix 1.

Application to different types of body
Some comments on the principles used to derive the Solvency and Funding Targets for different bodies in the Fund are set out below.

- **Scheduled Bodies and certain other bodies of sound covenant**
  The Administering Authority will adopt a general approach in this regard of assuming indefinite investment in a broad range of assets of higher risk than low risk assets for Scheduled Bodies and certain other bodies which are long term in nature.

- **Admission Bodies and certain other bodies whose participation is limited**
  For Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit the Administering Authority will have specific regard to the potential for participation to cease (or to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or whether a guarantor exists to subsume the notional assets and liabilities).

Recovery Periods
Where a valuation reveals that the Fund is in surplus or deficiency against the Funding Target, employers' contributions will be adjusted to target restoration of full funding over a period of years.

The Recovery Period applicable for each employer is set by the Fund Actuary in consultation with the Administering Authority and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund’s liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to Recovery Periods longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long Recovery

Periods and has agreed with the Fund Actuary a limit of 30 years for employers which are assessed by the Administering Authority as being a long term secure employer.

The Administering Authority’s policy is to agree Recovery Periods with each employer which are as short as possible within this framework. For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a Recovery Period longer than the remaining term of participation.

Stepping

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority’s policy is that in the normal course of events no more than three equal annual steps (i.e. the valuation period) will be permitted. Further steps may be permitted in extreme cases, but the total number of steps is unlikely to exceed six steps.

Grouping

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

The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority’s policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects, it will be set its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period (e.g. certain admission bodies) grouping is unlikely to be permitted.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

Where employers are grouped together entirely for funding purposes, this will only occur with the consent of the employers involved.

All employers in the Fund are grouped together in respect of the risks associated with payment of lump sum and dependants' pension benefits on death in service and for benefits payable in ill health retirement – in other words, the cost of such benefits is shared across all the employers in the Fund. Such benefits can cause funding strains which could be significant for some of the smaller employers without insurance or sharing of risks. The Fund, in view of its size, does not see it as cost effective or necessary to insure these benefits externally and this is seen as a pragmatic and low cost approach to spreading the risk.

There are two groups of employers in the Fund pooled together for funding and contribution purposes.

1. The Town and Community Councils Group consists, at the date of writing this Statement, of the following employers: Cowbridge Town Council, Llantwit Major Town Council, Penarth Town Council, Barry Town Council, Dinas Powys Community Council, Radyr & Morganstown Community Council, Lisvane Community Council, Wenvoe Community Council, Penllyn Community Council and Pentyrch Community Council.

Currently all the employers within the group pay the same percentage of pay contribution rate.

2. The Colleges Group consists, at the date of writing this Statement, of the following employers: St Davids Catholic College, Cardiff and Vale College, Cardiff Metropolitan University.

   Currently the employers within the group pay a common primary (future service) contribution rate and a deficit contribution amount equal to a proportion of the group's total monetary deficit contributions.

Inter-valuation funding calculations

In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate roll forward of asset and liability values, and liabilities calculated by reference to assumptions consistent with the most recent preceding valuation. Specifically, it is unlikely that the liabilities would be calculated using individual membership data, and nor would the assumptions be subject to review as occurs at formal triennial valuations.

Notional Sub-Funds for individual employers

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

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

Details of how the sub-funds are rolled forward are set out in Appendix 2.

Fund maturity

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

In certain circumstances, for secure employers considered by the Administering Authority as being long term in nature, contribution adjustments to correct for any disclosed surplus or deficiency may be set as a percentage of payroll but may have regard for assumed projected payroll provided by the employer. Such an approach carries an implicit assumption that the employer's payroll will increase at an assumed rate. If payroll fails to grow at this rate, or declines, insufficient corrective action will have been taken. To protect the Fund against this risk, the Administering Authority will monitor payrolls and where evidence is revealed of payrolls not increasing at the anticipated rate, the Administering Authority will consider requiring defined streams of capital contributions rather than percentages of payroll.

Where defined capital streams are required, the Administering Authority will review at future valuations whether any new emerging surplus or deficiency will give rise to a new, separate, defined stream of contributions, or will be consolidated with any existing stream of contributions into one new defined stream of contributions.

Special Circumstances related to certain employers

Interim reviews

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

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

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

- Where the date of exit is known, and is more than three years hence, or is unknown and assumed to be indefinite, interim valuations will generally not be carried out at the behest of the Administering Authority.
- For Admission Bodies falling into the above category, the Administering Authority sees it as the responsibility of the relevant Scheme Employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, such as the date of exit becoming known, material membership movements or material financial information coming to light may cause the Administering Authority to informally review the situation and subsequently formally request an interim valuation.
- For an employer that is likely to exit within the next three years, the Administering Authority will keep an eye on developments and may see fit to request an interim valuation at any time.

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

Guarantors

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

- If an employer exits the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide finance to the Fund such that the Fund receives the amount certified by the Fund Actuary as due, including any interest payable thereon.
- If the Guarantor is an employer in the Fund and is judged to be of suitable covenant by the Administering Authority, the Guarantor may defray some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.
- During the period of participation of the employer a Guarantor can at any time agree to the future subsumption of any residual liabilities of an employer. The effect of that action would be to reduce the Funding and Solvency Targets for the employer, which would probably lead to reduced contribution requirements.

Bonds and other securitization

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

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

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

- In the case of admission bodies admitted under Schedule 2 Part 3 Para. 1(d) of the Regulations and other admission bodies with a Guarantor, and so long as the Administering Authority judges the relevant Scheme Employer or Guarantor to be of sufficiently sound covenant, any bond exists purely to protect the relevant Scheme Employer on default of the admission body. As such, it is entirely the responsibility of the relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer, but this should not be construed as advice to the relevant Scheme Employer on this matter.

- In the case of admission bodies admitted under Schedule 2 Part 3 Para 1(e) of the Regulations, or under Para 1(d) where the Administering Authority does not judge the relevant Scheme Employer to be of sufficiently strong covenant, and other Admission Bodies with no Guarantor or where the Administering Authority does not judge the Guarantor to be of sufficiently strong covenant, the Administering Authority must be involved in the assessment of the required level of bond to protect the Fund. The admission will only be able to proceed once the Administering Authority has agreed the level of bond cover. The Administering Authority will supply some standard calculations provided by the Fund Actuary to aid the relevant Scheme Employer form a view on what level of bond would be satisfactory. The Administering Authority will also on request supply this to the Admission Body or Guarantor. This should not be construed as advice to the Scheme Employer, Guarantor or Admission Body.

- The Administering Authority notes that levels of required bond cover can fluctuate and will review, or recommends the Scheme Employer reviews, the required cover at least once a year.

Subsumed liabilities

Where an employer is exiting the Fund, it is possible that another employer in the Fund agrees to provide a source of future funding in respect of any emerging deficiencies in respect of those liabilities.

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

Orphan liabilities

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

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

To the extent that the Administering Authority decides not to match these liabilities with Government bonds of appropriate term then any excess or deficient returns will be added to or deducted from the investment return to be attributed to the employer's notional assets.

Exit of an employer from the Fund

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

In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers. For orphan liabilities the Funding Target in the exit valuation will anticipate investment in low risk investments such as Government bonds. For subsumed liabilities the exit valuation will anticipate continued investment in assets similar to those held in respect of the subsuming employer's liabilities.

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

The Administering Authority's policy is that in the normal course of events any deficiency that exists at exit of an admission body will be payable immediately as a single payment. In extreme cases the Administering Authority may be prepared to agree payment over a period of years. However this period is very unlikely to exceed five years and any decision will be at the Administering Authority's discretion.

Identification of risks and counter measures

Approach

The Administering Authority seeks to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these wherever possible. The main risks to the Fund are:

Investment risk

This covers items such as the performance of financial markets and the Fund’s investment managers, asset reallocation in volatile markets, leading to the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly and annually considers the asset allocation of the Fund by carrying out an annual review meeting with its Investment Advisors, Fund Managers and Fund Actuary. The Administering Authority also annually reviews the effect of market movements on the Fund's overall funding position.

Employer risk

These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.

The Administering Authority will put in place a Funding Strategy Statement which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The Administering Authority will maintain a knowledge base on employers, their basis of participation and their legal status (e.g., charities, companies limited by guarantee, group/subsidiary arrangements) and will use this information to inform the Funding Strategy Statement.

Liability risk

The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether any bonds in place for Admission Bodies require review.

Regulatory risk

The risks relate to changes to general and LGPS specific regulations, national pension requirements or HM Revenue and Customs' rules.

The Administering Authority will keep abreast of all proposed changes. If any change potentially affects the costs of the Fund, the Administering Authority will ask the Fund Actuary to assess the possible impact on costs of the change. Where significant, the Administering Authority will notify Employers of the possible impact and the timing of any change.

Liquidity and maturity risk

The LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery may result in the following:

- active members leaving the LGPS
- transfer of responsibility between different public sector bodies
- scheme changes which might lead to increased opt-outs
- spending cuts and their implications

All of these may result in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in ways that may not been taken into account in previous forecasts.

The Administering Authority's policy is to require regular communication between itself and employers and to ensure reviews of maturity at overall Fund and employer level where material issues are identified.

Governance risk

This covers the risk of unexpected structural changes in Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The policy is to require regular communication between itself and employers and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Christine Salter
Corporate Director Resources

February 2017

Appendix 1: Method and assumptions used in calculating the funding target

Solvency Target

The Administering Authority's primary aim is the long-term solvency of the Fund. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions.

The Fund is deemed to be solvent when the assets held are equal to or greater than the value of the Fund's liabilities assessed using appropriate actuarial methods and assumptions. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For Scheduled Bodies, and certain other bodies where a Scheme Employer of sound covenant has agreed to subsume its assets and liabilities following the exit of the employer from the Fund, , appropriate actuarial methods and assumptions are taken to be measurement by use of the Projected Unit method of valuation, and using assumptions such that, if the Fund had reached the Solvency Target and its financial position continued to be assessed by use of such methods and assumptions and contributions were paid in accordance with those methods and assumptions, there would be a reasonably prudent chance that the Fund would continue to be 100% funded after a period of 25 years.

This then defines the Solvency Target.

For certain Admission Bodies, bodies closed to new entrants and other bodies whose participation in the Fund is believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit from the Fund the Solvency Target will be set by considering the valuation basis which would be adopted should the employer leave the Fund.. For most such bodies, the Solvency Target will be set commensurate with assumed investment in an appropriate portfolio of Government index linked and fixed interest bonds after the employer has exited the Fund.

Probability of Funding Success

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

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

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. . The valuation calculations, including future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).
Consistent with the aim of enabling the primary rate of employers' contributions to be kept as nearly constant as possible:

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

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

Full Funding and Solvency

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

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

Trajectory Periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date on which solvency is targeted to be achieved.

Appendix 2: Notional Sub-Funds for individual employers

Roll-forward of sub-funds

The notional sub-fund allocated to each employer will be rolled forward allowing for all cashflows associated with that employer's membership, including contribution income, benefit outgo, transfers in and out and investment income allocated as set out below. In general no allowance is made for the timing of contributions and cashflows for each year are assumed to be made half way through the year with investment returns assumed to be uniformly earned over that year.

Further adjustments are made for:

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

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

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

Attribution of investment income

Where the Administering Authority has agreed with an employer that it will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed notional asset portfolio.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

THE CARDIFF & VALE OF GLAMORGAN PENSION FUND

INVESTMENT STRATEGY STATEMENT

MARCH 2017

Introduction

City of Cardiff Council ('the Council') is the administering authority for the Cardiff & Vale of Glamorgan Pension Fund ('the Fund')

The Local Government Pension Scheme (Management & Investment of Funds) Regulations 2016 ("the Investment Regulations") require administering authorities to formulate and publish an investment strategy.

The Investment Strategy Statement (ISS) required by Regulation 7 of the Regulations must include:

(a) A requirement to invest money in a wide variety of investments;

(b) The authority's assessment of the suitability of particular investments and types of investments;

(c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

(d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The ISS must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

The ISS must comply with guidance issued from time to time by the Secretary of State, currently the guidance issued in September 2016.

The Terms of Reference of City of Cardiff Council's Pensions Committee ('the Committee') include determining the authority's investment strategy. This statement sets out the strategy for the 2017-18 financial year and has been prepared in consultation with the Fund's Investment Advisory Panel ('the Panel')

A Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps reduce volatility.

The Committee aims to meet the requirement for a diversified portfolio by reviewing its Strategic Asset Allocation on an annual basis. The Asset Allocation is approved by the Committee on the advice of the Panel. The Panel considers a wide range of investment opportunities before making its recommendations.

Current asset classes included in the allocation are:

- Conventional & Index Linked Fixed Interest - UK & Overseas
- Equities - UK & Overseas (USA, Europe, Far East, Emerging Markets)
- Private Equity (via pooled funds of funds)
- Property funds – UK & Global

The following investment related activities are also permitted:

- Derivatives and other financial instruments within pre-agreed limits for the purpose of efficient portfolio management or 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

The Asset Allocation targets and variance limits agreed for 2017-18 are summarised below.

Asset class	Target Allocation %	Variance Limits %
UK Equities	34.0	+/- 5
Overseas Equities	35.0	+/- 5
Bonds & Cash	18.5	+/- 5
Property	7.5	+/- 5
Private Equity	5.0	+/- 2.5
Total	**100.0**	

Investment Limits

The Investment Regulations in force between 2009 and 2016 set statutory limits for different types of investments. The 2016 Investment Regulations removed these limits but the Fund will continue to operate within the limits in column 2 of Schedule 1 to the 2009 Regulations in respect of any assets not yet transitioned to the Wales Investment Pool.

B Suitability of particular investments and types of investments

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.

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. The benchmark is set in line with a long term Fund Objective of a 75/25 Equities/Bonds asset allocation split. The split was set in 2004, following an asset/liability study, with the aim of minimising, or at least stabilising, future employer contributions and to avoid large variations. The Panel will regularly review the overall asset allocation and consider appropriate opportunities for a further asset-liability study.

Expected Return on Investments

The investment method is to appoint expert specialist fund managers with clear targets and maximum accountability for performance. 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	Index + 2%, over rolling 3 year periods

UK Equities (Passive)	FTSE All Share	Index +/- 0.25-0.3% p.a.
USA Equities (Passive)	FTSE USA	Index +/- 0.25% p.a.
Europe Equities (Active)	FTSE Europe ex UK	Index + 2%, over rolling 3 year 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
UK Property	Various (balanced PUT indices)	Various
Global Property	N/A	Absolute Return of 10% p.a.
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.

C Risk

A detailed schedule of the main risks to the Fund is set out in the Funding Strategy Statement. Risks arising from investments are monitored by the Investment Advisory Panel. The Fund recognises the risks arising from holding a higher proportion of equities and other return seeking assets than would be held under a liability-driven strategy but considers that these risks are mitigated by the strong covenant of the Fund's principal employers and the stable maturity profile of its membership.

Investment Risk is the risk that the Fund's managers fail to achieve the rate of investment return assumed in setting their mandates. The primary control over investment risk is the diversification of assets across markets and asset classes. Correlations amongst these will vary over time, but the underlying risk of exposure to a specific capital market is mitigated to some extent by a diversifying strategy such as that followed by the Fund.

While currency risk is inherent in a diversified strategy, it is addressed to a degree through the use of a specialist manager to hedge exposures where currencies in which the fund is invested appear to have reached extreme valuations.

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 and discussed annually by the Panel. For pooled vehicles (including passive investments) the manager reports the risk of the pooled vehicle as a whole. The Panel recognises that tracking error itself can be a volatile measure of the risks being taken by a manager and that ex post statistics may vary considerably from ex ante estimates. As such, its predictive value needs to be treated with care. The tracking error is therefore used as a guide when considering overall manager performance.

<u>Liquidity Risk</u> is the risk that the Fund cannot meet its immediate liabilities because it has insufficient assets. The Fund monitors its liquidity position carefully to ensure that it is not a seller of long term assets to make benefit payments. At least 80% of the Fund's assets are highly liquid. The Equity and Global Bond 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.

<u>Operational risks</u> arise through the implementation of the Fund's investment strategy. These risks are set out below:

- Transition risk – the Fund may incur unexpected costs in relation to the transition of assets between managers and/or asset classes. When carrying out significant transitions, the fund takes professional advice and considers the use of specialist transition managers in order to mitigate this risk when it is cost effective to do so.
- Custody risk – the Fund must ensure that it retains the economic rights to all Fund assets, when held in custody or being traded. It does this through the use of a global custodian (Northern Trust) for custody of assets, the use of formal contractual arrangements for all investments and by maintaining independent investment accounting records.
- Credit default risk – a counterparty related to a Fund investment could fail to meet its obligations. The Fund's investment managers are required under their

asset management contracts to manage counterparty risk on behalf of the Fund.

- Stock-lending risk – the possibility of default and loss of economic rights to Fund assets. Stock lending is managed by the Fund's custodian and appropriate counterparty and collateral controls are in place.

D Pooling of Investments

The Cardiff & Vale of Glamorgan Pension Fund is one of the eight funds participating in the Wales Investment Pool ('the Pool'). The proposed structure and basis on which the Pool will operate was set out in the July 2016 submission to the Department for Communities and Local Government. The proposals were approved by the Minister for Local Government in November 2016.

Assets to be invested in the Pool

The Council's intention is to invest the Fund's assets through the Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission. The key criteria for assessment of Pool solutions will be as follows:

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

At the time of preparing this statement, the Fund has already invested the following assets through a collaborative procurement carried out in 2016 with the other seven funds in Wales:

Asset class	Manager	% of Fund assets (allocation target)	Benchmark	Performance Objective
Passive UK Equities	BlackRock	19.0	FTSE All-Share	Benchmark
Passive US Equities	BlackRock	10.0	FTSE All-World USA	Benchmark

It is anticipated that the Fund's existing private equity investments will not be transitioned into the Pool but will be replaced by suitable pooled or collaborative investments as they mature over the next 10-15 years. It is intended that all other asset classes will be transitioned to the Pool as soon as practicable.

Structure and governance of the Wales Investment Pool

The Pool will appoint a third-party Operator authorised by the FCA to provide a range of investment sub-funds in which the assets of the eight participating funds will be invested.

A Joint Governance Committee (JGC) will be established to oversee the Operator. The JGC will comprise one elected member from each constituent administering authority and will be supported by an Officer Working Group. One of the eight funds will act as Host Authority to provide administrative and secretarial support to the Pool.

The Terms of Reference of the JGC and the roles of the Officer Working Group and Host Authority will be set out in a legally binding Inter Authority Agreement to be approved and signed by the eight administering authorities. The responsibilities of the JGC will include:

- Monitoring the performance of the Pool Operator
- Making decisions on asset class sub-funds to be made available by the Operator to implement the individual investment strategies of the eight funds
- Providing accountability to the participating funds on the management of the Pool
- Having responsibility for reporting on the Pool to the UK Government and other stakeholders
- Having oversight of the Officer Working Group

The eight administering authorities will continue to retain control over setting their investment strategy and asset allocation.

E How social, environmental or corporate governance considerations are taken into account

The Fund seeks to identify investment opportunities which do not conflict with its fiduciary 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.

F The exercise of rights (including voting rights) attaching to investments

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.

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.

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

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

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;

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.

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
- 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			
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	The Committee's Terms of Reference and Officer Delegations are clearly set out in the Council's Constitution	Yes	
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	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 on the Committee or Panel but are represented at the Trade Union Forum and Local Pension Board.	Partial	
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes	Yes	
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.	No – the Committee is a committee of the administering authority.		
Principle B – Representation			
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- *i) employing authorities (including non-scheme*	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	Partial	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
employers, eg, admitted bodies); *ii) scheme members (including deferred and pensioner scheme members);* *iii) independent professional observers; and* *iv) expert advisors (on an ad-hoc basis).*	Scheme members are not currently represented Two independent advisors attend every Panel meeting		
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.	All Committee and Panel members have the same access to papers and training opportunities.	Yes	
Principle C - Selection and Role of Lay Members			
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.	The functions of the Committee are set out in the Council's Constitution. The role of the Investment Advisory Panel is clearly set out in the SIP and other key documents	Yes	
Principle D – Voting			
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.			
Principle E - Training/Facility Time/Expenses			
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on	Committee and Panel members are advised of training opportunities.	Yes	

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.			
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.	Yes	Yes	
Principle F - Meetings (frequency/quorum)			
That an administering authority's main committee or committees meet at least quarterly.	The Committee meets at least quarterly.	Yes	
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.	The Investment Advisory Panel meets quarterly	Yes	
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.	Employers' Forum and Trade Union Forum are held annually	Yes	
Principle G - Access			
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.	Papers are circulated to all Committee and Panel members in advance of meetings.	Yes	
Principle H - Scope			

Compliance Standard	Arrangements in Place/Action Taken	Action Complies with Principle? Yes/No/Partial	Reason for non-Compliance (if applicable)
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	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			
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	All governance documents are published on the Council's website	Yes	

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

Knowledge of basic accountancy terminology is assumed. However, there are certain specialist terms related to local government finance, which are described below:

Accruals Basis
The accruals principle is that income is recorded when it is earned rather than when it is received, and expenses are recorded when goods or services are received rather than when the payment is made.

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.

Actuarial Gains and Losses
For a defined benefit pensions scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation, or the actuarial assumptions have changed.

Active Member
Current employee who is contributing to a pension scheme

Admitted Body
An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council’s services with employees transferring, to offer those staff continued membership of the Fund.

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.

Benchmark
A measure against which the investment policy or performance of an investment manager can be compared.

Bonds
Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

Cash and Cash Equivalents
Sums of money available for immediate use and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Chartered Institute of Public Finance & Accountancy (CIPFA)
CIPFA is the leading professional accountancy body which determines accounting standards and reporting standards to be followed by Local Government.

Contingent Liabilities or Assets
These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately, and for which provision has not been made in the Council's accounts.

Creditors
Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the date of the balance sheet.

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.

Debtors
These are sums of money due to the Council that have not been received at the date of the Balance Sheet.

Defined Benefit Scheme (Pensions)
This is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Defined Contribution Scheme (Pensions)
A Defined Contribution Scheme is a pension or other retirement benefit scheme into which an employer pays regular contributions as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

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.

Employer Contribution Rates
The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

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.

Fair Value
Fair Value is the price that would be received to sell and asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Assets
Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

Financial Liabilities
Financial assets are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

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.

Impairment
A reduction in the value of assets below its value brought forward in the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in an asset's market value.

Index
A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

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

Liabilities
These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

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

Materiality
Information is material if omitting it or misstating it could influence the decisions that users make on the basis of financial information about a specific reporting authority.

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

Myners Principles
The six principles which a LGPS Fund must comply with:
1. Effective decision making
2. Clear objectives
3. Risk and liabilities
4. Performance assessment
5. Responsible ownership
6. Transparency and reporting

Pension Fund
A fund built up from deductions from employees' pay, contributions from employers and investment income from which pension benefits are paid.

Pooled Funds
Pooled investment vehicles issue units to a range of investors. Unit's prices move 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.

Prior Period Adjustments
These are material adjustments which are applicable to an earlier period arising from changes in accounting policies or for the correction of fundamental errors.

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

Provisions
Amounts set aside in respect of liabilities or losses which are likely or certain to be incurred, but in relation to which the exact amount and date of settlement may be uncertain.

Related Parties
Related parties are Central Government, other local authorities, precepting and levying bodies, subsidiary and associated companies, Elected Members, all senior officers from Director and above. For individuals identified as related parties, the following are also presumed to be related parties:
• members of the close family, or the same household; and
• partnerships, companies, trusts or other entities in which the individual, or member of their close family or the same household, has a controlling interest.

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.

Scheduled Body

An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

Unrealised Gains / Losses

The increase or decrease in the market value of investments held by the fund since the date of their purchase. Note: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

Information about the Fund is available on the Fund's website:
https://www.cardiffandvalepensionfund.org.uk/

Further information regarding the scheme can also be found on the LGPS website (https://lgpsmember.org/). 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.

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)
	(029) 2087 2338	Wendy Herbert	(Senior Pensions Officer)
	(029) 2087 2523	Jayne Newton	(Communications & Training Officer)
	(029) 2087 2524	Hywel Tutton	(Senior Technical Officer)
Fund Accounting	(029) 2087 2290	Sally Ormiston	(Group Accountant)

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